



Rating  
**Buy**

North America  
 United States

TMT  
 Software

Company  
**Adobe**

Reuters  
 ADBE.OO

Bloomberg  
 ADBE US

Exchange  
 NSM

Ticker  
 ADBE

Date  
 14 December 2023

Forecast Change

Price at 13 Dec 2023 (USD)	624.26
Price target	650.00
52-week range	633.66 - 320.54

## FY24 ARR Healthier than it Appears

Adobe reported strong F4Q results, but with FY24 guidance that disappointed on the surface with ~\$1.9bn net new Digital Media ARR seemingly shy of consensus ~\$2.0bn. While bridging the comparison is made difficult by limited disclosure on pricing and mix, we are convinced that Street models included a meaningfully greater benefit from pricing in FY24 vs. what is actually embedded in the company's guidance. **In our [scenario analysis](#) of the Street's \$2.0bn expectation, we had assumed a \$250mn net pricing benefit in FY24 relative to FY23, which we now believe is closer to flat based on management commentary.** This is due to a combination of what was a greater pricing tailwind to FY23 (a slight negative, but now in the rearview mirror), and less benefit this year as President David Wadhwani explains that less than half of the Creative ARR base will be impacted by the [price increases](#) that took effect in the beginning of November (delta vs. Street assumptions on products, geos, renewal timing, etc.). This in turn creates a longer duration pricing benefit beyond FY24 as customers come up for renewal, and new products/geos/etc. become subject to future increases as the company prices for the significant innovation it has been delivering (both positives).

Away from Creative Cloud, we highlight the accelerating momentum in Document Cloud, now a \$2.8bn business growing 23% y/y cc that is seeing strength from the viral adoption of Sign and PDF link sharing (+400% y/y), free-to-paid conversion funnels, and Acrobat mobile. DC is only just on the cusp of being catalyzed by gen AI, with the product in private preview with a public beta expected in the next few months. PDF has been the lingua franca digital document standard for decades, with massive volumes of content that can now be interrogated for delivering insights to end users. We will watch this product rollout and opportunity unfold over the course of FY24 and beyond.

With many squinted eyes on a FY24 ARR guide that forces investors to make assumptions, we feel there are just enough clues to substantiate greater momentum in the underlying business vs. our original expectations, which happens to coincide with management's enthusiasm both on and offline. We therefore reiterate our Buy rating while raising our DCF-driven target price from \$610 to \$650, which implies 36x our CY24 non-GAAP EPS.

### Valuation & Risks

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### Key changes

TP	610.00 to 650.00	↑	6.6%
EPS (USD)	18.00 to 17.83	↓	-0.9%
Revenue (USDm)	21,756.7 to 21,416.8	↓	-1.6%

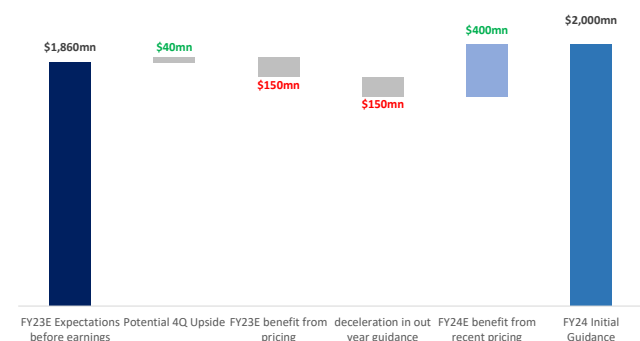
Source: Deutsche Bank

Deutsche Bank Securities Inc.

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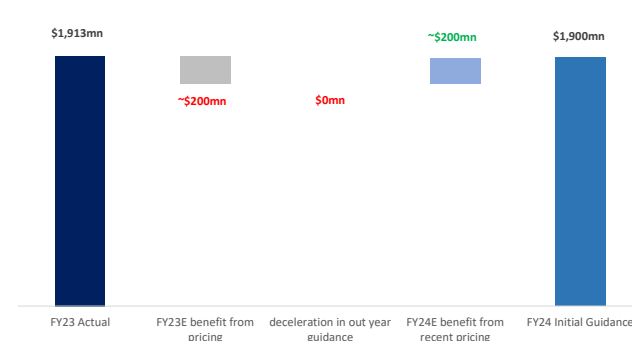


Figure 1: FY24 NNARR Bridge - Assumptions likely embedded in Street's \$2bn estimate



Source : Company Data, DB Research, Bloomberg Finance LP

Figure 2: FY24 NNARR Bridge - Our view of assumptions likely embedded in management's \$1.9bn guidance



Source : Company Data, DB Research, Bloomberg Finance LP

### What We Liked

(1) F4Q Total revenue of \$5.05bn, +13% cc (in line with last quarter's 13% cc) and above Street \$5.01bn; (2) Non-GAAP OM 46.4% vs. DBE 45.4% and consensus 45.6%, +171bps y/y and +11 bps q/q, with expansion impressive while still rolling out new generative features and products; (3) Net New DM ARR of \$569mn vs. ~\$520mn guidance, a 9.4% beat vs. prior 4 quarter average of 9.8% with outperformance in both Creative and Document clouds vs our estimates; (4) Creative Cloud ARR, with net new ARR of \$398 mn vs. \$385mn DBE, with record new subscriptions, a strong quarter for Creative Cloud All Apps, typical 4Q strength in Enterprise, and strength in imaging and photography offerings. While F4Q y/y NNARR growth declined y/y on a reported basis, management highlighted that ex. Pricing and FX, growth improved y/y; (5) Document Cloud Net New ARR Grew \$171mn vs \$135mn DBE, with total Document Cloud ARR up 18% y/y, accelerating slightly from 17% y/y in F3Q/F2Q, 18% in F1Q, and 23% in F4Q22. Strength noted in free-to-paid conversions funnels, collaboration services and Acrobat mobile; (6) F1Q guidance implies NGOM of ~46% ahead of DBE at 45.1% and Street at 45.5%, though F2Q is expected to decline sequentially as typical for annual merit increases and investments to drive growth; (7) FY24 guidance implies NGOM of ~45%, in line with DBE at 45.0% and Street at 45.0%, a step down vs the ~46% seen in FY23, in line with prior commentary of Mid 40's NGOM; (8) Digital Experience revenue of \$1.27bn vs Street of \$1.26bn, with y/y constant currency subscription growth decelerating somewhat to 12% after 13% in F3Q and 14% in F2Q/F1Q. Strong demand for AEP and AEM sites noted, and AEP is now a \$700mn+ book of business after having its first \$100mn quarter of net new business and crossing \$600mn last quarter; (9) RPO +13% y/y at constant currency, flat with 13% in F3Q and F2Q; (10) Adobe repurchased 1.8mn shares during the Q for \$1.0 bn vs. \$1.0bn last 2 quarters, with 2.15bn remaining through end of FY24 on \$15bn authorization in Dec 2020; (11) Management indicated their excitement for an AI assistant for Acrobat, though remains early days with features in only a private access beta with a public beta in the next few months; and (12) Firefly generations exceeded 4.5bn, up from >3bn shared at Adobe MAX, demonstrating continued momentum in usage.

### What We're Watching

(1) DM NNARR guide for FY24 of \$1.9bn, vs Street est. \$2.0bn, though management commentary suggests pricing impacts may have been mis modeled by the Street (lower than price impacts to FY23); (2) Management commentary



suggests the benefit of the recent pricing adjustment should be lower than analyst/investor expectations, with the impact closer to DBe \$200mn in FY24 (vs ~\$400mn + expected). The difference is driven by: (a) less than 50% of the ARR base applicable for a pricing increase (vs. expectations likely between 35-40%); and (b) the impact spread out over multiple years (vs. expectations for the majority impacting FY24); **(3)** DM NNARR guide for F1Q of \$410mn, below Street of \$418mn and DBe of \$460m. Guidance is in line with 3-yr avg q/q growth; **(4)** FY24 DX guide of +9% vs +11% y/y DBe and +12% y/y Street, with the commentary suggesting ongoing budget scrutiny and an uncertain macro. F1Q DX guide of +9% implies further deceleration in growth vs F4Q (10% y/y), and compares +9% y/y DBe and +12% y/y Street; **(5)** FY24 Digital Media revenue guidance also lower than consensus, likely attributed to lower NNARR than Street and impacts from FX. Guidance implies a widening gap between ARR conversion to revenue, indicating continued impact of FX and other factors; **(6)** Subscription gross margins (NG) declined to 90.7% from 91.7% in F3Q and 91.5% in F4Q22, likely the impact of generative features hitting general availability (and moving costs from S&M to Subscription cost of revenue). We will watch how subscription gross margins trend going forward; **(7)** The company has been in conversations with the FTC in regards to subscription renewals and while the company contends they are complying with all laws/regulations, we highlight this could lead to a fine and/or impact renewal rates going forward if current renewals workflows need to be adjusted; **(8)** Timing of Figma close as the deal continues to be reviewed by the DOJ, EU and CMA. The company remains excited about the strategic opportunity and strongly disagrees with the CMA and EU provisional findings of competition concerns. Commentary last quarter was that the company remains engaged with regulators and has confidence in the merits of the case; **(9)** SBC fell to 8.5% of revenue from 9.2% last quarter and 8.7% last year. SBC is also expected to reaccelerate in F1Q to ~9% of revenue vs F1Q23 of ~9%, and 9.2% for FY24, vs 8.9% in FY23; **(10)** Pace of Firefly usage is very encouraging with 4.5bn image generations to date, though we will continue to monitor usage against Generative AI competitors; and **(11)** OCF of \$1.60 bn was down 32% y/y though was impacted by \$826mn cash tax payment in the quarter, and below Street at \$2.42bn. Cash Tax rate is expected to improve sequentially by 2 pts, helping drive OCF performance.

#### Estimates, Risks, and Valuation

We update our target price to \$650 from \$610 based on our DCF analysis which reflects our updated estimates. Our DCF is based on a WACC of 9.1%, a terminal RFR of 4%, and a terminal equity risk premium of 5.3%. We use a terminal growth rate of 3.5% based on GDP growth. Downside risks include: 1) underperformance from Digital Experience, 2) competition from disruptors across different forms of creative media, and 3) execution on integrating M&A.

Software  
 Adobe



Figure 3: F4Q Summary

Adobe (ADBE)					
In \$mn except EPS					
	4Q23				
	Actual	DBe	Actual vs Est	Cons.	Company guidance
<b>Income Statement</b>					
Digital Media Revenue	3,716	3,695	+0.6%	3,691	\$3,670-3,700
Y/Y Growth	+12.6%	+12.0%		+11.8%	
Digital Experience Revenue	1,266	1,260	+0.5%	1,260	\$1,250-1,270
Y/Y Growth	+10.1%	+9.6%		+9.6%	
Publishing and Advertising Rev.	66	61	+8.6%	62	
Y/Y Growth	-12.0%	-19.0%		-17.2%	
<b>Total Revenue</b>	<b>5,048</b>	<b>5,015</b>	<b>+0.6%</b>	<b>5,013</b>	<b>\$4,975-5,025</b>
Y/Y Growth	+11.6%	+10.8%		+10.8%	
Non-GAAP Gross Profit	4,490	4,487	+0.1%	4,490	
Y/Y Growth	+11.1%	+11.1%		+11.1%	
Non-GAAP GM (%)	88.9%	89.5%		89.6%	
<b>Non-GAAP OI</b>	<b>2,343</b>	<b>2,275</b>	<b>+3.0%</b>	<b>2,286</b>	
Y/Y Growth	+15.8%	+12.5%		+13.0%	
Non-GAAP OM (%)	46.4%	45.4%		45.6%	
Non-GAAP Net Income	1,959	1,893	+3.5%	1,900	
<b>Non-GAAP EPS</b>	<b>\$4.27</b>	<b>\$4.13</b>	<b>+3.2%</b>	<b>\$4.14</b>	<b>\$4.10-\$4.15</b>
Y/Y Growth	+18.7%	+15.0%		+15.1%	
<b>Operating Metrics</b>					
Creative Cloud ARR	12,367	12,354	+0.1%	12,337	
Y/Y Growth	+6.6%	+6.5%		+6.4%	
Document Cloud ARR	2,805	2,769	+1.3%	2,747	
Y/Y Growth	+18.3%	+16.7%		+15.8%	
<b>Digital Media ARR</b>	<b>15,172</b>	<b>15,123</b>	<b>+0.3%</b>	<b>15,126</b>	
Y/Y Growth	+8.6%	+8.2%		+8.3%	
Incremental Digital Media ARR	+569	+520	+9.4%	+521	+520
Y/Y Growth	-1.2%	-9.7%		-9.6%	
<b>Operating Cash Flow</b>	<b>1,597</b>	<b>2,417</b>	<b>-33.9%</b>	<b>2,423</b>	
Y/Y Growth	-31.3%	+3.9%		+4.2%	
Capex	47	150	-68.8%	117	
<b>FCF</b>	<b>1,550</b>	<b>2,266</b>	<b>-31.6%</b>	<b>2,376</b>	
Y/Y Growth	-30.6%	+1.4%		+6.4%	

Source : Company data, Deutsche Bank estimates, Bloomberg Finance LP

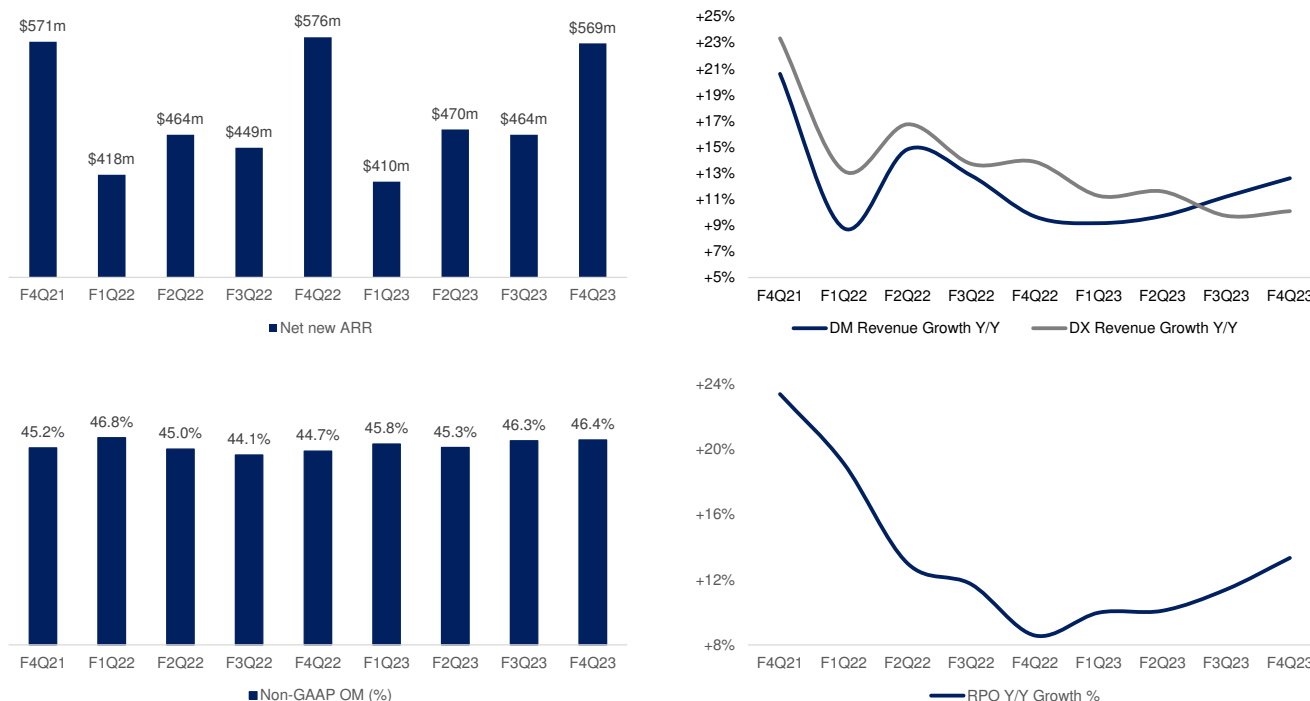


Figure 4: Estimate changes

Adobe (ADBE)												
In \$mn except EPS												
	1Q24E				FY24E				FY25E			
	DBe	Old estimates	Cons.	Company guidance	DBe	Old estimates	Cons.	Company guidance	DBe	Old estimates	Cons.	
<b>Income Statement</b>												
Digital Media Revenue	3,790	3,841	3,811	\$3,770-3,800	15,825	16,078	16,004	\$15,750-15,850	18,042	17,765	17,870	
Y/Y Growth	+11.6%	+13.1%	+12.2%		+11.3%	+13.3%	+12.6%		+14.0%	+10.5%	+11.7%	
Digital Experience Revenue	1,280	1,286	1,313	\$1,270-1,290	5,330	5,422	5,474	\$5,275-5,375	5,926	6,133	6,123	
Y/Y Growth	+8.8%	+9.3%	+11.6%		+8.9%	+10.9%	+11.9%		+11.2%	+13.1%	+11.9%	
Publishing and Advertising Rev.	71	71	72		261	257	265		235	230	241	
Y/Y Growth	-15.0%	-15.0%	-14.2%		-12.9%	-12.9%	-11.7%		-10.2%	-10.2%	-8.9%	
<b>Total Revenue</b>	<b>5,141</b>	<b>5,198</b>	<b>5,175</b>	<b>\$5,100-5,150</b>	<b>21,417</b>	<b>21,757</b>	<b>21,743</b>	<b>\$21,300-21,500</b>	<b>24,202</b>	<b>24,129</b>	<b>24,443</b>	
Y/Y Growth	+10.4%	+11.7%	+11.2%		+10.3%	+12.3%	+12.0%		+13.0%	+10.9%	+12.4%	
Non-GAAP Gross Profit	4,567	4,640	4,660		18,994	19,405	19,532		21,613	21,515	21,819	
Y/Y Growth	+9.5%	+11.3%	+11.8%		+9.3%	+11.7%	+12.4%		+13.8%	+10.9%	+11.7%	
Non-GAAP GM (%)	88.8%	89.3%	90.1%		88.7%	89.2%	89.8%		89.3%	89.2%	89.3%	
<b>Non-GAAP OI</b>	<b>2,372</b>	<b>2,343</b>	<b>2,354</b>		<b>9,658</b>	<b>9,781</b>	<b>9,783</b>		<b>11,010</b>	<b>10,957</b>	<b>10,909</b>	
Y/Y Growth	+11.3%	+10.0%	+10.5%		+8.3%	10.5%	+9.7%		+14.0%	12.0%	+11.5%	
Non-GAAP OM (%)	46.1%	45.1%	45.5%		45.1%	45.0%	45.0%		45.5%	45.4%	44.6%	
Non-GAAP Net Income	1,982	1,959	1,942		8,117	8,219	8,180		9,340	9,363	9,292	
<b>Non-GAAP EPS</b>	<b>\$4.35</b>	<b>\$4.28</b>	<b>\$4.26</b>	<b>\$4.35-\$4.40</b>	<b>\$17.83</b>	<b>\$18.00</b>	<b>\$17.97</b>	<b>\$17.60-\$18.00</b>	<b>\$20.61</b>	<b>\$20.59</b>	<b>\$20.50</b>	
Y/Y Growth	+14.5%	+12.8%	+12.2%		+11.0%	+13.0%	+11.9%		+15.6%	+14.4%	+14.1%	
<b>Operating Metrics</b>												
Incremental Digital Media ARR	410	454	418	410	1,900	1,895	1,995	1,900	1,755	1,500	2,006	
Y/Y Growth	+0.1%	+10.8%	+2.0%		-0.7%	+1.7%	+4.3%		-7.6%	-20.8%	+0.5%	
<b>Operating Cash Flow</b>	<b>1,811</b>	<b>1,900</b>	<b>1,928</b>		<b>8,557</b>	<b>9,666</b>	<b>9,248</b>		<b>10,159</b>	<b>11,196</b>	<b>10,729</b>	
Y/Y Growth	+7.0%	+12.2%	+13.9%		+17.2%	19.0%	+26.6%		+18.7%	15.8%	+16.0%	
Capex	93	104	116		386	455	495		436	505	571	
FCF	1,719	1,796	1,859		8,171	9,211	8,757		9,723	10,692	9,911	
Y/Y Growth	+8.0%	+12.8%	+16.8%		+17.7%	20.3%	+26.1%		+19.0%	16.1%	+13.2%	

Source : Company data, Deutsche Bank estimates, Bloomberg Finance LP

Figure 5: Key charts following F2Q results



Source : Company data, Deutsche Bank research



# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Adobe	ADBE.OQ	624.26 (USD) 13 Dec 2023	8, 15

\*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <https://research.db.com/Research/Disclosures/EquityResearchDisclosures>. Aside from within this report, important risk and conflict disclosures can also be found at <https://research.db.com/Research/Disclosures/Disclaimer>. Investors are strongly encouraged to review this information before investing.

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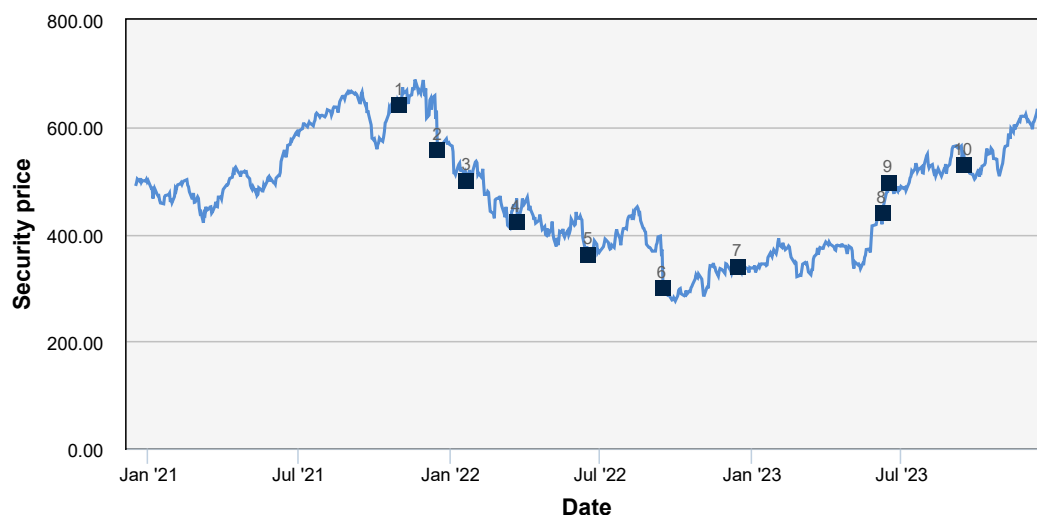
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## Historical recommendations and target price: Adobe (ADBE.OQ)

(as of 12/13/2023)



### Current Recommendations

Buy  
Hold  
Sell  
Not Rated  
Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

1.	11/01/2021	Buy, Target Price Change USD 770.00, Current Price USD 640.20 Brad Zelnick	6.	09/16/2022	Buy, Target Price Change USD 400.00, Current Price USD 299.50 Brad Zelnick
2.	12/17/2021	Buy, Target Price Change USD 715.00, Current Price USD 556.64 Brad Zelnick	7.	12/16/2022	Buy, Target Price Change USD 430.00, Current Price USD 338.54 Brad Zelnick
3.	01/21/2022	Buy, Target Price Change USD 660.00, Current Price USD 499.91 Brad Zelnick	8.	06/08/2023	Buy, Target Price Change USD 500.00, Current Price USD 439.03 Brad Zelnick
4.	03/23/2022	Buy, Target Price Change USD 575.00, Current Price USD 422.90 Brad Zelnick	9.	06/16/2023	Buy, Target Price Change USD 550.00, Current Price USD 495.18 Brad Zelnick
5.	06/17/2022	Buy, Target Price Change USD 500.00, Current Price USD 360.79 Brad Zelnick	10.	09/15/2023	Buy, Target Price Change USD 610.00, Current Price USD 528.89 Brad Zelnick

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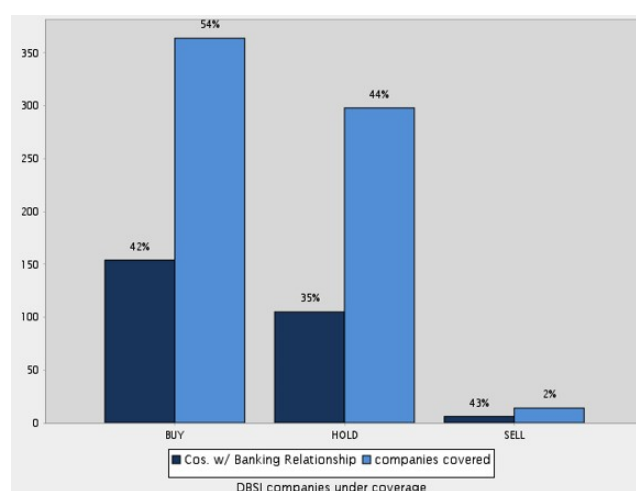
**Sell:** Based on a current 12-month view of TSR, we recommend that investors sell the stock.

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

TSR = Total Shareholder Return. Percentage change in share price from current price to projected target price plus projected dividend yield

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## Equity rating dispersion and banking relationships







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