

# Adobe Inc (ADBE)

Earnings Update  
Hold | Outperform  
Pablo | March 17, 2025



## Overview

- Adobe is the dominant player in digital media and creative software, with industry-leading products like Photoshop, Illustrator, Premiere Pro, and Acrobat, serving millions of users worldwide.
- Adobe's transition to a cloud-based, recurring revenue model through Creative Cloud and Document Cloud has driven consistent revenue growth, high margins, and strong customer retention.
- Adobe generates strong free cash flow, reaching \$9.19 billion in the latest period, enabling substantial stock repurchases and reinforcing its commitment to shareholder value.

## Results

- Adobe's Q1 2025 revenue reached \$5.6 billion, surpassing estimates of \$5.5 billion, driven by strong Creative Cloud (\$2.9B) and Document Cloud (\$800M) performance.
- EPS for the quarter was \$3.02, beating the expected \$2.90, supported by 41% operating margins and cost efficiency
- Adobe's growth was fueled by AI tools like Firefly, driving a 20% YoY increase in subscription revenue, which now makes up 85% of total revenue.

## Key Performance Indicators

- Total Subscription Revenue up 20% YoY
- Creative Cloud Revenue up 10% YoY
- AI Tool Adoption (e.g., Adobe Firefly) Increased by 30%

## Guidance

- Revenue growth is expected to remain strong, with a projected increase of 15-18% YoY, driven by continued adoption of AI-powered tools and subscription model expansion.
- Operating margins are expected to remain around 41%, supported by ongoing cost efficiency measures and robust demand in Creative Cloud and Document Cloud.
- Adobe plans to repurchase approximately \$2 billion worth of shares over the next quarter, while continuing to invest in AI and cloud-based services.

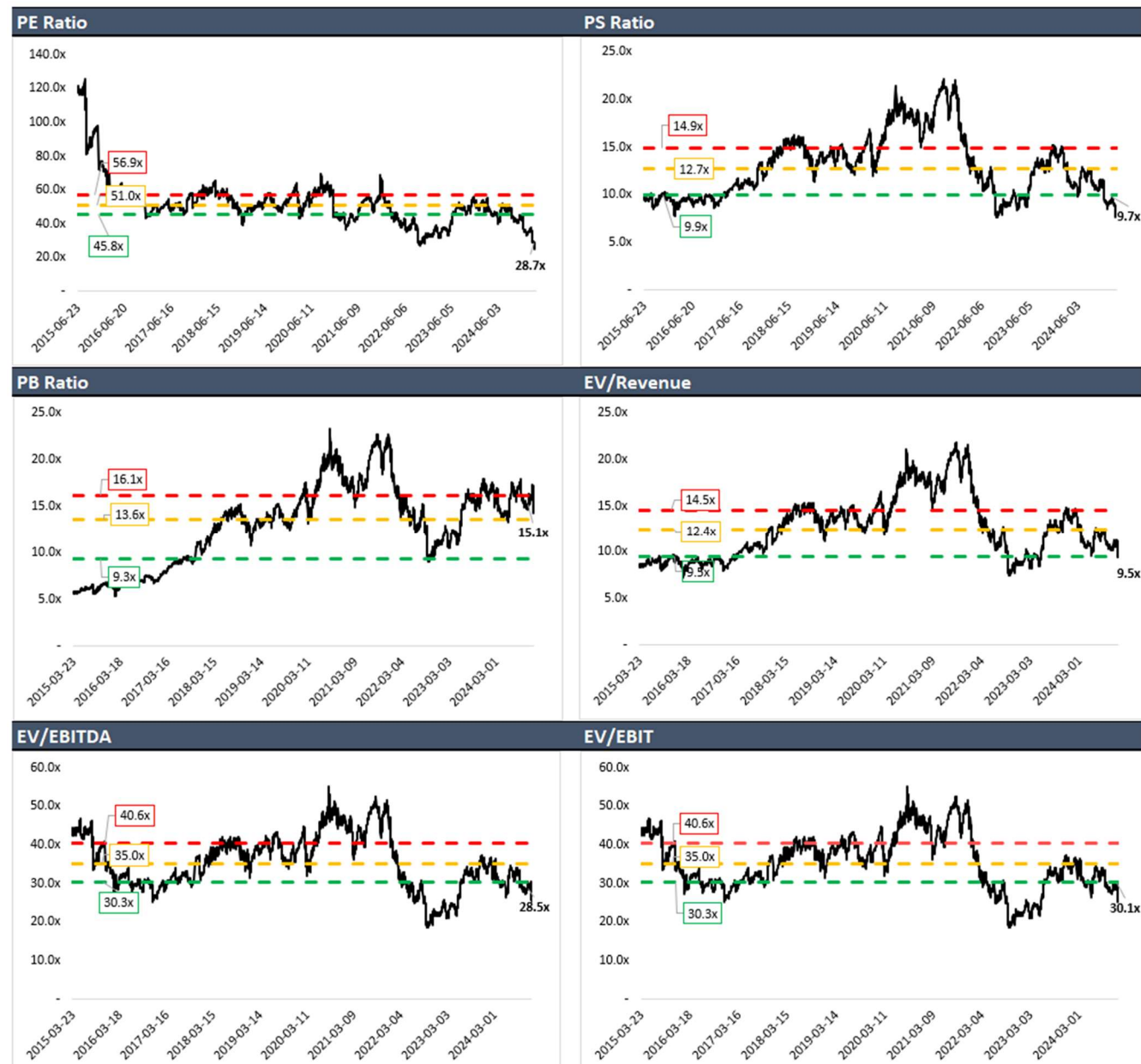
## ADBE

In Millions Except Per Share Data	2015-11	2016-11	2017-11	2018-11	2019-11	2020-11	2021-11	2022-11	2023-11	2024-11	TTM	Threshold
Revenue	\$ 4,796	\$ 5,854	\$ 7,302	\$ 9,030	\$ 11,171	\$ 12,868	\$ 15,785	\$ 17,606	\$ 19,409	\$ 21,505	\$ 22,037	
Cost of Goods Sold	\$ 744	\$ 820	\$ 1,010	\$ 1,195	\$ 1,673	\$ 1,722	\$ 1,865	\$ 2,165	\$ 2,354	\$ 2,358	\$ 2,390	
Gross Profit	\$ 4,051	\$ 5,035	\$ 6,291	\$ 7,835	\$ 9,498	\$ 11,146	\$ 13,920	\$ 15,441	\$ 17,055	\$ 19,147	\$ 19,647	
Gross Margin %	84%	86%	86%	87%	85%	87%	88%	88%	88%	89%	89%	> 40%
Selling, General, & Admin. Expense	\$ 2,217	\$ 2,486	\$ 2,822	\$ 3,366	\$ 4,125	\$ 4,559	\$ 5,406	\$ 6,187	\$ 6,764	\$ 7,293	\$ 7,451	
% of Gross Profit	55%	49%	45%	43%	43%	41%	39%	40%	40%	38%	38%	< 30%
EBITDA	\$ 1,277	\$ 1,837	\$ 2,538	\$ 3,229	\$ 4,119	\$ 5,049	\$ 6,606	\$ 6,976	\$ 7,784	\$ 7,957	\$ 9,211	
Depreciation, Depletion and Amortization	\$ 339	\$ 332	\$ 326	\$ 346	\$ 757	\$ 757	\$ 788	\$ 856	\$ 872	\$ 857	\$ 862	
% of Gross Profit	8%	7%	5%	4%	8%	7%	6%	6%	5%	4%	4%	< 10%
Operating Income	\$ 903	\$ 1,494	\$ 2,168	\$ 2,840	\$ 3,268	\$ 4,237	\$ 5,802	\$ 6,098	\$ 6,650	\$ 7,741	\$ 7,997	
Operating Margin %	19%	26%	30%	31%	29%	33%	37%	35%	34%	36%	36%	> 20%
Interest Expense	\$ 64	\$ 70	\$ 74	\$ 89	\$ 157	\$ 116	\$ 113	\$ 112	\$ 113	\$ 169	\$ 204	
% of Operating Income	7%	5%	3%	3%	5%	3%	2%	2%	2%	2%	3%	< 35%
EBIT	\$ 938	\$ 1,506	\$ 2,212	\$ 2,883	\$ 3,362	\$ 4,292	\$ 5,818	\$ 6,120	\$ 6,912	\$ 7,100	\$ 8,349	
Tax Rate %	28%	19%	21%	7%	8%	-26%	15%	21%	20%	20%	17%	
Net Income	\$ 630	\$ 1,169	\$ 1,694	\$ 2,591	\$ 2,951	\$ 5,260	\$ 4,822	\$ 4,756	\$ 5,428	\$ 5,560	\$ 6,751	
Net Margin %	13%	20%	23%	29%	26%	41%	31%	27%	28%	26%	31%	> 10%
Shares Outstanding (Diluted Average)	507.2	504.3	501.1	498.0	492.0	485.0	481.0	470.9	459.1	449.7	438.0	
EPS (Diluted)	\$ 1.24	\$ 2.32	\$ 3.38	\$ 5.20	\$ 6.00	\$ 10.83	\$ 10.02	\$ 10.10	\$ 11.82	\$ 12.36	\$ 15.18	
ROE %	9%	16%	20%	28%	28%	40%	33%	34%	33%	39%	47%	> 15%
ROC %	7%	13%	16%	19%	20%	30%	25%	26%	27%	28%	35%	> 15%
Net Income	\$ 630	\$ 1,169	\$ 1,694	\$ 2,591	\$ 2,951	\$ 5,260	\$ 4,822	\$ 4,756	\$ 5,428	\$ 5,560	\$ 6,751	
Capital Expenditure	\$ 185	\$ 204	\$ 178	\$ 267	\$ 395	\$ 419	\$ 348	\$ 442	\$ 360	\$ 183	\$ 172	
% of Net Income	29%	17%	11%	10%	13%	8%	7%	9%	7%	3%	3%	< 50%
Free Cash Flow	\$ 1,285	\$ 1,996	\$ 2,735	\$ 3,762	\$ 4,027	\$ 5,308	\$ 6,882	\$ 7,396	\$ 6,942	\$ 7,873	\$ 9,192	
FCF Margin %	27%	34%	37%	42%	36%	41%	44%	42%	36%	37%	42%	> 10%
Purchase of Business	\$ 826	\$ 48	\$ 460	\$ 6,314	\$ 101	\$ -	\$ 2,682	\$ 126	\$ -	\$ -	\$ -	
Dividends Per Share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Dividend Payout Ratio	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	< 60%
Dividend Yield %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Repurchase of Stock	\$ 625	\$ 1,075	\$ 1,100	\$ 2,050	\$ 2,750	\$ 3,050	\$ 3,950	\$ 6,550	\$ 4,400	\$ 9,500	\$ 10,750	
Stock Based Compensation	\$ 336	\$ 349	\$ 454	\$ 610	\$ 788	\$ 909	\$ 1,069	\$ 1,440	\$ 1,718	\$ 1,833	\$ 1,857	
% of Revenue	7.0%	6.0%	6.2%	6.8%	7.1%	7.1%	6.8%	8.2%	8.9%	8.5%	8.4%	
Obligation Ratio	-3.3x	-2.5x	-2.3x	0.3x	0.0x	-0.2x	-0.2x	-0.3x	-0.7x	-0.3x	-0.1x	< 5.0x
Short-Term Debt	\$ -	\$ -	\$ -	\$ -	\$ 3,149	\$ -	\$ -	\$ 500	\$ -	\$ 1,499	\$ -	
Long-Term Debt	\$ 1,907	\$ 1,892	\$ 1,881	\$ 4,125	\$ 989	\$ 4,117	\$ 4,123	\$ 3,629	\$ 3,634	\$ 4,129	\$ 6,155	
Preferred Stock	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Pension Shortfall	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Leases x7	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 644	\$ 679	\$ 609	\$ 511	\$ 525	\$ 518	
Marketable Securities	\$ 3,112	\$ 3,750	\$ 3,514	\$ 1,586	\$ 1,527	\$ 1,514	\$ 1,954	\$ 1,860	\$ 701	\$ 273	\$ 677	
Cash and Cash Equivalents	\$ 877	\$ 1,011	\$ 2,306	\$ 1,643	\$ 2,650	\$ 4,478	\$ 3,844	\$ 4,236	\$ 7,141	\$ 7,613	\$ 6,758	

- Adobe's ROE has shown strong growth over the years, increasing from 9% in 2015 to 47% in the most recent TTM period, indicating a solid return on equity and efficient capital allocation.
- Adobe consistently surpasses the Gross Margin, Operating Margin, and Net Margin thresholds, with a Gross Margin of 89%, Operating Margin of 36%, and Net Margin of 31% in the latest period, reflecting strong profitability.
- Adobe's EBITDA has shown consistent growth, increasing from \$1.28 billion in 2015 to \$9.35 billion in the latest period, reflecting strong operational efficiency and profitability expansion.

## Valuation

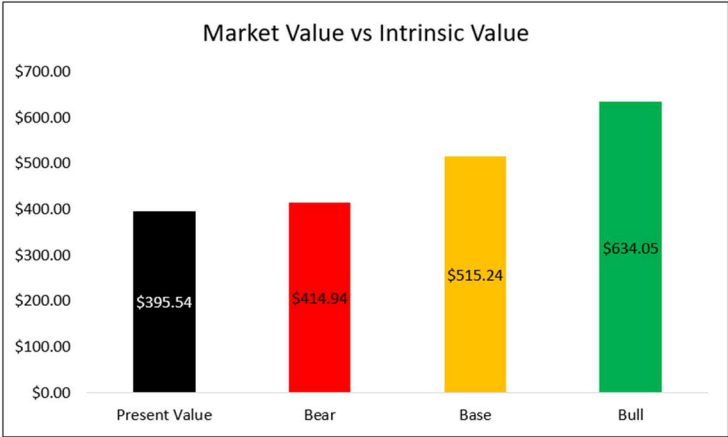
### Value Bands:



	Bear	Base	Bull
Net Margin Growth	3%	5%	7%
Revenue Growth	8%	10%	12%
Share Buybacks	2%	3%	4%
EPS Growth Rate	13%	18%	23%

Valuation:

5 Year Discounted Cash Flow												
								P/E	Total Return Price	PV	5 YR Return	Annual Return
Bear	EPS	Current	2026	2027	2028	2029	2030	20.0x	\$559.36	\$331.95	41.4%	7.2%
		\$15.18	\$17.15	\$19.38	\$21.90	\$24.75	\$27.97	25.0x	\$699.20	\$414.94	76.8%	12.1%
		13%	13%	13%	13%	13%	30.0x	\$839.04	\$497.93	112.1%	16.2%	
Base	EPS	Current	2026	2027	2028	2029	2030	20.0x	\$694.56	\$412.19	75.6%	11.9%
		\$15.18	\$17.91	\$21.14	\$24.94	\$29.43	\$34.73	25.0x	\$868.20	\$515.24	119.5%	17.0%
		18%	18%	18%	18%	18%	30.0x	\$1,041.84	\$618.28	163.4%	21.4%	
Bull	EPS	Current	2026	2027	2028	2029	2030	20.0x	\$854.73	\$507.24	116.1%	16.7%
		\$15.18	\$18.67	\$22.97	\$28.25	\$34.74	\$42.74	25.0x	\$1,068.41	\$634.05	170.1%	22.0%
		23%	23%	23%	23%	23%	30.0x	\$1,282.09	\$760.86	224.1%	26.5%	
Discount rate:												11%



Total RoR Sensitivity				
		Est. EPS growth rate		
		13%	18%	23%
P / E	20.0x	7.2%	11.9%	16.7%
	25.0x	12.1%	17.0%	22.0%
	30.0x	16.2%	21.4%	26.5%

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Adobe Inc is currently undervalued and seems like a good buying opportunity with the stock price decreasing significantly, however, currently there is skepticism regarding the company's ability to effectively capitalize on AI-driven growth opportunities. My recommendation is to hold the company for the time being, but to keep an eye on it and do further research.