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Adobe Inc. (ADBE)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Q1 FY 2026 Adobe Earnings Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Doug Clark, Vice President of Investor Relations. Please go ahead.

Doug Clark

Vice President, Investor Relations, Adobe Inc.

Good afternoon, and thank you for joining us. With me on the call today are Shantanu Narayen, Adobe's Chair and CEO; David Wadhvani, President of Creativity & Productivity; Anil Chakravarthy, President of Customer Experience Orchestration; and Dan Durn, Executive Vice President and CFO.

On this call, which is being recorded, we will discuss Adobe's first quarter fiscal year 2026 financial results. You can find our press release, as well as PDFs of our prepared remarks and financial results, on Adobe's Investor Relations website

The information discussed on this call, including our financial targets and product plans, is as of today, March 12, and contains forward-looking statements that involve risk, uncertainty and assumptions. Actual results may differ materially from those set forth in these statements. For more information on those risks, please review today's earnings release and Adobe's SEC filings.

On this call we will discuss GAAP and non-GAAP financial measures. Our reported results include GAAP growth rates and non-GAAP growth rates, including constant currency rates. During this presentation, Adobe's executives will refer to revenue growth in constant currency rates unless otherwise stated. Non-GAAP reconciliations are available in our earnings release and on Adobe's Investor Relations website.

I will now turn the call over to Shantanu.

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

Thanks, Doug. Good afternoon, everyone and thank you for joining us.

Earlier today, we announced that I will be transitioning from my role as CEO after over 18 years and 100 earnings calls. Over the coming months I will be working with Frank Calderoni, Adobe's Lead Director, and the board of directors to identify my successor and to ensure a smooth transition. Until then, I will continue to lead Adobe as CEO and will stay on as Chair of the board to support my successor, just as John and Chuck did when I took on this role.

What attracted me to Adobe 28 years ago remains unchanged, our leadership in creating new market categories, world-class products, a relentless drive to innovate in every functional area of the company and our employees who continue to invent the future.

The privilege of leading this company has been the greatest honor of my career and I am committed to setting it up for its next decade of growth with the right leader and executive team in partnership with the board while driving our fiscal year 2026 strategic priorities.

Our mission to "empower everyone to create" represents an even larger opportunity in the AI era. Let me outline what Adobe is doing to drive our top-line growth while maintaining a high level of profitability. As a company that has prided itself on creating categories, our AI transformation begins with a focus on a customer-centric product strategy to anticipate and fulfill the diverse needs of a large and growing customer base.

At Adobe, we are targeting Business Professionals & Consumers and Creative & Marketing Professionals through differentiated AI-infused and AI-first product offerings, across various routes to market and different monetization models.

With creativity at the core, we are expanding innovation in all our flagship applications, as well as investing in new offerings. These new products include Adobe Acrobat Studio with Adobe Express, Adobe Firefly, and Adobe GenStudio. Our new AI-first offerings ending ARR more than tripled year-over-year, reflecting progress against this opportunity with individuals and enterprises alike.

Adobe's continued success in AI will be underpinned by our deep understanding of creativity domains, the vast amount of data to which we have access, delivery of complex workflows driving business outcomes and a great brand across individuals, small and medium businesses and enterprises. Content is at the heart of all Adobe solutions, which powers educational, social, marketing, brand, entertainment and business content.

Our growth has always been fueled by attracting new users, individual consumers, students and business professionals, into our products, delighting them and driving adoption. We're ruthlessly focused on monthly active users as an indicator of adoption and success for Acrobat and Express, Creative Cloud applications and Adobe Firefly across different surfaces, including desktop, web, mobile and LLM platforms.

In Q1, we surpassed 850 million monthly active users of Acrobat, Creative Cloud, Express and Firefly, achieving 17% year-over-year growth, a clear indication that we have both strong usage and a foundation for monetization.

In addition to broad end user adoption, Adobe has always been a trusted partner for enterprises and we're increasingly being asked to help them drive their AI strategy across customer experience orchestration globally.

Enterprises are looking to the combination of employees and automation to deliver on the demands of content and marketing at scale. Agentic AI will further enable outcome-focused enterprise workflows as customers look beyond speed to elevate creative differentiation, brand governance, and personalized experiences across

Adobe's end-to-end solutions are uniquely designed to meet these needs at scale. Strong momentum across our enterprise offerings underscores our leadership and customer confidence in Adobe's ability to deliver AI-driven value. In Q1, globally, we achieved over 30% year-over-year growth in AEP & Apps, as well as Adobe GenStudio, ending ARR.

Our goal has always been to meet customers wherever they work across the broad range of surfaces they use every day, and emerging new platforms have always been additive to our market opportunity.

In addition to Windows, MAC, iOS, Android, Chrome and Edge, we intend to integrate with leading AI platforms such as Anthropic, Google, Microsoft, NVIDIA and OpenAI, providing customers with access, choice, and flexibility.

We're jointly driving enterprise transformation at scale in collaboration with global leaders such as Accenture, Cognizant, Deloitte, dentsu, EY, IBM, Infosys, Omnicom, Publicis, PWC, Stagwell, TCS and WPP.

Given the strategy, I'm pleased with how Adobe is transitioning to an AI-driven business. We had a strong start to the year, achieving \$6.4 billion in revenue in Q1, representing 11% year-over-year growth. GAAP earnings per share for the quarter was \$4.60, and non-GAAP earnings per share was \$6.06, representing 11% and 19% year-over-year growth, respectively.

Driving this momentum were Acrobat and Express, Creative Cloud Pro, overall strength in the CXO enterprise solutions as well as in our AI-first applications. Importantly, we saw tremendous MAU growth in our new initiatives, that dampens ARR in the short term but sets us up to deliver in the quarters ahead. As we continue to transform the business to capitalize on the AI opportunity, our customer-focused strategy, rich product roadmap, innovation momentum and early success across all routes to market position us well to empower everyone to create.

I'll now turn it over to David.

David Wadhvani

President, Creativity & Productivity Business, Adobe Inc.

Thanks, Shantanu. Hello everyone. AI is fundamentally reshaping how people create and work. As experiences become increasingly conversational and outcome-driven, more people than ever will benefit from our creativity and productivity tools. Our approach is to expand access to AI across our existing audiences in products like Creative Cloud and Acrobat, reach new audiences with products like Firefly and Express, and help automate content production in enterprises with Firefly Enterprise.

As we execute on our strategic initiatives, we're pleased with the progress we're making against three growth drivers. First, new user acquisition is gaining momentum, and we are reaching more new users than ever before as measured through the growth of monthly active users. Notably, creative freemium MAU crossed 80 million, growing 50% year-over-year and includes web and mobile versions of Firefly, Express, Premiere, Photoshop and Lightroom.

Second, AI usage continues to grow quickly, as measured through record levels of generative credit consumption.

Third, our content automation solutions continue to see strong enterprise adoption, as measured through record numbers of API calls. These metrics highlight that we are executing against our strategy to empower individuals and businesses to create content in new ways in the era of AI.

In the first quarter, subscription revenue for Business Professionals & Consumers was \$1.78 billion, growing 15% year-over-year. Our vision for Business Professionals & Consumers is to deliver AI-powered applications that reinvent how users comprehend, create and share content.

PDF Spaces transforms collections of files and links into dynamic knowledge hubs that allow you to easily collaborate with others. Acrobat AI Assistant provides users conversational experiences that help them comprehend information faster and more accurately with an individual PDF or across documents in a PDF Space.

Our Acrobat and Express integrations empower users to turn content they are consuming into generated presentations, infographics, audio summaries and more. It's clear that these AI-based capabilities are resonating with users, as AI Assistant MAU doubled year-over-year and Express MAU tripled year-over-year. Express is now used in 99% of US Fortune 500 companies.

In Q3, we introduced Adobe Acrobat Studio, a single offering that brings together all these AI creative capabilities with the PDF tools users know and rely on. Subscription upgrades to offerings that include Acrobat Studio value are off to a strong start across routes to market, including Adobe.com and enterprise license renewals.

We are embedding Adobe's capabilities directly into new conversational platforms. In Q1, we launched Acrobat and Express for ChatGPT, significantly expanding the reach of our creativity and productivity workflows. You can expect to see similar integrations into Copilot, Claude and Gemini as those platforms support integrated application experiences.

We activated new Express partnerships including Airtel in India, illustrating how our distribution strategy continues to accelerate new user acquisition at scale. Partnerships like these are helping to drive momentum across our Business Professional & Consumer offerings across individuals and businesses.

Subscription revenue in Q1 for Creative & Marketing Professionals was \$4.39 billion, growing 11% year-over-year. Our strategy for creators and creative professionals is to empower everyone to create, from first-time creators to seasoned professionals to large enterprises seeking to scale content production.

Firefly, an all-in-one creative AI studio, is the right tool for the next generation of creators and creative professionals. Creative Cloud with deeply infused AI capabilities continues to be the destination of choice for power and precision creation. And enterprises are increasingly turning to Firefly Enterprise to unlock a new era of content automation.

Firefly is quickly becoming the go-to destination for content generation, ideation and assembly. Users can generate with over 30 industry-leading models, including Adobe, Google and OpenAI. They can collaboratively ideate with stakeholders in Adobe Firefly Boards. They can edit and assemble image, video and audio using Firefly's prompt-based editing capabilities with integrated Photoshop and Express web journeys.

Firefly momentum is strong, with generative credit consumption growing over 45% quarter-over-quarter. While that growth is broad-based, generations are skewing toward higher-value modalities, with video generative actions growing more than 8x year-over-year and audio generative actions doubling year-over-year, reflecting customers moving deeper into AI-assisted creation across the full creative process. As a result, Firefly subscription and credit pack ending ARR grew 75% quarter-over-quarter.

Creative Cloud applications continue to embed new AI capabilities, making users far more productive. Photoshop added new partner models and support for higher resolution image generation and editing. Illustrator expanded its generative design capabilities with models from OpenAI, Ideogram, and Google to support frequent vector workflows. Premiere added AI Object Mask, which quickly became one of the most used AI features in the application. As Creative Cloud users increase AI usage, we're seeing purchases of Firefly credit packs ramp nicely.

Firefly Enterprise, the combination of Firefly Services and Firefly Foundry, is empowering the world's largest brands to scale content production to unprecedented levels. Firefly Services provide enterprise-grade APIs, giving

businesses more than 30 content production capabilities which can be run in automated workflows. These include 3D digital twin workflows for showcasing physical products, image and video resizing across every social and digital channel, and campaign variant generation and assembly for personalized marketing content.

Firefly Foundry enables the world's largest marketing teams and media companies to build private, deeply tuned AI models trained on their own IP. Unlike generic AI models, Firefly Foundry gives enterprises a commercially safe model that understands and is able to accurately generate their branded assets. Together, these products are driving measurable business outcomes, by increasing production scale, accelerating velocity and reducing costs. Firefly Enterprise new customer acquisition grew 50% year-over-year.

Additional Q1 creators and creative professionals highlights include: Photoshop launched a conversational editing experience in ChatGPT; 85% of films premiering at the 2026 Sundance Film Festival were made using Adobe Creative Cloud tools; Frame is emerging as the cross-media work-in-progress repository to manage the rapidly increasing volume of content being created, and doubled the number of assets under management year-over-year; and Firefly Foundry continues to build momentum in the media and entertainment vertical, with partnerships including B5 Studios, Cantina Creative, Creative Artists Agency, United Talent Agency and WME.

While Q1 had many highlights, our traditional Stock business saw a steeper decline than we expected. This shift is playing out more quickly than we had planned for and our focus remains on giving customers meaningful choice between stock and generative AI as they build their Creative & Marketing workflows.

Q1 reinforced our confidence in the strategy and opportunity across Creativity & Productivity. We are thrilled with new user acquisition and usage growth for creative freemium offerings. We're excited to see the momentum continue with workflow and automation capabilities driving incredible efficiencies in enterprises.

I'll now turn it over to Anil.

Anil Chakravarthy

President, Customer Experience Orchestration Business, Adobe Inc.

Thanks, David. Hello, everyone. Adobe provides the leading AI-powered solutions for Creative & Marketing Professionals to deliver personalized customer experiences at scale. AI remains a tailwind for our enterprise business enabling us to deliver Creative & Marketing Professionals subscription revenue of \$4.39 billion in Q1, growing 11% year-over-year.

Adobe pioneered the category of customer experience management. Enterprises around the world rely on our software to identify prospects, acquire new customers, engage and delight them with personalized experiences, and grow customer lifetime value.

We are the leading provider of content management systems for websites and mobile apps, and the leading customer data platform that serves as the foundation in enterprises for digital customer engagement.

We serve 99 of the Fortune 100 and are the digital platform of choice for Chief Marketing Officers and Chief Digital Officers for their ongoing campaigns and for major marketing moments like the Olympics and Super Bowl.

During the 2026 Super Bowl, Adobe-enabled experiences peaked with more than 8 billion analytics server hits, 21 million concurrent viewers, 34 million page views, 1.5 million video requests per minute, and 216 million emails delivered.

In the era of AI, every enterprise needs to drive their current business while harnessing AI to address new trends in consumer behavior and expectations. Companies must ensure their brands remain front and center even as consumers are increasingly discovering new information, engaging with businesses, and buying products through LLMs and agents. These trends vary significantly by geography and consumer segment, adding complexity for global companies that need to provide personalized experiences through well-established channels like websites, email and mobile apps, while ramping up new channels like LLMs.

Adobe has become the trusted partner for AI-powered customer experience orchestration through our thought leadership, rapid innovation, and omnichannel capabilities, while providing the security, reliability, data governance, global scale, and partner ecosystem that enterprises require.

Adobe's unified CXO platform provides solutions for brand visibility, content supply chain and customer engagement. Adobe Experience Platform is a leading platform for digital customer engagement and brings together new AI-powered apps and agents to transform how businesses build, deliver and optimize marketing campaigns and customer experiences, as well as reduce costs.

In Q1, we introduced new AEP Agents along with expanded Agent Orchestrator capabilities, now available to all AEP customers, via a Try and Buy program. The scale of our platform has grown to over 35 trillion segment evaluations and more than 70 billion profile activations per day. Subscription revenue for AEP and native apps grew over 30% year-over-year, demonstrating continued momentum and value realization.

As consumers increasingly use LLMs and agents to discover brands and purchase products, brand visibility has become critical to success in the agentic web. According to Adobe Digital Insights, during the 2025 holiday season, traffic to retail sites from LLMs increased nearly 7x, bringing qualified referrals that convert 31% higher and generate 254% more revenue per visit.

Adobe's brand visibility solution, which includes Adobe Experience Manager, Adobe LLM Optimizer and Adobe Brand Concierge, empowers brands to engage consumers across their owned properties, search, social media, LLMs and agentic channels. Adobe LLM Optimizer enables enterprises to enhance the discoverability of their websites by LLMs and significantly increase their organic traffic.

Adobe Brand Concierge is an AI-first application enabling businesses to configure and manage agentic AI experiences on their websites and mobile apps to guide consumers from exploration to purchase decisions, using immersive and conversational experiences.

We expect our pending acquisition of Semrush will expand our offering to provide marketers with a comprehensive solution to shape how their brands appear across their own websites, LLMs, traditional search and the wider web.

Content is at the heart of delivering personalized customer experiences and the demand for high-quality, on-brand content has exploded. GenStudio is our comprehensive content supply chain offering, spanning content ideation, creation, production, and activation. GenStudio is highly differentiated by integrating best-in-class capabilities across Adobe's creativity and marketing applications including Creative Cloud, Firefly Enterprise, Frame, Adobe Experience Manager and Workfront.

In Q1, we delivered breakthrough innovations enabling GenStudio-created assets to flow directly into activation workflows across the Adobe stack and a broad ecosystem of advertising platforms including Amazon Ads,

Google, LinkedIn, and Meta. Ending ARR for the Adobe GenStudio family of products grew over 30% year-over-year as the world's leading brands and agencies increasingly turn to Adobe to power their content supply chain.

Q1 accomplishments and business highlights include: strong customer demand for our agentic web offerings with over 650 customer trials underway for Adobe LLM Optimizer, Sites Optimizer, and Brand Concierge; continued adoption and momentum for AEP AI Assistant with 70% of all AEP customers using the agentic capabilities; partnership in the OpenAI initiative to enable brands to create ads for ChatGPT; accelerating momentum for Firefly Services and Custom Models as part of the GenStudio solution with over 2,500 custom models since launch; and Q1 industry analyst recognition, including being named a leader in two Forrester Waves for Digital Asset Management Solutions and Revenue Marketing Platforms for B2B, as well as the Gartner Magic Quadrant for Personalization Engines.

Adobe's unique value is helping enterprises solve their comprehensive customer experience and content supply chain needs, balancing creativity, automation and costs. Global customer wins in the enterprise in Q1 included Centene, Danske Bank, Deutsche Bank, Heineken, HP, MongoDB, Nordstrom, Paramount, Pilot Travel Centers, RACQ, Revlon, Sherwin Williams, Southwest Airlines, Stagwell, Target, TUI Travel Group and WPP.

Customer experience orchestration is a critical imperative for every business to drive both top-line and bottom-line growth. Our unique vision, comprehensive offerings, rapid pace of innovation, extensive partner ecosystem, and laser focus on delivering business value position Adobe as the partner of choice for AI-powered customer experience orchestration. We look forward to unveiling significant innovations and partnerships that will further advance our leadership position at Adobe Summit in April.

I'll now pass it to Dan.

Daniel J. Durn

Chief Financial Officer & Executive Vice President-Finance, Technology, Security and Operations, Adobe Inc.

Thanks, Anil. Today, I'll start by summarizing Adobe's performance in Q1 fiscal 2026, highlighting growth drivers across our customer groups, and I'll finish with our financial targets.

In Q1, Adobe achieved revenue of \$6.40 billion, growing 12% year-over-year as reported and 11% in constant currency. GAAP EPS was \$4.60 and non-GAAP EPS was \$6.06, increasing 11% and 19% year-over-year, respectively. GAAP operating margin was 37.8% and non-GAAP operating margin was 47.4%.

Q1 financial highlights included: total Adobe ending ARR of \$26.06 billion, growing 10.9% year-over-year; Total Customer Group subscription revenue of \$6.17 billion, growing 13% year-over-year, or 12% in constant currency; RPO of \$22.22 billion exiting the quarter, growing 13% year-over-year, or 12% in constant currency, and cRPO growing 12% as reported or 11% in constant currency; cash flows from operations in the quarter were a Q1 record of \$2.96 billion, and ending cash and short-term investments position exiting Q1 was \$6.89 billion; and repurchasing approximately 8.1 million shares of our stock during the quarter. Exiting Q1, we have \$3.89 billion remaining of our \$25 billion authorization granted in March 2024.

Business Professionals & Consumers subscription revenue was \$1.78 billion, increasing 16% year-over-year as reported, or 15% in constant currency. Q1 growth drivers for Business Professionals & Consumers included: sustained double-digit ending ARR growth across all geographies; Acrobat and Express MAU grew approximately 20% year-over-year; Acrobat AI Assistant ARR grew approximately 3x year-over-year; and strong upgrades to Acrobat Studio as part of enterprise license renewals.

Creative & Marketing Professionals subscription revenue was \$4.39 billion, increasing 12% year-over-year, or 11% in constant currency. Q1 growth drivers for Creative & Marketing Professionals included: growth in Creative Cloud driven by the CC Pro offering; Creative freemium MAU crossed 80 million, growing over 50% year-over-year and includes web and mobile versions of Firefly, Express, Premiere, Photoshop and Lightroom; Generative credit consumption increased more than 45% quarter-over-quarter; Firefly ending ARR across Firefly App, Firefly credit packs, and Firefly Enterprise exceeded \$250 million; GenStudio and AEP & Apps ending ARR each grew over 30% year-over-year; strong pipeline momentum for new AI offerings across LLM Optimizer, Sites Optimizer and Brand Concierge; continued strength in retention across the enterprise customer base; and continued success in the enterprise as total customers with ARR over \$10 million grew greater than 20% year-over-year.

As we transform our business, we continue to deliver double-digit Total Adobe ARR growth at scale, driven by innovative technology, the breadth of our solutions, and strong go-to-market motions.

From a product perspective, Q1 ARR growth was driven by Acrobat and Express, Creative Cloud Pro, and AEP & Apps and GenStudio in the enterprise as well as growing momentum in our expanding portfolio of AI-first applications, including Firefly App and Firefly Enterprise. In total, ARR from AI-first applications more than tripled year-over-year.

In Q1, we drove significant MAU growth for our new creative web and mobile freemium offerings, including Express, Firefly, Photoshop and Premiere. While this freemium approach is intentionally designed to serve the next generation of creators, build the Adobe brand, and set the foundation for accelerated growth over time, these offerings have a near-term impact on ARR. In addition, we continue to monitor and drive utilization of AI functionality across our products. In Q1, this AI functionality drove significantly greater credit consumption quarter-over-quarter.

However, in Q1, we experienced a greater-than-anticipated decline in our traditional, standalone stock book of business. While this is happening faster than expected, our strategy is to provide customers with the choice to use stock or generative AI offerings for Creative & Marketing workflows.

We expect strength for our core Acrobat and CC products and enterprise demand for our CXO solutions, coupled with new MAU growth for Firefly and Express and increasing AI usage and monetization to gain momentum as we move through the year. We continue to expect Total Adobe ARR growth of 10.2% for FY 2026.

Let me now turn to our financial targets, which assume current macroeconomic conditions and do not include the contribution of Semrush, which we continue to expect to close in Q2, subject to regulatory approvals and closing conditions.

For Q2 fiscal 2026, we are targeting total Adobe revenue of \$6.43 billion to \$6.48 billion; Business Professionals & Consumers subscription revenue of \$1.80 billion to \$1.82 billion; Creative & Marketing Professionals subscription revenue of \$4.41 billion to \$4.44 billion; GAAP EPS of \$4.35 to \$4.40; and non-GAAP EPS of \$5.80 to \$5.85. For Q2, we expect non-GAAP operating margin of approximately 44.5% and non-GAAP tax rate of approximately 18%.

In addition, we are reaffirming our FY 2026 targets. Adobe remains focused on executing our growth strategy in a period of profound technological change. As customer behavior evolves, the strength of our platforms and the rapid pace of our AI-driven innovation in creativity, productivity and customer experience orchestration workflows, position us to drive profitable growth and seize the opportunities ahead.

Shantanu, back to you.

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

Thanks, Dan. Q1 represented a strong start to the year, both for our existing platforms where we've innovated with AI as well as the new strategic initiatives that will drive future growth.

Adobe remains steadfast in its commitment to innovation and delivering value to our customers, partners, and shareholders. We are confident that our customer-centric approach, groundbreaking product innovations, passionate employees and unwavering execution will continue to drive growth and create durable value.

Thank you, and we will now take your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we will take our first question from Jay Vleeschhouwer with Griffin Securities.

Jay Vleeschhouwer

Analyst, Griffin Securities, Inc.

Q

Thank you. Good evening. Shantanu, first for you. I just want to say how much I have appreciated our three-decade relationship. And I do want to commend you, if that's a strong enough word for the multiple transformations at the company that we've seen over that long period of time.

So I just wanted to make that personal and professional remark before I ask my question, which this evening is actually for Dan. Not a product question. One of your most important metrics, I think is and will be the progression of your current RPO. The constant currency growth rate for cRPO was about a point better than Q4.

And also, over the last number of years, we've seen that cRPO has fairly consistently been somewhere around 51%, 52% of your estimated next 12 month revenue on a rolling quarterly basis. Is there any reason to believe that your revenue visibility via cRPO coverage might proportionately increase over the next number of years? Maybe just talk about that, perhaps structural change that you foresee, if any, in your cRPO.

Daniel J. Durn

Chief Financial Officer & Executive Vice President-Finance, Technology, Security and Operations, Adobe Inc.

A

Yeah. Thanks, Jay. Appreciate the question. We're pleased with the momentum that we exited the year – last year, 2025. Strong progression across all three customer audiences, and the business performed well as we window into this year, you can see the strength in terms of our enterprise business and the way we're combining solutions from creativity to marketing, to create those content automation solutions and help brands drive their business in this environment. So we're pleased with the progression and the performance and the strategy and the execution against that strategy. I don't see any reason why the trends we've seen in the business historically would inflect to drive a different dynamic as it relates to RPO, cRPO and translation to revenue.

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

A

And Jay, I just wanted to say thank you for those kind thoughts. And I have to – I'd be remiss if I didn't say that I'm even more excited about what we've been accomplishing as it relates to the AI transformation and the opportunity ahead of us. So, we're going to stay really focused on capitalizing on that opportunity.

Jay Vleeschhouwer

Analyst, Griffin Securities, Inc.

Q

Thank you.

Operator: Thank you. And we will take our next question from Saket Kalia with Barclays.

Saket Kalia

Analyst, Barclays Capital, Inc.

Q

Okay, great. Hey guys. Thanks for taking my question here. Shantanu, I just want to start by echoing Jay's comments. I mean, clearly this has been a very dynamic space, but you've helped build one of the largest SaaS businesses in the world over the years. So let me just start by saying congrats. But maybe on that point, I was wondering just a bit of a broad question. What is the board looking for in Adobe's next CEO?

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

A

Well, thanks again, Saket. I think at our core, we're always going to be a product company. And I think taking advantage and looking around the corner as it relates to the immense opportunity that AI has across creativity and marketing, is the real opportunity for not just the CEO, but the company as well.

And I think from my perspective, it's a massively scaled business right now. And so just continuing to have a growth agenda and we're all about our people. And so the values associated with it. And I'm actually really confident that the board and the special committee, will do a great job of shepherding that search.

Saket Kalia

Analyst, Barclays Capital, Inc.

Q

Very helpful. Thank you.

Operator: Thank you. We will take our next question from Brad Zelnick with Deutsche Bank.

Brad Zelnick

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you so much. Firstly, Shantanu, congrats on an epic run. Your impact on Adobe and the industry at large, I know will be enduring for decades to come. But my question is for David. David, it's great to hear the generative credit consumption is ramping so meaningfully, up 45% sequentially, and much of the expansion has been skewing towards video and audio.

We'd love to understand what use cases you're seeing consume credits so meaningfully in video and audio. Are we still in more of an exploration stage? Or maybe ask differently, what are the use cases you're seeing from leading edge customers that are driving this type of consumption? Thanks.

David Wadhvani

President, Creativity & Productivity Business, Adobe Inc.

A

Yeah, I think that's a really important question and indicator in terms of where we're going. If you take a step back, I think when you look at the evolution of AI, it has definitely gone from a fun thing to play with to something that's evolving and being integrated more and more into existing workflows. And now I think people are very much relying specifically on the need for AI to be part of their creative process.

And so, for those who haven't been tracking, you can think about generative credits like tokens for our creative applications. Obviously, we do a lot of generations across the entire business, but that's effectively what that is. The net of what you're seeing here is we have more people generating than ever before. You saw that monthly active users of our freemium creative software, as an example, is up to over 80 million, 50% year-over-year.

So we have more people generating, they're generating higher resolution because it's not just a fun thing to play with, it's actually part of their existing workflows. And they're generating higher modalities, things like video, audio, design, and so you see all of that pushing generative credits up.

The second thing is they're actually generating in more places, right? We've certainly started the process by having them create and use generative AI in our core flagship applications, and that continues to grow nicely. Firefly is becoming really more of a destination. We talked about how that business grew 75% sequentially quarter-over-quarter. Express, Boards for broad based ideation and stakeholder value. So, lots of reasons to look at this as the right leading indicator.

And the last thing I'll say is we're starting to see a nice ramp in terms of existing creative professionals adding on additional creative packs as a result of this.

Brad Zelnick

Analyst, Deutsche Bank Securities, Inc.



It's really helpful. Thank you so much.

Operator: Thank you. We will take our next question from Mark Murphy with JPMorgan.

Mark R. Murphy

Analyst, JPMorgan Securities LLC



Thank you, Shantanu. Congrats on one of the greatest and longest CEO tenures and growing Adobe to \$26 billion in revenue. I want to ask you and also the others. It's remarkable to see 13% subscription revenue growth. We haven't seen that in quite some time. It's intriguing that total revenue growth accelerated in constant currency to 11% or maybe I should say up-ticked. But can you speak to the revenue acceleration? We were not expecting to see revenue accelerate quite yet.

And I'm just trying to understand, should we assume the Stock business is pretty small and therefore whatever minor setback you saw, it's just being more than offset by tripling in AI revenue and the step-up in credit consumption that Brad asked about. And that maybe – is it that kind of netting out that drove this top line acceleration during the quarter?

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.



Yeah, a couple of things. Mark, I mean, if you take a step back and really look at, you know, as we've been going through this transition, what we've been focused on, first and foremost, it's about are we driving the right product innovation with great new customer audiences in sight? And the way I tend to think about that, it's on the user

side, as we have been saying, really driving a huge amount of new user adoption and usage, is the early indicator for us that we're driving success with the next generation of creators and business professionals and consumers, because our strength with the creative professional continues. And so I think we've done a really good job off with Firefly and Acrobat and Express, continuing to drive innovation in those particular areas.

And then on the other side of the spectrum, I mean, we've always said one of our sustainable differentiations is what we do within the enterprise. And so the enterprise pipeline and continuing to make sure that we deliver, you saw both GenStudio as well as AEP & Apps growing 30%.

I think as it relates to the revenue, we're doing a better job of really making sure that as it relates to translating ARR to revenue, that we're really focused on it. That continues to be both a focus on making sure that we drive retention, and just looking at linearity, so the linearity also associated with the business tends to help with that.

So, we're pleased with revenue as well as EPS. But I think bigger picture, we just look at it and say the fact that we're driving AI, across the individual user segment and the enterprise, which was a really strong quarter.

I think as it relates to your question around stock order of magnitude, it's about a \$450 million book of business. And maybe just to talk a little bit about that, if you take out the Stock business, like-for-like, instead of the 10.9% growth, it would have been approximately 11.2% growth.

So, just to give you a flavor, now, we still look at that entire business as an opportunity because people do like to start any creation or marketing workflow with a piece of content, that's increasingly become generative. That's why you saw the scale, I think, and how we are doing generations. But hopefully that gives you a flavor of how we think of that business. And we want to make sure that we offer a combined royalty-free stock plus generative AI offering to take advantage of that opportunity.

Mark R. Murphy

Analyst, JPMorgan Securities LLC



Wonderful. Thank you so much.

Operator: Thank you. We will take our next question from Keith Weiss with Morgan Stanley.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC



Excellent. Thank you, guys for taking the question. And, Shantanu, I don't think we can start a question without congratulating you on what was really an amazing career.

I think it's pretty safe to say that you've been a North Star of leadership for the entire careers of probably most of the people on this call. And your stewardship of Adobe has just been legendary. So you'll be sorely missed. It's been a pleasure working with you. So thank you for all of that. And best of luck on your future endeavors.

Maybe as a little bit of an advertisement for your future successor, you talked a lot about laying foundation for future growth. You talked about some of the initiatives in the near term that temper near-term ARR, but sets up for success in the longer term.

Can you talk to us a little bit more about those initiatives and a little bit more about those foundations and how you expect that to evolve? And maybe the timeframe for what today is a foundation building initiative to when that

becomes more of a ARR driving initiative, when that becomes more of the acceleration story within Adobe? Thank you.

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

A

Yeah. Sure, Keith. And again, thank you all for the kind remarks. I'm not done yet. I just want to make sure, make no mistake, I'm going to be laser focused on continuing to drive the company until we have a new CEO and to make sure they are successful. But the things that we try to outline as strategic priorities, I mean, first, creativity is at the core on the DNA.

And as it relates to the Business Professional & Consumers, we just believe that the combination of creativity and marketing, creativity and productivity with the Acrobat plus Express is what's going to drive both usage as well as in ARR.

And so I think in terms of how we look at that particular business that's driving good mid-teens growth, and we want to, as we continue to drive applicability of Express in that, accelerate that business. And so, the good news is the early indicators, which is MAU, is really increasing.

Same thing with the freemium. I think in our prepared remarks, we talked about the 80 million that we're seeing as it relates to the creative freemium MAU. And so I think even that's driving the business.

The slight difference, Keith, in those businesses tend to be that in the traditional business, when somebody came and bought it, you would just immediately translate that into ARR, and here they have to see a little bit of the paywall and they have to get – so it's a little phase shifted is how I think about it.

But for that particular customer segment, the fact that we're driving MAU, that is the right early indicator for us to focus on, much like we did with Reader for so many years, which is, you get the adoption and you get the usage and Reader Ubiquiti even in new environments like Chrome as well as Edge are really what's driving the revenue. So, that's sort of the early indicator and driving that.

The core creative professional, I think the ARR will continue to be driven by adding more value to the products, Creative Pro, which is the offering there, it's good to see the success associated with that. And I think on the enterprise side, hopefully, both from our prepared remarks and from the answers to your question, that's really an area of strength for us, because people are looking at it, and with AI, everybody wants to know how you transform your business.

Every CEO that I talk to wants to ensure that they deal with the next generation of consumers and attract them, as well as what they want to do then is say, how do I ensure that for my marketing spend, I'm getting as much breadth as I can, as well as how much automation and productivity in terms of revenue.

And so, I think the fact that we have all these new offerings, specifically Firefly – Dan, I think, talked about a \$250 million book of business for Firefly. That didn't exist a few years ago. As we talk about what's happening with GenStudio, 30% growth, AEP & Apps and I would venture to say, Keith, that we should hopefully see what we had identified as the AI-first sort of book of business, that tripled, but that should be our next billion dollar business. So, that's – we're ruthlessly focused on all of those. So hopefully that gives you some color on why we're excited about the performance that we put up.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC



Outstanding. That was great. Thank you so much.

Operator: Thank you. We will take our next question from Alex Zukin with Wolfe Research.

Alex Zukin

Analyst, Wolfe Research LLC



Yes. Hey, guys. Thanks for taking my question. And again, echoing everybody's praise, Shantanu, on the call, it's truly been a special opportunity to work with you and follow your progress.

I guess maybe I have a quick two-parter, which is, if I think about the impact of AI MAU growth on ARR growth in the quarter, can you maybe just unpack exactly why it was dampened?

And as consumption trends improve, how do we think about that kind of impact as we head through Q2, Q3, Q4? When does net new ARR growth start to maybe go positive? And then maybe just anything on the timeline that we or an investor should expect around the CEO search. Is this something that is a quarter, multiple quarters? Any timing there would be helpful.

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.



Maybe I'll cover the second part and start, which is if I take a step back, actually because this is a question that if is on people's minds, I just wanted to actually say that there never would have been a good time given how much Adobe is part of me. So, I do want to start off with that.

And in many ways, I've always believed that my role is looking around the corner whether it's positioning the company for the future or about product and leadership. And as we've said many times, on product, I feel really good about how we've transformed our roadmap. Based on this AI and customer audiences, the new products are both exciting and groundbreaking.

On leadership, we've always invested in developing a really deep bench of outstanding execs. But timing wise, part of it is, it was really important for me to be transparent about my decision and communicate and allow the board to take ownership for the selection. So, I would suspect it'll take a few months. This is not because I've just notified them. So, hopefully, it gives you that – a little flavor for that.

And I'll start on the other question, Alex, a little bit and then ask David and Dan, which is the way you have to think about it is our traffic patterns in terms of creativity at Adobe.com is only going up and to the right. We have two options in terms of how we guide that traffic. We can guide that to ARR that comes immediately, or we can guide it to a long term value and what drives greater long term value in terms of getting the right product. And increasingly, we're ensuring that we transition. So top-line traffic is good. And that's why when we say dampen, I like phase shift also a little bit because that sort of moves out.

If you think about the fact that we reaffirmed our targets, I mean, that would imply that we would expect double-digit ending book of business growth for the remaining three quarters. So, hopefully that gives you some flavor. But, David?

David Wadhvani

President, Creativity & Productivity Business, Adobe Inc.

A

Yeah. Happy to just add on a little bit there. So as Shantanu indicated like, you know, we look at creativity as a whole as bigger than it's ever been. And if we look forward, we couldn't be more excited about the fact that literally everyone in the world is going to be creating, they're going to be creating visually, they're going to be creating images, the videos, designs and that's really our wheelhouse, right?

And if we think about the shape of that broader creative audience, that is evolving, right? So we have creators now representing basically anyone in the world that wants to create visually. We have creative professionals who are under more and more pressure to create more prolifically and more content. And we have enterprises that are looking to automate more of that creativity.

And so, as we think about that creativity infusing itself into everything, we think about it in two columns. The first is around, the end user, right? And if you think about that, it really is about reaching the end user where they are. And so we have freemium offers like Firefly and Express. We have power and precision by embedding AI in our existing creative products. And we have more and more products for businesses around automation with Firefly Foundry and Firefly Services now part of GenStudio.

So, as we think about the growth algorithm for growth, we're going to see more traffic to Adobe.com. We continue to see record traffic levels. Traffic continues to grow very nicely, and how we route that traffic to freemium offers is going to be really the evolution that Shantanu is talking about in terms of the change that we should expect to see.

And as that traffic goes to these new offers, it's just going to take a little time for them to use the product, to hit the paywalls, and then translate out. So again, as we've said on the prepared remarks, this is really on strategy to drive MAU, drive credit consumption, drive enterprise usage. And we should expect to see that start to accelerate in the back half.

Alex Zukin

Analyst, Wolfe Research LLC

Q

Perfect. Thank you guys.

Operator: Thank you. We will take our next question from Matt Swanson with RBC Capital Markets.

Matthew Swanson

Analyst, RBC Capital Markets LLC

Q

Yeah. Great. Thank you. Shantanu, I'd echo my congratulations. I guess, as it were for this, too. But I want to talk to you about the partnerships that we've had announced the last two quarters. So, last quarter with all the embedded models, and this quarter building on even more so with a lot of the advertising platforms, Amazon Ads, Google, Meta, it's a lot of different companies that I think over the last year on this GenAI journey, investors have brought up to us as potential competitors, or maybe almost risks to Adobe that are now kind of part of the ecosystem.

So can you talk a little bit more about kind of how you're evolving in this role of orchestration to really help monetize all this new creative content for all these stakeholders?

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

A

Great. And so maybe I'll touch on the enterprise one first, and then I'll touch on the models. I mean, I think as it relates to the enterprise, I mean, what's completely clear is as we are helping people with customer experience orchestration, and Anil can certainly add to that. I mean, people are looking to us from everything, they're looking to us for brand visibility, acquiring customers, serving them, and then ensuring that they create a long term engagement.

So, if you think of it that way, there's just no question that from the perspective of a CMO or a CIO or the head of business, they're looking to Adobe, because in this LLM world, it's going to become even more important to them that they actually have a direct engagement with their customers, and their own sites actually take way more importance in terms of the value. And so as a multi-channel world emerges in the LLM space, our ability to support it. So those specifically are like the partnerships with Google and Amazon, Meta, as well as the other ad places.

I think to your point, all of them may have an offering because they have to allow a self-serve offering. Those typically tend to be geared towards the small and medium business and maybe even smaller part because it's important, but they value the fact that we can actually help them get campaigns faster and understand the efficacy of those campaigns by closing the loop. And they would like to work with us to jointly go to a customer and say, see, if you advertise on our channel, your return on investment is much better. So that's as it relates to that side.

Same thing with the agencies, because the agencies are partnering with us to say, we need more automation, we need more technology to help deal with how AI is going to impact marketing spends. Let's partner with you. And so that's why, partnership with Publicis or WPP accomplishes that.

I think on the model side, my take on the model side would be as follows, which is they're going to be two or three really large language models that actually succeed. All of these individual models that exist, small model companies in one part of a media ecosystem, I just don't see how long term they survive, because people aren't interested in just the model, they're interested in the workflow. And so for us, offering customers with that choice was actually very strategic because we can actually then provide for all of our creative customers, the right model for the right case, because these all have different brands.

And so I think as it relates to the support of all these models, I think it's a win-win. They would like access to customers, which Adobe has, and we would like access to these different models because they have different brand attributes.

And I think if you look at the larger companies like Google, we're actually with them and with Nano Banana, it's been a great partnership because we are providing them with a lot of customers and they're providing us with great technology.

And to some degree, I look at that, and I think I may have said that in my prepared remarks. I definitely look at that as I looked at, when iOS came along or Android came along or the browser came along, whether that's Edge or Chrome or Mac and PC, frankly, every single environment in which people want to engage is additive to the opportunity. And if we don't think it's additive to the opportunity, we're just unnecessarily ignoring that. So that's the way I look at it.

Matthew Swanson

Analyst, RBC Capital Markets LLC

Thank you.

Q

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

And frankly, you'll continue to see more partnerships. So, stay tuned. I mean, that's something that we continue to work on.

A

Operator: Thank you. We will take our next question from Brent Thill with Jefferies.

Brent Thill

Analyst, Jefferies LLC

Thanks. The dampening of ARR with new freemium offerings, I guess, what gives you confidence in the backside that you can monetize this?

Q

Daniel J. Durn

Chief Financial Officer & Executive Vice President-Finance, Technology, Security and Operations, Adobe Inc.

Yes. So, I would say first of all, we already are monetizing it. You see the momentum we have with Express, you see the momentum we have with Firefly. And we've got a long history, Acrobat, I think, is the first freemium funnel around software. And it's one of the most performing parts of our business. And so we feel good about the journey we've been on, which takes a large surface area of highly engaged users, takes them on journeys where they dive deeper from a feature functionality standpoint, hit paywalls and bring them down the funnel.

A

And once they are paying customers in these freemium models, and frankly, this is where customers' preferences and behaviors are going. They want to try before they buy. And so, it's meeting the customers where they are.

But we've got an incredible ecosystem that's pervasive. And once they become deeper customers around those freemium entry points, the opportunity to more deeply monetize that over time with a well-worn motion around upsell and cross-sell is one of the historical strengths of the company and will continue to be.

So, we feel confident that it is on strategy, meet the customers where they are, allow them to engage in the way in which they want to engage. And then, continue to bring them deeper into the Adobe ecosystem, which becomes an effective monetization lever over time. So, we feel good about the strategy and how we're executing against it.

Brent Thill

Analyst, Jefferies LLC

And then, Dan, one quick follow-up just on capital allocation. From an M&A perspective, I know you've backed off quite a bit, but the environment has changed considerably, where other large companies are feeling things are easier to get done. Have you shifted your view at all on the buyback versus M&A?

Q

Daniel J. Durn

Chief Financial Officer & Executive Vice President-Finance, Technology, Security and Operations, Adobe Inc.

Yeah. I would say there's a change in our philosophy. We've always said, there's three elements to our capital allocation strategy.

A

First pillar is to grow the company. Grow it organically by investing in game-changing, category-defining innovation, but also complement it from time-to-time with inorganic activity, then maintain a flexible, strong balance sheet, and return excess capital to shareholders. That framework is standing the test of time.

We've announced Semrush, great asset, great acquisition, complements the business well, and allows us to engage from a brand visibility standpoint in an evolving environment where you're layering in LLMs next to search engine optimization, and we'll have the industry's best leadership category-defining products.

And so, we continue to look, but we won't be cavalier about M&A. We've got great innovation in flight. We've got an organic engine that we're pleased with the innovation we're bringing and the strategy that we're executing against, but we continue to look to see how we complement that organic growth engine within organic.

And the bar is going to be high, but when we see something that's interesting and attractive, we will absolutely go out and action it. And so, I would say, there's really no change to the approach, Brent.

Brent Thill

Analyst, Jefferies LLC

Great, thanks.

Q

Operator: Thank you. We will take our next question from Michael Turrin with Wells Fargo Securities.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Hey, great. Thanks very much. Appreciate you taking the question. This one's for the broader team. The company is still delivering greater than 47% operating margin. It's an impressive number, but the net new ARR number was down a touch this quarter. So I'm just wondering what the team's thoughts are on potentially taking margin down to grow faster. It's a question we're getting from investors across software. So, is that something you think you could do with some of the newer revenue streams and engagement levels you're seeing? Or maybe talk to us around how you're evaluating the trade-offs there, just given the current environment? Thanks very much.

Q

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

Sure. You know, I'll start. And then, I mean, we are always looking to make sure that we spend money to drive long-term value, and on some of the businesses, namely, I would say Firefly and Express. You're absolutely right, which is the more marketing we spend on it, the more with our data-driven operating model, we continue to see it. I think you'll see as it relates to the Q2, there's a slight degradation that has as much to do with the Summit and the other events. But maybe what's not well understood is how below the surface, we're actually constantly getting more efficient, as it relates to our spend and making sure that we spend that more on marketing as well as on the COGS associated with what's happening.

A

So, we now track tokens and token usage within the company and it's nice to see that token usage increase, because that means that our AI products are seeing great value associated with it, and we will continue to do that. We will continue to do that, and given we have the best customer experience orchestration solutions, we know where that ROI is helpful and where that ROI can be wasteful. But it's a good question, and be assured that we're spending on the newer initiatives, and that's why tripling that revenue. And you're right. I mean, we will continue to see how we can accelerate that as well.

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

I mean, given that is the last question, maybe again, in summary, what I would say is that as it relates to our business, strong start to the fiscal year. And as we think about where the company is focused, namely AI products, and ensuring that at the user level, we continue to see accelerated acquisition and usage. And on the enterprise, making sure that we combine the power of our creative tools to enable them to accomplish their business objectives with customer experience orchestration, we feel really good about that. So thank you for joining us. And, hope to see all of you at Summit, Doug?

Doug Clark

Vice President, Investor Relations, Adobe Inc.

Thank you everyone for joining.

Operator: Thank you. And this does conclude today's question-and-answer session. I would now like to turn the call back to Shantanu for any additional or closing remarks.

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

I think we actually closed. Thank you very much.

Operator: And this does conclude today's call. Thank you for your participation. You may now disconnect.

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