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# Adobe Inc. (ADBE)

Q3 2025 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, and welcome to the Q3 FY 2025 Adobe Earnings Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Doug Clark, Vice President, 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 Digital Media; Anil Chakravarthy, President of Digital Experience; and Dan Durn, Executive Vice President and CFO.

On this call, which is being recorded, we will discuss Adobe's third quarter fiscal year 2025 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, September 11, 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 constant currency growth 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.

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## Shantanu Narayen

*Chair & Chief Executive Officer, Adobe Inc.*

Thanks, Doug. Good afternoon, everyone, and thank you for joining us. Adobe had another strong quarter and delivered double digit top line growth and profitability. In Q3, we achieved record revenue of \$5.99 billion, representing 10% year-over-year growth. GAAP earnings per share for the quarter was \$4.18 and non-GAAP earnings per share was \$5.31, representing 14% year-over-year growth.

AI represents a tectonic technology shift and presents the biggest opportunity for Adobe in decades. Our strategy to harness AI is focused on infusing it across our category-leading applications to provide more value and delivering innovative new AI-first products. We've done a great job executing this strategy by accelerating innovation with a focus on offering greater value to creative and marketing professionals and business professionals and consumers.

Creativity has always been core to the company's mission. We're infusing AI across our flagship Creative Cloud applications, including Photoshop, Illustrator, Premiere Pro and After Effects and delivering new offerings for next generation creators with Adobe Firefly across web and mobile.

We're delivering an end-to-end, ideation-to-creation solution in the new Firefly application to make it the single destination for creators' workflows. It includes our own first-party, commercially safe models and leading third-party models. We are seeing strong adoption of the standalone Firefly subscription offering.

We recently added Google Gemini Flash 2.5 alongside Google's Veo and Imagen models to the roster of partner models from OpenAI, Black Forest Labs, Runway, Pika, Ideogram and others. In the rapidly evolving AI landscape, where each generative AI model has its own aesthetic style, we're offering customers choice and flexibility to use the right model within Adobe applications, without the friction of switching between workflows and platforms.

AI is now deeply integrated across our flagship applications in Creative Cloud, giving creators everything they need to bring their creative visions to life all in one workflow. We're seeing strong adoption of the Creative Cloud Pro offering which includes Firefly, reflecting the value professionals see in having AI integrated with power and precision creative tools. Simply put, Adobe is the operating system for creative work.

Adobe combines creativity and marketing in the enterprise, offering the most differentiated solution to serve the growing needs of creative and marketing professionals. Adobe GenStudio is the most comprehensive solution that brings together workflow and planning, creation and production, asset management, activation and delivery and reporting and insights to enable marketing automaton with AI in the enterprise.

Our Workfront, Frame, AEM Assets, Firefly Services, and GenStudio for Performance Marketing products, which are key components of the integrated GenStudio solution, now exceed \$1 billion in ARR, growing over 25% year-over-year.

Customers are leveraging the rich data and customer knowledge in Adobe Experience Platform to enable agentic workflows to scale the capabilities of Adobe's category-leading customer experience orchestration applications. We're seeing continued adoption and momentum for Adobe Experience Platform AI Assistant with 70% of eligible AEP customers leveraging this functionality.

As AI transforms consumer behavior, it's reinventing marketing and customer experience. Brand discovery is shifting from primarily search to include generative engine optimization. AI becomes the new UI, guided by conversations rather than menu clicks. Brands must deliver hyper-personalized, immersive experiences on owned channels to drive engagement and loyalty. In this new reality, Adobe uniquely offers an integrated customer experience platform that delivers automaton, agility and scale.

The explosion of content creation and automaton in the enterprise and the beginning of new marketing needs such as LLM optimization and LLM advertising are a massive opportunity for Adobe. We're infusing AI into Adobe Experience Manager with our upcoming LLM Optimizer release, a powerful agentic app to improve brand visibility, drive acquisition and maintain engagement with customers across LLM platforms.

For business professionals and consumers, we're integrating creativity with productivity for billions of users with the recent launch of Acrobat Studio, which brings together Acrobat and Express. PDF has been the global standard for digital documents for over 30 years and continues to grow. We're evolving Acrobat from a leading document productivity app to a first-of-its kind destination for people to get insights faster, create standout content and collaborate more seamlessly.

The new Acrobat Studio includes PDF Spaces, which transforms collections of PDFs, web pages and other files into dynamic knowledge hubs that help people work smarter and faster using AI Assistant to derive insights. We're seeing steady growth across our family of Acrobat and Express products with combined monthly active users growing approximately 25% year-over-year.

Adobe is the leader in the AI creative applications category. Our AI-influenced ARR has now surpassed \$5 billion, up from over \$3.5 billion exiting fiscal year 2024 and we've already surpassed our full year AI-first ending ARR target. Given our customer-focused growth strategy, product innovation, and strong go-to-market execution and the momentum in our business, we're pleased to once again raise our FY 2025 revenue and EPS targets.

I'll now turn it over to David and Anil to discuss the momentum in our business.

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## David Wadhwani

*President-Digital Media Business, Adobe Inc.*

Thanks, Shantanu. Hello, everyone. In Q3, Digital Media achieved revenue of \$4.46 billion, which grew 11% year-over-year. We exited the quarter with \$18.59 billion of Digital Media ARR, growing ending ARR 11.7% year-over-year.

Our business professionals and consumers customer group had another strong quarter. The introduction of Acrobat AI Assistant brought a new conversational interface that enhances the experience of customers consuming PDFs. This unlocks increased comprehension across trillions of PDFs in the world. We continue to see accelerated use of AI Assistant across desktop, web and mobile.

Our vision is to harness the power of generative AI and conversational experiences to fundamentally reshape how knowledge is discovered, synthesized and shared. We're executing on our strategy to extend the role of PDF and Acrobat by delivering a cohesive experience that empowers individuals to effortlessly move from content consumption in Acrobat to content creation in Express.

We've expanded our strategy with the introduction of PDF Spaces, a new foundation for content consumption and creation. PDF Spaces reimagines how people work with documents, transforming static files into dynamic, collaborative knowledge hubs. Users can leverage PDF Spaces to organize documents and links, discover insights faster through conversational experiences and enable editing and remixing of PDF content into new formats like emails and presentations.

I'm particularly excited that anyone can easily create agents to perform document tasks on their behalf. Customers can use PDF Spaces with team members for more impactful knowledge sharing and collaboration. The combination of PDF Spaces, AI Assistant and an integrated Express experience is available through Acrobat Studio, a new, premium offer in our Acrobat line-up. Early reception of Acrobat Studio has been strong, with encouraging adoption and usage trends that highlight the significant customer demand and opportunity ahead.

We're seeing rapid adoption of Adobe Express. In the enterprise, Express is helping organizations scale content creation, while maintaining brand consistency and quality. A great example is dentsu, which has made Express a core part of its global marketing strategy. Adobe's platform is being rolled out to all 68,000 employees worldwide and scaled across brands including Carat, iProspect, dentsu X, Dentsu Creative, Tag and Merkle.

By enabling creative teams to build content in Creative Cloud and share that content through Express within an overall GenStudio solution, dentsu ensures brand alignment across global teams, while empowering marketers to create and remix their own content. This is driving measurable impact at dentsu.

Other business highlights include: ending units for Acrobat AI Assistant grew more than 40% quarter-over-quarter and AI Assistant engagement, with conversations and summarizations grew nearly 50% quarter-over-quarter; Acrobat Mobile ending ARR grew more than 30% year-over-year; over 14,000 organizations added Express in Q3 alone, a 4x increase in the quarter versus a year ago; Express usage within Acrobat nearly doubled quarter-over-quarter; new Express integrations in Q3 include LinkedIn, Miro and Premier League.

Over an 80% year-over-year increase in the number of students with access to Express Premium plans. We signed a partnership with the state of California to help prepare high school and college students across the California State University system for careers in AI by providing them with access to Express, Acrobat AI Assistant and Firefly. Key customer wins include Allegis Group, DSV, FedEx, Intuit, KKR, Lloyds Bank, Lockheed Martin, Provincial Government of Ontario, the State Government of Virginia and Vivendi.

Our Creative business had a strong quarter. Creativity has never been more important, and we continue to lead by delivering the next generation of innovations to empower creative professionals and creators. As demand for content accelerates, our strategy is centered on making creativity more accessible, more intelligent and more impactful. We are doing this by deeply integrating AI into our flagship applications, expanding creativity through new apps like Firefly and providing powerful automaton to help customers scale their work. Together, these innovations are transforming how ideas move from inspiration to execution and helping our customers create with greater speed, efficiency and imagination.

We are continuing to infuse AI into our flagship applications like Photoshop, Premiere Pro and Illustrator to help onboard new users more quickly and make existing users far more productive. Recent examples include the addition of a new Harmonize feature in Photoshop that blends composited objects with the image by automatically adjusting lighting, colors and shadows. Harmonize has quickly become one of the most used features in Photoshop.

We released Project Turntable, a popular sneak from MAX last year, into Illustrator, which helps users rotate their 2D artwork to accurately visualize different angles, eliminating a frequent and time-consuming task. Innovations like these directly translate into measurable value for customers by cutting production times, enabling more content output and raising the overall quality of creative work and have driven strong migration to our new Creative Cloud Pro offer.

The Firefly App is a powerful, yet accessible AI production studio that helps creators deliver original content faster than ever before. In Q3, we added a slew of new capabilities, including avatar generation, sound effects generation and updates to the growing list of integrated generative models.

Firefly provides access to Adobe's commercially safe generative AI models, alongside a growing list of leading third-party models, including Google's Imagen, Veo and Gemini Flash 2.5, OpenAI's GPT Image as well as, Flux, Runway, Ideogram, Pika and Ray2, to name a few. This is enabling the Firefly App to be the go-to destination for content generation and editing for both creators using Adobe products for the first time as well as creative professionals who have been using Creative Cloud applications for years.

We are delivering incredibly powerful automated content production capabilities through Firefly Services to enterprises of all sizes and across all verticals. These agentic services leverage custom models to automate and personalize image, video and 3D content for marketing campaigns, ad creation and post-production video work, all while maintaining brand consistency.

Additionally, we delivered a no-code interface that extends the power of Firefly Services to studio and design teams. Firefly Services are available through GenStudio as well as to individuals through Firefly App subscriptions. Consumption of Firefly Services and custom models grew 32% and 68% quarter-over-quarter, respectively.

Other business highlights include: continued new user acquisition of Creative Cloud with particular strength in emerging markets like India which grew ending units 50% year-over-year; millions of downloads of the Firefly App for mobile since launch; Firefly App MAU grew 30% quarter-over-quarter; Firefly App continues to attract next gen creators, with first time Adobe subscribers through the app growing 20% quarter-over-quarter; generative AI consumption accelerated, with 29 billion generations, and video generations growing nearly 40% quarter-over-quarter. Key enterprise wins include Disney, FedEx, Home Depot, Meta, MetLife, Stagwell, Ulta and Volkswagen.

We're excited to welcome our community at Adobe MAX next month. We'll showcase incredible innovations that highlight amazing productivity features in our flagship Creative Cloud applications, breakthrough AI capabilities leveraging Firefly and third-party models, new agentic experiences for conversational editing, and significant strides in content production automaton for enterprises. MAX is always a celebration of the community's creativity and we look forward to sharing how Adobe magic is transforming creative workflows and unlocking new opportunities.

I'll now turn it over to Anil.

## Anil Chakravarthy

*President-Digital Experience Business, Adobe Inc.*

Thanks, David, and hello, everyone. Digital Experience had a strong Q3, achieving revenue of \$1.48 billion for the quarter. Subscription revenue in the quarter was \$1.37 billion, representing 11% year-over-year growth, making us the largest software provider in our category. Our success has been driven by having the most comprehensive solution for digital marketing and customer experience, enabling the world's largest brands to deliver personalized experiences at scale.

AI is changing consumer behavior and transforming how businesses engage with consumers. Our most recent Adobe Digital Index data, which is based on online transactions across over 1 trillion visits to US retail sites, shows that LLM traffic grew 4,700% year-over-year in July 2025. The rapid changes in consumer behavior and expectations in the era of AI are forcing brands to reinvent marketing and customer experience. Customer acquisition is being disrupted, as brand discovery shifts from link-based search results to include LLMs.

Brands need to win visibility through LLMs by providing machine-readable content and real-time updates, while strengthening their direct relationship with their consumers. With the rise of conversational interfaces, consumers increasingly expect that they can accomplish any interaction with a brand through a single interface. Hyper-personalization and immersive experiences will attract consumers to owned channels like websites and mobile apps, enabling brands to drive deeper customer engagement and loyalty. Enterprises need an end-to-end, integrated customer experience orchestration platform to achieve the scale, automaton, agility and efficiency required in the era of AI.

Adobe is uniquely positioned to help businesses orchestrate and deliver personalized customer experiences by fusing creativity, marketing and agentic AI. Our AI-first and AI-infused solutions spanning GenStudio for content supply chain, AEP and apps for customer engagement and loyalty, and Adobe Experience Manager and LLM Optimizer for brand visibility and discovery, enable us to power customer experience orchestration in the era of agentic AI.

We're seeing accelerating adoption and usage of Adobe GenStudio, the most comprehensive content supply chain solution, as enterprises drive content velocity with AI. New capabilities in Adobe GenStudio for Performance Marketing are accelerating video and display ad campaign creation. Marketers will be able to produce engaging short-form video ads using the commercially safe Firefly video model. We released new capabilities for display ad campaigns, including on-brand image generation with Firefly, as well as offerings with Amazon Ads, Google Campaign Manager 360, LinkedIn and Meta to power seamless campaign workflows.

We are innovating on our leading AEP marketing and customer experience platform with built-in agentic functionality, empowering marketers to deliver digital experiences with greater agility and efficiency. Our intelligent agents understand intent, reason and recommend actions to drive outcomes across content, data, and journeys. Purpose-built agents are embedded in our core apps and new AI-first applications, helping brands unlock greater efficiency and precision, automate workflows and personalize experiences at scale.

We launched the first phase of AEP Agent Orchestrator in Q3, empowering businesses to build, manage and orchestrate AI agents from Adobe and third parties. These capabilities power the data insights agent and product support agent, which are generally available now and add to our growing portfolio of agents. Our newest innovation is Adobe LLM Optimizer, available in early access. As customers and prospects increasingly turn to generative AI search and assistants for brand discovery, LLM Optimizer helps shape how brands show up in results which is driving influence, visibility and qualified traffic.



Other business highlights include: strong demand for AEP and native apps with Q3 subscription revenue growing over 40% year-over-year; continued adoption and momentum for AEP AI Assistant with 70% of eligible AEP customers using AI Assistant; expanded partnership announcements at Cannes including Accenture, dentsu, IBM, Infosys, Omnicom and Publicis; industry analyst recognition, including being named a leader in two Forrester Wave reports for customer data platforms for B2B and digital analytics solutions as well as two IDC MarketScapes for worldwide AI-enabled marketing platforms for enterprise and midsize customers.

Strong 60% year-over-year growth in cross-cloud deals, demonstrating the value of the Adobe integrated platform including GenStudio; over 40% of our top 50 enterprise accounts doubled their ARR spend since the start of FY 2023; and key global customer wins, including Amgen, Australia Post, Dick's Sporting Goods, Disney, FedEx, Intuit, Lloyds Bank, Macy's, MetLife, Microsoft, Morgan Stanley, Qatar Airways and Stagwell.

We are excited to showcase our latest innovations, including AI-first apps and AI-infused products, at MAX next month. These advancements further strengthen our position as the leader in customer experience orchestration in the era of agentic AI.

I'll now pass it to Dan.

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## Daniel J. Durn

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

Thanks, Anil. Today, I will start by summarizing Adobe's performance in Q3 fiscal 2025, highlighting growth drivers across our businesses, and I'll finish with our targets. In Q3, we exceeded our targets and once again delivered double digit top line and EPS growth. We are driving demand by infusing AI into our category-leading solutions as well as delivering new AI-first products across business professionals and consumers, creative professionals and creators, and marketing professionals.

Adobe achieved revenue of \$5.99 billion, which represents 11% year-over-year growth as reported, or 10% in constant currency. GAAP diluted earnings per share in Q3 was \$4.18 and non-GAAP diluted earnings per share was \$5.31, reflecting 11% and 14% year-over-year growth, respectively.

Adobe AI-influenced ARR surpassed \$5 billion and we expect it to continue to rise as a percent of our business. Notably, ARR from our new AI-first products, including Firefly, Acrobat AI Assistant, and GenStudio for Performance Marketing, has already achieved our end-of-year target of over \$250 million.

Third quarter business and financial highlights included: Digital Media revenue of \$4.46 billion; Digital Media ending ARR of \$18.59 billion, growing 11.7% year-over-year; Digital Experience revenue of \$1.48 billion; cash flows from operations of \$2.20 billion, which is a record for Q3; and exiting the quarter, remaining performance obligations were \$20.44 billion, growing 13% year-over-year, or 12% in constant currency and cRPO growing 10% as reported and in constant currency.

In our Digital Media segment, we achieved 12% year-over-year revenue growth as reported, or 11% in constant currency. We exited the quarter with Digital Media ARR growing 11.7% year-over-year in constant currency, driven by strong demand for higher-value AI-infused offerings, including Creative Cloud Pro and Acrobat as well as AI-first products, including Firefly and Acrobat AI Assistant.

Within Digital Media, Q3 growth drivers for business professionals and consumers included: monthly active users of Acrobat and Express grew approximately 25% year-over-year, fueling our freemium growth strategy; strong usage and monetization of our Acrobat offerings including AI Assistant and our newly launched Acrobat Studio; 4x



increase in businesses adding Express in the quarter versus a year ago; robust performance in the education sector driven by access to Express, Acrobat AI Assistant and Firefly for students, faculty and staff; and strong ARR book of business growth across all routes to market and geographies.

Within Digital Media, Q3 growth drivers for creative professionals and creators included: increasing demand and usage of AI innovation in our flagship applications like Photoshop, Premiere Pro, and Illustrator as part of our new Creative Cloud Pro offering; strong new subscription adoption of the Firefly App by individuals and Firefly Services by enterprises; support of Firefly and third-party models in Creative Cloud applications drove accelerating generative AI usage quarter-over-quarter; and strong ARR book of business growth across all routes to market and geographies.

Turning to our Digital Experience segment, in Q3, we achieved revenue of \$1.48 billion, which represents 9% year-over-year growth as reported and in constant currency. Digital Experience subscription revenue was \$1.37 billion, growing 11% year-over-year as reported and in constant currency.

Within Digital Experience, Q3 growth drivers for marketing professionals included: AEP and apps ending ARR growing greater than 40% year-over-year as enterprises focus on delivering personalization at scale for customer engagement; strong adoption of AEM including Sites Optimizer as marketers increase relevancy of their owned websites across both search and LLM platforms; increasing demand for GenStudio, our comprehensive content supply chain solution, as enterprises drive content velocity and AI automaton; continued strength in customer retention and expansion; and strong execution in deals over \$1 million across key verticals and geographies.

Our growth strategy is focused on serving the diverse needs of our customers across both business professionals and consumers and creative and marketing professionals. As we previously outlined, our continued success will be driven by orienting our innovations, offerings, monetization models and go-to-market around our customer groups. For the business professionals and consumers group, subscription revenue was \$1.65 billion, which represents 15% year-over-year growth as reported, or 14% in constant currency.

For the creative and marketing professionals group, subscription revenue was \$4.12 billion, which represents 11% year-over-year growth, or 10% in constant currency. In the enterprise at the intersection of creativity and marketing, Adobe's integrated and AI-infused solutions are transforming the entire content supply chain to address digital content workflow and planning, creation and production, asset management, delivery and activation, and reporting and insights. This massive market represents an opportunity to drive both creative seat and ARPU growth as well as demand for our content production and marketing automation solutions.

We are driving strong adoption of our automaton solutions in the enterprise with GenStudio. Our Workfront, Frame, AEM Assets, Firefly Services, and GenStudio for Performance Marketing products, which are key components of the integrated GenStudio solution, now exceed \$1 billion in ARR, growing over 25% year-over-year.

In the enterprise, we delivered over 60% year-over-year growth of One Adobe deals, reflecting cross-cloud adoption and deepening strategic partnerships with our customers. In addition, historical subscription revenue for these customer groups is available in the Adobe Investor Relations data sheet under supplementary customer group data, dating back to FY 2023.

Turning to other financial disclosures, Adobe's effective tax rate in Q3 was 19.0% on a GAAP basis and 18.5% on a non-GAAP basis. Our cash flow from operations in the quarter was a Q3 record of \$2.20 billion, and ending cash and short-term investment position exiting Q3 was \$5.94 billion. In Q3, we entered into a share repurchase

agreement totaling \$2.50 billion, and we currently have \$8.40 billion remaining of our \$25 billion authorization granted in March 2024.

Let me now turn to our financial targets, which assume current macroeconomic conditions. In Q4 FY 2025, we are targeting: total Adobe revenue of \$6.075 billion to \$6.125 billion; Digital Media segment revenue of \$4.53 billion to \$4.56 billion; Digital Experience segment revenue of \$1.495 billion to \$1.515 billion; Digital Experience subscription revenue of \$1.395 billion to \$1.410 billion; GAAP earnings per share of \$4.27 to \$4.32; and non-GAAP earnings per share of \$5.35 to \$5.40.

For Q4, we expect non-GAAP operating margin of approximately 45.5% and a non-GAAP tax rate of approximately 18.5%. Based on our momentum, we are pleased to raise our Digital Media ending ARR growth target, and given our Q4 targets, we are raising the full year total revenue and GAAP and non-GAAP EPS targets.

For FY 2025, we are now targeting: total Adobe revenue of \$23.65 billion to \$23.70 billion; Digital Media segment revenue of \$17.56 billion to \$17.59 billion; Digital Media ending ARR book of business growth of 11.3% year-over-year; Digital Experience segment revenue of \$5.84 billion to \$5.86 billion; Digital Experience subscription revenue of \$5.39 billion to \$5.41 billion; GAAP earnings per share of \$16.53 to \$16.58; and non-GAAP earnings per share of \$20.80 to \$20.85.

In summary, Adobe's Q3 performance demonstrates strong execution in an AI-first world. Our focus on product leadership and customer-centric innovation positions us to deliver durable and profitable growth. We are excited to see customers adopt and utilize our comprehensive suite of differentiated AI-first and AI-infused solutions. Looking ahead, I am confident that our investments and strategic focus will deliver long-term shareholder value.

Shantanu, back to you.

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## Shantanu Narayen

*Chair & Chief Executive Officer, Adobe Inc.*

Thanks, Dan. I'm extremely energized by my constant engagement with our world-class product teams and excited about our innovative roadmap to deliver Adobe magic to an ever-increasing number of customers. In my interactions with companies around the world, it's clear that they're investing in Adobe as their mission-critical creative AI technology partner.

I look forward to seeing you at Adobe MAX, where we will showcase incredible innovations across creativity, marketing and AI, and host an investor Q&A session.

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

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And our first question will come from Keith Weiss with Morgan Stanley.

**Keith Weiss**

*Analyst, Morgan Stanley & Co. LLC*

Q

Excellent. Thank you, guys, for taking the question and great to see the full year numbers heading up and in the right direction. Two questions for you, if I may. One, just on sort of the demo that you guys gave on that video at the beginning. Really, again, highlighting the Adobe magic with kind of what you're doing with Nano Banana and being able to manipulate images like that. Can you help us understand like what part of that is the diffusion engine coming from Nano Banana? What part of that is the Adobe infrastructure underneath that that enables that fine-grained manipulation just to give a better understanding of kind of what the value proposition Adobe is bringing to the equation? That's question number one.

And question number two, a broader concern that I've heard from investors is really about advertising platforms like Google or Meta putting diffusion engines in their ad platforms directly. In trying to ascertain that risk, can you help us understand like what percentage of your customer base would be those single-channel marketers for which that might actually be a risk to Adobe of losing those customers? Thank you very much.

**David Wadhvani**

*President-Digital Media Business, Adobe Inc.*

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I'll start off, Keith, and then hand it to Shantanu and Anil for the second part. So, yeah, we're very excited about the work we're doing with Google, and frankly, all the third-party model partners that we're having. Just if I kind of window back for a second, just as a reminder, our strategy in terms of what we do in our Creative Cloud applications and in our Firefly applications is to really differentiate on two things. One is choice, and two is integrations.

Regarding choice, we want to make sure that all third-party models are available. You saw our announcements with Google and Nano Banana, OpenAI, Flux, Runway, Luma, Ideogram, the list continues to grow. And you call out the example of Nano Banana. We actually launched Nano Banana in the first – on the day that it was released as part of the Firefly application, and now we're integrating it into Creative Cloud Pro. So, the core of the choice of whatever model has the most interesting thing for the thing you want to do, you know you can turn to Adobe, and it will be there.

The second part is the integrations, as you talked about, right? We have a lot of workflows that we have – that we pull it into the model. You noticed that in the demo you saw, in all the demos that are out there that people are using Nano Banana with Photoshop. They're doing it in a way that they're blending the precision and the control you get with Photoshop and combining it with the generative capabilities of Nano Banana.

So, in many ways, it's no different than the Generative Fill capabilities we added before, but we're now starting to be able to bring these things more and more closely together. And the sustained value, the differentiated value is really that workflows, to be able to generate something or capture something, bring it to a precise update, take it to a video model that might be ours or someone else's, add sound effects from a different video model and then do the fine precision actioning. So, that mix of things is where we think the magic will happen.

**Shantanu Narayen**

*Chair & Chief Executive Officer, Adobe Inc.*

Maybe, Keith...

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**Keith Weiss**

*Analyst, Morgan Stanley & Co. LLC*

Got it.

Q

**Shantanu Narayen**

*Chair & Chief Executive Officer, Adobe Inc.*

...just to add to that, what David said, the magic is clearly in our applications because we can take all of the models that exist and integrate that within our interface, and that's a completely nontrivial task of what we have done to build. That was actually the rationale for building Firefly because we understand whether they're diffusion or transformer models better than I think anybody can in the creative application. So, I wouldn't underestimate the amount of magic that we have to do to make it look as seamless as it has.

And on your second question, as it relates to how people are going to create and run campaigns and ad placements in all of these different platforms, I think you're going to see some small and medium businesses use it. I think all of the larger companies, we continue to hear in the enterprises, they want the ability to create campaigns, run it across multiple channels, see the attribution, as well as see what we can do in terms of the analysis.

But in addition to that, I mean, all those advertising channels that you talked about are really excited about Adobe making it seamless, which is why you've seen in the GenStudio for Performance Marketing, the support for third-party channels, whether that's TikTok, Meta, Google, Amazon, all of that, we're just going to continue to do and that adoption I think we talked in the enterprise just continues to be really exciting for us.

**Keith Weiss**

*Analyst, Morgan Stanley & Co. LLC*

Outstanding. Thank you, guys.

Q

**Operator:** And the next question will come from Brad Sills with Bank of America.

**Brad Sills**

*Analyst, BofA Securities, Inc.*

Wonderful. Thank you so much for taking the question here. Really great to see that you're exceeding that target for the full year of \$250 million ARR from AI-first products. There is a lot in there, and it'd be great to get some color from you as to which component of that is driving the upside and where are you seeing the strength in those AI-first products? Thank you so much.

Q

**Shantanu Narayen**

*Chair & Chief Executive Officer, Adobe Inc.*

Yeah. I think, Brad, what we were trying to do at Analyst Meeting was just to show that we are not only delivering just tremendous innovation in our products, but frankly, the monetization of that, whether that's in the existing products or whether it's in new products is something that we're, A, focused on and, B, doing a really great job.

A

And so on the influenced revenue, which includes things like Creative Cloud and the usage of Creative Cloud, what we are seeing in Acrobat, what you're seeing in Express, what you're seeing in the DX solutions that include AI, I mean, it was nice to see and we are very conservative there in terms of what we do for the users, that exceeded \$5 billion.

I think as it relates to the second part, which is AI-first, Firefly Services, GenStudio. The overarching GenStudio solution is definitely seeing a lot of great adoption, AI Assistant and Acrobat and everything that we're doing associated with AI Acrobat. I always worry, Brad, when I give one or two products, then the other teams will feel that I don't love them a lot here within the company. But really, across all of them, I mean, we've seen significant momentum and easily crossed the \$250 million mark. And so really pleased with how that is. The North Star, clearly, for us, is we want AI-infused in every dollar of revenue that we are providing, and I think we're doing a great job against that.

**Brad Sills**

*Analyst, BofA Securities, Inc.*

Q

Great to hear. Thank you so much, Shantanu.

**Operator:** And moving on to Brent Thill with Jefferies.

Q

Hi. Thank you. This is [indiscernible] (00:44:59) for Brent Thill. I've got two questions. Just wondering if you could shed a little bit of light on the mix of the AI credit usage between your own Firefly-based solutions and third-party, whether you're seeing any pickup from the third-party models and how users are responding? And then on the LLM Optimizer, I'm wondering whether you've used that Adobe internally and any impact on the top of funnel and conversion? Thank you.

**David Wadhvani**

*President-Digital Media Business, Adobe Inc.*

A

Yeah. So, thanks for the question. On the question of third-party models, what – our strategy, of course, as I mentioned earlier, is to provide choice so that any model that you want to get access to ultimately is available in one place, but also deeper integration. So, that becomes the core foundation of everything we do.

What we're seeing in terms of how it plays out in the market is there is so much announcement and sort of opportunity that's coming out with all the changes. We all see it every single day. The amount of changes and announcements coming out with these models, including Firefly, continuing to push the state-of-the-art of what's possible.

What this lets us do, first and foremost, is at the top of funnel leverage every one of those moments as an opportunity to bring people to Firefly to try that innovation out. So, that's been a great sort of ad from us in terms of the funnel management and top of funnel. And then certainly within the product, the majority of generation continues to be Firefly, given the commercial safety and the underpinnings of what that is. But we are seeing a nice uptick in usage of other models, especially for things like ideation and sort of edit capabilities are integrated into Firefly. So, that mix feels right to us, and we're going to continue to optimize and drive that discovery in our applications going forward.

**Anil Chakravarthy**

*President-Digital Experience Business, Adobe Inc.*

A

And regarding your second question about the LLM Optimizer, yeah, it was actually working internally with our team, our Adobe.com team, which obviously runs a big digital business. That's how we got going on the LLM Optimizer. We noticed that in terms of some of the traffic, it's not only the search traffic, but a lot of our customers or prospects were starting to ask questions within ChatGPT and Perplexity and so on, how do I edit this PDF? I have a large PDF, how do I compress it, those kinds of questions.

And we realized that we had a lot of content available that if we made it available through the right channels that would get picked up by the LLMs and that would give us our Acrobat brand a lot more visibility through the LLMs. But that's how the idea for the product came about. And then when we started talking to Chief Marketing Officers around the world, we realized that this was a top-of-mind topic for them as well, and that's what led to the announcement at Cannes, and we are excited that the product will be generally available later this quarter.

**Shantanu Narayen**

*Chair & Chief Executive Officer, Adobe Inc.*

A

I'm really excited about the innovation that we've delivered in that space. I notice in a lot of the preview reports, folks look at web traffic, and it's coming from different sources. That's a really new movement. And so as people thought about just search traffic and what was happening in search, you really have to start to factor and we're, I think, one of the leaders in that space, how to really take advantage of what's happening, not just across search, but also what happens across social and now increasingly what happens across LLM. So, as Anil mentioned, this is not just an opportunity for us to use ourselves, but I think a massive opportunity for us to help every single company deal with this new reality.

Q

Thank you.

**Operator:** And we'll take a question from Tyler Radke with Citi.

**Tyler Radke**

*Analyst, Citigroup Global Markets, Inc.*

Q

Yeah. Thanks for taking the question. Wanted to touch on the pricing side of the equation. Obviously, with the kind of line item optimization in the quarter, was wondering if you could comment on if you have any texture on kind of the performance ex price and kind of how that was received by the installed base and then just sort of how to think about the P times Q heading into next year?

**Shantanu Narayen**

*Chair & Chief Executive Officer, Adobe Inc.*

A

Yeah. Tyler, when I think about the Creative business, which as I said was the sort of core DNA of the company, we saw strength across the board. So, I want to clarify that. To your point, as it relates to the core creative professional and the amount of adoption that they are doing for AI, the migration to the Creative Cloud Pro offering did exceedingly well.

But in addition to that, what we are seeing with the Firefly subscription and the ability for people, creators, next-generation, new to Adobe, I think David touched on how we're driving more new users to Adobe in the Creative



platform, that also showed considerable strength and Firefly Services and in the enterprise, the combination of what they can do in Creative Cloud plus Firefly Services as part of GenStudio. So, we feel good. We want to continue to deliver value. So, I would net it out by saying the migration was extremely healthy, but that was not in itself the reason for the strength. We are seeing actually strength across the board.

**Operator:** And our next question will come from Alex Zukin with Wolfe Research.

**Alex Zukin**

*Analyst, Wolfe Research LLC*

Q

Yeah. Hey, guys. Thanks for taking the question. I guess maybe, Shantanu, to the earlier point that you just made, I've got just two quick questions. One, it seems like this was kind of almost, I would say, a turning point quarter for you guys. It was the first quarter, I think, where net new DM ARR actually was flat to maybe even growing for the first time this year on a tougher comp.

You raised the guide. You exceeded your AI-first ending ARR target a quarter early. It seems like you're doing way better than expected. Can you help bifurcate like how much this is just better adoption of the AI-first products versus core P times Q? And ultimately, does this give you confidence in continuing to be able to grow DM ARR at least double-digits for the foreseeable future? And then I've got a quick product follow-up.

**Shantanu Narayen**

*Chair & Chief Executive Officer, Adobe Inc.*

A

Well, the way I would answer that question, Alex, is we definitely feel confident about how large the creative opportunity is and how differentiated our solutions are. And so the way I would answer that question, we're not providing targets for next year. We've always said that we have very strong aspirations for the digital creative business. Nothing has changed. In fact, your confidence associated with what we are executing against increases, and I'll let David add, but you're right. I mean, we've continued to execute, and we're now also starting to see that translate into monetization much like we thought we would.

**David Wadhvani**

*President-Digital Media Business, Adobe Inc.*

A

Yeah. And just a little bit more to add there. As Shantanu mentioned, it really was a top to bottom on the business you had asked about the bifurcation, right? Creative professionals, as we talked about, we're seeing generations accelerate. And the fact that they're using AI so much is what drove the strong migration to Creative Cloud product, really validated that strategy of the value and associated pricing with that.

Creators, we're seeing – because of the third-party models, but also because more and more of those integrated workflows and the work we're doing with Firefly models themselves, we saw over 20% of the growth in that on new users to Adobe. So, we're pulling in a lot more new users. We don't talk that much about business pro and consumer, but the AI Assistant has been a very strong contributor throughout the year and now translating that into Acrobat Studio is a real sort of, I think, driver of growth for us. And then both Shantanu and I talked about multiple times the power of what we see with creative automation through GenStudio and enterprises. So, that mix gives us a lot of momentum going into Q4.

**Shantanu Narayen**

*Chair & Chief Executive Officer, Adobe Inc.*

A

And finally, Alex, as it relates to – I know there's a lot of focus at what you – some of you have referred to as the bottom end, I think the stat that we gave associated with how much creative usage is happening as part of the

combination of Creative plus Acrobat and the MAU growth there, I think we saw again 25% year-over-year growth across that. So, I think even that continues to show the demand and the need for our creative solutions. What I'm particularly excited about in that space with Express is how we're going past the previous generation template era with a conversational AI-based approach to creativity, and I think we have a very unique solution there as well.

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**Alex Zukin**

*Analyst, Wolfe Research LLC*

Q

Excellent. And then maybe just as a follow-up, you alluded to it in the comments, Anil, but as the nature of the web shifts from kind of traditional search-based to LLM-based information discovery and traditional top-of-funnel marketing is changing in this AI-driven world, how do you see yourself, the role in which you're helping CMOs adapt, which parts of your portfolio are best positioned to capture this change? And when do we start seeing that show up in kind of some of the DX book of business?

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**Anil Chakravarthy**

*President-Digital Experience Business, Adobe Inc.*

A

We see exactly, as you said, with the LLM – the new LLMs, the discovery to actual consideration to purchase, maybe even the post purchase, that entire funnel is starting to consolidate and you're going to be seeing consumers actually adopt LLMs for the entire process. So, where we see that is whatever we have done with AEP and apps gives us a lot of confidence, because in this new world, every brand will need to maintain and strengthen their direct consumer relationships.

So, once they get traffic, once somebody signs up for their mobile app or it's on their website, they'll want to deepen that relationship. And so the entire portfolio of products we have around AEP and apps, we will see a strong tailwind there. Obviously, GenStudio and the content that we create with bringing together creativity and marketing and agentic AI, we believe we'll see a tailwind there as well.

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**Shantanu Narayen**

*Chair & Chief Executive Officer, Adobe Inc.*

A

And maybe just adding a little bit to that, I think in his prepared remarks, Dan talked about this a little bit. The way we tend to think about it is owned sites for CMOs will still continue to be incredibly important. So, the ability for Adobe to provide a completely different conversational owned site for every single website in the world, we think is a massive opportunity for us.

We have the leadership position in how we deliver Adobe Experience Manager. So, I think that's a good area of growth, AEP and apps, I think as Anil mentioned, and then when you put that together in terms of delivering personalization at scale, the increasing demand for GenStudio, because people will now increasingly say, if I'm asking a question or a prompt on that owned site, how do I get an extremely personalized answer? And so the amount of content that needs to be created for that has to increase.

The business did well, as you look at the subscription revenue and the double-digit subscription revenue. And we do look at what others in this particular space have also reported. And it's clear that we are significantly growing faster than anybody at our scale. And so we're pleased with the amount of innovation that we're doing in that space as well and customer retention as a result, customer retention and demand in these solutions is pretty high.

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**Alex Zukin**

*Analyst, Wolfe Research LLC*

Q

Excellent. Thank you, guys.

**Operator:** And the next question will come from Mark Moerdler with Bernstein Research.

**Mark L. Moerdler**

*Analyst, Bernstein Research*

Q

Thank you very much and also congratulations on the strength of the AI adoption, the fact that you hit the AI number so quickly is really nice to see. So, I have a question. There's a thesis out there for software in general that AI is a headwind to seats and that seats will need to shift to consumption. The issue is then can we capture more consumption revenue than seats? How do you think about the relationship between seats and consumption in the Creative Cloud? Do you see that there's any pressure on the seat side? Do you see consumption as being upside to that? And separately, what are your thoughts on when AI could be big enough to move the needle on the Creative side?

**Shantanu Narayen**

*Chair & Chief Executive Officer, Adobe Inc.*

A

Yeah. I'll start and then certainly David can add to that. I mean, big picture, Mark, I mean, we definitely look at it and say the value of AI is going to be delivered through software. And so software is going to be the way in which people look at all this magic that AI has. And that's what both people are going to use, as well as the monetization. So, we are extremely excited about how the power of AI is going to be both delivered through integrated software and monetized through software.

I think to your question on Creative Cloud specifically, we definitely view this as both a seat expansion as well as a marketing automation. And that's part of the reason, as you know, why this customer grouping that we talk about which is creative professionals and marketing professionals, and in the enterprise that's playing out exactly the way it is. It is actually still continuing to play out with seat expansion in the enterprise. But in addition to the seat expansion, the automation is definitely seeing a more rapid adoption.

And so I think we're the one company that wins in either case. And the fact that we have this unified offering that enables us to say, here's how if you're the studio team within an enterprise, here's how you create these campaigns, but then the velocity and agility of scaling that in a company through our automation solutions. And so the four building blocks we've always said, Mark, is, first, you've got to have the best creative applications in the world to create those campaigns. Second, you have to have the ability to deploy that in whatever your marketing campaign is in an enterprise, whether that's e-mail, whether that's website, whether that's ad placement with agility.

Third, you really want the ability to create a brand concierge or a personalized brand for the enterprise, that business for us embodied in the Firefly Services AI-first. That's off to a really great start. And then fourth, how do you enable everybody else in the enterprise with a product like workflow so that you can do workflow as well as Express to tie that all together. So, yeah, we think it's an and. Within enterprises, in any one quarter, it might be a little bit of one or the other. But big picture, we think both are going to be growth opportunities for Adobe.

**Mark L. Moerdler**

*Analyst, Bernstein Research*

Q

That's very helpful. I really appreciate.

**Operator:** And the next question will come from Michael Turrin with Wells Fargo Securities.

**Michael Turrin**

*Analyst, Wells Fargo Securities LLC*

Q

Hey. Great. Thanks very much. Appreciate you taking the question. Dan, on margin, you've been speaking to mid-40s margin profile, you're still operating a bit above that this quarter. It looks like gross margins are actually up a touch versus last year. Why aren't you seeing degradation from AI adoption, given some of the metrics you're providing? Is that something we could or should expect to see as those numbers continue to ramp, just the why or why not in terms of the margin profile, I think, relative to what was initially expected. Thanks very much.

**Daniel J. Durn**

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

A

Appreciate the question, Michael. Clearly, the company is performing well through this investment cycle, driving the velocity of innovation of all the great things that Shantanu and Anil, David have been talking about. So, we feel really good about the engine of innovation and the velocity. Underpinning that is a very clear sense of prioritization within the company, narrowing the aperture around really what the growth vectors for the company are and what those must-win zones are. That focus and clarity on those real drivers of growth serves the company well in this environment.

And then when you look at it from a productivity standpoint, I think there's two vectors of productivity that the company is driving to underpin margin delivery. First one, how we drive GPU training fleets to support training, the utilization, the algorithms we use to efficiently get at model construction as well as continually loading that GPU fleet to make sure there's high utilization over time.

The second piece is inferencing, constantly tuning the algorithms and cost per inference. We watch this maniacally, how we feel these fleets of GPUs to make sure that the reserve instances, which come in at very different price points, than on demand that we constantly balance and optimize the cost structure that underpins the usage of that compute power.

And then obviously from an internal working standpoint, adoption of these technologies, how we drive productivity gains in the company, how we augment individual employees from a productivity standpoint as well as ways of working inside of the company to continue to drive more and more productivity out of the world's best employees. It's a combination of all of these elements that come to bear and deliver the strong margin profile that the company is proud of and the cash flow that supports it.

**Michael Turrin**

*Analyst, Wells Fargo Securities LLC*

Q

Thank you.

**Operator:** And we'll take a question from Brad Zelnick with Deutsche Bank.

**Brad Zelnick**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Excellent. Thank you so much for taking the question. Anil, it's great to see agents for AEP now generally available. Can you talk us through the vision of how these agents drive greater value for customers? And then ultimately, how Adobe captures some of that benefit? Thanks.

**Anil Chakravarthy**

*President-Digital Experience Business, Adobe Inc.*

A

Yeah. Thanks, Brad. We see this as a massive transformation from the SaaS model to the agentic software model. And as you saw at Summit, we announced the AEP Agent Orchestrator. And our view is we build agents where we have core domain knowledge and we can really democratize the use of our applications to a wide variety of marketing customer experience practitioners. We also want to work with agent orchestrators from Microsoft, ServiceNow, other partners because we believe that enterprises will ultimately build their own agents and have multiple ways of using agents.

So, within our own applications, what we really see is when you think of things like, for example, coming up with a new audience or a new journey, typically, you needed to have somebody with some data expertise to do that, somebody who could come up with a SQL query. So, usually, marketing teams set up alternate teams or a dedicated team to do that kind of work.

What we see now with Agent Orchestrator is that enables the creation of an audience agent, a data insights agent, a journey agent that now lets marketers with a conversational interface get access to that kind of data, which they can use for targeting and it helps in making marketing campaigns go much faster and much more efficiently. So, that's where we really see the promise of this – of the new agentic technology.

**Brad Zelnick**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Thanks, Anil. Starting stuff and look forward to seeing everybody at MAX.

**Operator:** And we'll take our last question from Saket Kalia with Barclays.

**Saket Kalia**

*Analyst, Barclays Capital, Inc.*

Q

Okay. Great. Hey guys. Thanks for fitting me in here. David, maybe for you. I mean, I think a resounding theme on this call is sort of the infusion of AI into the core applications is really what's differentiating. And I think that's interesting from a couple of angles, but one of them, especially in my view, is retention.

So, can you just talk about what you're seeing in terms of retention trends as AI adoption grows? And then separately, just as an aside, we've also started to see some noise out there about intellectual property issues, right, when it comes to AI usage. Maybe talk about how important the commercial safety aspect is as you spend time with enterprises.

**David Wadhvani**

*President-Digital Media Business, Adobe Inc.*

A

Yeah. Thanks for the question. Yeah. This is – the thing that we have seen is a direct correlation between increased use of AI and retention, and we feel very good about that. That's why we are so excited when we see the number of generations continuing to increase. But what's also interesting about this is that, as Shantanu was talking about earlier, as we're selling into enterprises, the creative teams are often the ones that are bringing in, also in addition to the marketing teams, bringing in these automation services. There's a creative ops team that's bringing these in. And so it lets us go from that seat-based pricing to a value-based pricing.

And what the underpinning of that is, is the ability to have these commercially safe models. On top of that, the ability to create customizations of those models for your specific needs. And then lastly, integrate those customized models and the inference on all of that into the entire workflow from what the creative professionals are doing all the way into the automation stack that Shantanu was talking about and Anil was talking about and then into democratizing that to the entire company through Adobe Express. So, that whole funnel of both sort of direct generation by individuals and automated generation underpinned by a commercially safe model continues to play extremely well for us.

And to your point, yeah, we spend a lot of time with Louise, our GC, talking about and really helping our customers understand how to think about the commercial safety aspect of it and there's a lot of attention we're getting on it now.

**Shantanu Narayen**

*Chair & Chief Executive Officer, Adobe Inc.*

Saket, since that was...

**Saket Kalia**

*Analyst, Barclays Capital, Inc.*

Very helpful.

**Shantanu Narayen**

*Chair & Chief Executive Officer, Adobe Inc.*

...the last question, maybe just – maybe just let me say, we are really excited about the performance that we had. I think our strategy on really making sure that we tailor our products to the customer groups that we're focused on, business professionals and consumers, creators and creative professionals, as well as marketing professionals, just continues to give us a lot of confidence that we have effectively not just embraced AI, but infused it into the right applications and tailored them for them.

I know we didn't talk a lot about business professional and consumers, but what we've done there with both AI Assistant as well as more recently with PDF Spaces, gives us a lot of confidence that the future of work and how you think about documents, but not just documents for consumption, but as an on-ramp to then create and the combination of Acrobat and Express also really excited about the adoption as well as the customer feedback that we're getting in that area and expect to see more innovation.

I hope to see a lot of you at Adobe MAX. The magic will continue, and you're going to see a lot not just from Adobe, but also from how the community is embracing and actually leveraging the cool things that we're doing.

And with that, I'll turn it over to Doug.

**Doug Clark**

*Vice President-Investor Relations, Adobe Inc.*

Thank you, everyone, for joining the call today. Appreciate the time. We'll talk to you again at MAX and again next quarter.

**Operator:** Thank you. That does conclude today's conference. We do thank you for your participation. Have an excellent day.



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