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Adobe Inc. (ADBE)

Q4 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Q4 and 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 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 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 fourth quarter and 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, December 10, 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.

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

Thanks, Doug. Good afternoon, everyone, and thank you for joining us. In fiscal 2025, Adobe delivered significant AI-influenced and AI-first ending ARR, which accelerated through the year. We achieved record revenue of \$23.77 billion and non-GAAP EPS of \$20.94, which represents outstanding financial performance.

We're leveraging AI to accelerate innovation, to anticipate and serve the needs of large and expanding audiences, business professionals and consumers, creators and creative professionals and marketing professionals. Our vision for business professionals and consumers is to deliver AI-driven quick and easy applications that enable them to be creative and productive, consuming or generating content across multiple media types and channels. We do this by delivering new conversational and agentic interfaces in Adobe Reader, Acrobat, and Express to provide a freemium integrated experience for billions of users.

For creators and creative pros, our vision is to deliver the most comprehensive power and precision applications from ideation and creation to production and delivery. We've done an outstanding job of both creating our own commercially-safe Firefly models, as well as seamlessly integrating third-party partner models across Creative Cloud flagship applications like Photoshop, Illustrator, and Premiere.

With the Firefly application, we're giving creators a rich set of generative AI capabilities that allow users to generate with Adobe and partner models, ideate with Firefly Boards, and create and edit videos and images through conversational experiences blended with direct manipulation. Along with the Firefly app, we've introduced new products like Premiere Mobile with YouTube integration and Photoshop Mobile to further serve creators anywhere they create.

We're transforming the enterprise content supply chain by integrating creative applications, workflow management, asset management, Firefly Services and Custom Models with Firefly Foundry. We have the most comprehensive vision for marketing professionals, whether they are freelancers or working at an agency or within an enterprise, to create a brand or address the expanding needs of the content supply chain in the era of AI to deliver customer experience orchestration solutions.

Adobe Experience Platform and Apps power customer engagement and loyalty. Adobe Experience Manager and Agentic Web solutions, including LLM Optimizer, Sites Optimizer, and Brand Concierge deliver brand visibility and discovery. And Adobe GenStudio enables enterprises to optimize their full content supply chain to realize true personalization at scale.

FY 2025 accomplishments and highlights include establishing ourselves within leading AI ecosystems with partnerships and integrations across AWS, Azure, Google Gemini, HUMAIN, Microsoft Copilot, OpenAI, and others, offering unprecedented access, choice, and flexibility to customers. Leading the way in AI innovation

around conversational and agentic interfaces, including products like LLM Optimizer and Acrobat AI Assistant, creating custom models through Firefly Services, Firefly Foundry, and GenStudio, as well as infusing AI within our applications including Photoshop, Lightroom, Express, and Premiere.

We continue to leverage inorganic strategies to deliver more value to customers, and are pleased with our recently announced intent to acquire Semrush to help brands enhance their visibility and expand audience reach. Driving significant new user acquisition across individuals and enterprises with products including Acrobat, Creative Cloud, Express, and Firefly, achieving total MAU growth of greater than 15% year-over-year. Accelerating adoption of our AI functionality by enterprise customers further highlights our leadership and their trust in Adobe's ability to deliver AI value seamlessly across workflows.

In Q4, globally, we drove record bookings of deals greater than \$1 million and achieved over 25% year-over-year growth in the number of customers with \$10 million-plus in ARR. Our customer group strategy, large market opportunity, and product innovation drove strong FY 2025 results. This is the foundation for our FY 2026 total Adobe ARR growth target of over 10%, and we're focused on accelerating this momentum beyond FY 2026.

I'll now turn it over to David.

David Wadhwani

President-Digital Media Business, Adobe Inc.

Thanks, Shantanu. Hello, everyone. Digital Media had a record Q4, driven by user acquisition and expanded customer value across business professional and consumers, and creators and creative professionals, underpinned by two big areas of innovation: generative AI models and agentic experiences. Digital Media achieved revenue of \$4.62 billion in Q4 and full year revenue of \$17.65 billion, both of which grew 11% year-over-year. We exited the quarter with \$19.2 billion of Digital Media ARR, growing ending ARR 11.5% year-over-year.

As it relates to generative AI models, we have continued to develop our own commercially safe Firefly models, while dramatically expanding our ecosystem of GenAI model partnerships. The new Firefly Image 5 model is performing incredibly well with generation quality, native 4-megapixel resolution, and industry-leading, prompt-based editing capabilities.

At Adobe MAX in October, we significantly expanded Firefly to become the only app with our own commercially-safe models and over 25 leading partner models including Google, OpenAI, Black Forest Labs, Luma, Runway, Topaz Labs, and ElevenLabs. These models are now integrated into our Firefly, Express, and Creative Cloud applications. We also announced advanced model capabilities including custom model support for Firefly and Creative Cloud customers.

Usage and monetization of new Adobe and third-party models is measured and charged through generative credits. Different models; Firefly, Gemini or Flux, for example, and different media types; video and high-resolution images, for example, consume different quantities of generative credits. Generative credits are a great indicator of high-value usage, and credit consumption increased 3x quarter-over-quarter. As subscribers consume more generative credits, they have the choice of moving to higher-value Creative Cloud offerings or acquiring Firefly credit add-ons.

We also took a huge step forward in Q4 as we showcased the work we've been doing to atomize Photoshop, Express, and Acrobat capabilities as Model Context Protocol endpoints at Adobe MAX. In addition to delivering applications, we are providing imaging, video, and productivity functionality in ChatGPT, Copilot, and other conversational platforms in order to deliver and monetize creative and PDF functionality in new surfaces. Users

will be able to work conversationally while still benefiting from the power and precision of Adobe's industry-leading features and direct manipulation tools, making it easier than ever to go from intent to outcome whether editing a PDF, refining an image, or generating a design.

The advances in generative models and agentic capabilities position Adobe well to take advantage of the long-term opportunities servicing business professionals and consumers, and creator and creative professional audiences. Our vision for business professionals and consumers is to deliver AI-driven, quick and easy applications that enable users to be creative and productive whether consuming or generating content across multiple media types and channels. The strategy is showing real traction, and we are driving strong business momentum.

We revolutionized how users consume and comprehend documents by introducing Acrobat AI Assistant in FY 2024, and recently added PDF Spaces, allowing individuals and teams to create knowledge hubs to collaborate across multiple documents. Users package multiple documents, not just PDFs, but other file types and web links, into a single workspace they can share with others, enabling a collaborative conversational experience. Usage of these AI features inside Acrobat and Reader has grown more than 4x year-over-year, as users increasingly turn to Acrobat to help them discover insights, synthesize new ideas, and share knowledge.

Adobe Express made significant advances in Q4 with the introduction of an AI Assistant capable of generative content creation and complex editing. Express now supports generative presentations and designs, moving the industry into a post-template world. Express AI Assistant is capable of conversationally editing images, flyers, presentations, infographics, and more. Innovations like these have contributed to significant Express MAU growth.

Adobe Acrobat Studio brings together the conversational consumption and comprehension capabilities of AI Assistant and PDF Spaces with the generative creation power of Express, alongside the PDF tools people know and rely on into a unified offering. Customer reception of Acrobat Studio has been strong with nearly 50% of Acrobat commercial ETAs renewed in Q4 already upgrading to this offering, reflecting user enthusiasm for unified document comprehension and content generation.

FY 2025 business professional and consumer accomplishments and highlights include: continued growth of Acrobat Web, which saw MAU increase over 30% year-over-year; strong adoption of Express in education, with over 70% year-over-year growth of students with access to Express Premium; over 45 new partners added to the Express ecosystem in Q4, including Bynder, Hootsuite, and Sprout Social; over 25,000 businesses purchased Express or Studio for the first time in Q4 alone, accelerating quarter-over-quarter; and key enterprise customer wins include Allianz, American Automobile Association, Bundeswehr von Deutschland, Nippon Life, PwC, Sony, and the US Navy.

Turning to creators and creative professionals, our vision is to deliver the most comprehensive power and precision applications from ideation and creation to production and delivery. We continue to succeed in our goal to attract the next generation of content creators, provide creative professionals with game changing generative AI capabilities and automate content production at scale in enterprises.

We are attracting new creators to Adobe through the Firefly application, which can be purchased through our Firefly Standard, Pro and Premium subscription plans. Firefly has a rich set of generative AI capabilities that allow users to generate with Adobe and partner models, ideate with Firefly Boards, and create and edit videos and images. Simply put, Firefly is a one-stop shop for accessing industry-leading models integrated into rich creative workflows at an affordable price. In addition, we're seeing strong adoption of Firefly from Creative Cloud

customers as they embrace the growing breadth of AI models and tools seamlessly integrated into creative workflows. We drove 2x quarter-over-quarter growth in first-time subscriptions of Firefly.

The release of Premiere Mobile in Q4 marks an important milestone in next-generation AI video editing. In partnership with Google and YouTube, we are introducing AI-driven audio and video tools to streamline how creators remix YouTube Shorts, which receive 200 billion daily views. Creative Cloud delivered massive new value at Adobe MAX, including the release of new models for Generative Fill, upscaling and prompt editing in Photoshop, reflection removal in Lightroom, Turntable in Illustrator, and smart masking in Premiere.

We also announced the general availability of Firefly Boards, a new ideation surface that brings together everything creative professionals need to explore visual and design concepts with stakeholders using industry-leading models from Adobe and our partners. Use of AI in these applications continues to accelerate, underscoring the impact AI is having on what creative professionals can produce. As part of the overall content supply chain solution for marketing use cases, we continue to advance automated content production with Firefly Services that include video resizing, video reframing, image composition, image harmonization, digital-twin generation, and more.

We also announced Adobe Firefly Foundry at MAX, which delivers enterprises with proprietary foundation models trained on their own content, data, and brand catalogs. Interest in Firefly Foundry has been strong from enterprise marketing teams and media and entertainment companies, where there is increasing desire to produce content faster and more cost-effectively.

FY 2025 creator and creative professional accomplishments and highlights include hosting Adobe MAX, the world's largest creativity event with over 10,000 members of the creative community in attendance, with millions more online. The tremendous innovations we showcased earned over 2,000 articles and garnered 820 million video views. Growing our base of creative users across Firefly, Express, Premiere Mobile, and other freemium offerings. MAU for these offerings surpassed 70 million in Q4, growing over 35% year-over-year.

Accelerating adoption of Firefly Services within enterprises with over 100 new deals signed in Q4. Accelerating generative credit consumption in Creative Cloud, Firefly, and Express by individuals and enterprises, which grew approximately 3x quarter-over-quarter. Strength across all routes to market and geographies, with particular strength in SMB, enterprise, and emerging markets. And key enterprise wins include Coca-Cola, HUMAIN, IKEA, JPMorgan Chase, Lowe's, Nintendo, and Sony.

Over the last few years, we have extended our lineup to anticipate and serve the diverse needs of creative users. The continued strength of Creative Cloud, generative credits, and Firefly automation underscores the success of this strategy with creative professionals across both individuals and enterprises. The accelerated growth in creative freemium MAU demonstrates success with offerings that target creators, consumers, and business professionals, and is already starting to have an impact, as evident in our Q4 results and FY 2026 targets. Overall, we delivered strong business results and record Digital Media net new ARR in Q4 and are excited about the opportunity in FY 2026.

I'll now turn it over to Anil.

Anil Chakravarthy

President-Digital Experience Business, Adobe Inc.

Thanks, David. Hello, everyone. Our success serving creative and marketing professionals in the enterprise has been driven by having the most comprehensive vision for customer experience orchestration, enabling

enterprises around the world to deliver personalized experiences at scale in the era of AI. Digital Experience had a strong close to the year, achieving revenue of \$1.52 billion for the quarter and a record \$5.86 billion in revenue in FY 2025. Subscription revenue in the quarter was \$1.41 billion, representing 11% year-over-year growth.

Adobe delivers a unified AI-powered platform for customer experience orchestration spanning brand visibility, content supply chain, and customer engagement. Adobe Experience Platform is a leading customer data platform that serves as the foundation in enterprises for digital customer engagement and brings together new AI-powered apps and agents to drive engagement and loyalty, as well as to reduce costs. Our platform operates at scale with over 35 trillion segment evaluations and more than 70 billion profile activations per day.

We released six new AI agents powered by AEP Agent Orchestrator to transform how businesses build, deliver, and optimize marketing campaigns and customer experiences. Subscription revenue for AEP and native apps grew over 40% year-over-year, demonstrating our continued leadership. We have the best pulse on digital conversations across search, social media, and LLMs, and enable marketers to get a unified view of where online traffic is originating, how to create and promote brands, and drive engagement and commerce.

In fact, our most recent Adobe Digital Index data, which is based on online transactions across more than 1 trillion visits to US retail sites, shows that generative AI traffic is up 760% thus far in the 2025 holiday season. Our data shows that AI-powered traffic from LLMs and agentic browsers is rising and requires different approaches to conversion, underscoring the growing importance of the agentic web and our opportunity to provide insights and automation to marketers. Brand visibility is critical to success in this new agentic web, and Adobe solves customer needs through solutions like Adobe Experience Manager, Adobe Analytics, and the newly available Adobe LLM Optimizer.

The pending acquisition of Semrush, which we announced a few weeks ago, brings complementary assets to help us address marketers' growing need for sustained brand relevance in AI search. Over the past decade, Semrush's data-driven search engine optimization and generative engine optimization solutions have earned the trust of industry leaders like Amazon, JPMorgan Chase, and TikTok. Together, Adobe and Semrush will deliver a comprehensive solution to enable marketers to shape how their brands appear across owned channels, LLMs, traditional search, and the wider web. We anticipate the transaction to close in the first half of 2026, subject to regulatory approvals and other closing conditions.

Adobe Brand Concierge, which was launched in Q4, is an AI-first application enabling businesses to configure and manage AI agents that guide consumers from exploration to purchase decisions, using immersive and conversational experiences. By uniting data, content and agentic AI in a single experience, Brand Concierge gives businesses ownership of the critical discovery and consideration phase. We are pleased with the significant customer interest and the wins we had for Brand Concierge in Q4.

The third pillar of customer experience orchestration is the content supply chain. GenStudio is our comprehensive offering spanning content ideation, creation, production, and activation. At MAX, we introduced new scaled content production capabilities through Firefly Services, enhanced model customization with Adobe Firefly Foundry, and integration with a growing ecosystem of ad networks. Ending ARR for the Adobe GenStudio solution grew over 25% year-over-year as the world's leading brands increasingly turned to Adobe to power their content supply chain.

FY 2025 marketing professional accomplishments and business highlights include strong customer demand for our newly introduced agentic web offerings with over 50 customers in Q4 for Adobe LLM Optimizer, Sites Optimizer, and Brand Concierge. Growing international momentum, resulting in a record quarter for our enterprise

business in our Europe, Middle East & Africa and Asia regions. Expanded ad network partnerships with Amazon, Google, LinkedIn, Microsoft, Snap and TikTok.

Q4 industry analyst recognition, including being named a leader in The Forrester Wave for Digital Experience Platforms, and three Gartner Magic Quadrants including Multichannel Marketing Hubs, B2B Marketing Automation Platforms and Digital Asset Management. And key global customer wins for the quarter include AstraZeneca, AT&T, Citigroup, Comcast, Costco, CVS Health, Ernst & Young, General Motors, IKEA, JPMorgan Chase, Lowe's, NatWest Group, PwC, Sony, Walgreens, Wells Fargo, and Woolworths Group.

Customer experience orchestration continues to be a critical area of investment for companies of all sizes. We are helping brands across the world turn the promise of AI into tangible marketing ROI. As a leader, we're well-positioned to grow our business and help our customers drive customer loyalty, revenue growth, and profitability.

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 Q4 and FY 2025, highlighting growth drivers, and I'll finish with our targets.

In FY 2025, Adobe delivered record revenue of \$23.77 billion, growing 11% year-over-year as reported and in constant currency. GAAP EPS for the year was \$16.70 and non-GAAP EPS was \$20.94, growing 35% and 14% year-over-year, respectively. We delivered over \$10 billion in operating cash flows while investing in AI product innovation. We executed record share repurchases totaling nearly \$12 billion, reducing our shares outstanding by over 6% during the year, underscoring our confidence in the company's long-term opportunity.

FY 2025 business and financial highlights included Digital Media revenue of \$17.65 billion, growing 11% year-over-year as reported and in constant currency. Digital Experience segment revenue was \$5.86 billion, growing 9% year-over-year as reported and in constant currency. Digital Experience subscription revenue was \$5.41 billion, growing 11% year-over-year as reported and in constant currency.

Digital Media ending ARR was \$19.2 billion, growing 11.5% year-over-year, exceeding our prior target of 11.3%. Over 75% of Digital Media net new ARR was driven by continued growth in subscriptions and cross-sell and upsell, with the remainder from value-based pricing, reflecting the success of our customer acquisition strategy. Total Adobe ending ARR across business professionals and consumers, and creative and marketing professionals of \$25.2 billion, growing 11.5% year-over-year.

Cash flows from operations of \$10.03 billion and ending cash and short-term investment position of \$6.6 billion. RPO of \$22.52 billion exiting the year, growing 13% year-over-year or 12% in constant currency, and cRPO growing 11% as reported or 10% in constant currency. And repurchasing approximately 30.8 million shares of our stock during the year. We currently have \$5.9 billion remaining of our \$25 billion authorization granted in March 2024.

In Q4, Adobe achieved revenue of \$6.19 billion, growing 10% year-over-year as reported and in constant currency. GAAP EPS in Q4 was \$4.45 and non-GAAP EPS was \$5.50, increasing 17% and 14% year-over-year, respectively.

Q4 business and financial highlights included Digital Media revenue of \$4.62 billion, growing 11% year-over-year as reported and in constant currency. Digital Experience segment revenue was \$1.52 billion, growing 9% year-over-year or 8% in constant currency. Digital Experience subscription revenue was \$1.41 billion, growing 11% year-over-year as reported and in constant currency.

Total new AI-influenced ARR now exceeds one-third of our overall book of business as we integrate AI deeply into our solutions and continue to launch new AI-first offerings, which are now included as part of the AI-influenced metric. As we've shared over the past year, our strategy is to drive the entire book of business with AI-influenced solutions.

Record net new Digital Media ARR growth reaccelerated year-over-year, driven by strong demand for AI-influenced offerings, including Creative Cloud Pro, Acrobat and Express, as well as AI-first products including Firefly. When combined with the strong net new Digital Experience ARR in Q4, we delivered record net new total Adobe ARR in the quarter; record cash flows from operations of \$3.16 billion, adding a record \$2.08 billion to RPO in the quarter.

For business professionals and consumers group, subscription revenue was \$1.72 billion, increasing 15% year-over-year as reported or 14% in constant currency. Q4 growth drivers for business professionals and consumers included double-digit ending ARR growth with strength across digital, SMB, and enterprise, and across all geographies. Mobile ending ARR grew greater than 30% year-over-year. Monthly active users of Acrobat and Express surpassed 750 million, growing 20% year-over-year, and strong customer reception of Acrobat Studio, with nearly 50% of Acrobat commercial ETLAs renewed in Q4 already upgrading to this offering.

For the creative and marketing professionals group, subscription revenue was \$4.25 billion, increasing 11% year-over-year or 10% in constant currency. Q4 growth drivers for creative and marketing professionals included; growth in Creative Cloud driven by CC Pro; growth in Single Apps driven by strength in Photoshop and Lightroom; consumption of generative credits in Creative Cloud, Firefly, and Express increased 3x quarter-over-quarter; significant web and mobile user acquisition across Firefly, Express, Premiere and our other freemium offerings, growing over 35% year-over-year to greater than 70 million monthly active users; AEP and Apps ending ARR grew over 30% year-over-year; demand for content automation offerings like Firefly Services and Firefly Foundry, with ending ARR more than doubling year-over-year; GenStudio solution ending ARR grew over 25% year-over-year; and continued success in the enterprise, adding a record number of customers to the group with ARR exceeding \$10 million. Total customers with ARR over \$10 million grew 25% year-over-year to over 150.

On November 19, we announced the intent to acquire Semrush Holdings for an equity value of approximately \$1.9 billion in an all-cash transaction. We expect the transaction to close in the first half of FY 2026, subject to regulatory approvals and other customary closing conditions. We expect the non-GAAP EPS impact of the acquisition to be negligible in the first year post close and accretive thereafter.

Let me now turn to our financial targets, which assume current macroeconomic conditions. Our targets do not include any contribution from Semrush. As is customary, we revalued ending ARR at the end of FY 2025, which resulted in a \$460 million increase to total Adobe ARR, from \$25.2 billion to \$25.66 billion entering FY 2026, primarily from FX rate changes. We've now provided historical information on total Adobe ARR going back to FY 2023 in our investor data sheet.

For FY 2026, we're targeting total Adobe revenue of \$25.9 billion to \$26.1 billion, business professionals and consumers subscription revenue of \$7.35 billion to \$7.4 billion, creative and marketing professionals subscription

revenue of \$17.75 billion to \$17.9 billion, total Adobe ending ARR book of business growth of 10.2% year-over-year, GAAP EPS of \$17.90 to \$18.10 and non-GAAP EPS of \$23.30 to \$23.50.

This total Adobe ARR book of business growth target of 10.2% translates to approximately \$2.6 billion of growth, which would be our highest beginning-of-year guide for total net new ARR. This target is based on the strength exiting FY 2025 and continued momentum across all three audiences: business professionals and consumers, creators and creative professionals, and marketing professionals.

Our FY 2026 targets anticipate non-GAAP operating margin of approximately 45.0%, a GAAP tax rate of approximately 20.5%, and a non-GAAP tax rate of approximately 18%. This non-GAAP tax rate is based on a three-year projection, and may be adjusted for changes in the future.

For Q1 FY 2026, we're targeting total Adobe revenue of \$6.25 billion to \$6.3 billion, business professional and consumers subscription revenue of \$1.74 billion to \$1.76 billion, creative and marketing professionals subscription revenue of \$4.3 billion to \$4.33 billion, GAAP EPS of \$4.55 to \$4.60, and non-GAAP EPS of \$5.85 to \$5.90. For Q1, we expect non-GAAP operating margin of approximately 47.0%, a GAAP tax rate of approximately 21.5%, and a non-GAAP tax rate of approximately 18%.

In summary, Adobe delivered another outstanding year, fueled by strong global demand for our AI solutions across business professionals and consumers, and creative and marketing professional customer groups. Our disciplined execution and strategic investments position us to extend our leadership as we deliver an ecosystem of AI models, conversational interfaces, and agentic experiences. Looking ahead to FY 2026, we're confident in our ability to deliver industry-leading innovation, double-digit ARR growth, and world-class profitability.

Shantanu, back to you.

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

Thanks, Dan. Our success is fueled by the incredible ingenuity of our global employees, who are passionate about delivering innovation with relentless execution in service of our expanding customer base. Adobe is well positioned to seize the immense market opportunities that we are creating, driving continued growth and shaping the industry in 2026 and beyond.

Thank you. And we will now take your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question comes from Mark Murphy with JPMorgan.

Mark R. Murphy

Analyst, JPMorgan Securities LLC

Q

Thank you very much. And congratulations on a great finish to the year. Shantanu, down at Adobe MAX, the energy, the enthusiasm, it was just truly phenomenal and it felt to us like a breakthrough moment. Talking to customers down there, there was just quite a bit of interest in Firefly Foundry specifically because customers can end up with this private AI model and something that'll understand their identity and their style. Can you speak to how customers are starting to use Foundry in the early stages and perhaps just what type of economic potential that might be able to unleash for Adobe?

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

A

Sure, Mark. And thanks for the comment. I'll start and then maybe David can add as well. And I did see in your report that you had, sort of the work that you've been doing behind the scenes to understand customer sentiment. So, we appreciate that.

From our perspective, we just look at it, and for enterprises, the entire content supply chain, GenStudio is really the offering that we want to provide that takes care of every aspect of their content production, whether it's the creation part of the campaign, whether it's then creating custom models, whether it's training it at the back end, whether it's automating it, and then certainly delivery. And so, Firefly Services is off to a great start, continues. I think, in the prepared remarks, David talked about the hundreds of deals that we're signing in that particular space.

And Foundry just takes it to a different level in terms of our ability to customize, whether it's for a retailer, whether it's for media and entertainment, the ability to do a lot more. So, we really view that as a massive opportunity in terms of whether it's a marketing team or the entire media and entertainment workflow that allows them to create content, deliver that content, localize it. But maybe, David, you can add to some of the sort of customers and what we can do there as well.

David Wadhvani

President-Digital Media Business, Adobe Inc.

A

Yeah. As Shantanu talked about, because we have this great position with GenStudio and the content supply chain, we've been hearing more and more from customers that in order to take it to the next level, they need more than what off-the-shelf models can provide. And as a result, we introduced Foundry, like you mentioned, at MAX. And the core value is that we train on their content, their data, and their brand guidelines. We're able to generate images, videos, audio, and 3D models. And we operate it as a managed service. So, marketing teams can then train on product shots, environment styles, brand guidelines. And media companies actually train on their individual franchises, whether it's a movie or whether it's a series, they'll train their characters, their sets, their props, their locations so they can generate the whole thing.

I'll give you one example from a financials or economics perspective. Let's take a media and entertainment company we're working on, and I'm rounding the numbers here, but to give you a little bit of a context, let's say

that organization was spending \$10 million with us ARR on our core Creative products that we've been selling with them. We ran a sales process with them and engagement with them for about six months. We were able to sell them Firefly Services and Firefly Foundry for about \$7 million. So, a pretty significant step up in terms of the engagement that we have with the customer. We were able to train models within two or three months, and now we're running some of those models specifically as managed services for them for ideation and production processes.

They're already seeing increased efficiency in content production. They're able to generate more production content, and they're now getting into opportunities that are revenue-bearing opportunities like increasing the types of content they produce for social shorts and personalizing more of it for fan engagement with the integration with our Real-Time CDP. And of course, that's with just a few of their franchises, more opportunities to expand beyond that. So, very excited.

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

A

Maybe one last thing to just punctuate what David said. So, the vision clearly is that for every single brand, if you're a consumer company, or for every single TV show or a movie, we can create a Foundry specifically for that particular franchise, as David said, because the ability to help with the automation of that content and production is massive.

Mark R. Murphy

Analyst, JPMorgan Securities LLC

Q

It sounds like an incredible unlock. Thank you very much for taking my questions.

Operator: And the next question will come from Matt Swanson with RBC Capital Markets.

Matthew Swanson

Analyst, RBC Capital Markets LLC

Q

Great. Thank you, guys, so much for taking my question. I had a question kind of as we expand the product portfolio and the go-to-market motion of really mirroring up the Creative Cloud and the Experience Cloud, could you just talk about maybe the ROI focus on kind of justifying the value creation of these new productivity enhancements? Right? We've seen through all your product demos how much more content can be created, but really being able to marry that up to results and really kind of why is it a good thing for the enterprise that they have all these new capabilities?

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

A

Well, if you take a step back, Matt, and you think about every single business, I mean, they are a trillions of dollars that are spent in marketing, and our opportunity is to really say, we can help you, make sure that that content is more personalized – I'll have Anil also add after this – and deliver it. And the fact is that since we can deliver that content through an ad network, and then we understand through our analytics where that is resulting in traffic, where that is resulting in conversion, where that's not, we're the only company that can close the loop from the creation of a campaign, the execution of that campaign, as well as then actually looking at what that causes in terms of commerce.

And so, I think our real value proposition in all of this is that, as increasingly people are saying, hey, I want to use AI to create more, we can not only optimize and accelerate the amount of content that they're producing, but

we're the only company that can then help them say, hey, this caused so much traffic, and I think we can speak more to that as well as it relates to what we're doing around search, LLM, and ROI.

Anil Chakravarth

President-Digital Experience Business, Adobe Inc.

A

Yeah. Exactly as you said, Shantanu, depending on the industry, 10% to 20% of the total marketing budget is actually spent on content, on content creation and production. And exactly with the content supply chain, this is the solution we offer through GenStudio. One, we are helping them reduce the content – production – creation and production costs, but equally importantly, we're helping them create the content in a much more agile manner and create a lot more content. So, most marketers are moving from traditional marketing channels to a lot of these new channels. Like Shantanu was saying, digital channels, both for paid media as well as their own media. And that requires a lot more agility in content production; and therefore, the content supply chain solution that we offer helps them get a lot more effectiveness out of their marketing and better ROI.

Operator: And we'll take our next question from Alex Zukin with Wolfe Research.

Ivan Radojicic

Analyst, Wolfe Research LLC

Q

Hey, guys. Thanks for taking my question. This is Ivan here on the line for Alex. Maybe one question on going back to Semrush acquisition. Can you maybe talk a little bit about what was the strategic rationale, a little more color on that, and maybe how we should think about the synergies from the deal for next year? Thank you.

Anil Chakravarth

President-Digital Experience Business, Adobe Inc.

A

Yeah. If you look at what's top of mind for marketers right now, when we think of customer experience orchestration, brand visibility is one of the key areas that's top of mind for marketers, how their brands appear, how they're positioned especially in new channels like the LLMs, whether it's ChatGPT or Google or Perplexity, that's top of mind for marketers.

So, one of the things that we do really well by bringing Adobe and Semrush together, we'll be able to offer a comprehensive solution for marketers so that whether it is their own media like their own websites and their mobile apps, whether it is earned media like these LLMs, or across search engines, they have one solution that helps them improve their brand visibility and make sure that they understand what customers are searching for, what prospects are actually searching for or prompting for and they are in the right places, in the right way with their brands. And we are the only ones that can offer a comprehensive solution to be able to do that across their own channels as well as all of these new channels like LLMs, in addition to search engines.

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

A

Maybe the one thing I'll say is to also based on the previous question that Matt had, when we think about our own spend and how we do this at Adobe as we are engaging with billions of customers, being able to provide an integrated way of spending money across search, across LLMs, and understanding what is the relative efficiency of that, I think most companies would say when they're seeing their business move up and to the right, it's now coming from a more diverse set of channels. And this just allows us between the search engine and the generative engine to provide this unified approach. So, I think it's a very unique, and then we can provide the analytics for folks. So, I think, combining both your questions, this is why the excitement around the creative and marketing and the combination of that is something that really gives us a lot of confidence.

Operator: And moving on to our next question from Keith Weiss with Morgan Stanley.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Excellent. Thank you, guys, for taking the question. And congratulations on a solid end of the year. Maybe a kind of longer-term focus question. You guys have been clear that the strategy is proliferation first and then kind of monetization going forward when it comes to a lot of these technologies and a lot of the innovation that you're pushing into the base. And I think some of the metrics that we're seeing in Q4 are getting us a little bit excited that we're starting to see some of that ability. You guys talked about monthly active users up over 15%. So, the user base is growing. You talked about 3x growth in the usage of the models on a quarter-on-quarter basis. So, the usage is ramping up.

When can we potentially see this sort of grow the totality – or stabilize or accelerate the totality of growth at Adobe? Meaning another – when can we see a year where ARR growth is stable, right, on a year-on-year basis or actually improving? Because I think that's what investors really want to see to get more confident in the stock and start revisiting the stock and coming back to the shares.

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

A

Yeah. Keith, I mean, from my perspective, Q4 was a really strong quarter and, frankly, starting to be this inflection in terms of, as we see the leading indicators, what is happening across the leading indicators, which gives us a lot of confidence. And that's why when you look at the total Adobe ARR growth target, which translates to approximately \$2.6 billion, that's the highest beginning-of-the-year guide for total net new ARR.

But unpacking your question, you're absolutely right, I mean, when we think about how we've innovated in AI and transformed the business to serve the massive customer audiences that we see, what we've done a really good job of is in the business pros and consumers, you're seeing the MAU increase. You've seen the fact that we've got this technology in front of a lot of people. We've got usage. You saw the metrics that I think David provided there in terms of what's happening on the freemium usage of that. So, that's the early indicator. On the creative pro, what we have seen across all three parts of the business, which is what's happening in Creative Cloud, what's happening in Firefly as a new app, and, to the earlier question, Firefly Foundry, the automation associated with that.

So, we look at all of the three markets that we serve. And I think in the data as well, I'm sure you looked at the fact that when you look at what's happening on the Creative business, you can see, given you have underlying visibility into the core Creative subscription, that is now growing sequentially quarter-over-quarter. And that's coming – frankly, the record Digital Media ARR is coming as a result of all three of them.

So, I think we're pleased not just with the strong Q4, but underlying how we've actually changed the sort of underlying part of the business to be, whether it's on MAU, whether it's infusing AI, whether it's on higher-value products, and combining all of that, frankly, for the enterprise, which we continue to think is a differentiated strategy for us. So, we have to just keep executing. But I think Q4 was an inflection in the early indicators, which we continue to track.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Outstanding. That's super exciting.

Operator: And our next question comes from Mark Moerdler with Bernstein.

Shelly Tang

Analyst, Bernstein Institutional Services LLC

Q

This is Shelly calling on behalf of Mark. And thank you so much for taking my question. Congratulations on solid quarter. Total Adobe ending ARR growth this year ended at 11.5%; and next year, you're guiding to 10.2%. Could you help us understand what is driving the difference between this year's growth and the guidance? Is it certain parts of the markets that you think might behave differently next year versus this year? Thank you.

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

A

Well, first, I guess there's another call that's also going on. So, you know – but from our perspective, when we look at it, I think you have to look at it also in terms of the absolute. And the target actually shows momentum across all of these audiences. And so, if you think that we've been – we accomplished approximately \$2.6 billion, this actually starts our guide for fiscal 2026 at that level. So, I think, from our perspective it's showing the momentum that we have. And to your second question, as we think about the ARR across the business professionals and consumers as well as the creative and marketing professionals, this is predicated on our confidence associated with all three customer groups as opposed to one of them.

Again, to the question that Keith asked earlier, it reflects the progress that we made on Express and Acrobat, whether it's with AI Assistant, whether it's with PDF Spaces, whether it's with infusing creativity into that offering, Firefly in Creative Cloud and creative pro CC Pro offering, Firefly Services. So, across the board. And AEP and Apps, Anil talked about AEP and Apps, he talked about GenStudio, brand visibility, as well as the acquisition of Semrush that will, when that happens, based on all the regulatory conditions that we need to fulfill, that also adds to our offering. So, we're pleased with our performance in Q4, and we're excited about the future.

Operator: And we'll take a question from Jake Roberge with William Blair.

Jake Roberge

Analyst, William Blair & Co. LLC

Q

Yeah. Thanks for taking the question and good to see the partnership announcement and integration with ChatGPT. David, as you expand to these new surfaces outside of the Adobe ecosystem, how are you thinking about driving monetization of that usage or converting those users over to your platform?

David Wadhvani

President-Digital Media Business, Adobe Inc.

A

Yeah. Our focus has always been around sort of meeting customers where they are. And that used to predominantly be focused on search and the Web, and now we're seeing this incredible growth with LLMs. And so, we are taking all of our technology and making sure that it can run in these LLMs. They represent, in our mind, a great top-of-funnel. They let us reach new users that we typically wouldn't have reached with some of the traditional markets that we go through, and we can engage them in new ways. And it gives us the journey work that's already in there, gives us the opportunity to flow them into our full paid plan. So, it's a real top-of-funnel game with a conversion opportunity on the back end of that.

And one of the – maybe the more important elements and moments of why this is such a critical moment for us is that, as LLMs start embracing these Model Context Protocols, these MCP endpoints, it's no longer that these

LLMs are about a prompt to a model and a response. It now gives us the opportunity to have the LLMs actually work with models and APIs. And that plays to a really strong strength that we have and durable differentiator given the incredible APIs we have across creativity and productivity. So, it lets us reach a lot more customers. It lets us atomize the capabilities, double down on the freemium experience that we've been putting in place, as Keith mentioned, our Creative freemium MAU grew over 35%, and this just continues to drive that. And we're starting to see the tail end of that turn into conversion and show up in our results.

Operator: And our next question will come from Michael Turrin with Wells Fargo.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

Hey. Thanks very much. Appreciate you taking the question. You mentioned credit consumption up 3x this quarter. I was just hoping to hear a bit more around what you're seeing from an overall consumption perspective, how third-party models are impacting that, and if you're becoming at all more confident in monetizing or forecasting consumption? And then, secondarily, from your perspective, are there better or worse scenarios for us to be thinking about in terms of which of the larger models win mindshare in the market for Adobe just given, I think, you've seen a lot of differing opinions of that, especially of late? Thanks very much.

David Wadhvani

President-Digital Media Business, Adobe Inc.

A

Yeah. Happy to take that. So, just for the broader group on the call, if you take a step back, we introduced generative credits a few years ago when we introduced generative AI into our products. And customers get credits in a couple of different ways. First, all of our plans now come with some base level of credit access. And of course, higher-end plans include more credits. The second thing is that when customers deplete their credits, they can get more credits in one of two ways. They can upgrade to a higher-end plan and / or they can purchase generative credit add-on packs.

And as we think about the growth algorithm associated with this, it's really a multiplier across four different things. First of all, the number of apps that have these generative capabilities, times the number of media types that we support, times the number of use cases and workflows that we've integrated these into, times the number of models that we have that people are able to use. And we had major updates for all of these at MAX earlier in Q4.

From an Apps perspective, we now have these generative capabilities into our Firefly app, our Creative Cloud applications, including Photoshop, Premiere, Lightroom, obviously also in the Creative Cloud Pro offer that we have. From a media types perspective, we've been doing a lot with images, video, audio, design. We've seen a huge inflection in terms of video consumption in particular. So, that's been a great sort of contributor to the growth we're seeing.

In terms of use cases, we've been focused on editing use cases, we've been expanding those editing use cases, but we also introduced Firefly Boards, which is around ideation that generates hundreds of images or videos or designs, and also bulk generation at the end of the process for individuals that want to do bulk actions on things.

And then, last, it's – the models continue to get better. With Firefly and our partner models, we're seeing higher-resolution outputs. We're seeing higher density and quality. All of those things also increase the number of credits that are getting consumed.

And so, in addition to all that, we announced a big amplifier to onboarding, which was we have a very attractively priced plan with our Firefly apps. It's really an all-in-one offer. You can get the world's best models from Adobe and third parties. And they're fully integrated into these amazing workflows at a very attractive onboarding price.

So, all of that led to the 3x quarter-over-quarter growth in generation. And as a result of that, as we touched on, we're starting to see increasing user upgrades to higher-priced plans and including credit pack add-ons. So, we're excited, and you saw that in some of the numbers.

And our vision here is we'll work with all the great model providers, of course, including the work we're doing internally. And we will increasingly be the single destination that everyone comes to access those models.

Doug Clark

Vice President-Investor Relations, Adobe Inc.

A

Operator, we have time for one more question.

Operator: And that question comes from Keith Bachman with BMO.

Keith Bachman

Analyst, BMO Capital Markets Corp.

Q

Yes. Thank you very much. David, I'd like to direct this to you, if I could, and just ask you how you're thinking about the components of the construct of growth over the course of FY 2026? And if I break it into two parts, just wondering if you could comment specifically on seats within the creator and marketing professionals, not looking for specific numbers, but is seat growth remains steady within that category? It looks like you're filling the top of the funnel across the board, but really what I'm asking about is paid seat growth, would you anticipate that that remains steady in FY 2026?

And then, the second part of the question is, in the prepared remarks, Digital Media more broadly, it was – 75% was upsell on price and then the balance was basically price. And what I'm asking, the spirit of the question is, despite growing competition, do you think pricing is still a lever that you can draw on to support growth in 2026 and beyond? Many thanks.

David Wadhvani

President-Digital Media Business, Adobe Inc.

A

Yeah. Happy to take that. A few things. One is, I know we've spent a number of times a couple of years with all of you explaining the evolution of the product lineup. A few years ago, we used to have – in the Creative ecosystem, we used to have Creative Cloud All Apps and Creative Cloud Single Apps. And one of the most important things we've done over that period of time is to really look at where and how consumers or business professionals want to engage with creativity, and we found that it's very different.

So, when it comes to our lineup, we now have an increasing number of freemium offers with business professionals with the introduction of Express, but also the introduction of Acrobat Studio, which is off to a great start. We have a specific offer for creators with everything we're doing with the Firefly application. And again, that's another freemium offer, but also has a nice sort of tiered pricing associated with it.

We have a strong momentum with creative pros and those using the Creative Cloud applications. We've mentioned in the past, and we continue to see very strong migration over to the Creative Cloud Pro plan, the higher-value plan that has more generative capabilities embedded in it. And we have – at the very tail end of that

process, we have the ability to do all of this automation work that we have associated with Firefly Services and Firefly Foundry integrated into GenStudio.

So, as we look at creativity and how it's seeped into all of these different flows, we feel really good in the first two, as we said, with the freemium MAU increasing over 35% year-over-year and our ability to start converting some of that MAU with the plans that we have in place now with both Express and Acrobat Studio and with everything we're doing with Firefly. And we're continuing to see strong usage, that 3x growth we talked about. You see a lot of creative professionals actually using that and starting to see more and more and more reliance and value from that in addition to what we're seeing in the enterprise.

So, overall, we're seeing strong seat growth. We continue to believe that we have a lot of user acquisition ahead of us. We continue to see a lot of value to pricing opportunity with creative professionals, and I think there's a lot more ahead of us on that. And as we mentioned in that case with the media company and enterprises at the highest end, we think that automation is going to be a really good addition and sort of additional rocket engine to what we do.

Shantanu Narayen

Chair & Chief Executive Officer, Adobe Inc.

Thanks, David, and thank you all for joining us. Since that was the last question, what I wanted to, again, just summarize was not only was the Q4 a good strong end to the year, I would say fiscal 2025, we just continue to execute. And in particular, I'm pleased with three aspects of what we are focused on. The first is certainly our customer groupings, as we provide these tailored offerings for business professionals and consumers and creative and marketing professionals, how we've embraced AI and infused AI into all of those offerings, demonstrating that that's the value that people look as they increasingly adopt our solutions, and something that we probably talked a little less about, but the execution that we have across all routes to market. And so, whether that's what we are doing on digital, online, in terms of engaging with our customers, what's happening both through the channel as well as our phone in terms of selling to small and medium businesses, and certainly at the higher end the strategic partnerships and the relationships that we're creating at the enterprise across our combined offerings.

So, thank you for joining us. Happy holidays. And we look forward to continuing to execute against our strategy and sharing more with you in the future. Thank you.

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

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