

## **ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto.*

*In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements, including statements regarding product plans, future growth, market opportunities, fluctuations in foreign currency exchange rates, strategic investments, industry positioning, customer acquisition and retention, the amount of annualized recurring revenue and revenue growth. In addition, when used in this report, the words “will,” “expects,” “could,” “would,” “may,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “targets,” “estimates,” “looks for,” “looks to,” “continues” and similar expressions, as well as statements regarding our focus for the future, are generally intended to identify forward-looking statements. Each of the forward-looking statements we make in this report involves risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section titled “Risk Factors” in Part II, Item 1A of this report. The risks described herein and in other documents we file from time to time with the U.S. Securities and Exchange Commission (the “SEC”), including our Annual Report on Form 10-K for fiscal 2024, should be carefully reviewed. Undue reliance should not be placed on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document, except as required by law.*

### **BUSINESS OVERVIEW**

Adobe is a global technology company with a mission to change the world through personalized digital experiences. For over four decades, Adobe’s innovations have transformed how individuals, teams, businesses, enterprises, institutions, and governments engage and interact across all types of media. Our products, services and solutions are used around the world to imagine, create, manage, deliver, measure, optimize and engage with content across surfaces and fuel digital experiences. We have a diverse user base that includes consumers, communicators, creative professionals, developers, students, small and medium businesses and enterprises. We are also empowering creators by putting the power of artificial intelligence (“AI”) in their hands, and doing so in ways we believe are responsible. Our products and services help unleash creativity, accelerate document productivity and power businesses in a digital world. We have operations in the Americas; Europe, Middle East and Africa (“EMEA”); and Asia-Pacific (“APAC”).

### **OPERATIONS OVERVIEW**

For our second quarter of fiscal 2025, we experienced strong demand across our Digital Media and Digital Experience offerings, driven by transformative and customer-focused product innovation. As we execute on our long-term growth initiatives, with emphasis on delivering value through AI-powered and highly differentiated solutions to meet the needs of our diverse and expanding customer base, we have continued to experience growth in software-based subscription revenue across our portfolio of offerings.

#### *Digital Media*

Our Digital Media products, services and solutions help users create, design and publish rich content and 3D experiences, and improve productivity by transforming how they view, share and collaborate on documents and content. These offerings include our Creative Cloud flagship applications (“apps”) such as Adobe Photoshop, Adobe Illustrator, Adobe Lightroom, Adobe Premiere Pro and Adobe Stock; as well as Adobe Acrobat, Adobe Express, Adobe Firefly and many more products, which are available across surfaces and platforms as desktop tools, web and mobile apps and cloud-based services. Adobe Express is our web and mobile app designed to enable a broad spectrum of users, including novice content creators and communicators, to create, edit and customize content quickly and easily with content first, task-based solutions. In addition, Adobe Firefly-powered generative AI features are available across Digital Media apps including Adobe Photoshop and Adobe Express. Our Adobe Acrobat offerings, with a set of integrated mobile apps and cloud-based document services, enable users to create, collaborate, review, approve, sign and track documents regardless of platform or application source type. These Acrobat offerings enhance the way people manage critical documents at home, in the office and across devices. Last year, we introduced Acrobat AI Assistant, a generative AI-powered product designed to deliver insights and enhance productivity through interactive document experiences, which is available as an add-on subscription to our Adobe Acrobat Pro and Standard and Adobe Acrobat Reader products. Our Digital Media customers include business professionals, consumers, creative professionals, creators and marketing professionals.

Annualized Recurring Revenue (“ARR”) is currently the key performance metric our management uses to assess the health and trajectory of our overall Digital Media segment. ARR should be viewed independently of revenue, deferred revenue

and remaining performance obligations as ARR is a performance metric and is not intended to be combined with any of these items. Digital Media ARR continues to be calculated as the sum of the annual value of Digital Media subscriptions and services and the annual value of Digital Media Enterprise Term License Agreements. We adjust our reported ARR on an annual basis to reflect any exchange rate changes. Our reported ARR results in the current fiscal year are based on currency rates set at the beginning of the year and held constant throughout the year for measurement purposes. Prior year ARR balances are also revalued at the new currency rates for comparative purposes.

Digital Media ARR grew to \$18.09 billion at the end of the second quarter of fiscal 2025, representing 12.1% year-over-year growth. Our success in driving growth in ARR has positively affected our revenue growth. Digital Media segment revenue grew to \$4.35 billion in the second quarter of fiscal 2025, up from \$3.91 billion in the second quarter of fiscal 2024, representing 11% year-over-year growth.

### *Digital Experience*

Our Digital Experience apps and services are designed to accelerate customer experience orchestration at scale and supply intelligence for businesses of any size in any industry. Digital Experience is comprised of solutions to deliver actionable data, with products such as Adobe Analytics and Adobe Real-Time Customer Data Platform; optimize personalized content delivery, with products such as Adobe Experience Manager, Adobe Commerce and Adobe GenStudio for Performance Marketing; and manage customer journeys, with products such as Adobe Marketo Engage and Adobe Campaign. Our differentiation and competitive advantage are strengthened by our ability to use the Adobe Experience Platform to integrate our comprehensive set of solutions and our ability to embed AI into our product portfolio, such as with our Adobe Experience Platform AI Assistant, a generative AI-powered conversational interface designed to help customers automate workflows and generate new audiences and journeys. Our Digital Experience customers include marketing professionals such as brand managers, channel marketers and campaign strategists.

Digital Experience revenue was \$1.46 billion in the second quarter of fiscal 2025, up from \$1.33 billion in the second quarter of fiscal 2024, representing 10% year-over-year growth. Subscription revenue grew to \$1.33 billion in the second quarter of fiscal 2025, up from \$1.20 billion in the second quarter of fiscal 2024, representing 11% year-over-year growth.

### *Customer-Focused Strategy*

Our customers often are involved in workflows that integrate multiple Adobe products across both segments. By combining the creativity of our Digital Media business with the science of our Digital Experience business, such as with our Adobe GenStudio solutions, we help our customers to more efficiently and effectively make, manage, measure and monetize their content across every channel with an end-to-end workflow and feedback loop.

Spanning both our Digital Media and Digital Experience segments, we are driving continued business success through audience-specific product innovation and go-to-market strategy focused on the following two customer groups:

- Business Professionals and Consumers desire web and mobile apps with easy-to-use AI capabilities, and are increasingly benefiting from using Adobe Acrobat and Adobe Express. Revenue associated with the Business Professionals and Consumers customer group consists of Adobe Acrobat offerings and Adobe Express, all of which are part of Digital Media.
- Creative and Marketing Professionals require agile and comprehensive solutions to create high volumes of compelling content, infused with commercially safe AI capabilities; and are benefiting from investments in powerful, integrated workflows through offerings such as Adobe Firefly and Adobe GenStudio. Revenue associated with the Creative and Marketing Professionals customer group consists of Digital Experience offerings as well as Creative Cloud flagship apps such as Photoshop, Lightroom and Illustrator within Digital Media.

By viewing the Digital Media and Digital Experience segments through this additional lens, we can more effectively execute on our long-term growth strategies. Our success will be achieved through continued acquisition and retention of our customer base by delivering valuable new features and technologies to customers with our latest releases, including generative AI capabilities to enhance creativity, productivity and marketing, and expanding availability of our offerings across an increasing number of surfaces.

As part of our customer-focused strategy, we utilize a data-driven operating model and tailored go-to-market motion to raise awareness of our products and drive customer acquisition, engagement and retention. Overall, our strategy is designed to increase our revenue with existing users, continue to attract new customers, and grow our recurring and predictable revenue stream that is recognized ratably.

### *Macroeconomic Conditions*

As a corporation with an extensive global footprint, we are subject to risks and exposures from the evolving macroeconomic environment, including the effects of increased global inflationary pressures and interest rates, fluctuations in foreign currency exchange rates, potential economic slowdowns or recessions and geopolitical pressures, including the unknown impacts of current and future trade regulations. We continuously monitor the direct and indirect impacts of these circumstances on our business and financial results.

While our revenue and earnings are relatively predictable as a result of our subscription-based business model, the broader implications of these macroeconomic events on our business, results of operations and overall financial position, particularly in the long term, remain uncertain. *See the section titled “Risk Factors” in Part II, Item 1A of this report for further discussion of the possible impact of these macroeconomic issues on our business.*

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

In preparing our condensed consolidated financial statements in accordance with generally accepted accounting principles in the United States (“GAAP”) and pursuant to the rules and regulations of the SEC, we make assumptions, judgments and estimates that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. We evaluate our assumptions, judgments and estimates on a regular basis. We also discuss our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

We believe that the assumptions, judgments and estimates involved in the accounting for revenue recognition and income taxes have the greatest potential impact on our condensed consolidated financial statements. These areas are key components of our results of operations and are based on complex rules requiring us to make judgments and estimates, and consequently, we consider these to be our critical accounting policies. Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results.

There have been no significant changes in our critical accounting policies and estimates during the six months ended May 30, 2025, as compared to the critical accounting policies and estimates disclosed in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended November 29, 2024.

### **Recent Accounting Pronouncements**

*See Note 1 of our notes to condensed consolidated financial statements for information regarding recent accounting pronouncements that are of significance or potential significance to us.*

## RESULTS OF OPERATIONS

### *Financial Performance Summary*

- Digital Media ARR of approximately \$18.09 billion as of May 30, 2025 increased by 12.1% from \$16.14 billion as of May 31, 2024 revalued using currency rates determined at the beginning of fiscal 2025.
- Digital Media revenue of \$4.35 billion during the three months ended May 30, 2025 increased by \$437 million, or 11%, compared to the year-ago period.
- Digital Experience revenue of \$1.46 billion during the three months ended May 30, 2025 increased by \$130 million, or 10%, compared to the year-ago period.
- Cost of revenue of \$638 million during the three months ended May 30, 2025 increased by \$40 million, or 7%, compared to the year-ago period.
- Operating expenses of \$3.13 billion during the three months ended May 30, 2025 increased by \$300 million, or 11%, compared to the year-ago period.
- Net income of \$1.69 billion during the three months ended May 30, 2025 increased by \$118 million, or 8%, compared to the year-ago period.
- Cash flows from operations of \$4.67 billion during the six months ended May 30, 2025 increased by \$1.56 billion, or 50%, compared to the year-ago period, primarily due to payment of the \$1 billion Figma termination fee during the first quarter of fiscal 2024.
- Remaining performance obligations of \$19.69 billion as of May 30, 2025 increased by 10% from \$17.86 billion as of May 31, 2024.

### **Revenue for the Three and Six Months Ended May 30, 2025 and May 31, 2024**

*(dollars in millions)*

	Three Months			Six Months		
	2025	2024	% Change	2025	2024	% Change
Subscription	\$ 5,641	\$ 5,060	11 %	\$ 11,124	\$ 9,976	12 %
Percentage of total revenue	96 %	95 %		96 %	95 %	
Product	88	104	(15)%	183	223	(18)%
Percentage of total revenue	2 %	2 %		2 %	2 %	
Services and other	144	145	(1)%	280	292	(4)%
Percentage of total revenue	2 %	3 %		2 %	3 %	
<b>Total revenue</b>	<b>\$ 5,873</b>	<b>\$ 5,309</b>	<b>11 %</b>	<b>\$ 11,587</b>	<b>\$ 10,491</b>	<b>10 %</b>

#### *Subscription*

Our subscription revenue is comprised primarily of fees we charge for our subscription and hosted service offerings, and related support. We primarily recognize subscription revenue ratably over the term of agreements with our customers, beginning with commencement of service. Subscription revenue related to certain offerings, where fees are based on a number of transactions and invoicing is aligned to the pattern of performance, customer benefit and consumption, are recognized on a usage basis.

#### *Product*

Our product revenue is comprised primarily of fees related to licenses for on-premise software purchased on a perpetual basis, for a fixed period of time, or based on usage for certain of our original equipment manufacturer and royalty agreements. We primarily recognize product revenue at the point in time the software is available to the customer, provided all other revenue recognition criteria are met.

#### *Services and Other*

Our services and other revenue is comprised primarily of fees related to consulting, training, maintenance and support for certain on-premise licenses that are recognized at a point in time and our advertising offerings. We typically sell our consulting

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contracts on a time-and-materials or fixed-fee basis. These revenues are recognized as the services are performed for time-and-materials contracts and on a relative performance basis for fixed-fee contracts. Training revenues are recognized as the services are performed. Our maintenance and support offerings, which entitle customers, partners and developers to receive desktop product upgrades and enhancements or technical support, depending on the offering, are generally recognized ratably over the term of the arrangement. Transaction-based advertising revenue is recognized on a usage basis as we satisfy the performance obligations to our customers.

### *Segment Information*

We have the following reportable segments: Digital Media, Digital Experience, and Publishing and Advertising. Total revenue by reportable segment for the three and six months ended May 30, 2025 and May 31, 2024 were as follows:

*(dollars in millions)*

	Three Months			Six Months		
	2025	2024	% Change	2025	2024	% Change
Digital Media	\$ 4,345	\$ 3,908	11 %	\$ 8,572	\$ 7,724	11 %
Percentage of total revenue	74 %	74 %		74 %	74 %	
Digital Experience	1,457	1,327	10 %	2,871	2,616	10 %
Percentage of total revenue	25 %	25 %		25 %	25 %	
Publishing and Advertising	71	74	(4)%	144	151	(5)%
Percentage of total revenue	1 %	1 %		1 %	1 %	
<b>Total revenue</b>	<b>\$ 5,873</b>	<b>\$ 5,309</b>	<b>11 %</b>	<b>\$ 11,587</b>	<b>\$ 10,491</b>	<b>10 %</b>

Revenue from Digital Media increased \$437 million and \$848 million, and revenue from Digital Experience increased \$130 million and \$255 million, during the three and six months ended May 30, 2025 as compared to the three and six months ended May 31, 2024. The increases in total revenue were due to subscription revenue growth across our Digital Media and Digital Experience offerings.

Subscription revenue by reportable segment for the three and six months ended May 30, 2025 and May 31, 2024 were as follows:

*(dollars in millions)*

	Three Months			Six Months		
	2025	2024	% Change	2025	2024	% Change
Digital Media	\$ 4,280	\$ 3,828	12 %	\$ 8,439	\$ 7,553	12 %
Digital Experience	1,334	1,204	11 %	2,631	2,368	11 %
Publishing and Advertising	27	28	(4)%	54	55	(2)%
<b>Total subscription revenue</b>	<b>\$ 5,641</b>	<b>\$ 5,060</b>	<b>11 %</b>	<b>\$ 11,124</b>	<b>\$ 9,976</b>	<b>12 %</b>

Increases in subscription revenue for the Digital Media segment were driven by strength in Creative Cloud flagship apps and Acrobat across all routes to market and geographies. Increases in subscription revenue for the Digital Experience segment were driven by strength in Adobe Experience Platform and related apps, and Adobe Experience Manager.

Digital Media and Digital Experience subscription revenue by customer group for the three and six months ended May 30, 2025 and May 31, 2024 were as follows:

*(dollars in millions)*

	Three Months			Six Months		
	2025	2024	% Change	2025	2024	% Change
Creative and Marketing Professionals	\$ 4,019	\$ 3,643	10 %	\$ 7,941	\$ 7,193	10 %
Business Professionals and Consumers	1,595	1,389	15 %	3,129	2,728	15 %
<b>Total Digital Media and Digital Experience subscription revenue</b>	<b>\$ 5,614</b>	<b>\$ 5,032</b>	<b>12 %</b>	<b>\$ 11,070</b>	<b>\$ 9,921</b>	<b>12 %</b>

Increases in subscription revenue for the Creative and Marketing Professionals customer group were driven by strength in Creative Cloud flagship apps, Adobe Experience Platform and related apps, and Adobe Experience Manager. Increases in subscription revenue for the Business Professionals and Consumers customer group were driven by strength in Acrobat.

*Geographical Information*

(dollars in millions)

	Three Months			Six Months		
	2025	2024	% Change	2025	2024	% Change
Americas	\$ 3,500	\$ 3,188	10 %	\$ 6,905	\$ 6,298	10 %
Percentage of total revenue	60 %	60 %		60 %	60 %	
EMEA	1,541	1,361	13 %	3,043	2,680	14 %
Percentage of total revenue	26 %	26 %		26 %	26 %	
APAC	832	760	9 %	1,639	1,513	8 %
Percentage of total revenue	14 %	14 %		14 %	14 %	
Total revenue	<u>\$ 5,873</u>	<u>\$ 5,309</u>	11 %	<u>\$ 11,587</u>	<u>\$ 10,491</u>	10 %

Overall revenue during the three and six months ended May 30, 2025 increased in all geographic regions as compared to the three and six months ended May 31, 2024. Within each geographic region, the fluctuations in revenue were attributable to the factors noted in the segment information above.

Included in the overall change in revenue were impacts associated with foreign currency which were mitigated in part by our foreign currency hedging program. During the three and six months ended May 30, 2025 as compared to the three and six months ended May 31, 2024, the U.S. Dollar primarily strengthened against APAC currencies and the Euro, which resulted in a net decrease in revenue in U.S. Dollar equivalents of approximately \$24 million and \$98 million in the respective periods. The foreign currency impacts to revenue were partially offset by net hedging gains from our cash flow hedging program of \$9 million and \$39 million, respectively, as compared to the year-ago periods.

**Cost of Revenue for the Three and Six Months Ended May 30, 2025 and May 31, 2024**

(dollars in millions)

	Three Months			Six Months		
	2025	2024	% Change	2025	2024	% Change
Subscription	\$ 505	\$ 456	11 %	\$ 995	\$ 911	9 %
Percentage of total revenue	9 %	9 %		9 %	9 %	
Product	6	8	(25)%	12	13	(8)%
Percentage of total revenue	*	*		*	*	
Services and other	127	134	(5)%	253	264	(4)%
Percentage of total revenue	2 %	3 %		2 %	3 %	
Total cost of revenue	<u>\$ 638</u>	<u>\$ 598</u>	7 %	<u>\$ 1,260</u>	<u>\$ 1,188</u>	6 %

(\*) Percentage is less than 1%.

*Subscription*

Cost of subscription revenue consists primarily of third-party hosting services and data center costs, including expenses related to operating our network infrastructure and AI inferencing costs. Cost of subscription revenue also includes compensation costs associated with network operations, implementation, account management and technical support personnel, royalty fees, software costs and amortization of certain intangible assets.

Cost of subscription revenue increased during the three and six months ended May 30, 2025 as compared to the three and six months ended May 31, 2024 primarily due to increases in hosting services and data center costs and, to a lesser degree, compensation costs.

*Product*

Cost of product revenue is primarily comprised of third-party royalties, localization costs and costs associated with the manufacturing of our products.

*Services and Other*

Cost of services and other revenue is primarily comprised of compensation and contracted costs incurred to provide consulting services, training and product support, and hosting services and data center costs.

**Operating Expenses for the Three and Six Months Ended May 30, 2025 and May 31, 2024**

(dollars in millions)

	Three Months			Six Months		
	2025	2024	% Change	2025	2024	% Change
Research and development	\$ 1,082	\$ 984	10 %	\$ 2,108	\$ 1,923	10 %
Percentage of total revenue	18 %	19 %		18 %	18 %	
Sales and marketing	1,626	1,445	13 %	3,121	2,797	12 %
Percentage of total revenue	28 %	27 %		27 %	27 %	
General and administrative	377	355	6 %	744	707	5 %
Percentage of total revenue	6 %	7 %		6 %	7 %	
Acquisition termination fee	—	—	**	—	1,000	**
Percentage of total revenue	*	*		*	10 %	
Amortization of intangibles	41	42	(2)%	82	84	(2)%
Percentage of total revenue	1 %	1 %		1 %	1 %	
<b>Total operating expenses</b>	<b>\$ 3,126</b>	<b>\$ 2,826</b>	<b>11 %</b>	<b>\$ 6,055</b>	<b>\$ 6,511</b>	<b>(7)%</b>

(\*) Percentage is less than 1%.

(\*\*) Percentage is not meaningful.

*Research and Development*

Research and development expenses consist primarily of compensation and contracted costs associated with software development, third-party hosting services and data center costs including AI training costs, related facilities costs and expenses associated with computer equipment and software used in development activities.

Research and development expenses increased during the three and six months ended May 30, 2025 as compared to the three and six months ended May 31, 2024 primarily due to increases in compensation costs and, to a lesser degree, hosting services and data center costs.

Investments in research and development, including the recruiting and hiring of software developers, are critical to remain competitive in the marketplace and are directly related to continued timely development of new and enhanced offerings and solutions. We will continue to focus on long-term opportunities available in our end markets and make significant investments in the development of our subscription and service offerings, apps and tools.

*Sales and Marketing*

Sales and marketing expenses consist primarily of compensation costs, amortization of contract acquisition costs, including sales commissions, travel expenses and related facilities costs for our sales, marketing, order management and global supply chain management personnel. Sales and marketing expenses also include the costs of programs aimed at increasing revenue, such as advertising, trade shows and events, public relations and other market development programs.

Sales and marketing expenses increased during the three and six months ended May 30, 2025 as compared to the three and six months ended May 31, 2024 primarily due to increases in advertising expenses and compensation costs.

*General and Administrative*

General and administrative expenses consist primarily of compensation and contracted costs, travel expenses and related facilities costs for our finance, facilities, human resources, legal, information services and executive personnel. General and administrative expenses also include outside legal and accounting fees, expenses associated with computer equipment and software used in the administration of the business, charitable contributions, provision for bad debts and various forms of insurance.

General and administrative expenses increased during the three and six months ended May 30, 2025 as compared to the three and six months ended May 31, 2024 primarily due to increases in compensation costs and software licenses.

*Acquisition Termination Fee*

During the six months ended May 31, 2024, we incurred a \$1 billion termination fee which resulted from termination of the Figma transaction.

**Non-Operating Income (Expense), Net for the Three and Six Months Ended May 30, 2025 and May 31, 2024**

(dollars in millions)

	Three Months			Six Months		
	2025	2024	% Change	2025	2024	% Change
Interest expense	\$ (68)	\$ (41)	66 %	\$ (130)	\$ (68)	91 %
Investment gains (losses), net	2	4	**	8	22	**
Other income (expense), net	58	82	**	133	152	**
Total non-operating income (expense), net	\$ (8)	\$ 45	**	\$ 11	\$ 106	**

(\*\*) Percentage is not meaningful.

*Interest Expense*

Interest expense represents interest associated with our debt instruments. Interest on our senior notes is payable semi-annually, in arrears. Floating interest payments on our interest rate swaps are paid quarterly. The fixed-rate interest receivable on the swaps is received semi-annually concurrent with the senior notes interest payments.

Interest expense increased during the three and six months ended May 30, 2025 as compared to the three and six months ended May 31, 2024 primarily due to the increase in floating rates on our interest rate swaps and higher average debt balances. See Notes 5 and 13 for further details regarding our interest rate swaps and debt, respectively.

*Investment Gains (Losses), Net*

Investment gains (losses), net consists principally of unrealized holding gains and losses associated with our deferred compensation plan assets.

*Other Income (Expense), Net*

Other income (expense), net consists primarily of interest earned on cash, cash equivalents and short-term fixed income investments. Other income (expense), net also includes realized gains and losses on fixed income investments and foreign exchange gains and losses.

**Provision for Income Taxes for the Three and Six Months Ended May 30, 2025 and May 31, 2024**

(dollars in millions)

	Three Months			Six Months		
	2025	2024	% Change	2025	2024	% Change
Provision for income taxes	\$ 410	\$ 357	15 %	\$ 781	\$ 705	11 %
Effective tax rate	20 %	18 %		18 %	24 %	

Our effective tax rate increased by approximately two percentage points for the three months ended May 30, 2025, as compared to the three months ended May 31, 2024, primarily due to an increase in the net tax expense related to stock-based compensation during the three months ended May 30, 2025. Our effective tax rate decreased by approximately six percentage points for the six months ended May 30, 2025, as compared to the six months ended May 31, 2024, primarily due to the impact of the Figma acquisition termination fee incurred in the prior year, which was not deductible for financial statement purposes, and an increase in the anticipated benefit from a foreign tax asset in the current year. The decrease was partially offset by a net tax expense related to stock-based compensation recorded during the six months ended May 30, 2025 as compared to a net tax benefit related to stock-based compensation recorded during the year-ago period.

Our effective tax rates for the three and six months ended May 30, 2025 were lower than the U.S. federal statutory tax rate of 21% primarily due to the net tax benefits from effects of non-U.S. operations and the U.S. federal research tax credit, partially offset by state taxes and a net tax expense related to stock-based compensation.

We recognize deferred tax assets to the extent that we believe these assets are more likely than not to be realized based on evaluation of all available positive and negative evidence. On the basis of this evaluation, we continue to maintain a valuation allowance to reduce our deferred tax assets to the amount realizable. The total valuation allowance was \$779 million as of May 30, 2025, primarily related to certain state credits and capital loss carryforwards.

We are a U.S.-based multinational company subject to tax in multiple domestic and foreign tax jurisdictions. The current U.S. tax law subjects the earnings of certain foreign subsidiaries to U.S. tax and generally allows an exemption from taxation for distributions from foreign subsidiaries.

In the current global tax policy environment, the domestic and foreign governing bodies continue to consider, and in some cases introduce, changes in regulations applicable to corporate multinationals such as Adobe. As regulations are issued, we account for finalized regulations in the period of enactment.

Several countries have enacted, or have committed to enact, the Organization for Economic Cooperation and Development's 15% global minimum tax regime effective for our fiscal 2025. The currently enacted legislation is not expected to have a material impact on our provision for income taxes, however we continue to monitor developments and evaluate impacts, if any, of these provisions on our results of operations and cash flows.

*Accounting for Uncertainty in Income Taxes*

The gross liabilities for unrecognized tax benefits excluding interest and penalties were \$685 million and \$689 million as of May 30, 2025 and May 31, 2024, respectively. If the total unrecognized tax benefits as of May 30, 2025 and May 31, 2024 were recognized, \$516 million and \$519 million would decrease the respective effective tax rates.

As of May 30, 2025 and May 31, 2024, the combined amounts of accrued interest and penalties included in long-term income taxes payable related to tax positions taken on our tax returns were not material.

The timing of the resolution of income tax examinations is highly uncertain as are the amounts and timing of tax payments that are part of any audit settlement process. These events could cause large fluctuations in the balance sheet classification of our tax assets and liabilities. We believe that within the next 12 months, it is reasonably possible that either certain audits will conclude or statutes of limitations on certain income tax examination periods will expire, or both. Although the timing of resolution, settlement and closing of audits is not certain, it is reasonably possible that the underlying unrecognized tax benefits may decrease by up to \$55 million over the next 12 months.

Our future effective tax rates may be materially affected by changes in the tax rates in jurisdictions where our income is earned, changes in jurisdictions in which our profits are determined to be earned and taxed, changes in the valuation of our deferred tax assets and liabilities, changes in or interpretation of tax rules and regulations in the jurisdictions in which we do business, or unexpected changes in business and market conditions that could reduce certain tax benefits.

In addition, tax laws in the United States as well as other countries and jurisdictions in which we conduct business are subject to change as new laws are passed and/or new interpretations are made available. These countries, governmental bodies, such as the European Commission of the European Union, and intergovernmental economic organizations, such as the Organization for Economic Cooperation and Development, have made or could make unprecedented assertions about how taxation is determined and, in some cases, have proposed or enacted new laws that are contrary to the way in which rules and regulations have historically been interpreted and applied. Changes in our operating landscape, such as changes in laws and/or interpretations of tax rules, could adversely affect our effective tax rates and/or cause us to respond by making changes to our business structure which could adversely affect our operations and financial results.

Moreover, we are subject to the examination of our income tax returns by domestic and foreign tax authorities. We regularly assess the likelihood of outcomes resulting from these examinations to determine the adequacy of our provision for income taxes and have reserved for potential adjustments that may result from these examinations. Our policy is to record interest and penalties related to unrecognized tax benefits in income tax expense. While we believe our tax estimates are reasonable, we cannot provide assurance that the final determination of any of these examinations will not have an adverse effect on our financial position and results of operations.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows

Our primary source of cash is receipts from revenue. Other customary sources of cash include proceeds from maturities and sales of short-term investments and issuance of debt instruments. Our primary uses of cash are general business expenses including payroll and related benefits costs, income taxes, marketing and third-party hosting services, as well as our stock repurchase program as described below. Other customary uses of cash include purchases of short-term investments, property and equipment, payments for taxes related to net share settlement of equity awards, and repayment of debt instruments.

This data should be read in conjunction with our condensed consolidated statements of cash flows.

<i>(in millions)</i>	As of	
	May 30, 2025	November 29, 2024
Cash and cash equivalents	\$ 4,931	\$ 7,613
Short-term investments	\$ 782	\$ 273
Working capital	\$ (61)	\$ 711
Stockholders' equity	\$ 11,448	\$ 14,105

A summary of our cash flows is as follows:

<i>(in millions)</i>	Six Months Ended	
	May 30, 2025	May 31, 2024
Net cash provided by operating activities	\$ 4,673	\$ 3,114
Net cash provided by (used for) investing activities	(762)	177
Net cash used for financing activities	(6,629)	(2,770)
Effect of foreign currency exchange rates on cash and cash equivalents	36	(2)
Net change in cash and cash equivalents	\$ (2,682)	\$ 519

#### *Cash Flows from Operating Activities*

Net cash provided by operating activities of \$4.67 billion for the six months ended May 30, 2025 was primarily comprised of net income adjusted for the net effect of non-cash items. Working capital sources of cash included decreases in trade receivables driven by strong collections, offset by increases in prepaid expenses and other assets.

#### *Cash Flows from Investing Activities*

Net cash used for investing activities of \$762 million for the six months ended May 30, 2025 was primarily due to purchases of short-term and long-term investments, net of proceeds from the maturities of short-term investments.

#### *Cash Flows from Financing Activities*

Net cash used for financing activities of \$6.63 billion for the six months ended May 30, 2025 was primarily due to payments for our common stock repurchases and repayment of our 1.90% 2025 Notes and 3.25% 2025 Notes. These uses of cash were offset in part by proceeds from the issuance of senior notes. *See the sections titled "Senior Notes" and "Stock Repurchase Program" below.*

### Liquidity and Capital Resources Considerations

Our existing cash, cash equivalents and investment balances may fluctuate during fiscal 2025 due to changes in our planned cash outlay.

Cash from operations could also be affected by various risks and uncertainties, including, but not limited to, risks detailed in the section titled "Risk Factors" in titled Part II, Item 1A of this report. Based on our current business plan and revenue prospects, we believe that our existing cash, cash equivalents and investment balances, our anticipated cash flows from operations and our available revolving credit facility will be sufficient to meet our working capital, operating resource expenditure and capital expenditure requirements for the next twelve months and for the foreseeable future.

Our cash equivalent and short-term investment portfolio as of May 30, 2025 primarily consisted of money market funds, corporate debt securities, U.S. Treasury securities and time deposits. We use professional investment management firms to manage a large portion of our invested cash.

We expect to continue our investing activities, including short-term and long-term investments, purchases of computer and server hardware to operate our network infrastructure, sales and marketing, product support and administrative staff. Furthermore, cash reserves may be used to repurchase stock under our stock repurchase program and to strategically acquire companies, products or technologies that are complementary to our business.

#### *Revolving Credit Agreement*

We have a \$1.5 billion senior unsecured revolving credit agreement (the “Revolving Credit Agreement”) with a syndicate of lenders, providing for loans to us and certain of our subsidiaries through June 30, 2027. Subject to the agreement of lenders, we may obtain up to an additional \$500 million in commitments, for a maximum aggregate commitment of \$2 billion. As of May 30, 2025, there were no outstanding borrowings under the Revolving Credit Agreement and the entire \$1.5 billion credit line remains available for borrowing. Under the terms of our Revolving Credit Agreement, we are not prohibited from paying cash dividends unless payment would trigger an event of default or if one currently exists. We do not anticipate paying any cash dividends in the foreseeable future.

#### *Commercial Paper Program*

We have a commercial paper program under which we may issue unsecured commercial paper up to a total of \$3 billion outstanding at any time, with maturities of up to 397 days from the date of issue. The net proceeds from the issuance of commercial paper are expected to be used for general corporate purposes, which may include working capital, capital expenditures, acquisitions, stock repurchases, refinancing indebtedness or any other general corporate purposes. As of May 30, 2025, there were no outstanding borrowings under the commercial paper program.

#### *Senior Notes*

In January 2025, we issued \$800 million of senior notes due January 17, 2028, \$700 million of senior notes due January 17, 2030 and \$500 million of senior notes due January 17, 2035. In total, we have \$6.15 billion of senior notes outstanding, which rank equally with our other unsecured and unsubordinated indebtedness. During the six months ended May 30, 2025, we entered into interest rate swaps for certain of our senior notes that effectively convert the fixed interest rates on the notes to floating interest rates. As of May 30, 2025, the carrying value of our senior notes was \$6.17 billion, net of fair value of the interest rate swaps and unamortized discount and debt issuance costs, and our maximum commitment for interest payments was \$1.20 billion for the remaining duration of our outstanding senior notes and interest rate swaps. Interest on the notes is payable semi-annually, in arrears, and interest on the swaps is payable quarterly. Our senior notes do not contain any financial covenants. *See Note 13 of our notes to condensed consolidated financial statements for further details regarding our debt.*

#### *Contractual Obligations*

Our principal commitments as of May 30, 2025 consisted of purchase obligations resulting from agreements to purchase goods and services in the ordinary course of business and obligations under operating lease arrangements. During the second quarter of fiscal 2025, we executed agreements associated with certain of our long-term supplier commitments that increased our minimum purchase obligations by approximately \$1.3 billion through December 2029. There have been no other material changes in our purchase obligations during the six months ended May 30, 2025.

#### **Stock Repurchase Program**

To facilitate our stock repurchase program, designed to return value to our stockholders and minimize dilution from stock issuances, we may repurchase our shares in the open market or enter into structured repurchase agreements with third parties. In March 2024, our Board of Directors granted authority to repurchase up to \$25 billion in our common stock through March 14, 2028. As of May 30, 2025, \$10.90 billion remained under our March 2024 stock repurchase authority.

During the six months ended May 30, 2025, we entered into stock repurchase arrangements with a large financial institution and made payments totaling \$6.75 billion to repurchase shares. Subsequent to May 30, 2025, as part of the March 2024 stock repurchase authority, we entered into a stock repurchase arrangement with a large financial institution under which we may execute up to \$2.5 billion in open market repurchases.

*See Note 10 of our notes to condensed consolidated financial statements for further details regarding our stock repurchase program.*

## **Indemnifications**

In the ordinary course of business, we provide indemnifications of varying scope to our customers and channel partners against claims of intellectual property infringement made by third parties arising from the use of our products and from time to time, we are subject to claims by our customers under these indemnification provisions. Historically, costs related to these indemnification provisions have not been significant and we are unable to estimate the maximum potential impact of these indemnification provisions on our future results of operations.

To the extent permitted under Delaware law, we have agreements whereby we indemnify our officers and directors for certain events or occurrences while the officer or director is or was serving at our request in such capacity. The indemnification period covers all pertinent events and occurrences during the officer's or director's lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have director and officer insurance coverage that reduces our exposure and enables us to recover a portion of any future amounts paid.