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Recommendation: **BUY**

# UConn Student Managed Fund

## Adobe, Inc. (NYSE: ADBE)

January 12th, 2021

Target Price: \$700.05

Current Price: \$534

Stop loss: \$427

52 Week High/Low: \$420.78/\$699.54

Market Cap: \$254B

Dividend Yield: 0%

Beta: 0.96

ROE: 47.08%

P/E Ratio (TTM): 50.62

EV/EBITDA: 36.33

EBITDA Margin: 42%

Gross Margin: 30.55%

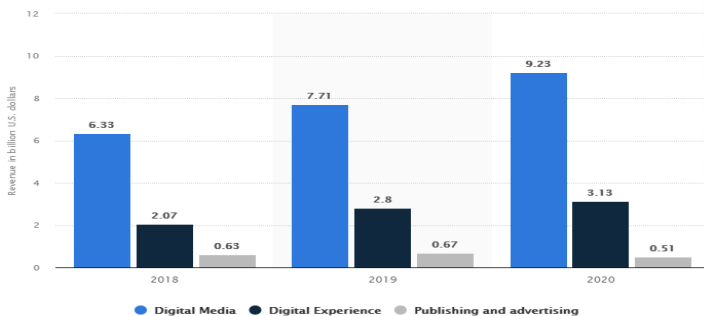
## Company Overview

Originally incorporated in October of 1983 & now headquartered in San Jose, California, Adobe is one of the largest and most diversified software companies in the world offering a wide line of products and services. Adobe's mission is to change the world through digital experiences serving a large customer base from creative professionals including photographers, video editors, designers, developers, content creators, students, & marketers to name a few. Its products and services are used in business of all sizes and used to create, manage, deliver, measure, optimize content and experiences across computing devices and media platforms. (10K)

Adobe has three revenue segments; Digital Media, Digital experience, & Publishing & advertising.

- Digital Media Segment consists of Adobe Creative Cloud Suite & Document Cloud. Products include: Photoshop, Illustrator, InDesign, & Premiere to name a few.
- Digital Experience Segment consists of the Adobe Experience Cloud. Services include the usage of AI to gather & analyze data anywhere in a customer's journey.
- Publishing and advertising consists of Adobe Advertising Cloud. This segment primarily offers an end to end platform for managing advertising across digital platforms.

Adobe's income streams generate revenues from licensing products to end users through app stores & its own website Adobe.com. It distributes products and services through a network of distributors, value added sellers, systems integrators, independent software vendors, retailers, software developers, & original equipment manufacturers. Additionally, it licenses its technology to hardware manufacturers, software developers, & service providers for use in their products & solutions. Many of its products run on server based PCs as well as smartphones & Adobe operates globally.



## Industry Outlook

The Covid-19 pandemic has accelerated growth in mainly two areas: cloud migration & digital transformation. There is a tremendous need to achieve the following objectives; enable easy access to applications from a large number of remote users which drives migration to the cloud, directly supporting Adobe's subscription based model & accommodate the need for a digital global digital transformation.

The global software industry space is valued at approximately \$600B. There's been generally a historical approximately 20% year over year cloud subscription growth & it's expected to increase. The cloud space represents approximately 37% of the global software industries' revenue leaving approximately 63% of growth to be captured & absorbed. There's an expectation that cloud subscription's revenue could hit 52% of total industry revenue by 2023 with approximately \$300B growth potential. Growth forecasts for total global enterprise software industry to accelerate 3-4% through 2024 driven by cloud subscription growth & partially offset by declining traditional software sales & licenses. Overall subscription revenue has crossed a threshold where it equates to more than 2x license revenue or 70% of total revenue for some industry peers including MSFT & ADBE. Microsoft holds the largest share at 64.7%, Oracle at 17.3%, Salesforce at 8.9%, Adobe at 5.7%, & Intuit at 3.4%.



## Investment Thesis

- ✓ Strong growth in main segments
- ✓ Increased operating efficiency
- ✓ Operates Globally
- ✓ Adopted a growing software subscription model
- ✓ Adobe develops its software internally

## Investment Risks

- Intense competition
- Cybersecurity
- Recent executive departures (retirement)
- AI social & ethical issues



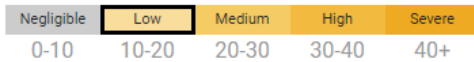
<u>Sensitivity analysis</u>		terminal growth rate (g)				
		1.00%	1.50%	2%	2.50%	3.00%
Base Number =	\$ 700.05					
	4%	601.78	709.90	872.06	1142.35	1682.91
WACC	5%	445.99	501.20	574.82	677.88	832.47
	6%	352.75	385.51	426.46	479.12	549.33
	7%	290.77	312.08	337.66	368.92	407.99
	8%	246.64	261.40	278.61	298.96	323.37
Margin of safety	24%					
Target price 12m	\$ 567.21					
Bloomberg Target	\$ 670.00					

## ESG Considerations

ADOBE has a very low ESG risk with a rating of 10.8.

ESG Risk Rating COMPREHENSIVE ?

**10.8** Low Risk



Last Update: Oct 7, 2021

### Ranking

Industry Group (1st = lowest risk)

Software & Services **11** out of 995

Universe

Global Universe **256** out of 15086