

<b>Company:</b> Adobe INC.	<b>Ticker:</b> ADBE	<b>Price:</b> \$342.53 (01/19)	<b>Industry:</b> Software
Target Price: \$393.80 Stop Loss: \$288.88 52 Week High/Low: \$540.46/\$274.73	TTM P/E: 35.29x Forward P/E: 22.54x EPS (22 FY): \$13.50	Beta (5Y): 1.22 Credit Rating: A+ (S&P) Rating Outlook: Stable	Market Cap: 163.15B Avg. Vol. (3M): 3.15B Div. Yield: N/A

#### Company Background:

Adobe is a software company that targets creative professionals, enterprises, and marketers. They operate three business segments (Digital Media, Digital Experience, and Publishing and Advertising) globally, with 42% of revenue coming from overseas. The Digital Media segment offers products to help businesses create and design. Digital Media also includes applications associated with Adobe's document format, the PDF. Digital Experience provides solutions for enterprise customers that allow them to optimize their customer Experience through AI and machine learning. The Publishing and Advertising segment, which only accounts for 2% of revenue, offers products and services, such as e-learning solutions and technical document publishing.

#### Industry Outlook:

The software industry is poised for strong growth on the back of favorable societal and technological trends. The continued transition from on-prem data storage to the cloud provides opportunities for companies to contribute to the transition. Additionally, the shift from a perpetual licensing model to a subscription-based model will provide consistent revenue and growth opportunities. As society becomes more digitized, the utilization of online communication pathways requires improvements and innovations to meet evolving customer needs. The growth of social media and the "creator economy" means individuals require increasingly advanced tools to reach their audiences, providing further opportunities for the industry. Overall, as human interactions become more digital, the software industry will be required to make advancements and meet ever-changing needs, resulting in consistent growth for the foreseeable future.

#### Investment Thesis:

Adobe's products and services are integrated into creative professionals' lives, offering substantial competitive advantages. Adobe is positioned to capture long-term trends in digital media and SaSS cloud infrastructure. The company has attractive financial strength, significant recurring revenue (93% ARR FY 22), and growing operating margins. Ultimately, we view market mispricing in Adobe's share price as an opportunity to get a quality investment at discounted cost.

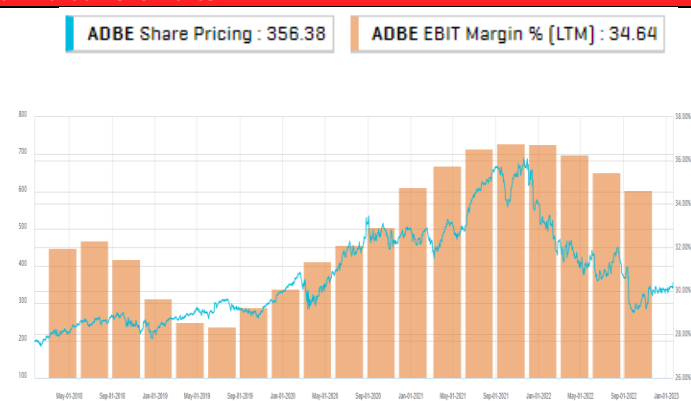
#### Investment Risks:

Adobe has experienced significant turnover in the c-suite over the last few years, with notable departures of high-level executives. Continued changes to the company's executive leadership team could increase the risk of poor execution by management. Adobe's future growth is somewhat dependent on investments made in AI and machine learning technology, and increased scrutiny of these technologies due to privacy concerns could cause business processes to lose efficiency. With a looming recession, Adobe may experience slowing revenue growth, given businesses will spend less on the company's products and services. Fierce competition throughout the industry may lead to companies capturing market share from Adobe, if Adobe is unable to develop products that meet customer needs.

#### 3-5 takeaway's from last quarter investor call transcript:

- Adobe achieved record revenue of \$4.43 billion, which represents 13 percent year-over-year growth. Diluted earnings per share was \$2.42 on a GAAP basis and \$3.40 on a non-GAAP basis
- Operating income was \$1.48 billion, net income was \$1.14 billion, and cash flows from operations were \$1.70 billion
- Both Adobe's Digital Media and Digital Experience business segments saw double digit year-over-year growth
- Adobe announced its \$20 billion acquisition of software company Figma, which adds to a recent string of acquisitions focused on bolstering Adobe's catalog of collaborative products and services

#### 5-Year Financial Performance:



#### Total Return (%) & DCF Valuation:

	ADBE	Nasdaq	SPY
<b>YTD</b>	5.78%	7.25%	3.95%
<b>5 Years</b>	80.14%	50.38%	40.04%

EBIT Margin	Avg. Rev. Growth 5-Yr	WACC	Perpetual Growth
33%	17%	8%	3.5%
32%	14%	9%	3.0%
31%	10%	10%	2.5%

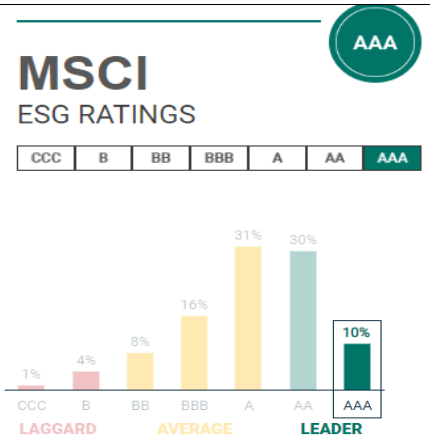
Scenario	Value	Weight	
Bull	553.77	25%	138.44
Base	387.68	50%	193.84
Bear	246.06	25%	61.52

Weighted Intrinsic value	393.80
Current Price	342.53
MOS	15%

#### DCF Valuation:

#### ESG:

Company	Market Cap	LTM Revenue	F NTM P/E	5 YR Beta	LTM ROE	EBIT Margin FY 22
	<i>mm USD</i>	<i>mm USD</i>				
Microsoft Corporation (Nasdaq: MSFT)	\$1,792,170.4	\$203,075.0	24.39x	0.93	42.9%	37%
Oracle Corporation (NYSE: ORCL)	\$238,888.0	\$46,073.0	17.11x	1.00	-	35%
Alphabet Inc. (Nasdaq: GOOGL)	\$1,186,861.3	\$282,113.0	18.59x	1.07	26.9%	-
PTC Inc. (Nasdaq: PTC)	\$15,387.2	\$1,933.4	29.11x	1.14	14.4%	26%
International Business Machines Corporation (NYSE: IBM)	\$131,270.1	\$58,880.0	19.11x	0.88	6.5%	-
Autodesk, Inc. (Nasdaq: ADSK)	\$43,304.5	\$4,699.7	28.13x	1.47	56.6%	17%
Salesforce, Inc. (NYSE: CRM)	\$147,133.8	\$30,294.0	26.61x	1.13	0.5%	2%
SAP SE (NYSE: SAP)	\$137,348.3	\$32,902.4	21.18x	0.99	8.2%	-
Dassault Systems SE (OTC: DASTY)	\$50,600.1	\$5,894.9	30.18x	0.69	12.2%	-
HubSpot, Inc. (NYSE: HUBS)	\$15,635.2	\$1,630.6	117.35x	1.56	(13.1)%	-
<b>Adobe Inc. (Nasdaq: ADBE)</b>	<b>\$157,657.2</b>	<b>\$17,606.0</b>	<b>22.55x</b>	<b>1.22</b>	<b>33.0%</b>	<b>35%</b>
<b>Average</b>	<b>\$356,023.3</b>	<b>\$62,282.0</b>	<b>31.85x</b>	<b>1.10</b>	<b>17.1%</b>	<b>14%</b>



Low risk according to Sustainalytics and leading in all categories according to Bloomberg. ESG continues to be a focus for Adobe with a strong emphasis on diversity, Sustain, and ensuring AI services are ethical.