

Company: Adobe INC.	Ticker: ADBE	Price: \$515.48 (09/30)	Industry: Software
Target Price: \$604.53 Stop Loss: \$415.48 52 Week High/Low: \$638.25/\$433.97	TTM P/E: 42.56x Forward P/E: 25.31x EPS (LTM): \$11.89	Beta (5Y): 1.30 Credit Rating: A+ (S&P) Rating Outlook: Stable	Market Cap: 226.19B Avg. Vol. (3M): 2.57M Div. Yield: N/A



Company Background:

Adobe is a software company that has empowered millions of creators and countless enterprises through a diversified product offering (Adobe Digital Media, Document Cloud, and Digital Experience). Digital Media accounts for 74% of total revenues (Q3 24') and consists of its flagship Creative Cloud platform and the rapidly expanding Document Cloud. Both are driven by a subscription service that strategically bundles products and cross-sells individuals into higher price offerings. Recent AI integration has made the creative space more accessible as ever and enables millions more to experience the power behind Adobe's industry leading applications. Digital Experiences account for 25% of total revenues (Q3 24') and provides enterprises with an integrated platform to manage customer experiences, develop stunning marketing campaigns, and drive AI data insights to optimize business performance.

Industry Outlook:

The software industry has been defined as an industry of rapid innovation this past decade, and this narrative is poised to accelerate. Enterprise software solutions continue to be a robust sector driven by the demand for customer relationship management and business optimization tools. This growing market provides companies like Adobe a durable and margin accretive client base that is projected to expand AI software budgets by 1-3% into 2027 (Goldman Sachs). SaaS and cloud-based programs continue to push out traditional physical hardware and are projected to grow at 19.28% CAGR into 29'. On top of this, AI integration into cloud-based software's will play a critical role in determining future success in a highly fragmented space. AI is expected to grow at a staggering 23% CAGR into 2023 and the SaaS model is projected to capture 41% of the TAM by 2030.

Investment Thesis:

Adobe thrives on a product-led growth strategy that is positioned well to maximize future AI monetization opportunities. Providing consumers with a highly integrated product ecosystem supported by recurring SaaS model yields industry-leading margins and FCF yield to continue its commitment to continued innovation. A recent unwarranted pullback due to Q4 timing concerns detached from the core business fundamentals, provides a historically cheap opportunity to invest in an exceptional business model with a clear path of sustained growth.

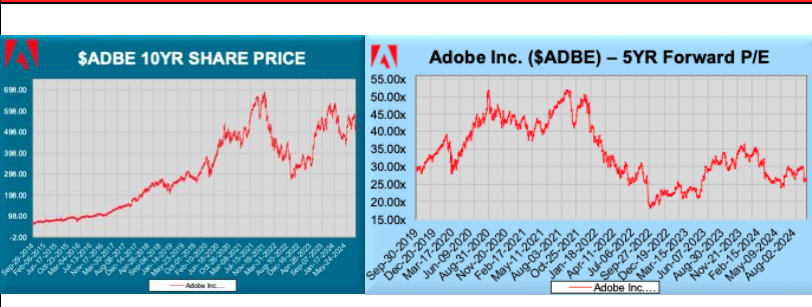
Investment Risks:

Adobe's key risks stem from earnings increasingly becoming reliant on AI success and the feasibility of its path toward sustainable monetization. Recent dips in Adobe's ROIC to invest in cloud-based AI solutions must yield sufficient returns in the long-term to warrant current and future valuation expectations. AI + no-code software/web builders are also rapidly decreasing the barriers to entry toward low-cost creative solutions. Analysts have also expressed concerns regarding the deteriorating health of Adobe's balance sheet. Net cash balance has decreased -22.4% QoQ and interest expense has increased +24.3% QoQ to fund an aggressive share repurchase program.

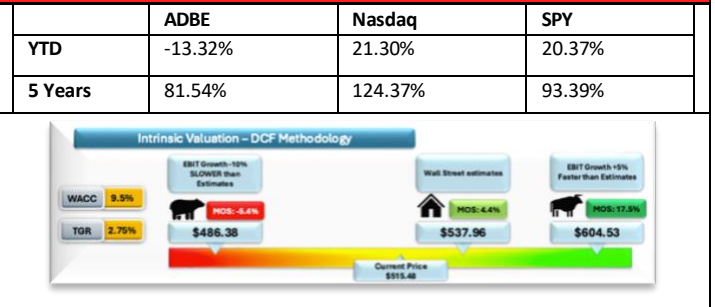
3-5 takeaway's from Q3 investor call transcript:

- Adobe reported DD% revenue growth across both major business segments (Digital Media, Digital Experiences) while also recognizing a \$2.5B share repurchase agreement
- Adobe Document Cloud was a major surprise compared to wall street estimates, recording +18% YoY revenue growth and +24% YoY growth in annual recurring revenue
- +9% growth in Net New ARR (+4% previously) with a +13% growth in overall annual recurring revenue
- Adobe presented some exciting early-AI success with a +70% growth QoQ in AI interactions & + the Firefly AI model generated +12B new images since March 23'
- EPS came in at \$4.65 for Q3 FY 24', comfortably beating wall street estimates of \$4.53

10-Year Financial Performance:



Total Return (%) & DCF Valuation:



Relative Valuation:

TICKER	COMPANY	Market Cap.	% of 52 Week High	Forward P/E	Revenue Growth		EBITDA Margin		Profit Margin		FCF Yield	ROE	ROA
					24'	25E'	24'	25E'	24'	25E'			
\$ADBE	Adobe	226.91B	80.76%	25.95x	10.5%	11.0%	50.3%	49.5%	38.4%	38.0%	2.82%	35.36%	18.19%
\$SAP	Sap Se	279.83B	98.29%	38.92x	8.6%	11.0%	26.6%	31.0%	15.5%	18.7%	2.95%	5.42%	3.23%
\$ADSK	Autodesk	58.46B	97.27%	31.88x	9.8%	11.1%	38.2%	37.8%	29.9%	29.4%	1.93%	11.32%	11.09%
\$CRM	Salesforce Inc	264.47B	85.80%	26.42x	11.2%	8.6%	36.5%	36.9%	23.2%	26.1%	4.27%	9.73%	6.10%
\$WDAY	Workday Inc	64.56B	78.26%	32.44x	16.8%	15.7%	27.9%	28.9%	21.3%	22.5%	3.35%	21.08%	10.28%
	MEAN		88.28%	31.12x	11.37%	11.48%	35.88%	36.82%	25.65%	26.95%	3.06%	16.58%	9.78%
	MEDIAN		86.80%	31.88x	10.48%	11.04%	36.50%	36.87%	23.20%	26.07%	2.95%	11.32%	10.28%

ESG:

ESG Risk Rating: **14.1** (Low Risk)

Weight: Low (0-10), Medium (10-20), High (20-30), Severe (30-40), Critical (40+)

Ranking: Industry Group (1st = lowest risk) **52** out of 1097
Software & Services

Universe: Global Universe **1513** out of 16048

Low risk according to Sustainability 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.