



# KeyValue

ASSET MANAGEMENT

# EQUITY RESEARCH

ANALYSIS OF  
ADOBE

**DATE :**  
04 June 2024

[keyvalueam.com](http://keyvalueam.com)

# Adobe Corp. (ADBE)

BUY: 572,28 (+28,77%)

## Summary

### Informations

Country	San Jose, California
Tax Rate	25%
Sector	Software
Date	03/06/2024
Last Price	\$ 444,42
Target Price	\$ 572,28
+/- Potential	28,77%
Ticker	ADBE

### Market Data

52-Week High	638,25
52-Week Low	412,29
Avg. 3 Month Volume	3,48 MM
5 Yr Beta	0,96

### Market Data

Revenue Growth ( Cagr 3 yr)	14,68%
Revenue Growth ( Cagr 5 yr)	16,54%
Price Return (ytd)	-23,10%
Price return (1 yr)	6,90%
Price Return (5 yr)	70,20%

### Capital structure

Market Cap	199.100
Enterprise Value	197.016
Shares O/S	448
Interest cover Ratio	58,85
Debt/Equity	2,52%

(Smnl)	FY22	FY23	LMT
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Revenues	17.606	19.409	19.936
Gross Profit	15.441	17.055	17.560
EBITDA	6.716	7.268	7.589
EBIT	6.098	6.650	6.971
Net Income	4.756	5.428	4.801

### Analyst

**Marco Tempestini**

[info.tempestini@gmail.com](mailto:info.tempestini@gmail.com)

**Eleonora Sottile**

[sottile.meleonora@gmail.com](mailto:sottile.meleonora@gmail.com)

### ADBE | 03/06/2019-03/06/2024





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# OVERVIEW

## Introduction

"We create the future" is the slogan that perfectly embodies the mission of Adobe, one of the most influential companies in the software industry. Founded in 1982 by John Warnock and Charles Geschke in Warnock's garage next to Adobe Creek, the company has revolutionized the way people interact with printing and graphics since its inception. Both former researchers at Xerox's Palo Alto Research Center, they decided to leave Xerox after their proposal to develop a page description language was rejected. With the aim of bringing their innovative idea to the market, the two founded Adobe Systems. Their first major innovation, PostScript, revolutionized desktop publishing by improving the accuracy and quality of printing text and images. In the 1990s, Adobe continued to innovate with the launch of Photoshop which became the leading image editing software used by photographers, designers, and artists around the world. Illustrator, provided designers with a powerful tool for creating vector graphics. Adobe changed the way documents were handled with Acrobat and the PDF format, allowing you to share documents while maintaining the exact look of the original file on any device. Adobe continues to "create the future" with its broad and diverse portfolio of software products. Creative Cloud, one of its core offerings, includes a suite of applications beyond Photoshop and Illustrator, Premiere Pro for video editing, and After Effects for visual effects.

This suite offers users integrated tools for graphic design, photo and video editing, and web content creation. Adobe Document Cloud, which includes Acrobat and Adobe Sign, makes it easy to manage documents and electronic signatures, improving business efficiency. In recent years, Adobe has made significant advancements in Customer Experience Management with Adobe Experience Cloud, which offers solutions for marketing, analytics and advertising. This platform helps companies manage customer experiences across multiple channels, optimizing marketing strategies and improving engagement. Currently, Adobe continues to experience robust growth, thanks to continued innovation and expansion of its product portfolio. The company has shown resilience during global challenges, such as the pandemic, quickly adapting to market needs and capitalizing on the growing demand for digital solutions. With an ongoing focus on innovation and sustainability, Adobe remains a leader driving digital transformation across numerous industries.

## Business Model

Adobe serves a broad range of customers, including creatives, business professionals, and consumers. Its value proposition is based on creativity software for each stage of the content cycle, advanced document management solutions and integrated customer experience platforms. The products are distributed through online sales, partnerships with resellers and enterprise channels, ensuring broad market coverage.

To maintain close relationships with customers, Adobe offers premium support, an active community of users, and uses relationship marketing strategies. The main revenue streams derive from Creative Cloud subscriptions, which have been growing steadily in recent years, enterprise licensing and single product sales, ensuring diversified and stable revenues.

**Digital Media:** Offers products and services that enable individuals, teams, businesses and enterprises to create, publish and promote content anywhere, significantly improving productivity. Customers include creative professionals such as photographers, video editors, graphic designers, game developers, and communicators such as content creators and students. 2023 revenue is driven by increased revenue associated with Creative Cloud and Document Cloud subscription offerings.

This increase is due to continued demand in an increasingly digital environment, strong customer engagement and customer migration towards higher value subscription offerings with increased revenue per subscription.

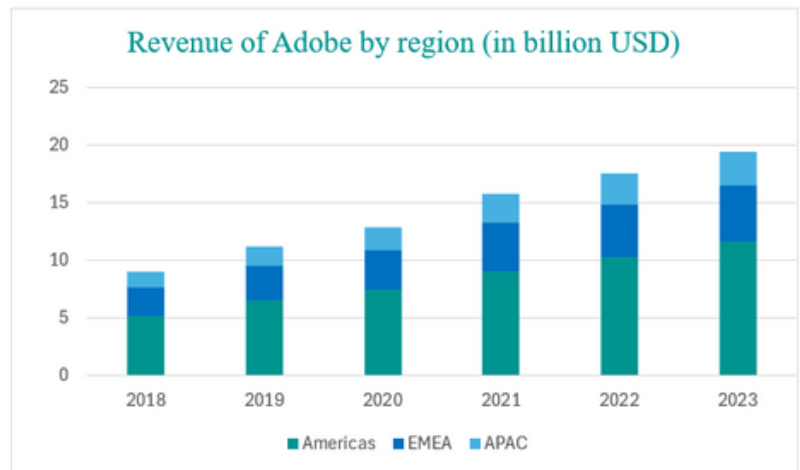
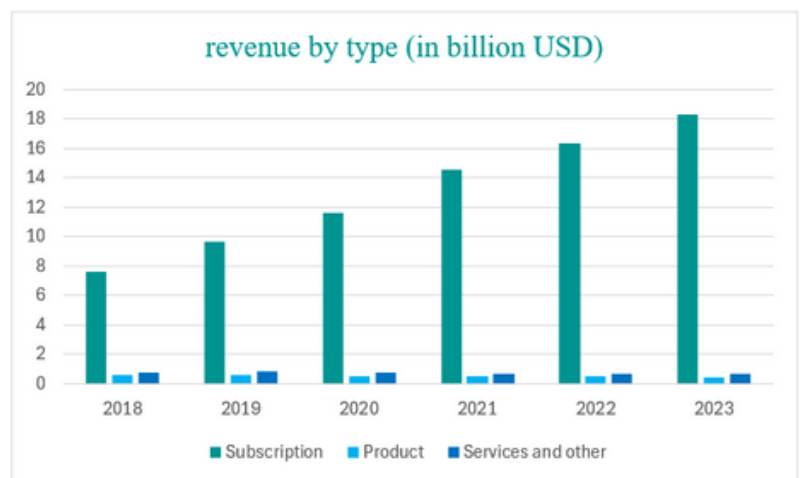
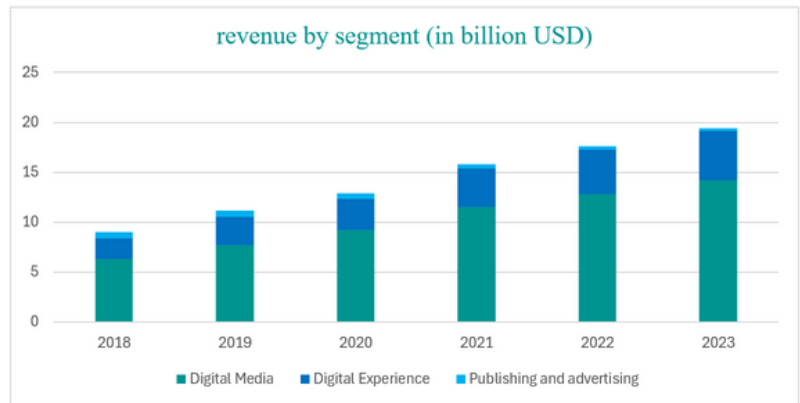
**Digital Experience:** offers an integrated platform with a range of products, services and solutions designed for businesses. These solutions help you create, manage, execute, measure, monetize and optimize customer experiences, covering everything from analytics to commerce. Customers include marketers, advertisers, agencies, publishers, merchandisers, merchants, web analysts, data scientists and developers. In 2023, Adobe experienced strong growth in the Digital Experience segment. The demand for consumer experience management solutions is increasing, driven by the growing digitalisation of businesses and the need to offer personalized experiences. Adobe is investing in new technologies like artificial intelligence and machine learning to further improve its solutions and provide greater value to customers.

Segment	Revenues				
	2023	%	2022	%	Incr/Decr
Digital Media	13.838	76%	12.385	76%	12%
Digital Experience	4.331	24%	3.880	24%	12%
Publishing and Advertising	115	1%	123	1%	-7%
Total	18.284		16.388		12%

## Business Model

**Publishing and Advertising:** Contains legacy products and services that include eLearning solutions, technical document publishing, web conferencing, document and forms platforms, web app development, high-end printing and advertising offerings. Adobe has seen revenue declines in the Publishing and Advertising segment over the past year, due to various factors, including the maturation of legacy products and growing competition in key areas such as web conferencing and eLearning.

Adobe distributes its products globally, with operations organized in key regions such as North America, Latin America, EMEA and APAC. The United States represents a significant share of revenue, also growing in the last year. Adobe is implementing various strategies to expand in the Americas and EMEA, which include strategic partnerships with local and international companies, adapting products to the specifics of local markets, increasing investments in marketing and sales to increase brand awareness and acquire new customers and institutional collaborations.



### Capital Allocation

Adobe's management demonstrates excellent capital allocation, and this is certainly a crucial aspect that can determine the long-term success of the company. First of all, we observe a Quick ratio of 1.3, indicating that despite the very large amount of incoming cash, it is possible to invest almost everything while maintaining a good safety margin to further strengthen the strong financial solidity of the company. Another crucial point is that management always organically reinvests in the growth of the company so as to always remain innovative given the competitive nature of its sector. In fact, on average 17% of revenues are allocated to research and development costs in order to always remain at the forefront and invest in their future. Many strategic acquisitions have been made over the years which have created value and increased the company's ROIC. Furthermore, it is worth underlining the far-sighted perspective of the management who wanted to acquire the giant Figma. Finally, very important regular buybacks are carried out, including the largest one carried out in 2022 when the shares were undervalued following a strong correction. The latter represents not only a sign of great prestige and resourcefulness of the management but also a highly studied buyback strategy aimed at creating both value for the company and for the shareholders.

### Background

Adobe's leadership team, led by CEO Shantanu Narayen, has extensive technology industry experience, providing deep industry knowledge and strategic vision. Narayen, who has worked at Adobe since 1998 and served as CEO since 2007, has contributed significantly to the company's growth and innovation. Internal promotion is a key value at Adobe, with many executives who have risen through the ranks within the company, fostering an in-depth understanding of internal and external operations that is critical to effective leadership.

The CEO holds a bachelor's degree in electrical engineering from Osmania University, a master's degree in computer science from Bowling Green State University and a master's degree in business administration from the Haas School of Business at the University of California at Berkeley. Having also grown in Adobe and transformed the company into an industry innovator by introducing a cloud-based subscription model for its creative suite, he has demonstrated excellent strategic and management capabilities as is also confirmed by the financial statements.



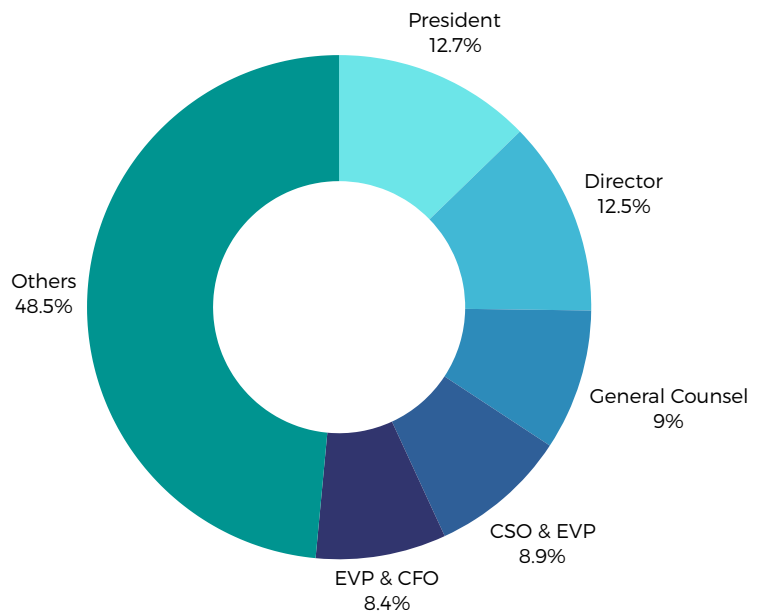
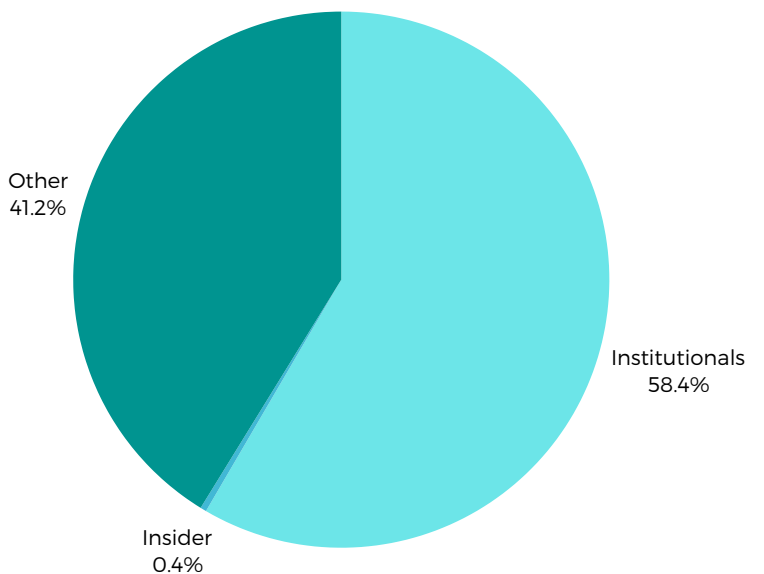
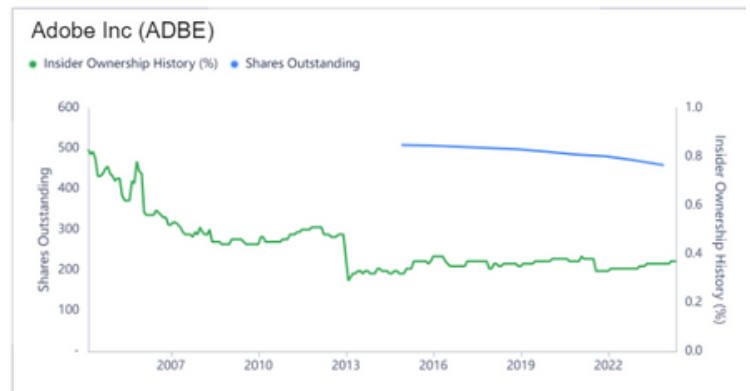
# Management

## Compensation and share ownership

Compensation for Adobe executives is competitive with industry standards and is closely tied to company performance, aligning their interests with those of shareholders. Many Adobe executives hold significant equity stakes in the company, creating a strong alignment between management and shareholder interests. This “skin in the game” approach pushes managers to make decisions that benefit the company in the long term, similar to family-owned businesses that often outperform the market thanks to their dedicated management practices. Despite this, it has been observed that Narayan tends to sell his shares after they have appreciated in value, which may slightly attenuate the incentive impact of share ownership.

Adobe's executive compensation is not specifically tied to ROI performance. However, Adobe's Annual Executive Incentive Plan (AIP) requires bonuses to be determined by a combination of company and individual performance results. Business results are based on financial metrics such as revenue and non-GAAP earnings per share (EPS), as well as other strategic business priorities.

As we can see, even if there is a downward trend in the holding of shares by insiders, we note an improvement in recent years, going from 0.34% to 0.37%.





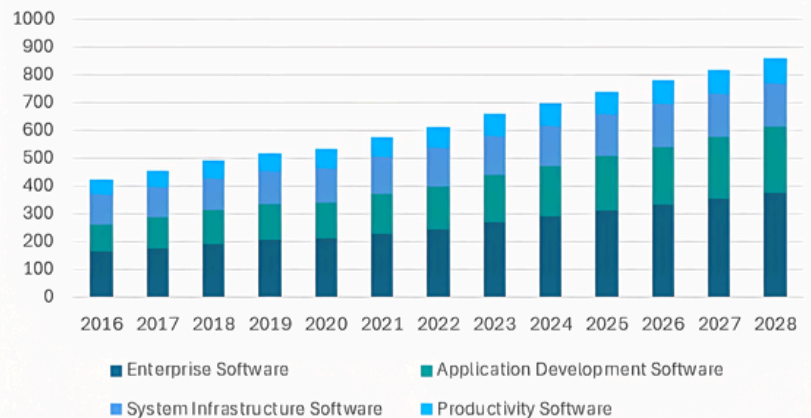
## Sector

The software market is experiencing robust growth across all segments, driven by growing demand for digital transformation, cloud computing and the continued need for businesses to improve operational efficiency. Enterprise software remains the largest segment, reflecting its critical role in business operations and the continued shift towards subscription-based and cloud-delivered services. This can greatly benefit the performance of Adobe which has medium-large companies as its average clientele.

The compound annual growth rate (CAGR) for 2019-2028 for creative software revenue is 3.84%. This indicates a stable average annual growth of the market, suggesting a continued increase in demand and adoption of such solutions in the global market.

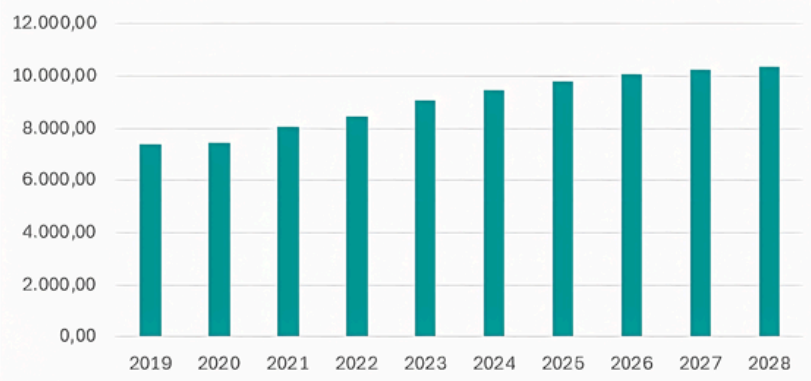
According to IMD For the Future readiness score worldwide in 2023, Adobe ranks 7th with a score of 67.8 on a scale of 100.

Revenue in the software Market Worldwide



Source: Statista market Insights

Revenue of the creative software market worldwide (in million USD)



Source: Statista market Insights

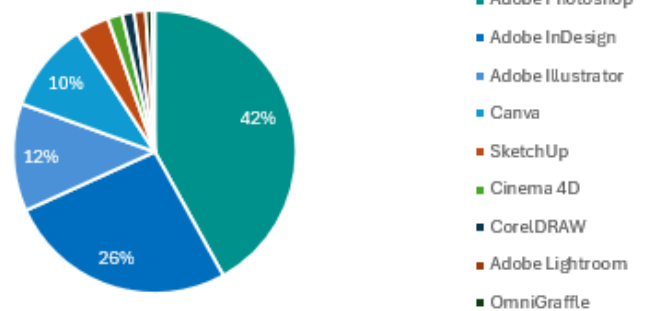
## Market Shares

Adobe clearly dominates the business process management (graphics) software market, with its core products together accounting for 85% of the market share (Photoshop, InDesign, Illustrator, and Lightroom). This indicates a strong user preference for the Adobe ecosystem. Canva, with a significant share of 11%, represents a valid alternative, especially for users looking for simpler and more immediate solutions. The other software has a presence on the market, but with much smaller shares, suggesting a niche of use or less competition than the leaders.

The marketing automation market is dominated by HubSpot, which holds the largest share of the market at 38%. However, there is significant fragmentation in the market, as evidenced by the 32% of the total share held by various other vendors. Adobe Experience Cloud and Oracle Marketing Cloud are important competitors with market shares of 8% each, underlining that even though Adobe is not the company's core business, it also manages well in this field with the possibility, thanks to its strong integration, of gaining market share. market over time.

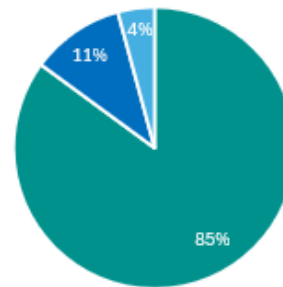
Source: Datanyze

Market Share of business process management (graphics) software



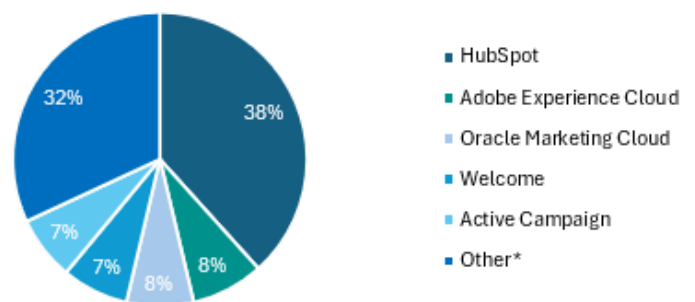
Market Share of Graphics Software Companies

■ Adobe ■ Canva ■ Others



Source: Enlyft

Market share of the leading marketing automation solution providers worldwide



Source: Datanyze; Statista

# EXTERNAL ANALYSIS

## Porter's Five Forces

### 1. Rivalry between Existing Competitors



Competition is primarily based on product innovation, advanced features, software compatibility and pricing. Adobe's product ecosystem must continually improve to maintain its leading position. Marketing strategies, technical support and continuous software updates play a crucial role in keeping the intensity of the rivalry high.

### 2. Threat of New Entrants



While the software industry has significant barriers to entry such as strong brand recognition, large loyal user base, access to tech talent, and high costs associated with developing high-quality software, evolving technologies cloud, AI and open-source could reduce some of these barriers, making it easier for new players to enter the market.

### 3. Bargaining Power of Suppliers



Adobe depends on vendors for cloud infrastructure, hosting services, and hardware components for its product line. However, Adobe has a well-diversified supply chain strategy that reduces dependence on a single supplier.

### 4. Bargaining Power of Customers



Adobe's customers, which include individuals, small businesses, large corporations, and educational institutions, have high bargaining power. This is due to the wide range of alternatives available on the market and the possibility of negotiating prices and customized service packages. Additionally, Adobe Creative Cloud's subscription model means customers can easily switch providers if they are dissatisfied with the service. Adobe must therefore ensure high value, regular updates and excellent customer support to maintain its user base.

### 5. Threat of Substitute Products



mainly the threat is represented by open-source software or free applications that offer similar functionality. However, the quality, user experience and integration between Adobe products offer a significant competitive advantage.

## Competition

In the digital experiences space, Adobe primarily targets medium and large businesses, which is a notable strength over platforms like Shopify. Shopify, while extremely useful for small businesses or individual professionals, cannot boast the same cash flow stability and high-profile clientele that Adobe enjoys.

When it comes to the digital media segment, Adobe offers complete integration in every aspect. This integrated ecosystem gives Adobe a significant competitive advantage over competitors who focus on individual software or specific features. Offering a highly integrated "all in one" service, Adobe establishes itself as the preferred choice for industry professionals and businesses.

### The strong competitor Canva

Canva stands out for its ease of use, web accessibility and affordable pricing, making it ideal for users without professional design skills, small businesses and individual professionals. However, Canva has significant limitations compared to Adobe, as it does not offer the same depth of advanced design and image editing features but above all the maximum integration of Adobe with many programs. Customization options are more limited, which can be restrictive for complex projects. Additionally, its collaboration features aren't designed for complex workflows like those of Adobe Creative Cloud, which better supports large teams. Finally, Canva may not be suitable for large projects or with high resolution needs, where Adobe excels. In conclusion, the target market of the two companies is very different despite the strong growth of Canva in recent years. Furthermore, like the Apple iPhone, once you switch to Adobe you can never go back.

Competitors digital experience segment

Caratteristiche	Adobe	SalesForce	SAP	Oracle	Sitecore	shopify
Gestione dei Contenuti	Eccellente	Buona	Buona	Buona	Eccellente	Buona
Automazione del Marketing	Eccellente	Eccellente	Buona	Buona	Buona	Buona
Analisi dei Dati	Eccellente	Eccellente	Eccellente	Eccellente	Buona	Discreta
Personalizzazione	Eccellente	Eccellente	Buona	Buona	Eccellente	Discreta
E-commerce	Eccellente	Eccellente	Buona	Eccellente	Buona	Eccellente
Integrazione CRM	Buona	Eccellente	Eccellente	Eccellente	Buona	Discreta
Facilità d'Uso	Buona	Buona	Discreta	Discreta	Discreta	Eccellente

Competitors digital media segment

Caratteristica	Adobe	Corel Corporation	Autodesk	Affinity	QuarkXPress	Final Cut Pro	DaVinci Resolve	Canva
Editing Immagini	Eccellente	Buona	N/A	Eccellente	N/A	N/A	N/A	Discreta
Design Grafico	Eccellente	Buona	Buona	Eccellente	Discreta	N/A	N/A	Buona
Montaggio Video	Eccellente	Discreta	Buona	N/A	N/A	Eccellente	Eccellente	N/A
Animazione 3D	Buona	N/A	Eccellente	N/A	N/A	N/A	N/A	N/A
Publishing	Eccellente	Discreta	N/A	Eccellente	Eccellente	N/A	N/A	N/A
Accessibilità e Prezzo	Discreta	Buona	Discreta	Eccellente	Discreta	Discreta	Buona	Eccellente

## SWOT

### Strengths

Adobe boasts numerous strengths that position it as a leader in creativity and productivity software. The brand's global recognition and market leadership are unquestionable, with iconic products that have become industry standards. The Adobe Creative Cloud suite offers an integrated ecosystem of tools that improve user efficiency and productivity, ensuring seamless integration between the various applications. Additionally, Adobe invests significantly in research and development, constantly introducing new features and improvements to its products. Finally, it has a subscription-based model, which ensures recurring and stable revenue.

### Weaknesses

Reliance on the subscription model, while profitable, can be a vulnerability. If customers decide not to renew their subscriptions, Adobe could suffer a negative impact on revenue, making it vulnerable to market changes and customer preferences. Additionally, Adobe products are often considered expensive, which may limit access for small businesses and individual users. Finally, its breadth of functionality makes it a less user-friendly platform for non-professionals or small businesses.

### Opportunities

One of the main opportunities is expansion into emerging markets, where digitalisation is growing rapidly. Offering solutions tailored to these areas could significantly increase Adobe's customer base. Additionally, the growing adoption of cloud computing represents another opportunity, allowing Adobe to further expand its cloud service offerings and capitalize on trends such as remote working. Finally, being able to count on very high cash flows and margins, it can ride the AI trend by providing innovative and unique solutions.

### Threats

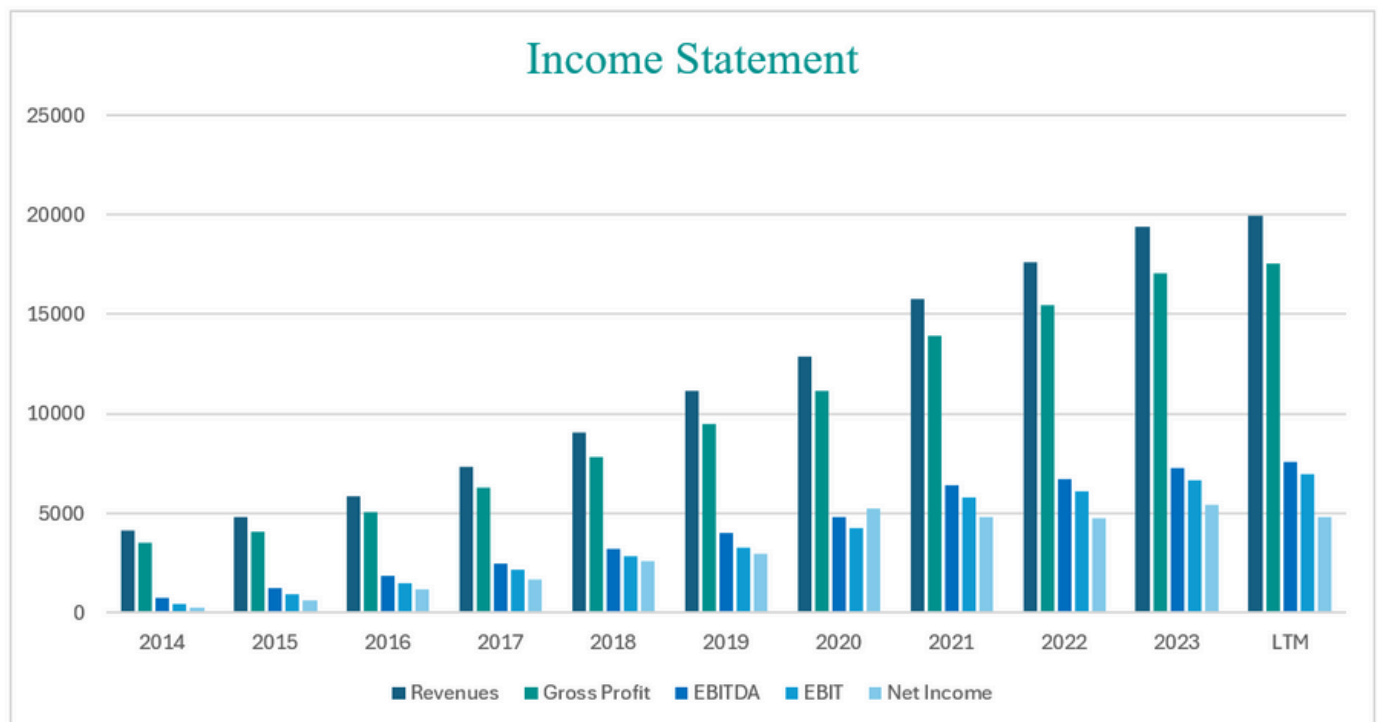
Intense competition from open source software vendors represents a significant challenge. This competition can put pressure on prices and limit growth opportunities. Additionally, as a global technology company, Adobe is constantly at risk of cyber attacks and privacy breaches. Significant incidents in this area can damage the company's reputation and lead to financial losses. Finally, despite being an opportunity, AI can represent a strong turning point and raise strong threats for the company.



# FINANCIAL STATEMENT

## Income Statement

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	LTM
<b>Income Statement</b>											
Revenues	4.147	4.796	5.854	7.302	9.030	11.171	12.868	15.785	17.606	19.409	19.936
% YoY Growth		15,64%	22,08%	24,72%	23,67%	23,71%	15,19%	22,67%	11,54%	10,24%	2,72%
COGS	(622)	(744)	(820)	(1.010)	(1.195)	(1.673)	(1.722)	(1.865)	(2.165)	(2.354)	(2.376)
Gross Profit	3.525	4.051	5.035	6.291	7.835	9.498	11.146	13.920	15.441	17.055	17.560
% YoY Growth		15%	24%	25%	25%	21%	17%	25%	11%	10%	3%
Operating expenses	(3.092)	(3.148)	(3.541)	(4.123)	(4.995)	(6.230)	(6.909)	(8.118)	(9.343)	(10.405)	(10.589)
EBITDA	746	1.243	1.825	2.494	3.186	4.025	4.808	6.378	6.716	7.268	7.589
% YoY Growth		67%	47%	37%	28%	26%	19%	33%	5%	8%	4%
Depreciation & Amortization	313.59	339.47	331.54	326	346	757	571	576	618	618	618
EBIT	433	903	1.494	2.168	2.840	3.268	4.237	5.802	6.098	6.650	6.971
% YoY Growth		109%	65%	45%	31%	15%	30%	37%	5%	9%	5%
Other Expenses/Income	11	(35)	(12)	(44)	(43)	(94)	(55)	(16)	(22)	(262)	694
Interest Expenses/Income	(60)	(64)	(70)	(74)	(89)	(157)	(116)	(113)	(112)	(113)	(108)
Income Tax Expense	(93)	(244)	(266)	(444)	(203)	(254)	1.084	(883)	(1.252)	(1.371)	(1.368)
Net Income	268	630	1.169	1.694	2.591	2.951	5.260	4.822	4.756	5.428	4.801
% YoY Growth		135%	86%	45%	53%	14%	78%	(8%)	(1%)	14%	(12%)
<b>Supplementary Data</b>											
Effective Tax Rate	(26%)	(28%)	(19%)	(21%)	(7%)	(8%)	26%	(15%)	(21%)	(20%)	(22%)
Diluted Shares Outstanding	508	507	504	501	498	492	486	481	471	459	458
EPS	0.53	1.24	2.32	3.38	5.20	6.00	10.83	10.02	10.10	11.82	10.48
% YoY Growth		135%	87%	46%	54%	15%	80%	(7%)	1%	17%	(11%)
Dividends per Share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Payout Ratio	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
R&D Expense	844	863	976	1.224	1.538	1.930	2.188	2.540	2.987	3.473	3.585
Selling and Marketing Expense	1.652	1.683	1.910	2.198	2.621	3.244	3.591	4.321	4.968	5.351	5.402
EBT Incl. Unusual Items	361	874	1.435	2.138	2.794	3.205	4.176	5.705	6.008	6.799	6.169



## Income Statement

The analysis of Adobe Corp.'s Income Statement highlights an extremely positive trend in terms of performance. Revenue increased from 15,785 million in 2021 to 19,409 million in 2023, with a significant increase in LTM to 19,936 million. This steady growth reflects the company's ability to adapt to market needs and continually innovate its products while maintaining and leveraging its durable competitive advantages. The positive year-on-year (YoY) growth percentages suggest that Adobe has benefited from the growing demand for digital creativity and marketing solutions but above all they highlight its resilience even in unfavorable times, classifying it as an acyclical company capable of always delivering good results and predictable. Although the gross margin is already at very high levels, it has shown a growth trajectory parallel to revenues, going from 13,920 million in 2021 to 17,055 million in 2023. This indicates effective management of production costs and an improvement in operational efficiency, with Adobe managing to convert almost all of its revenue into gross profit.

Net profit decreased in 2021 and 2022 and then rose to 5,428 million in 2023. This may indicate a consolidation of the growth achieved during the pandemic period where an increase in profit of 78% was observed. EPS followed a similar trend, indicating good management of resources and non-operating expenses.

### Strategies Adopted

- **Innovation and Diversification:** Adobe has always continued to invest in research and development to innovate its products and offer new solutions to customers. This is evident in the increase in R&D expenses, which are key to maintaining leadership in the digital solutions market.
- **Market Expansion:** The company may have adopted strategies of expansion and penetration into new market segments. This includes offering more accessible and diverse products to attract a broader customer base, as well as entering new emerging markets.
- **Operational Efficiency:** To offset increased operating expenses, Adobe has implemented cost optimization and operational efficiency improvement programs. This includes automating internal processes and adopting innovative technologies to reduce costs and improve productivity.
- **Aggressive Marketing:** A key element of Adobe's strategies has been a heavy investment in marketing. This has allowed us to expand the presence of the brand and increase market penetration. Targeted marketing campaigns, effective use of digital channels and strategic partnerships have helped strengthen Adobe's position as an industry leader.



## Balance Sheet

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	LTM
<b>Balance Sheet</b>											
Cash and equivalents	1.117	877	1.011	2.306	1.643	2.650	4.478	3.844	4.236	7.141	6.254
Short Term Investments	2.622	3.112	3.750	3.514	1.586	1.527	1.514	1.954	1.860	701	566
<b>Cash and short Term Investments</b>	<b>3.739</b>	<b>3.988</b>	<b>4.761</b>	<b>5.820</b>	<b>3.229</b>	<b>4.177</b>	<b>5.992</b>	<b>5.798</b>	<b>6.096</b>	<b>7.842</b>	<b>6.820</b>
Total Receivables	592	672	833	1.218	1.316	1.535	1.398	1.878	2.065	2.224	2.057
Inventory	0	0	0	0	0	0	0	0	0	0	0
Prepaid Expenses	143	143	207	196	268	595	563	690	561	732	1.079
Other current Assets	33	19	38	14	44	188	193	303	274	286	52
<b>Total Current Assets</b>	<b>4.602</b>	<b>4.822</b>	<b>5.840</b>	<b>7.248</b>	<b>4.857</b>	<b>6.495</b>	<b>8.146</b>	<b>8.669</b>	<b>8.996</b>	<b>11.084</b>	<b>10.008</b>
Net PP&E	785	787	816	937	1.075	1.293	2.004	2.116	2.315	2.388	2.354
Long term Investments	14	20	13	0	0	0	0	0	0	0	0
Goodwill	4.722	5.367	5.406	5.822	10.581	10.691	10.742	12.668	12.787	12.805	12.803
Other intangibles	470	510	414	386	2.069	1.721	1.359	1.820	1.449	1.088	1.011
Other long-Term Assets	112	140	127	144	187	247	311	477	435	801	1.265
<b>Total non-current Assets</b>	<b>6.184</b>	<b>6.905</b>	<b>6.857</b>	<b>7.288</b>	<b>13.912</b>	<b>14.267</b>	<b>16.138</b>	<b>18.572</b>	<b>18.169</b>	<b>18.695</b>	<b>18.743</b>
<b>Total Assets</b>	<b>10.786</b>	<b>11.726</b>	<b>12.697</b>	<b>14.536</b>	<b>18.769</b>	<b>20.762</b>	<b>24.284</b>	<b>27.241</b>	<b>27.165</b>	<b>29.779</b>	<b>28.751</b>
Accounts Payable	68	93	88	114	186	209	306	312	379	314	300
Accrued Liabilities	683	678	734	992	1.162	1.240	1.291	1.600	1.669	1.822	1.462
Long-Term Debt due within one year	600	0	0	0	0	3.149	0	0	500	0	1.497
Current Portion of Capital Lease Obli	3	0	0	0	0	0	92	97	87	73	73
Other Current Liabilities	18	2	5	2	1	159	131	136	121	120	107
<b>Total Current Liabilities</b>	<b>2.494</b>	<b>2.214</b>	<b>2.812</b>	<b>3.527</b>	<b>4.301</b>	<b>8.191</b>	<b>5.512</b>	<b>6.932</b>	<b>8.128</b>	<b>8.251</b>	<b>9.537</b>
Long Term Debt	911	1.907	1.892	1.882	4.135	989	4.117	4.123	3.629	3.634	2.138
Other non-current Liabilities	205	345	282	297	787	789	752	791	823	890	1.103
<b>Total non-current Liabilities</b>	<b>1.515</b>	<b>2.511</b>	<b>2.461</b>	<b>2.548</b>	<b>5.105</b>	<b>2.041</b>	<b>5.508</b>	<b>5.512</b>	<b>4.986</b>	<b>5.010</b>	<b>3.754</b>
<b>Total Liabilities</b>	<b>4.010</b>	<b>4.725</b>	<b>5.272</b>	<b>6.076</b>	<b>9.407</b>	<b>10.232</b>	<b>11.020</b>	<b>12.444</b>	<b>13.114</b>	<b>13.261</b>	<b>13.291</b>
Common Stocks	0	0	0	0	0	0	0	0	0	0	0
Additional Paid in Capital	3.779	4.185	4.616	5.082	5.685	6.504	7.357	8.428	9.868	11.586	12.037
Retained Earnings	6.924	7.253	8.115	9.574	11.816	14.829	19.611	23.905	28.319	33.346	33.809
Treasury Stocks	(3.919)	(4.268)	(5.132)	(6.084)	(7.991)	(10.615)	(13.546)	(17.399)	(23.843)	(28.129)	(30.109)
Comprehensive Income and Other	(8)	(169)	(174)	(112)	(148)	(188)	(158)	(137)	(293)	(285)	(277)
<b>Total Equity</b>	<b>6.776</b>	<b>7.002</b>	<b>7.425</b>	<b>8.460</b>	<b>9.362</b>	<b>10.530</b>	<b>13.264</b>	<b>14.797</b>	<b>14.051</b>	<b>16.518</b>	<b>15.460</b>

Adobe Corp has always demonstrated remarkable financial stability and solidity, as evidenced by the balance sheet data. Short-term investments followed a variable trend, but remained an important component of current assets, with a value of 7,149 million in LTMs, indicating that Adobe is keeping a significant part of its liquidity in short-term investment instruments to obtain better returns than simply holding cash. Adobe has clearly adopted a prudent cash management strategy, accumulating cash and short-term investments to provide financial flexibility, allowing it to deal with unexpected events and to have resources available for investment opportunities or strategic acquisitions.

The increase in non-current assets, including property, plant, machinery and intangible assets, suggests a continued commitment to innovation and growth, investing in infrastructure and intellectual property to maintain and strengthen its competitive position in the market. Long-term debt stability indicates prudent management of leverage, keeping debt under control to avoid excessive risks and ensure a solid financial position. Steady growth in equity and retained earnings highlights a strategy of reinvesting profits to sustain long-term growth organically and improve the company's financial resilience.

## Cash Flow Statement

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	LTM
<b>Cash Flow Statement</b>											
D&A	314	339	332	326	346	757	571	576	618	618	618
Asset Writedown & Restructuring Co:	0	0	0	0	0	0	0	0	0	0	0
Stock-Based Compensation	334	336	349	454	610	788	909	1,069	1,440	1,718	1,753
Change In Accounts Receivable	8	(80)	(160)	(187)	(2)	(188)	106	(430)	(198)	(159)	(262)
Change In Inventories	0	0	0	0	0	0	0	0	0	0	0
Change In Accounts Payable	6	23	(6)	(45)	55	23	96	(20)	66	(49)	(6)
<b>Cash from Operations</b>	<b>1,287</b>	<b>1,470</b>	<b>2,200</b>	<b>2,913</b>	<b>4,029</b>	<b>4,422</b>	<b>5,727</b>	<b>7,230</b>	<b>7,838</b>	<b>7,302</b>	<b>6,783</b>
<b>Change in Net Working Capital</b>	<b>(396)</b>	<b>(332)</b>	<b>(396)</b>	<b>(388)</b>	<b>(943)</b>	<b>43</b>	<b>(186)</b>	<b>(292)</b>	<b>(336)</b>	<b>355</b>	<b>202</b>
CAPEX	(148)	(185)	(204)	(178)	(267)	(395)	(419)	(348)	(442)	(360)	(296)
Cash Acquisition	(30)	(826)	(48)	(460)	(6,314)	(101)	0	(2,682)	(126)	0	0
Divestitures	0	0	0	0	0	0	0	0	0	0	0
<b>Cash From Investing</b>	<b>(491)</b>	<b>(1,488)</b>	<b>(960)</b>	<b>(443)</b>	<b>(4,685)</b>	<b>(456)</b>	<b>(414)</b>	<b>(3,537)</b>	<b>(570)</b>	<b>776</b>	<b>686</b>
Total Debt Issued	0	989	0	0	2,248	0	3,144	0	0	0	0
Total Debt Repaid	(15)	(602)	(0)	0	0	0	(3,150)	0	0	(500)	0
Issuance of Common Stock	228	164	146	158	191	233	270	291	278	314	342
Repurchase of Common Stock	(774)	(811)	(1,311)	(1,340)	(2,443)	(3,190)	(3,731)	(4,669)	(7,068)	(4,989)	(5,647)
Common & Preferred Stock Dividend	0	0	0	0	0	0	0	0	0	0	0
<b>Cash from Financing</b>	<b>(507)</b>	<b>(201)</b>	<b>(1,091)</b>	<b>(1,184)</b>	<b>(5)</b>	<b>(2,946)</b>	<b>(3,488)</b>	<b>(4,301)</b>	<b>(6,825)</b>	<b>(5,182)</b>	<b>(5,296)</b>
<b>Net Change in Cash</b>	<b>283</b>	<b>(241)</b>	<b>135</b>	<b>1,295</b>	<b>(663)</b>	<b>1,007</b>	<b>1,828</b>	<b>(634)</b>	<b>392</b>	<b>2,905</b>	<b>2,182</b>
% YoY		-185%	-156%	861%	-151%	-252%	82%	-135%	-162%	641%	-0.2488812
<b>Free Cash Flow to the firm</b>	<b>883</b>	<b>1,137</b>	<b>1,740</b>	<b>2,254</b>	<b>3,656</b>	<b>3,328</b>	<b>5,675</b>	<b>5,424</b>	<b>5,339</b>	<b>5,212</b>	<b>5,545</b>

The company has seen a steady increase in "Cash from Operations," which grew from 4,422 million in 2020 to 7,838 million in 2022, with a slight decrease to 6,783 million in 2023. This increase, especially in recent periods, reflects an improvement significant ability to generate cash from core operations, highlighting effective operational management and strong demand for Adobe's products and services.

Cash from Financing has shown substantial variation, with significant outflows each year. In 2020, the company repaid \$3,150 million in debt and repurchased \$3,190 million in shares, signaling a strategy of reducing debt and returning value to shareholders. Even in the following years, Adobe continued to repurchase shares and manage debt prudently, with a total outflow of 5,182 million in 2023. This data indicates a continuous strategy of optimizing the capital structure, reducing leverage and returning capital to shareholders.

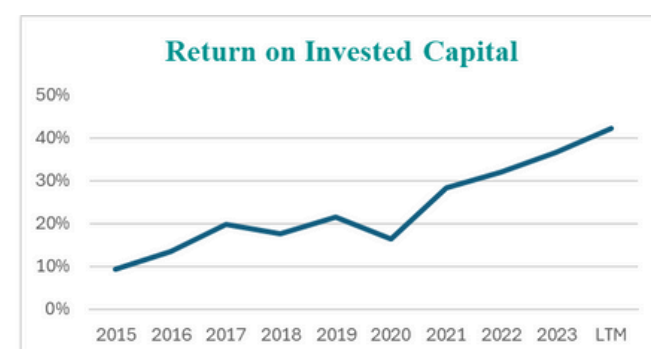
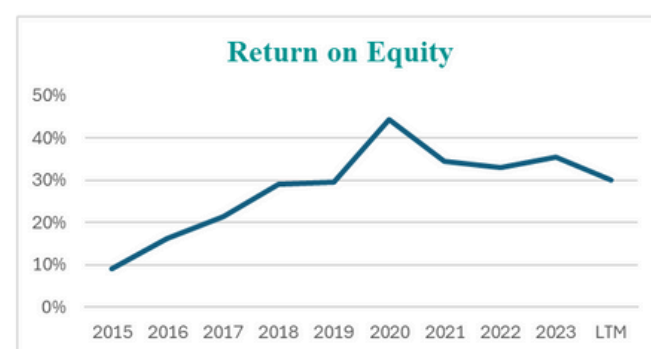
"Free Cash Flow to the Firm" (FCFF) has increased significantly in recent years, from 3,328 million in 2021 to 5,212 million in 2023. This increase reflects Adobe's ability to generate sufficient liquidity to fund both current operations and growth investments, further strengthening the company's financial stability.

The largest Buyback occurred in 2022 when the shares were highly undervalued indicating great value creation for shareholders.

# Profitability, Efficiency and Financial Solidity

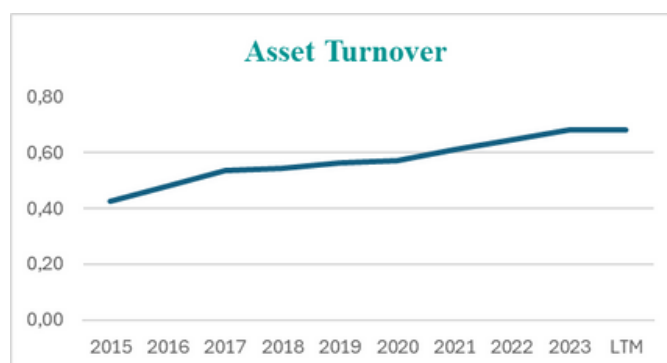
## Profitability

In recent years, Adobe Corp has shown an interesting evolution of its main profitability indicators. Return on Assets (ROA) recorded significant growth until 2020, reaching approximately 20%, before stabilizing around 15% in 2023. This reduction is attributable to significant investments in new assets, which require time to generate proportional returns. At the same time, Return on Invested Capital (ROIC) has shown steady growth since 2015, rising from 10% to over 40% in LTMs, signaling Adobe's efficiency in generating value from invested capital. Return on Equity (ROE) peaked at 40% in 2020, before declining to 20% in 2023, due to equity rising at a faster pace than net profit, indicative of strategic reinvestments for the long-term growth. Despite these fluctuations, Adobe's profitability indicators remain strong, demonstrating effective management of assets and equity capital, with a positive outlook for the future thanks to the company's targeted investments and efficient operations.



## Efficiency

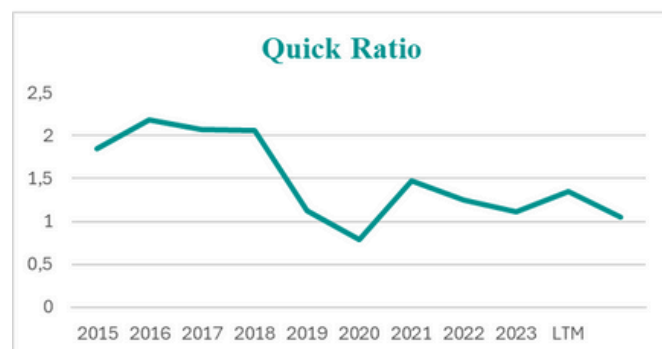
Adobe Corp's Asset Turnover graph shows steady growth from 2015 to 2023, going from approximately 0.40 to 0.68. This indicator measures the efficiency with which the company uses its assets to generate revenues. The progressive increase in Asset Turnover indicates that Adobe has become increasingly efficient in using its resources to produce revenue. Stabilization around 0.68 in recent years suggests that the company has achieved a good balance in asset use while maintaining high operational efficiency.



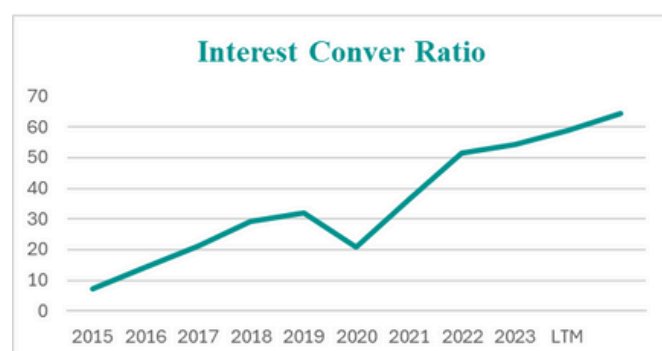
## Profitability, Efficiency and Financial Solidity

### Financial Solidity

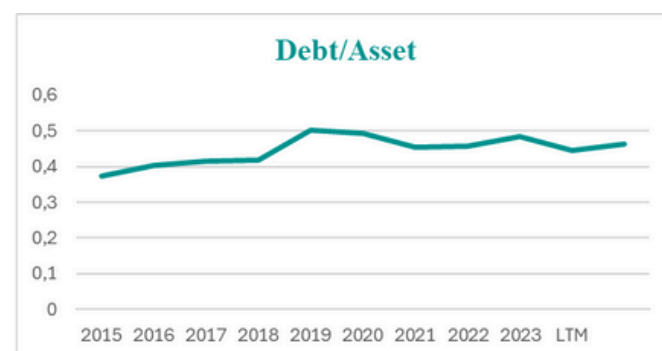
Adobe's Quick Ratio shows a decreasing trend from 2017 to 2020, dropping from approximately 2.0 to 0.8. This ratio measures the company's ability to cover its short-term liabilities with liquid assets, excluding inventory. The decrease in the Quick Ratio could indicate a greater exposure to current liabilities or a more aggressive use of liquid resources but speaking of adobe it absolutely does not represent a negative factor but rather indicates a more than strategic use of liquid resources which if left as such represent a inefficiency within the structure.



The Interest Coverage Ratio graph shows significant growth, going from around 10 in 2015 to over 60 in LTMs. This indicator measures the company's ability to cover debt interest costs with its EBIT. The steady increase in Interest Coverage Ratio indicates that Adobe has significantly improved its ability to generate sufficient operating profits to cover interest, reducing default risk and improving overall financial stability.



The Debt to Asset Ratio, which measures the proportion of total debt to total assets, shows a slight upward trend from 2015 to 2020, then stabilizing around 0.5. This ratio indicates that approximately 50% of Adobe's assets are financed by debt. The stability of this ratio in recent years suggests that the company has maintained a prudent approach to debt management, avoiding excessive increases in leverage and ensuring a solid basis for financial operations.



# Valuation

## Multiples analysis

Detailed analysis of Adobe Corp.'s multiples versus its peers highlights both significant strengths and some weaknesses. On the strengths, Adobe's EV/Sales multiple (9.9x) is lower than both the simple average of its competitors (10.9x) and the weighted averages suggesting that Adobe is valued relatively more attractively relative to the revenues generated. This is a positive sign of the company's ability to generate sales efficiently relative to its enterprise value.

Additionally, Adobe's P/S multiple (10.2x) is also lower than its peers' average (11.4x). This indicates that investors are paying less per unit of sales generated than competitors, which can be interpreted as a strength in the company's relative valuation. Another notable strength is the MC/FCF multiple (35.9x), which is significantly lower than the average of its competitors (48.2x). This suggests that Adobe has better cash flow generation efficiency relative to its market capitalization, a sign of solid financial management.

Adobe's P/E multiple (42.5x) is lower than its peers' average (56.7x), suggesting that the market may have more moderate future growth expectations for Adobe than its competitors.

Finally, analyzing the standard deviations of the competitors' multiples, we notice very high values, such as, for example, 247% for P/TBV and 192% for EV/Ebit. These high standard deviation values indicate large variability and uncertainty in competitor multiples relative to the industry average, making it difficult to accurately evaluate based on these multiples alone.

In conclusion, although the multiples suggest that Adobe is fairly valued based on the metrics analyzed, the high standard deviations indicate that there is significant uncertainty around these valuations. Therefore, it is ineffective to rely only on the latter and therefore proceed with an Absolute analysis.

	EV	Market Cap	Ev/Sales	Ev/Ebitda	Ev/Ebit	P/S	P/E	P/BV	P/TBV	MC/FCF
Simple Average	251.957,21	246.911,51	10,9x	50,9x	47,2x	11,4x	56,7x	14,6x	21,9x	48,2x
Weighted average - EV	-	-	11,5x	27,6x	32,6x	11,4x	37,7x	11,2x	26,8x	47,1x
Weighted average - MC	-	-	11,7x	28,3x	33,5x	11,7x	38,6x	11,3x	27,4x	47,4x
Median	42.367,90	42.768,09	11,9x	32,7x	31,9x	11,7x	45,1x	12,8x	14,6x	29,1x
Standard Deviation			5,59	48,75	90,48	6,30	44,14	13,76	35,95	30,39
(% Average)			51%	96%	192%	55%	78%		247%	63%
High	3.108.170	3.081.954	19,2x	194,7x	227,9x	22,6x	181,5x	47,9x	137,8x	101,2x
Low	13.572	13.742	1,7x	14,5x	-118,4x	1,8x	12,0x	-10,7x	-19,4x	12,3x
Price based on multiples			522,58	388,35	575,01	501,92	466,35	425,63	81,36	519,56



## DCF

### WACC

To calculate the cost of average capital, the 10-year American bond (US10Y) was selected as the risk-free rate, which appears to have a yield of 4.5% respectively at the valuation date 01.06.2024. The country risk and market risk premium were calculated as a weighted average based on the turnover of the individual country risk premium and market risk premium of the country/geographical areas. The beta was calculated as a weighted average between the Bottom Up method (40%) and its direct correlation with the S&P 500 (60%). Finally, the cost of debt was calculated taking into account the yield on Adobe bonds maturing in 2030.

### Capital Structure

Equity	97,55%
Debt	2,45%

### Wacc Calculation

<b>Cost of Equity</b>	<b>10,93%</b>
Risk-free Rate	4,50%
Country Risk Premium	0,96%
Market Risk Premium	5,72%
Levered Beta	0,96
<b>Net Cost of Debt</b>	<b>1,73%</b>
Cost of Debt	2,30%
Tax Rate	25,00%
<b>WACC</b>	<b>10,71%</b>

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Term
<b>Sales (% growth)</b>		11,0%	11,2%	11,4%	11,6%	11,8%	12,0%	10,1%	8,2%	6,3%	4,4%	2,5%
Optimistic Scenario		13,00%	12,80%	12,60%	12,40%	12,20%	12,00%	10,20%	8,40%	6,60%	4,80%	3,00%
Base Scenario		11,00%	11,20%	11,40%	11,60%	11,80%	12,00%	10,10%	8,20%	6,30%	4,40%	2,50%
Pessimistic Scenario		9,00%	9,00%	9,00%	9,00%	9,00%	9,00%	7,70%	6,40%	5,10%	3,80%	2,50%
<b>Gross Profit margin</b>		88,0%	88,4%	88,8%	89,2%	89,6%	90,0%	90,0%	90,0%	90,0%	90,0%	90,0%
Optimistic Scenario		88,00%	88,59%	89,19%	89,79%	90,39%	91,00%	91,20%	91,40%	91,60%	91,80%	92,00%
Base Scenario		88,00%	88,40%	88,79%	89,19%	89,60%	90,00%	90,00%	90,00%	90,00%	90,00%	90,00%
Pessimistic Scenario		88,00%	88,20%	88,40%	88,60%	88,80%	89,00%	89,20%	89,40%	89,60%	89,80%	90,00%
<b>Ebit Margin</b>		35,0%	35,4%	35,8%	36,2%	36,6%	37,0%	37,4%	37,8%	38,2%	38,6%	39,0%
Optimistic Scenario		36,00%	36,39%	36,79%	37,19%	37,59%	38,00%	38,58%	39,17%	39,77%	40,38%	41,00%
Base Scenario		35,00%	35,39%	35,79%	36,19%	36,59%	37,00%	37,39%	37,79%	38,19%	38,59%	39,00%
Pessimistic Scenario		34,00%	34,58%	35,17%	35,77%	36,38%	37,00%	37,20%	37,40%	37,60%	37,80%	38,00%
<b>Depreciation &amp; Amortization (% sales)</b>		3,1%	3,1%	3,1%	3,1%	3,1%	3,1%	2,8%	2,6%	2,4%	2,2%	2,0%
Optimistic Scenario		3,10%	3,10%	3,10%	3,10%	3,10%	3,10%	2,84%	2,60%	2,38%	2,18%	2,00%
Base Scenario		3,10%	3,10%	3,10%	3,10%	3,10%	3,10%	2,84%	2,60%	2,38%	2,18%	2,00%
Pessimistic Scenario		3,10%	3,10%	3,10%	3,10%	3,10%	3,10%	2,84%	2,60%	2,38%	2,18%	2,00%
<b>Capital Expenditures (% of sales)</b>		3,3%	3,1%	3,0%	2,8%	2,6%	2,5%	2,4%	2,3%	2,2%	2,1%	2,0%
Optimistic Scenario		3,30%	3,12%	2,95%	2,79%	2,64%	2,50%	2,39%	2,29%	2,19%	2,09%	2,00%
Base Scenario		3,30%	3,12%	2,95%	2,79%	2,64%	2,50%	2,39%	2,29%	2,19%	2,09%	2,00%
Pessimistic Scenario		3,30%	3,12%	2,95%	2,79%	2,64%	2,50%	2,39%	2,29%	2,19%	2,09%	2,00%

**Base case**

In the base case, we expect steady and moderate growth for Adobe Corp. over the next few years. Sales will initially increase by 11.0% in 2024, with a slight decline in annual growth rates until stabilizing at 2.5% by 2033. This scenario reflects a stable market with no significant changes in the economic landscape or customer behavior consumer. Gross profit margin is expected to remain relatively stable at around 88.0%, with slight growth up to 90.0% in the long term. This indicates constant management without major innovations or changes in the cost structure while also taking advantage of pricing power. The EBIT margin remains constant at 35.0% in the near term, with a slight increase to 39.0% in 2033. This may reflect a "business as usual" strategy with a focus on preserving existing assets. Depreciation and amortization expenses remain stable at 3.1% of sales, indicating prudent and well-managed investments. Capital expenditure follows a trend of gradual reduction from 3.3% to 2.0%, a sign that the investments made in the early years are maturing.

**Optimistic case**

In the optimistic scenario, we expect robust growth for Adobe Corp. Sales are expected to grow 12.0% in 2024 and maintain higher growth rates than the base scenario, reaching 3.0% in 2033. Gross profit margin is expected improve, starting from 88.0% in 2023 up to 92.0% in the long term. This increase reflects an optimization in cost management and a more aggressive price positioning. The EBIT margin is expected to grow from 36.0% in 2023 to 41.0% in 2033, thanks to high operational efficiency and careful control of expenses. Depreciation and amortization expenses remain stable at 3.1%, indicating prudent and well-managed investments. Capital expenditure follows a trend of reduction from 3.3% to 2.0%, a sign of effective investment management and a return on initial investments.

**Pessimistic scenario**

The pessimistic scenario considers the challenges that Adobe Corp. could face due to strategic mistakes. Sales growth is expected lower, starting from 9.0% in 2023 and slowing to 2.5% by 2033. Gross profit margin may decline slightly, remaining stable around 88.0% throughout the period . EBIT margin is expected to decline to 34.0% in 2024, with slight growth to 38.0% in the long term, indicating pressure on operating margins.



## DCF

### Fair Value

Adobe Corp. is undervalued compared to current levels with a value of 572.27 Dollars compared to the price of 444.42 Dollars on 06/03/2024. It is highlighted that both the optimistic and pessimistic scenarios have a potential positive variation, reflecting an actual underestimation.

	Worse	Base	Optimistic
Value	475,99	572,27	630,49
+/- %	7,20%	28,89%	42,00%

### Final Outlook

Currently, comparing the evaluations carried out, Adobe appears to be undervalued compared to its competitors and shows good growth potential in optimal scenarios. We would like to specify that, however, in general it presents a balanced valuation in terms of multiples but a very good growth prospect in absolute terms supported by the enormous competitive advantages that the company possesses. the thesis of the analysis is BUY.

## Sensitivity Analysis

		Wacc				
Growth Rate	\$572,27	9,71%	10,21%	10,71%	11,21%	11,71%
	1,5%	572,27	572,27	572,27	572,27	572,27
	2,0%	572,27	572,27	572,27	572,27	572,27
	2,5%	572,27	572,27	572,27	572,27	572,27
	3,0%	572,27	572,27	572,27	572,27	572,27
	3,5%	572,27	572,27	572,27	572,27	572,27

		Wacc				
Ev/Ebitda	\$572,27	8,71%	9,71%	10,71%	11,71%	12,71%
	25,0x	556,00	556,00	556,00	556,00	556,00
	25,5x	564,14	564,14	564,14	564,14	564,14
	26,0x	572,27	572,27	572,27	572,27	572,27
	26,5x	580,41	580,41	580,41	580,41	580,41
	27,0x	588,54	588,54	588,54	588,54	588,54

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- Statista

### Disclaimer

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