



Bulldog Investment Company

April 08, 2022



Bulldog Investment Company



Goal: Maximize Rate of Return (RoR)

“The best business is one that can employ large amounts of incremental capital at very high rates of returns for an extended period of time.”

~ Warren Buffett

Speaker

Segment

Ramzi Issa

Welcome, Management, Growth Aspects

Brandon Chaney

Company Breakdown, Competition

Caitlyn Linzy

Interpretations of Financials

Luis Green

Moat Analysis, Risk Factors

Ethan Sanchez

Valuation

Q&A



Company Breakdown

Brandon Chaney

Revenue by Segment | Revenue by Geography

Introducing Adobe



NASDAQ: **ADBE**

Market Cap: \$210 Billion

Revenue: \$15.8 Billion

Headcount: 26,000

Headquarters: San Jose, California

Adobe provides products, services, and software, mainly through software-as-a-service (SaaS) models

Adobe generates revenue by providing:

- Subscriptions
- Products
- Services

How Does Adobe Make Money?

Adobe makes money by providing:

- **Subscriptions**
- Products
- Services

FY2021 Total Revenues: \$15.78B

- Subscriptions: \$14.57B
- Products: \$555M
- Services: \$657M



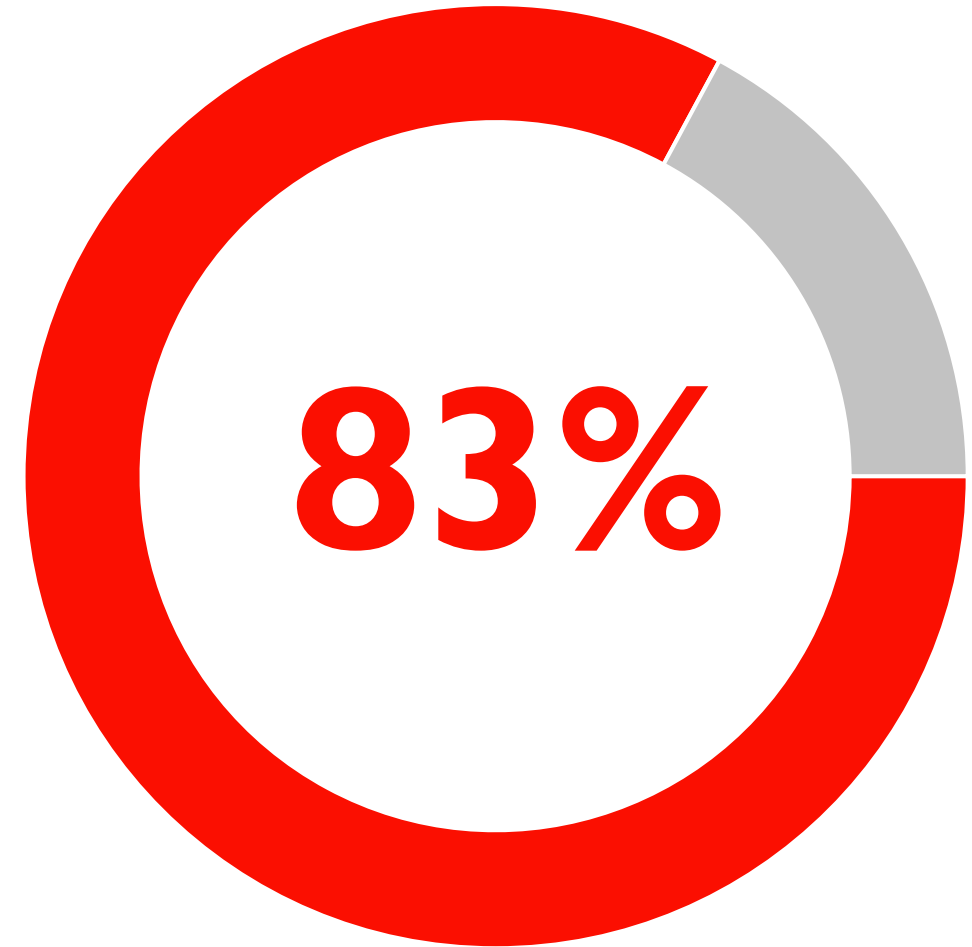
Business Segments

- Digital Media
- Digital Experience
- Publishing and Advertising



Digital Media – Two Cloud Segments

- **Adobe Creative Cloud: \$9.55B**
 - 83% of Digital Media Revenue
 - 23% Y/Y Revenue Growth in FY '21
- **Adobe Document Cloud: \$1.97B**
 - 17% of Digital Media Revenue
 - 32% Y/Y Revenue Growth in FY '21
 - One of the fastest growing parts of Adobe's business



Digital Media – Creative Cloud



Creative Cloud – provides cloud-based solutions for content creators of all sizes

Applications

- Photoshop
- Illustrator
- Premiere Pro
- Lightroom
- Adobe XD
- Substance 3D

End Users

- Designers
- Creatives
- Small Businesses
- Students
- Enterprises

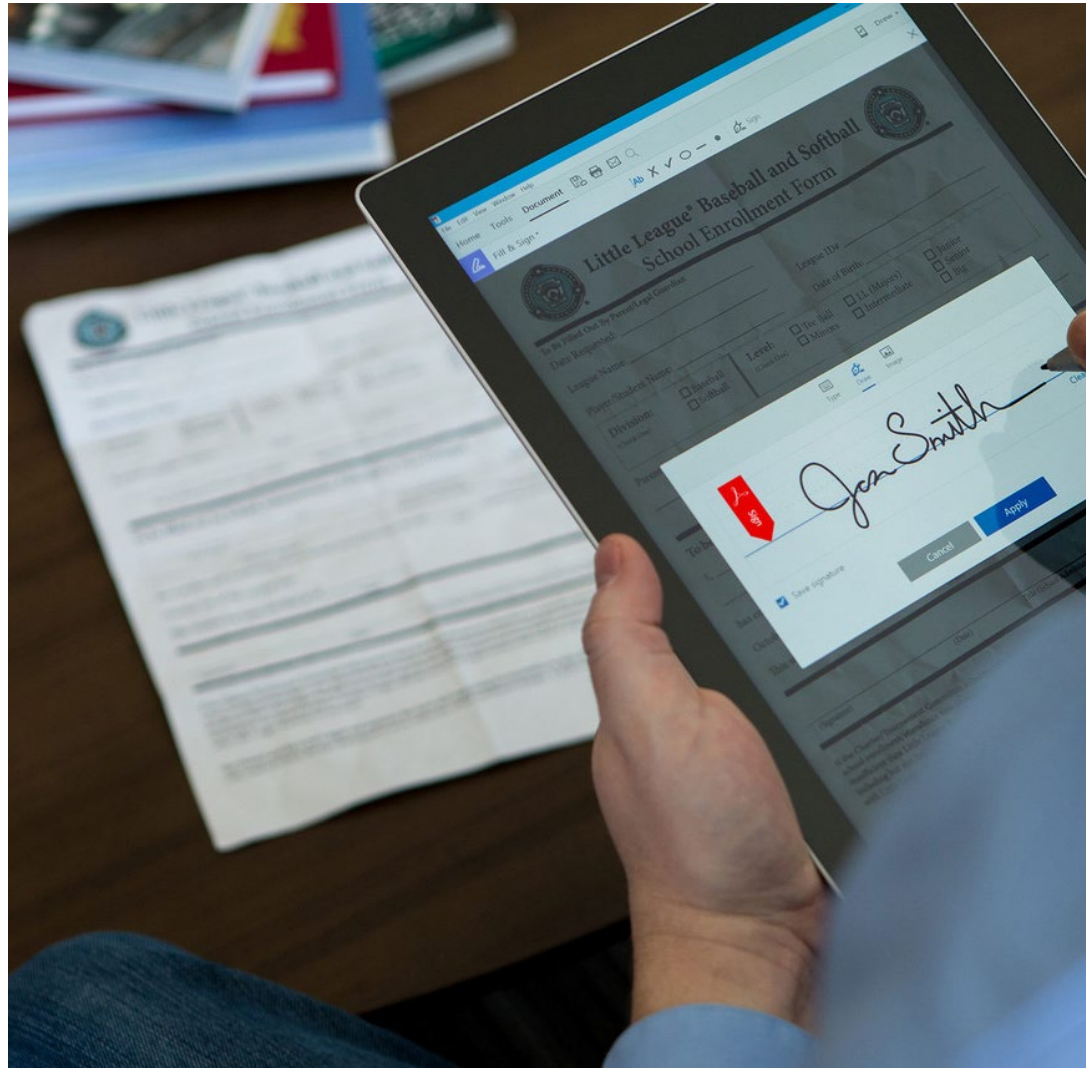


Creative Cloud Express

- Adobe's Web and Mobile Application for the Creative Cloud
- Launched in December 2021
 - Formerly known as “Adobe Spark”
- Template-Driven Platform created to:
 - Expand its offerings to novice creators
 - Provide a quick customization process to create content
- Creative Cloud Profile
 - Travels with users from application to application



Document Cloud



Document Cloud – provides cloud-based document solutions, using the PDF technology to deliver digital workflow

Applications

- Adobe Acrobat DC
- Adobe Scan
- Adobe Sign
- Acrobat Web

End Users

- Government Institutions
- Educational Institutions
- Enterprises
- Individuals

Digital Media – Segment Performance

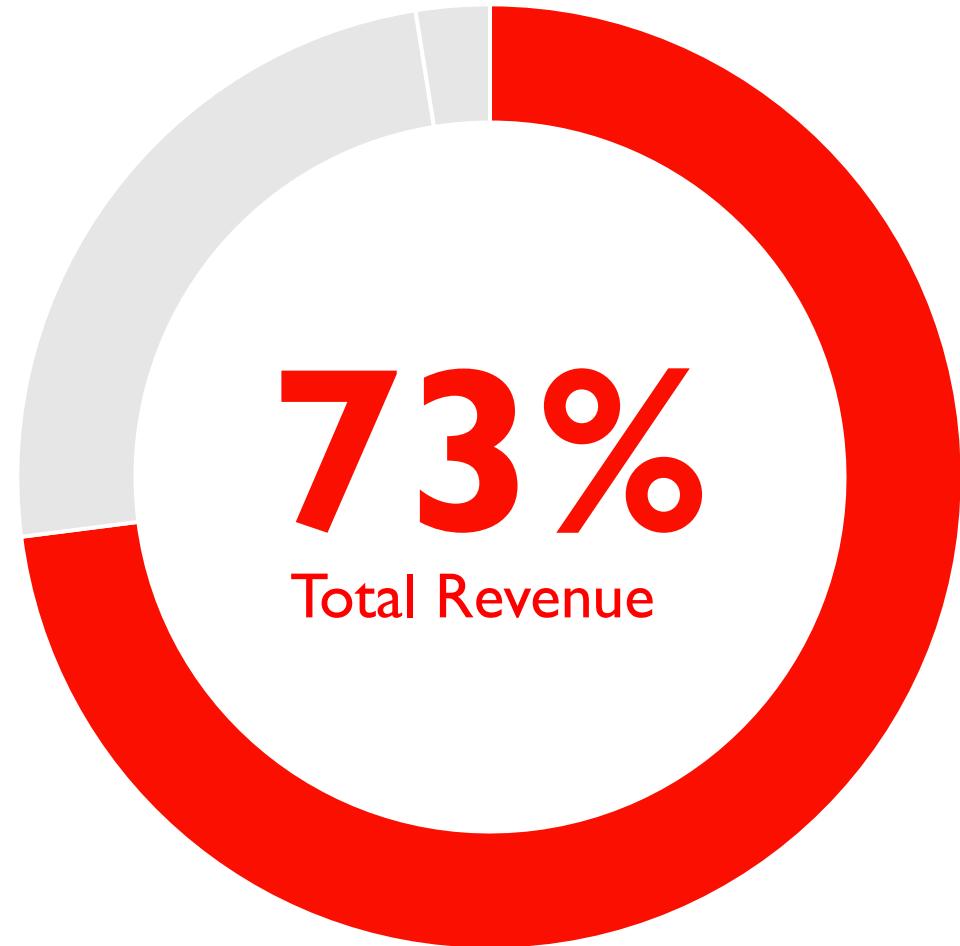
In FY2021:

- Revenue: \$11.52B
- Gross Margin: 96%

FY2021

- \$11B in Subscription Revenue
- 24% Y/Y Growth

Adobe's largest and most profitable segment.



Digital Media – ARR

Annualized Recurring Revenue (ARR) - the key performance metric that management uses to assess the overall performance of the Digital Media segment.

Enterprise Term License Agreement (ETLA) – contract between Adobe and client, locking in price for Adobe’s software.

Digital Media ARR = Creative Cloud ARR + Document Cloud ARR

ARR Calculation For 2021

Creative Cloud ARR = \$10.3B

(+) Annual Value of Subscriptions and Services

(+) Annual Creative ETLA Value

Document Cloud ARR = \$1.9B

(+) Annual Value of Subscriptions and Services

(+) Annual Document ETLA Value

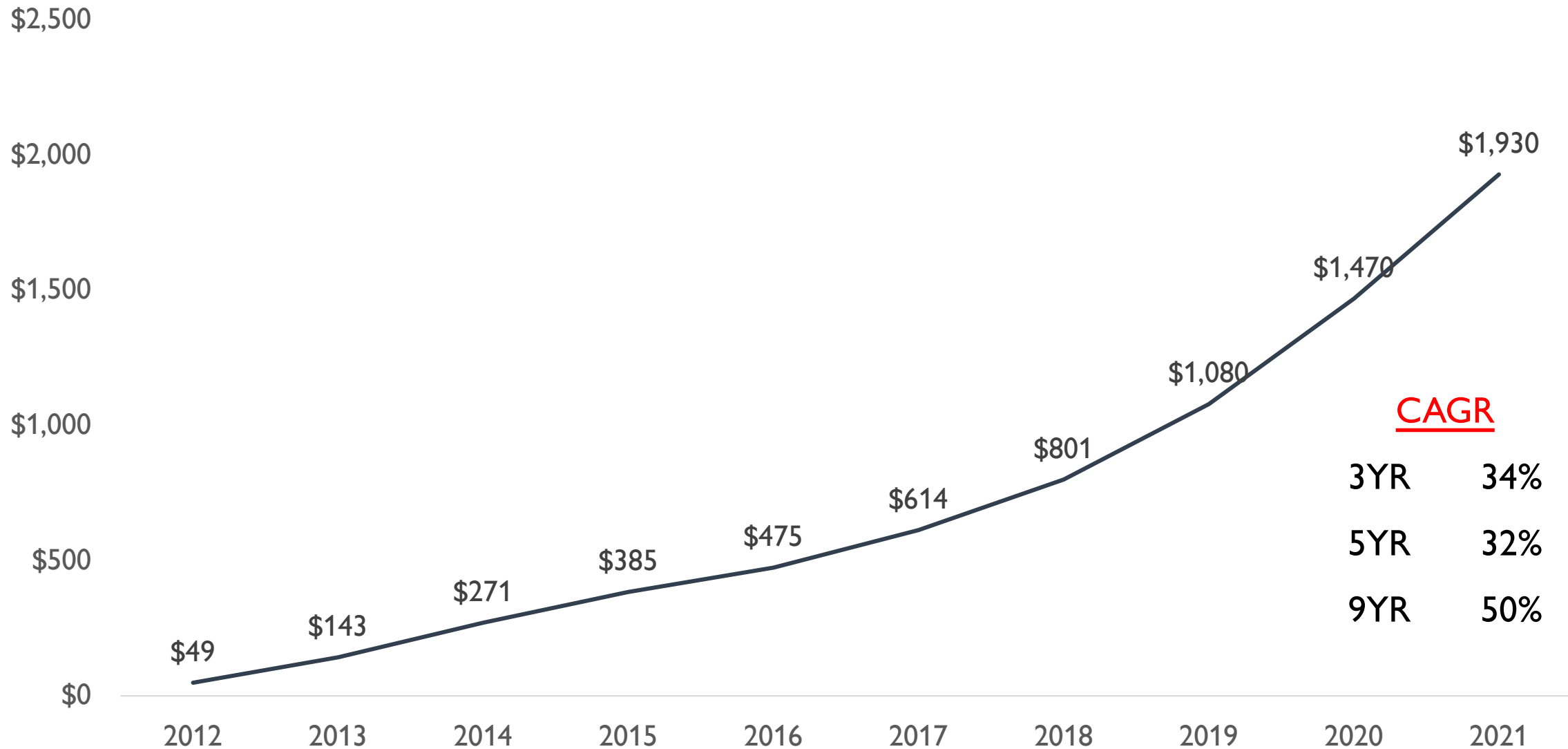
Digital Media ARR

(+) Creative Cloud ARR: \$10.3B

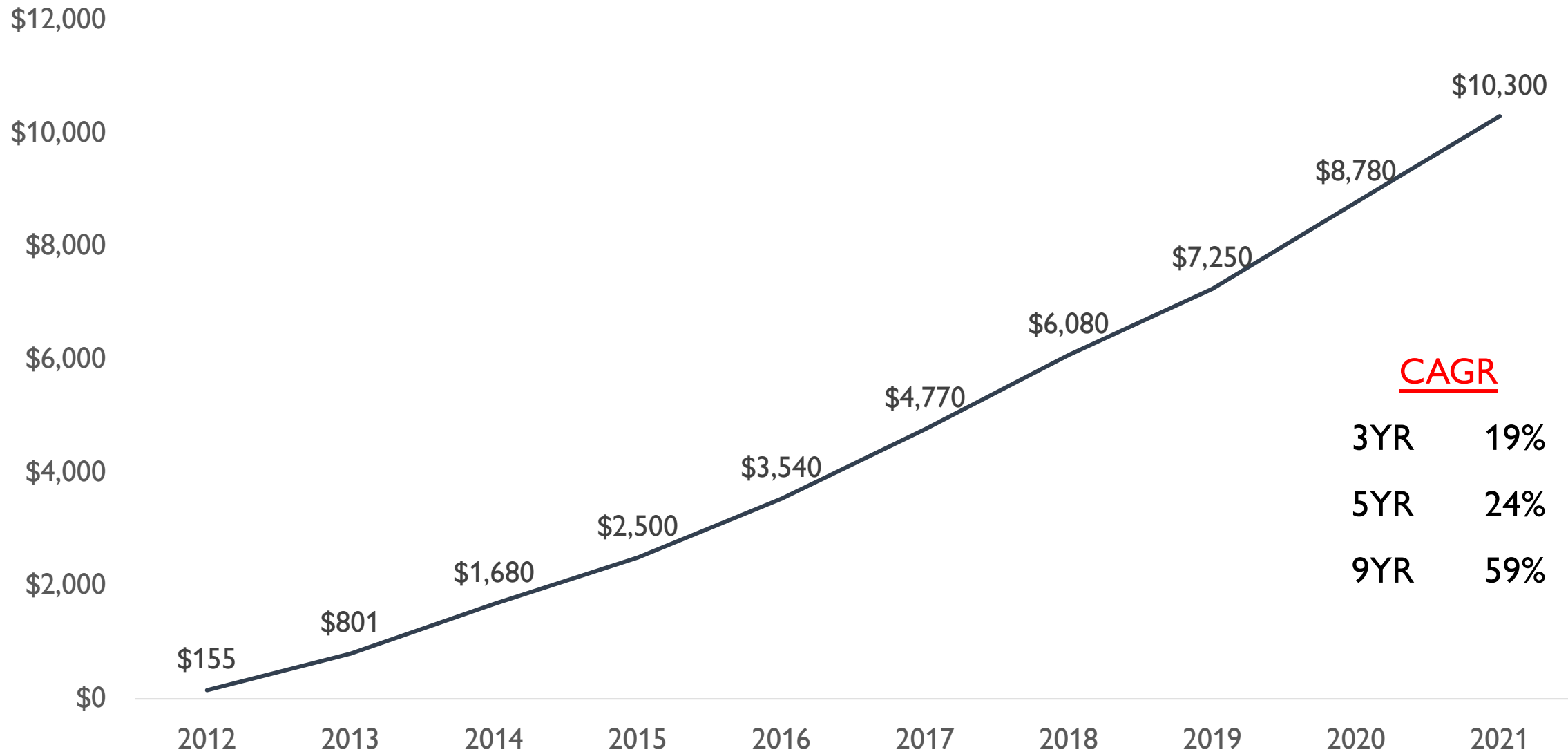
(+) Document Cloud ARR: \$1.9B

Digital Media ARR = \$12.2B

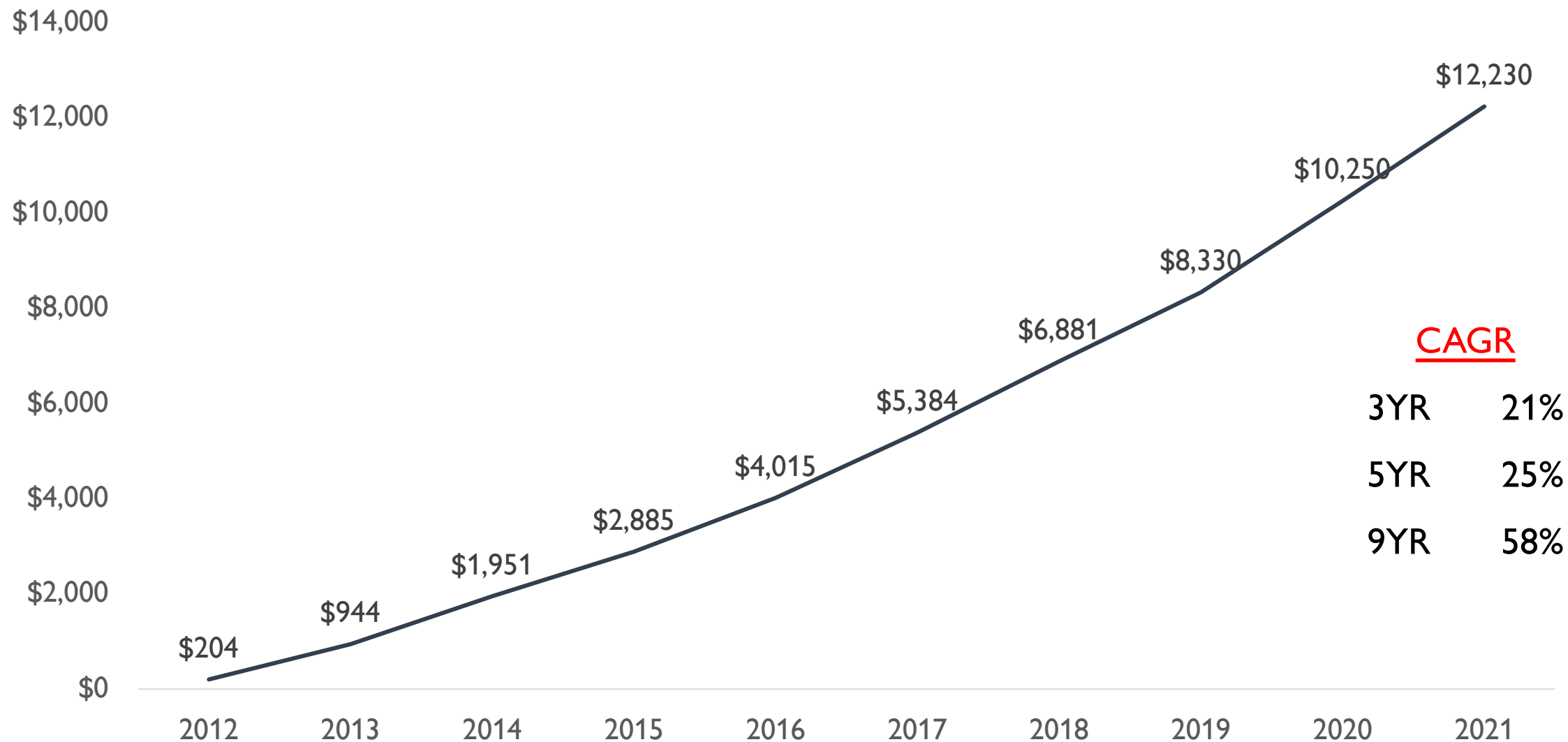
Document Cloud – Historical ARR



Creative Cloud – *Historical ARR*



Digital Media - Historical ARR



Digital Experience – Experience Cloud

Experience Cloud – enables companies to create, manage, and optimize the customer experience using artificial intelligence and analytics

Four Subsegments

- Data, Insight and Audiences
- Content and Commerce
- Customer Journeys
- Marketing Workflow



Data, Insights, and Audiences



Data, Insights and Audiences – uses Adobe Sensei AI to analyze and visualize customer data

Applications

- Adobe Analytics
- Adobe Experience Platform – customer experience management
- Customer Journey Analytics
- Adobe Audience Manager – helps digital publishers identify their most valuable segments
- Real-Time Customer Data Platform – brings together customer data to deliver experiences better tailored to their customers.

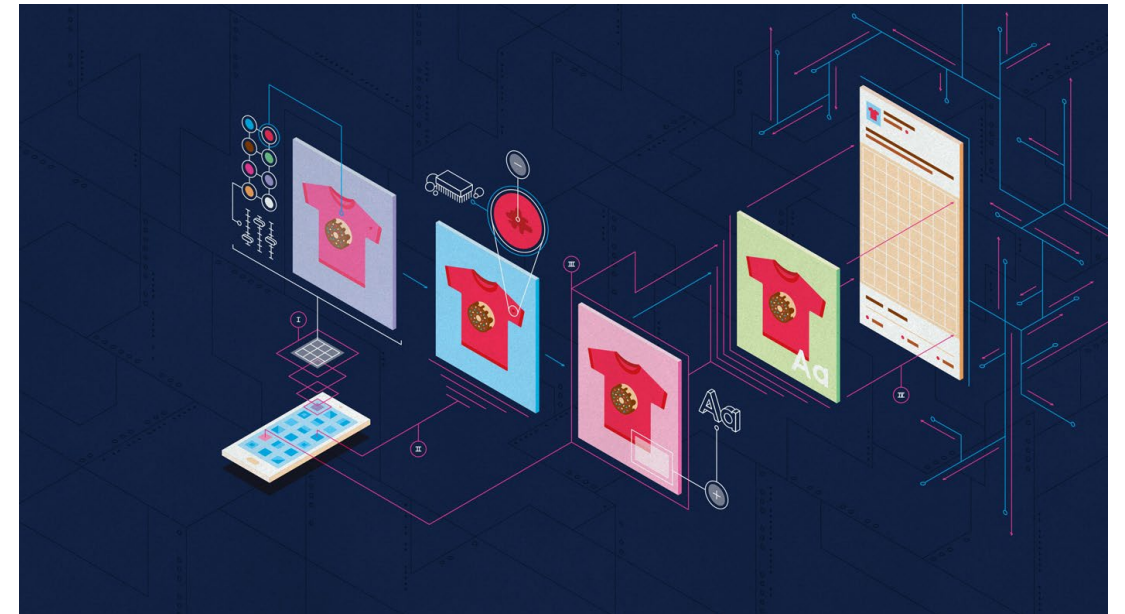
Digital Experience – Breakdown

Content and Commerce

- Adobe Experience Manager – used to deliver personalized experiences at scale.
- Adobe Commerce – using predictive intelligence to enhance shopping experiences

Marketing Workflow

- Adobe Workfront – work management application to enable teams to work more efficiently.



Customer Journeys

Customer Journeys - helps businesses test, target, personalize and orchestrate campaigns

- Marketo Engage – B2B customer management solution
- Adobe Campaign – B2C marketing.
- Adobe Target – AI and machine-driven engine that enables customers to target, optimize and test content.
- Journey Optimizer – provides tools to manage inbound customer engagement.



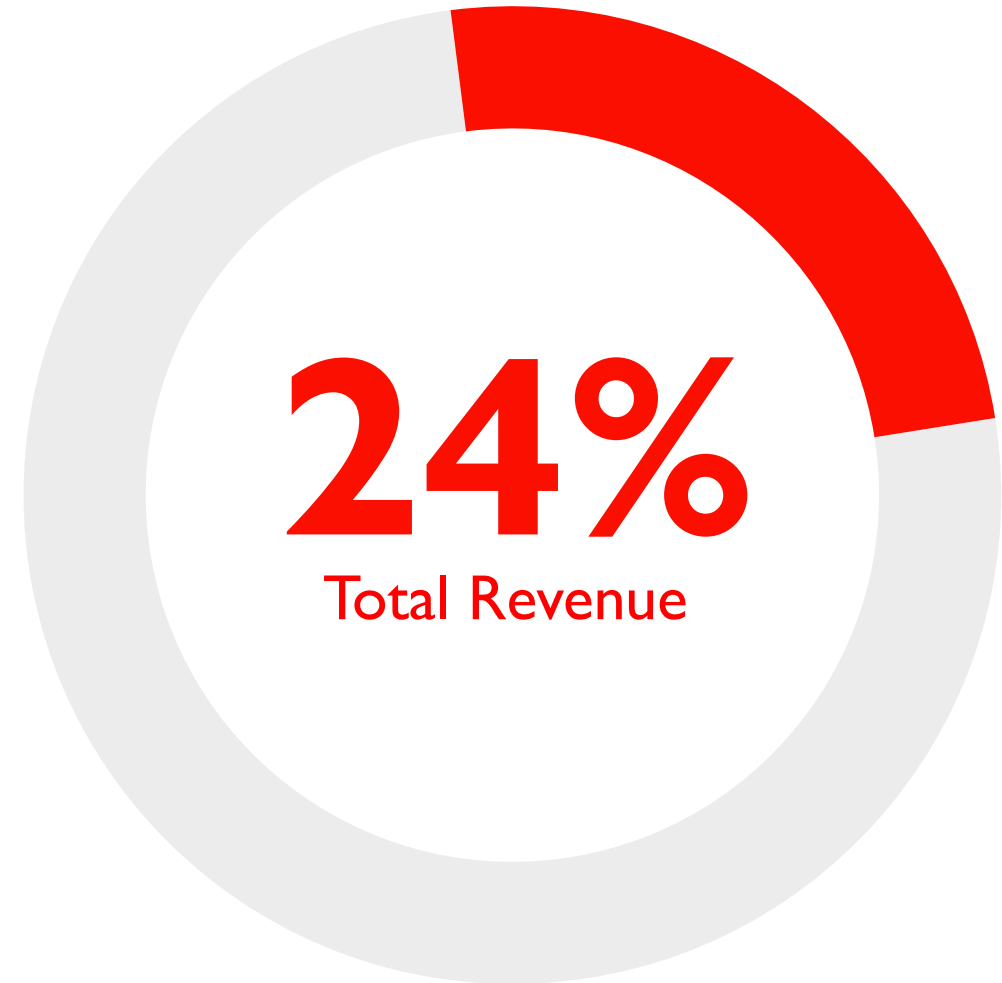
Digital Experience – Segment Performance

In FY2021:

- Revenue: \$3.87B
- Gross Margin: 66%

FY2021:

- \$3.38B from Subscription Revenue
- 25% Growth Y/Y



Publishing and Advertising

Publishing and Advertising – product and services that include:

- Adobe Advertising Cloud - platform for managing advertising across digital formats
- eLearning Solutions
- Document Publishing
- Web Conferencing
- Web Application Development

How is Revenue Generated?

- **Publishing** – licensing technology to companies that manufacture workflow software, printers, etc.
- **Advertising** – through usage-based offerings



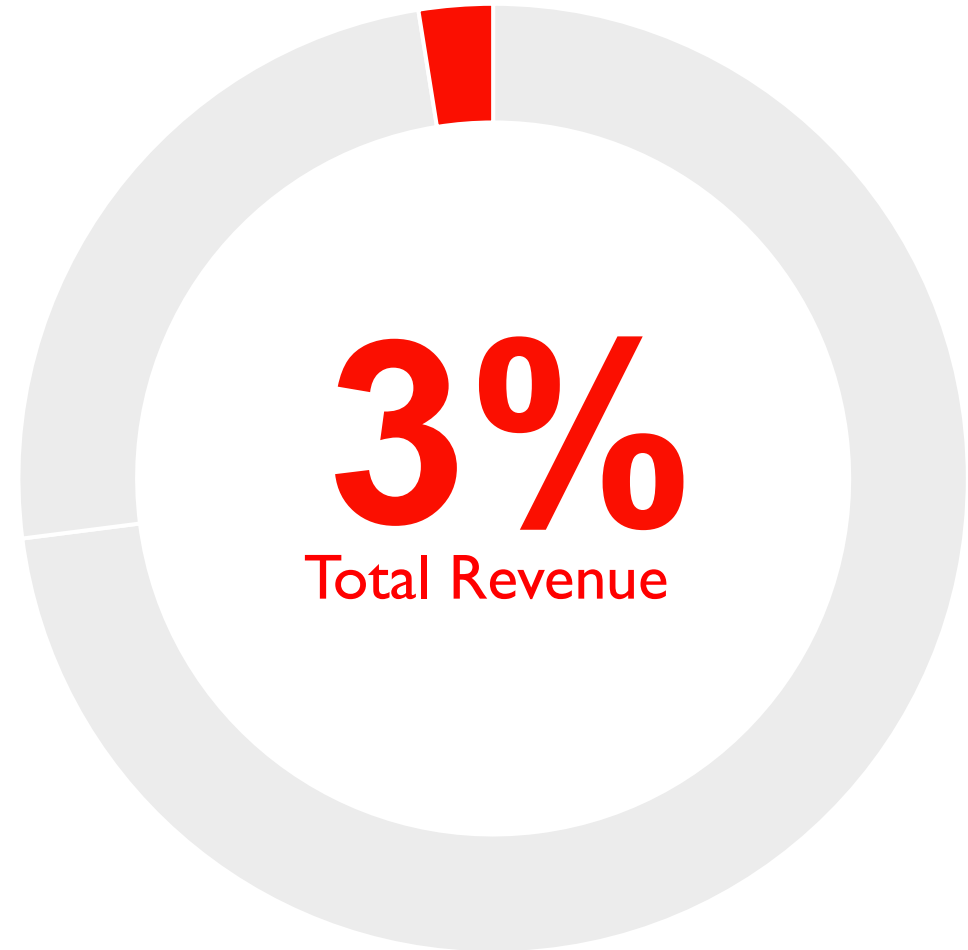
Publishing – Segment Performance

In FY2021:

- Revenue: \$398M
- Gross Margin: 71%

FY2021:

- \$146M from Subscription Revenue



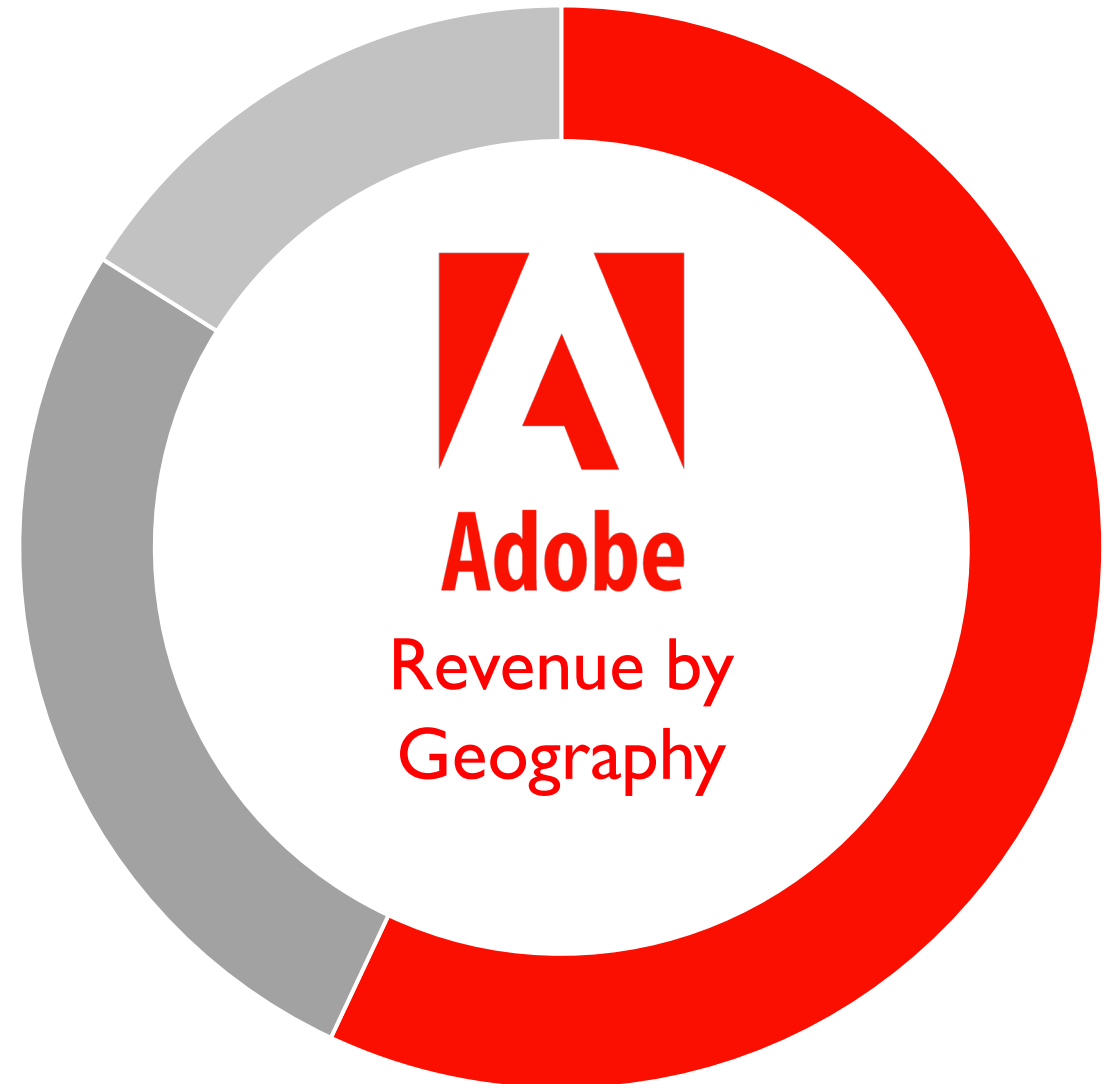
Revenue by Geography

In FY2021:

- The **Americas**: \$9.0B
- EMEA: \$4.25B
- APAC: \$2.54B

FY 2021:

- United States: 51% of Total Revenue





Interpretation of Financials

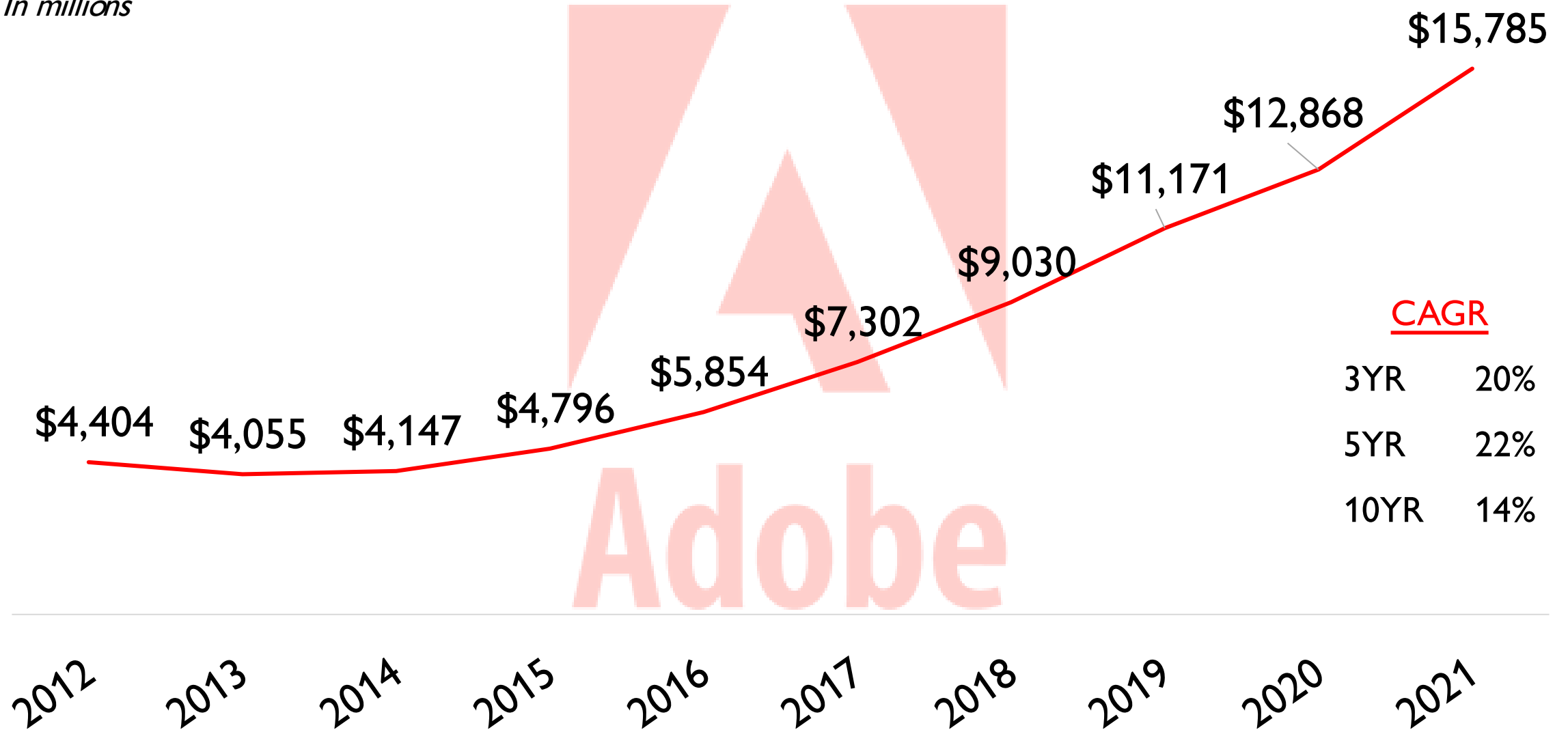
Caitlyn Linzy

Financial Metrics Over Ten Years | Display of Quality



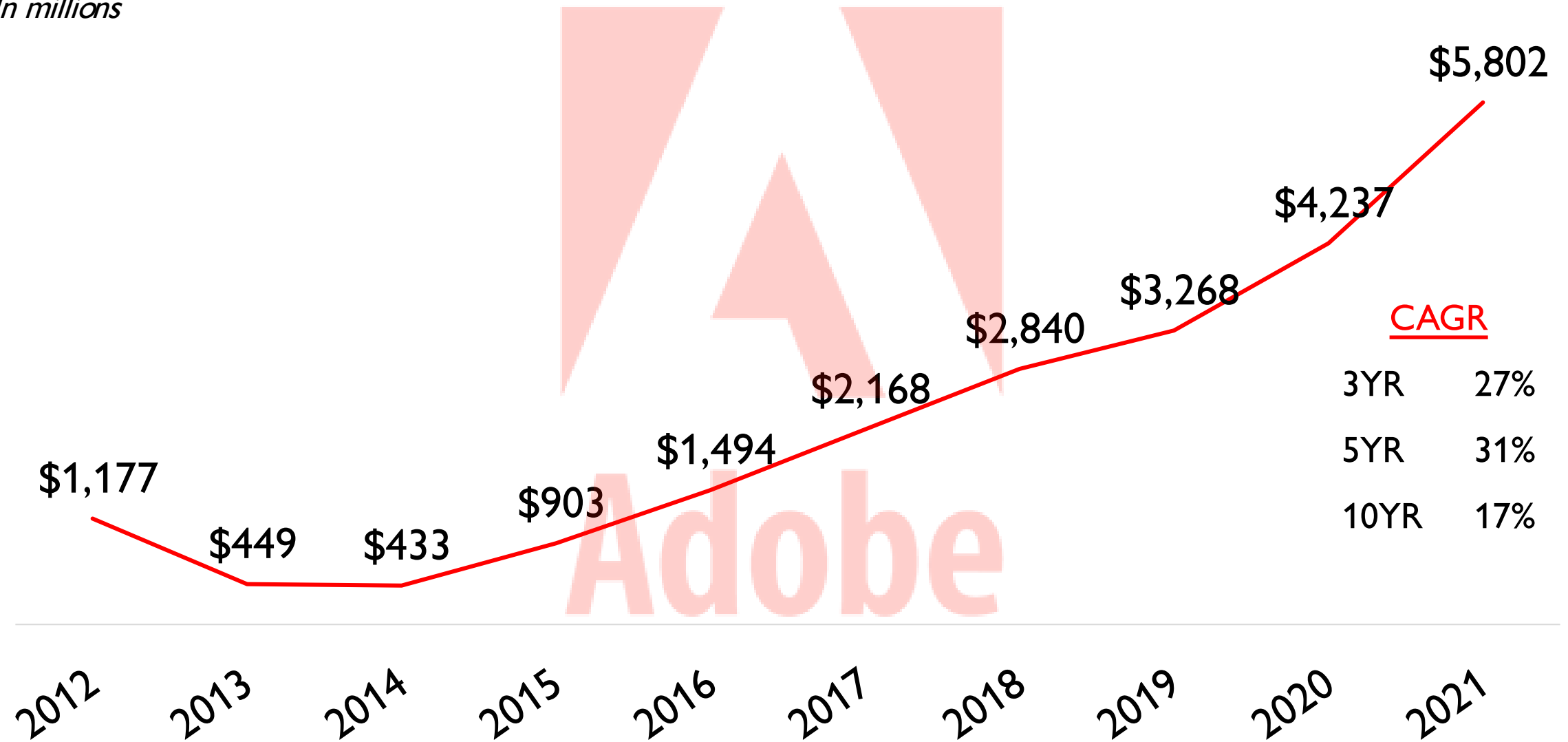
Revenue

In millions



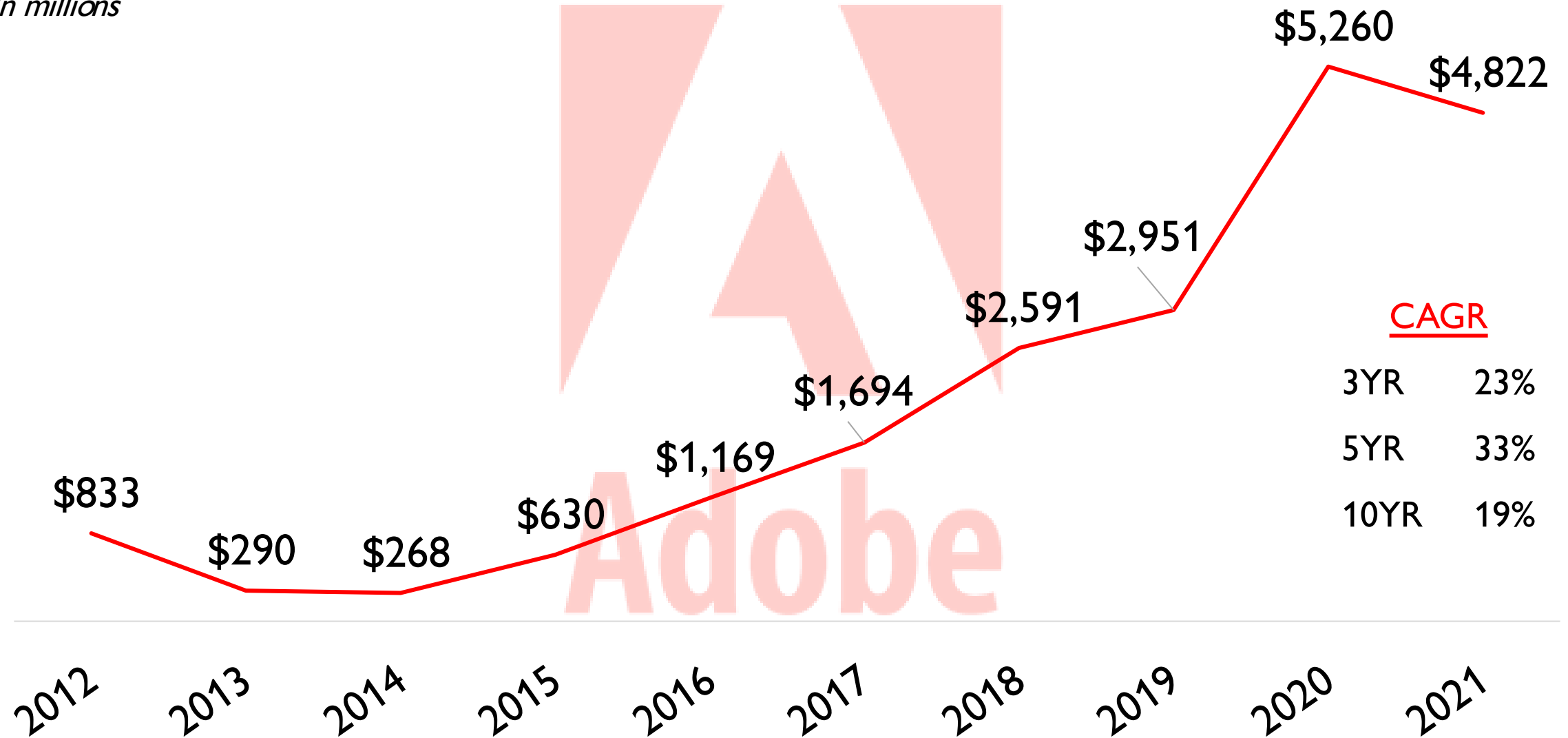
Operating Income

In millions



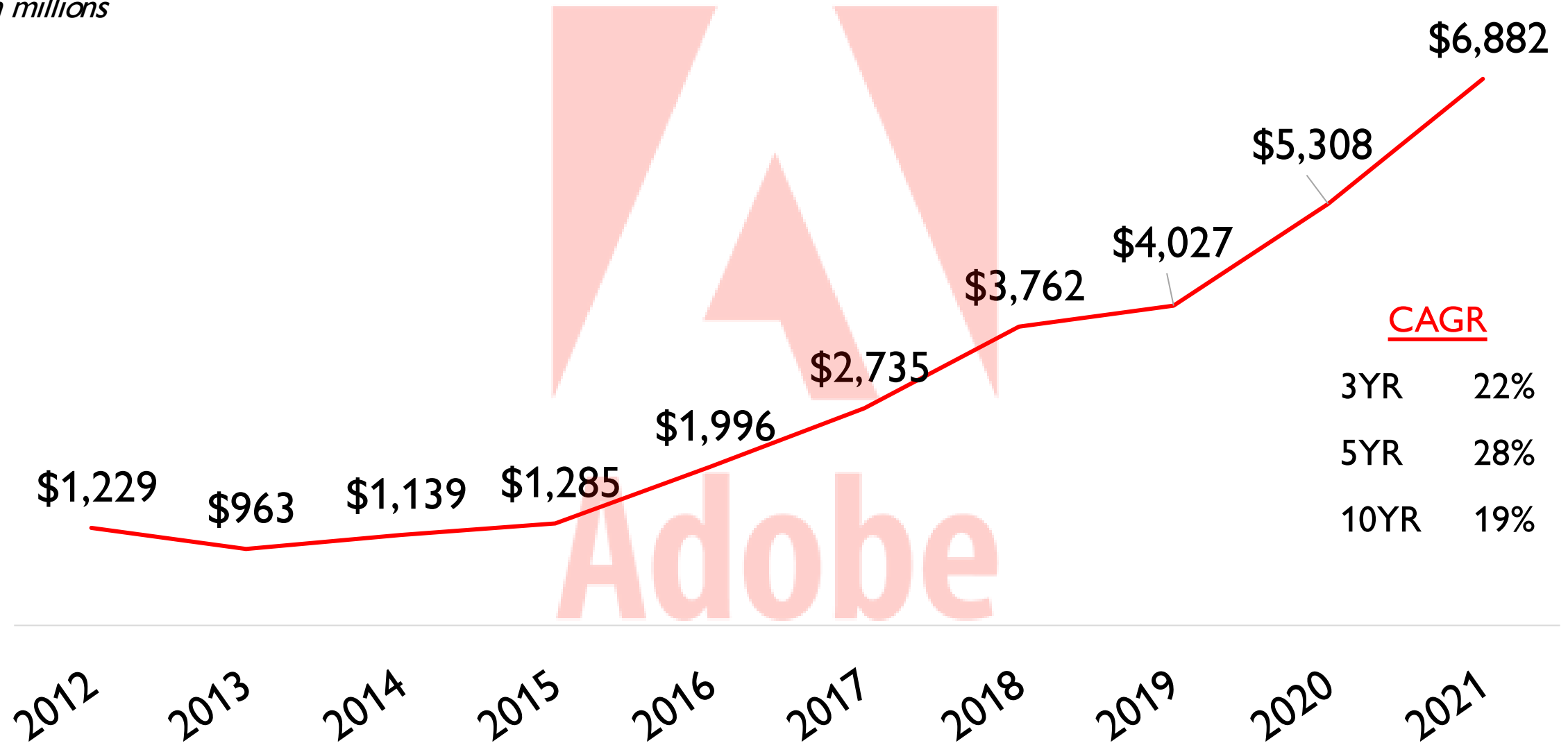
Net Income

In millions

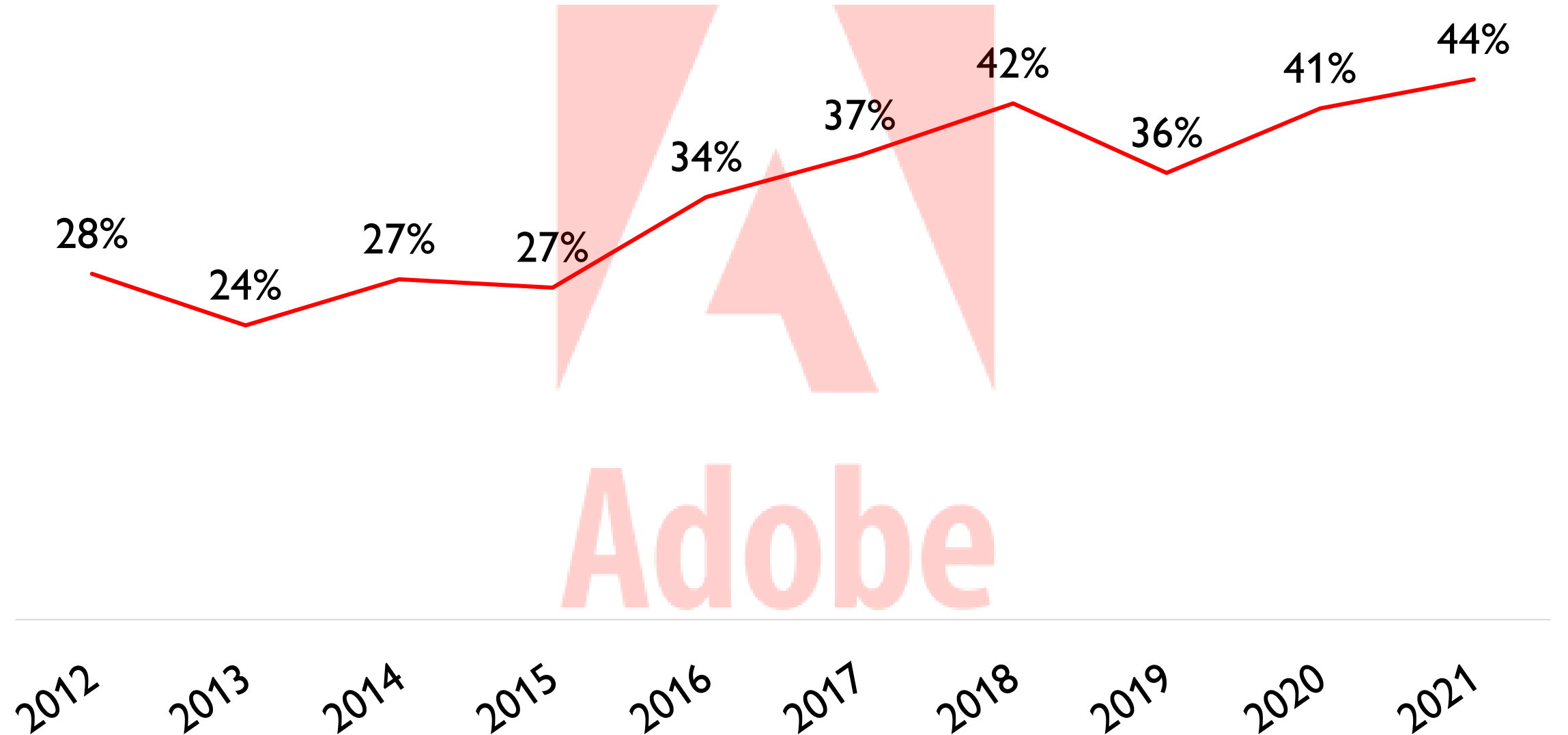


Free Cash Flow

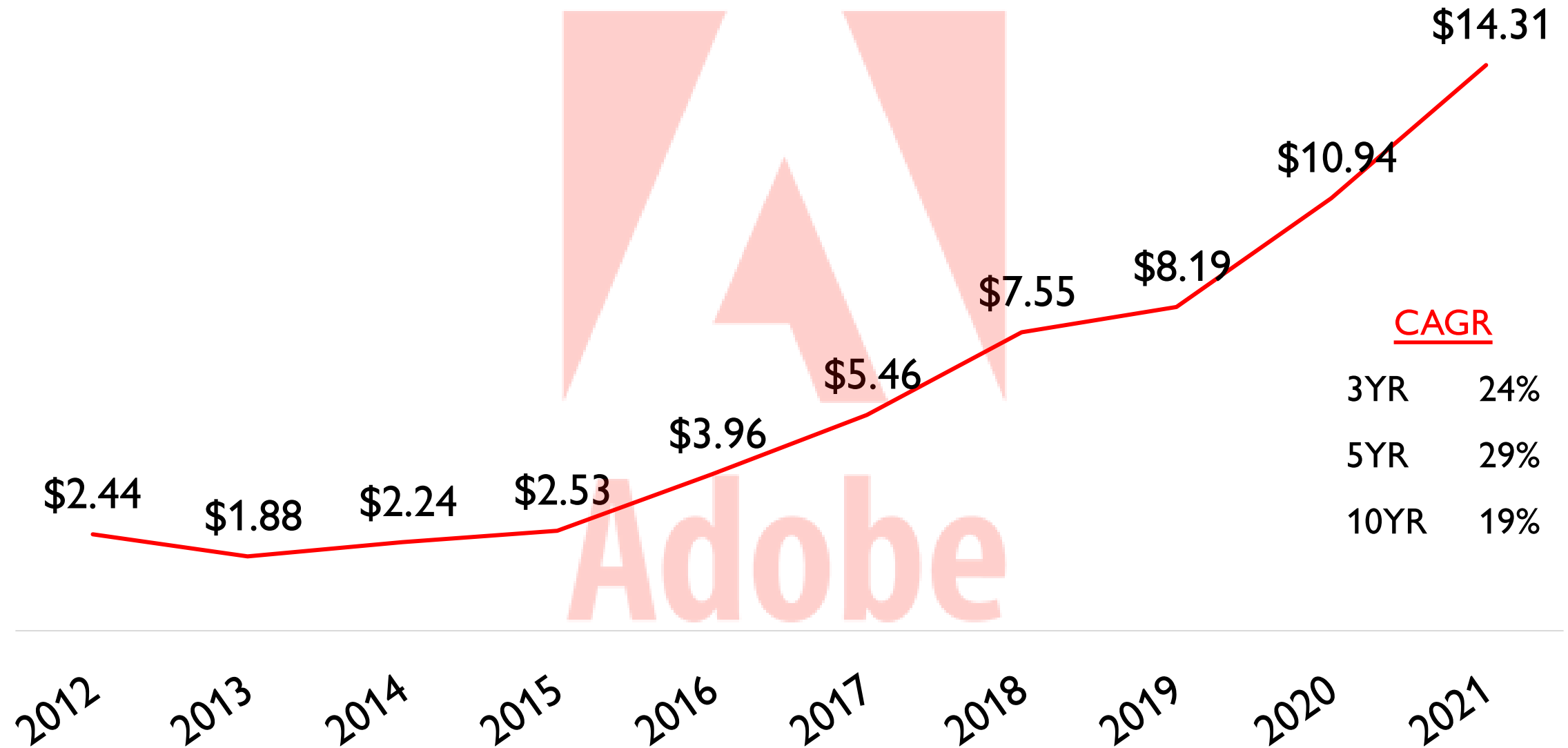
In millions



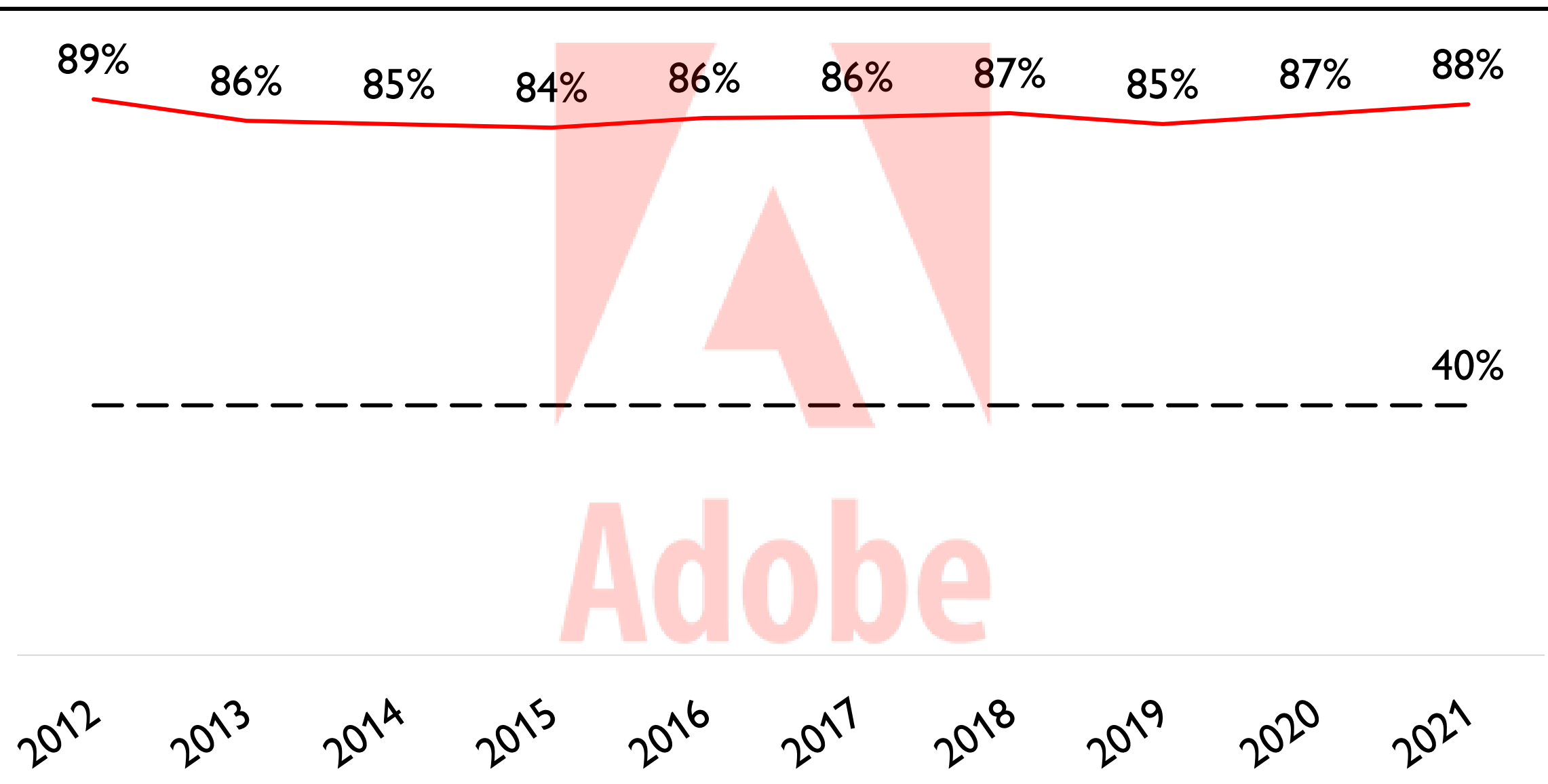
FCF Margin



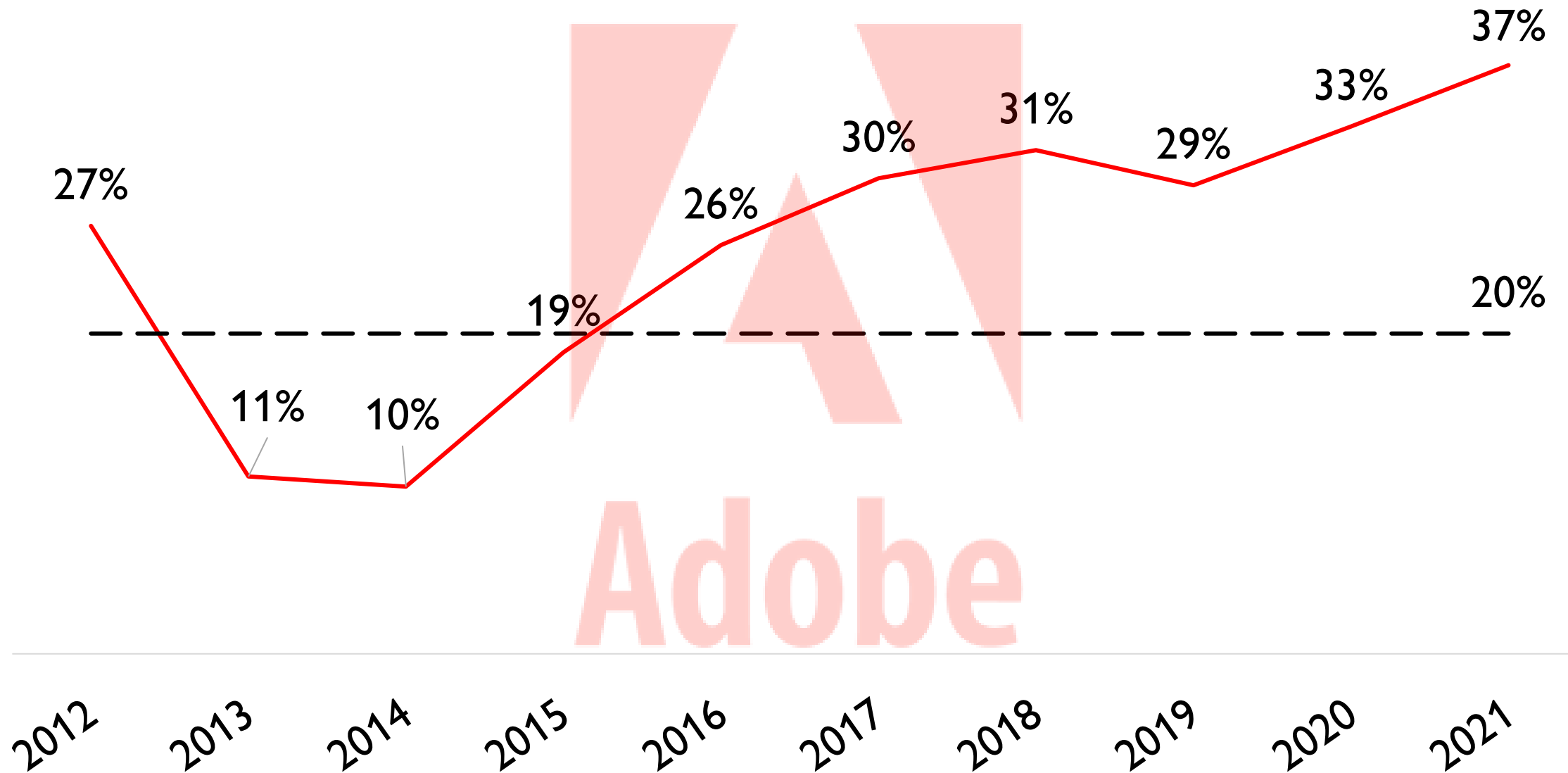
FCF per Share



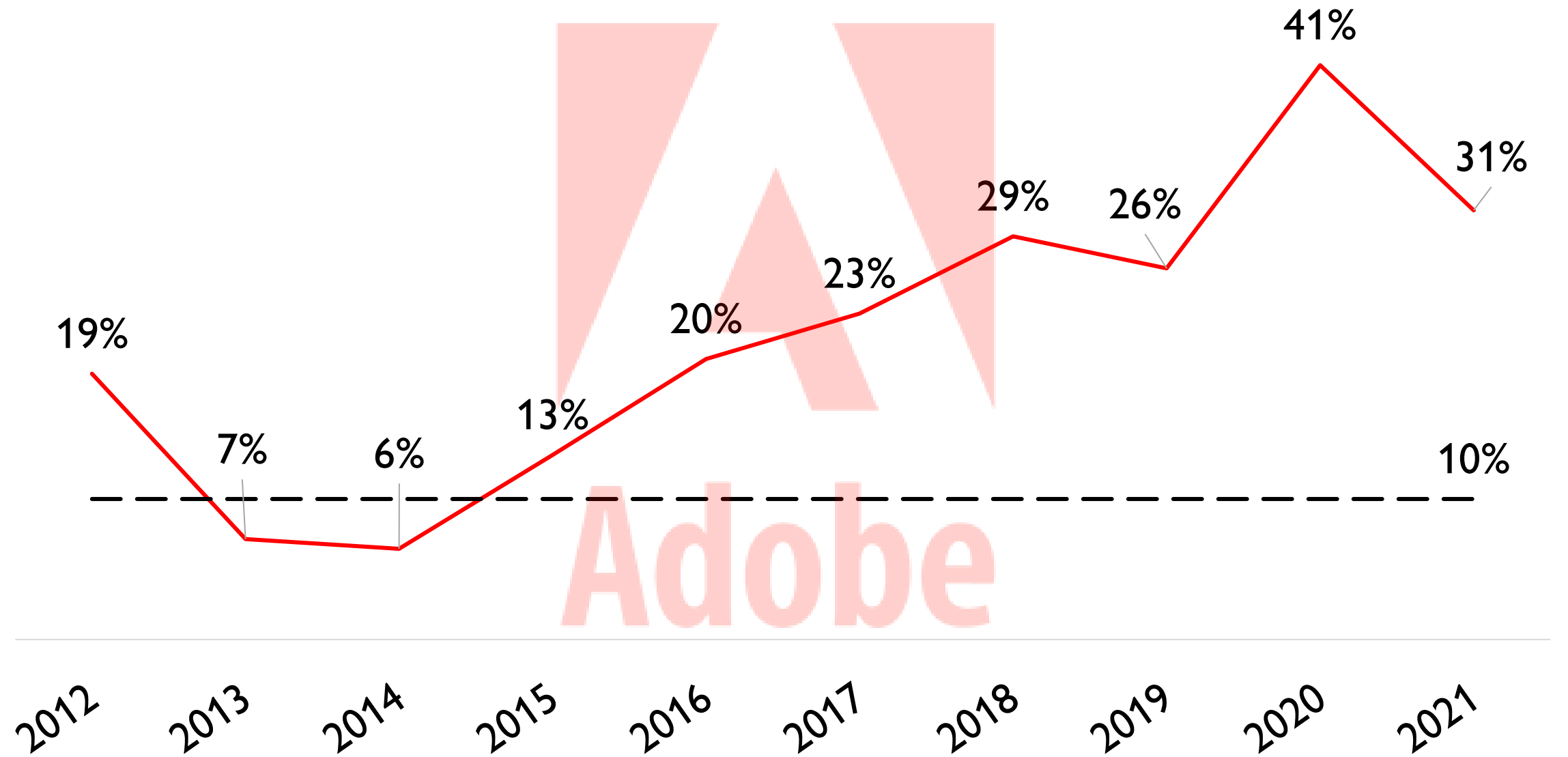
Gross Profit Margin



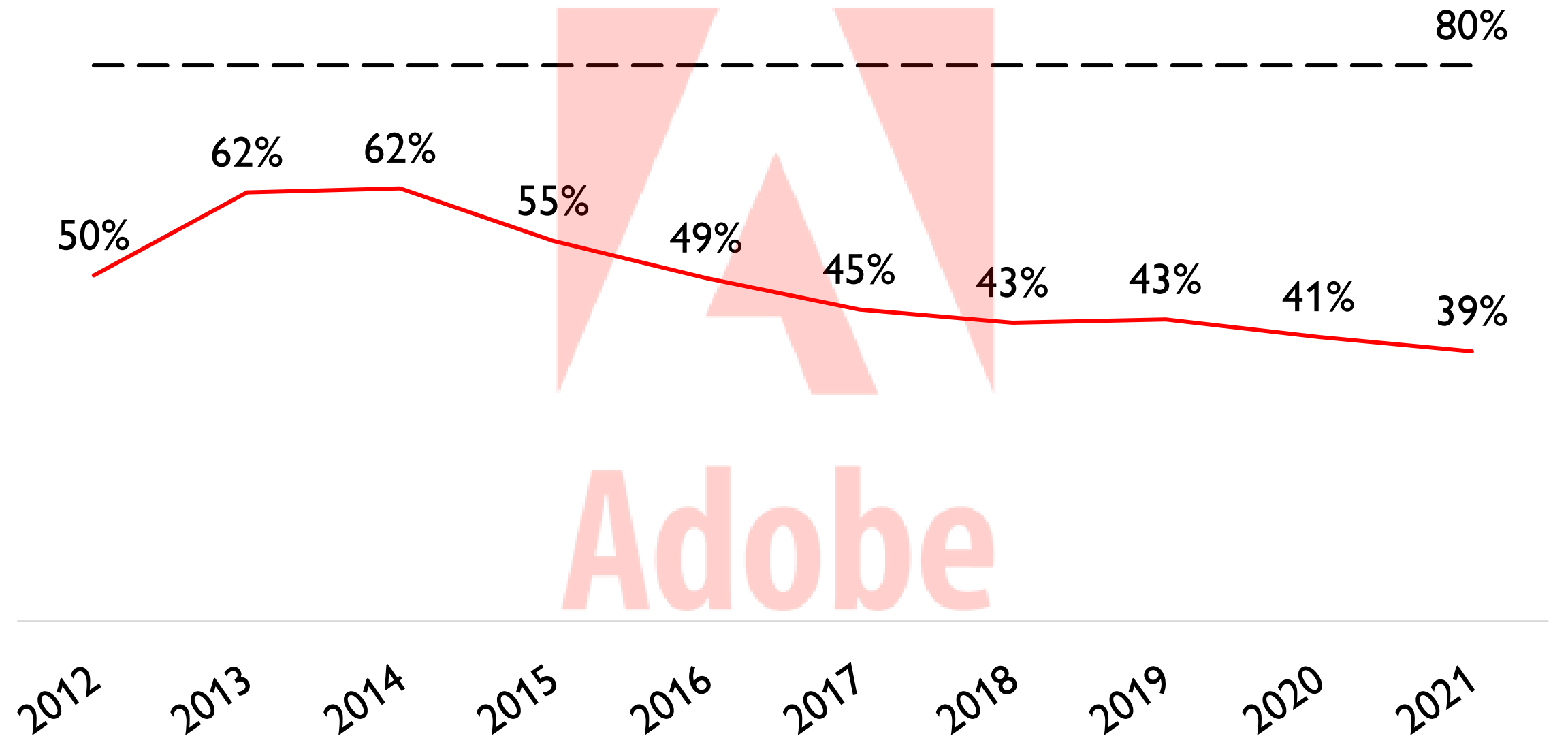
Operating Profit Margin



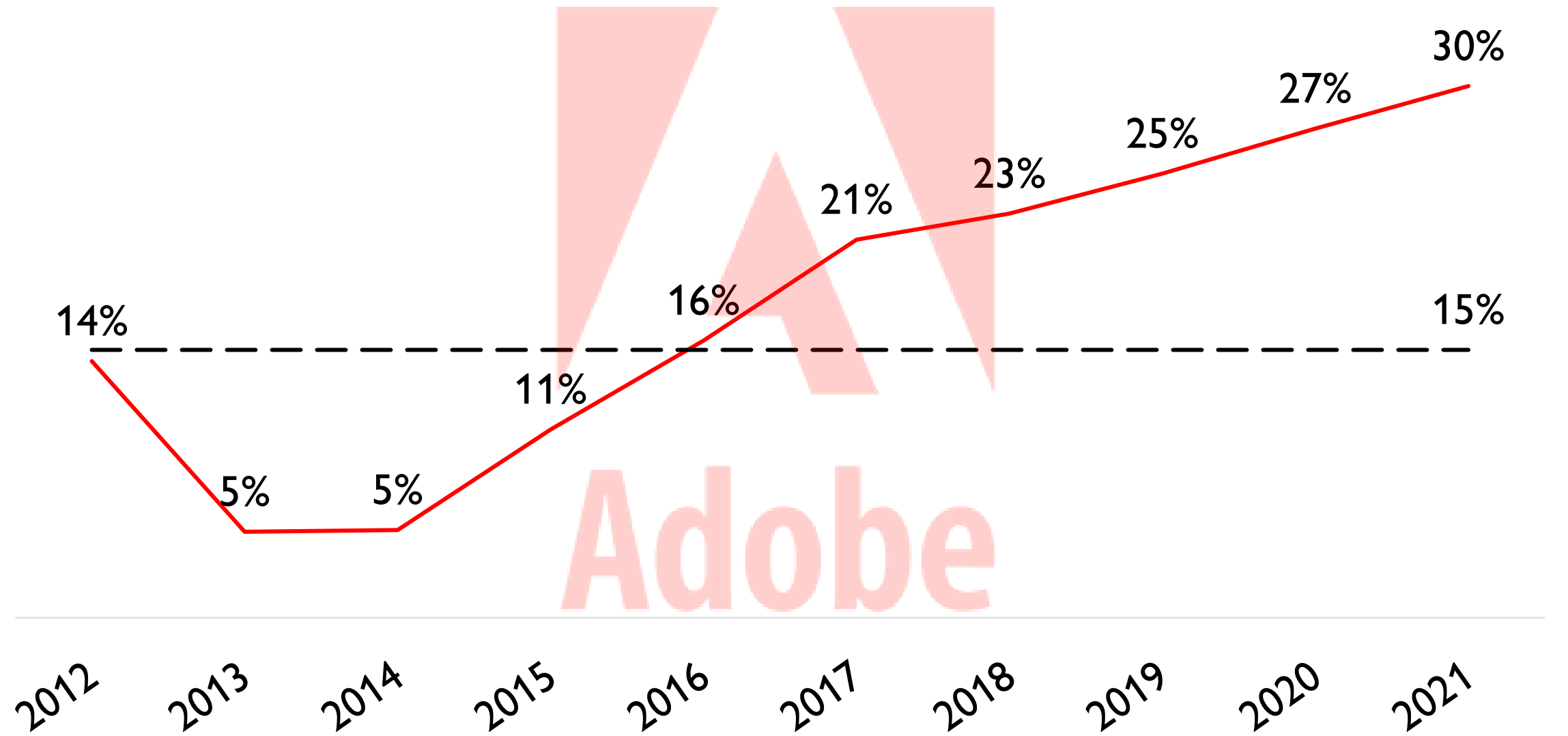
Net Profit Margin



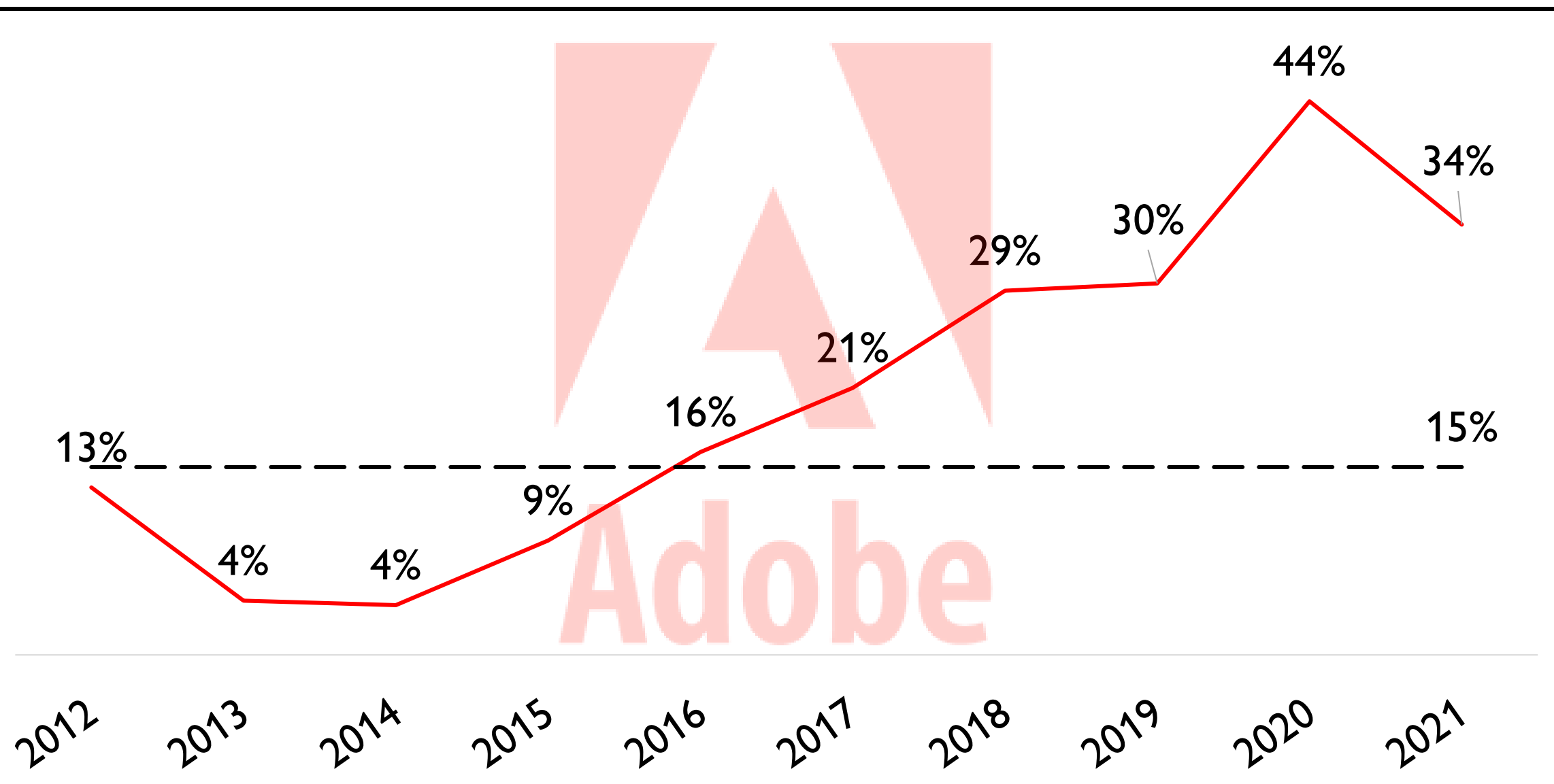
Selling, General, Admin. to Gross Margin



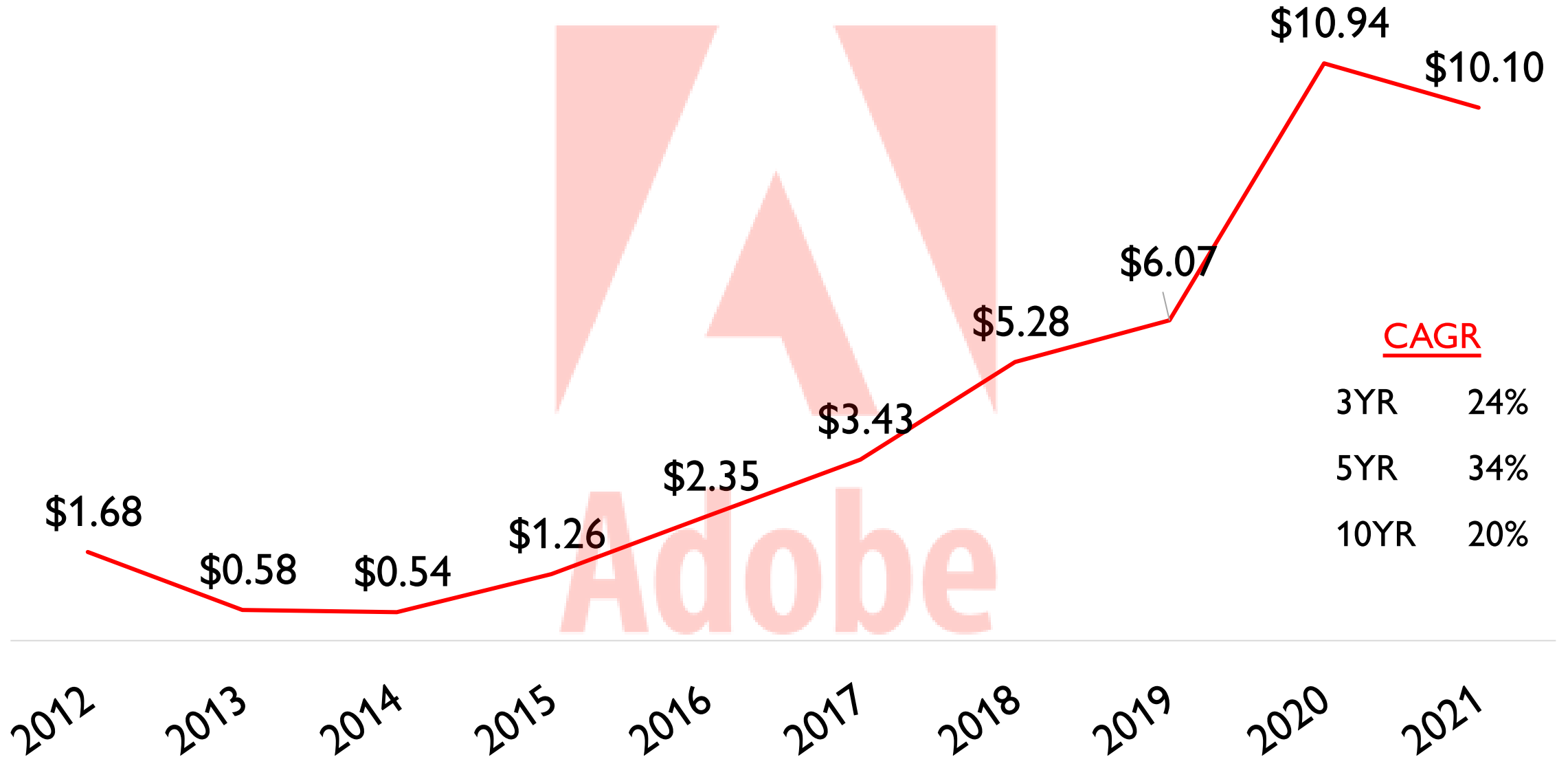
Return on Capital Employed



Return on Equity (ROE)



Earnings per Share (EPS)



Obligation Ratio

In millions

(+) ST Debt	\$499
(+) LT Debt	\$3,626
(+) Leases *7	\$3,780
(+) Pension Shortfall	\$0
(+) Preferred Stock	\$0
(-) Cash	\$4,701
<hr/>	
Net Income	\$4,822







Obligation Ratio: 0.66 Years

Debt Maturity Schedule

Total Debt: \$4.1b

Notes	Issued	Due	Rate	2021	2020
1.70% 2023	Feb 2020	Feb 2023	1.92%	500	500
1.90% 2025	Feb 2020	Feb 2025	2.07%	500	500
3.25% 2025	Jan 2015	Feb 2025	3.67%	1,000	1,000
2.15% 2027	Feb 2020	Feb 2027	2.26%	850	850
2.30% 2030	Feb 2020	Feb 2030	2.69%	1,300	1,300
Total Debt Outstanding at Par				4,150	4,150
Unamortized Discount & Debt Issue Costs				(27)	(27)
Carrying value				\$ 4,177	\$ 4,177

DuPont Analysis (2021)

	Profit Margin	Asset Turnover	Leverage Multiplier	ROE %
 Adobe	31%	0.58	1.84	34.37
 Microsoft	36%	0.50	2.35	47.08
 DocuSign®	-17%	0.62	7.17	-55.79
 SAP	19%	0.39	1.71	14.48
 AUTODESK.	32%	0.52	7.54	292.4
 salesforce	19%	0.32	1.60	10.8



Management

Ramzi Issa

Key Executives | Capital Allocation | Mergers & Acquisitions

Key Executives



Shantanu Naryen, *CEO*

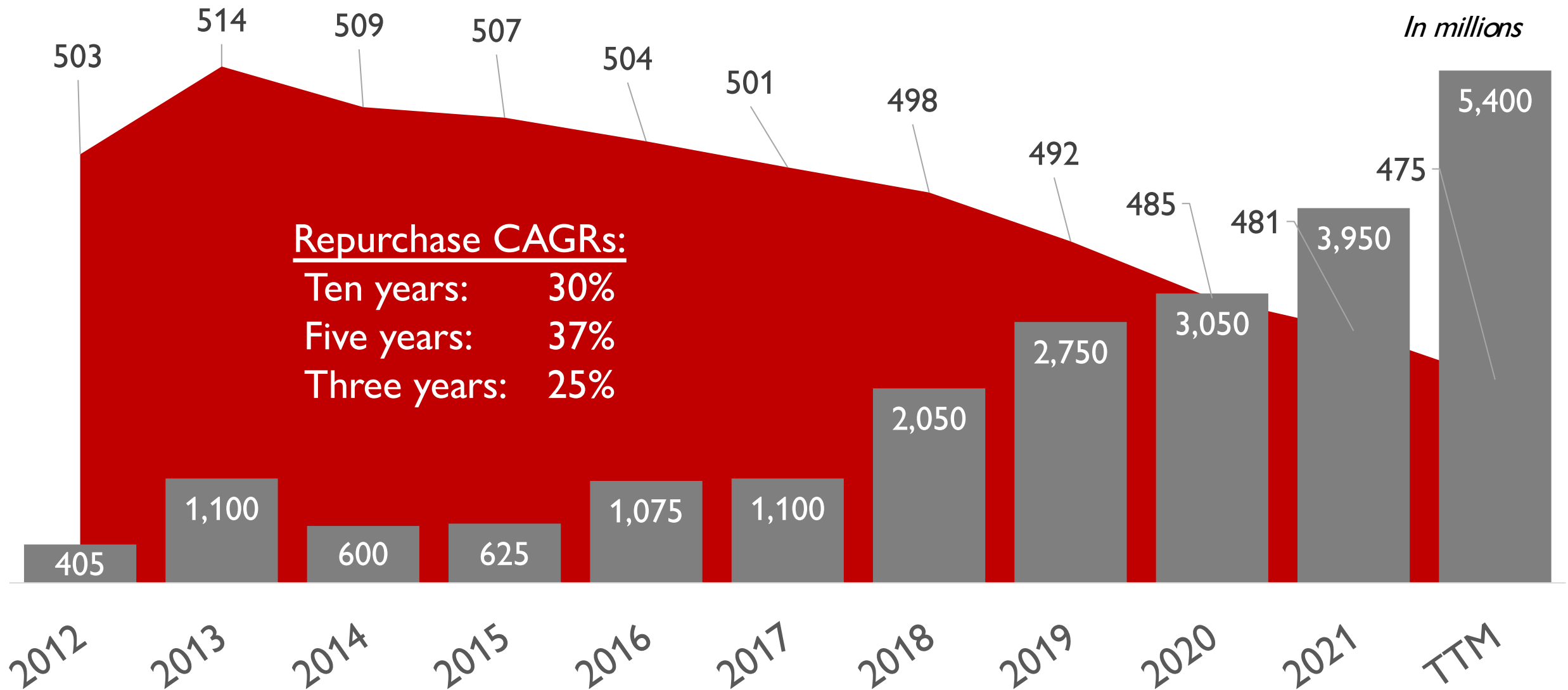
Dan Durn, *CFO*

Ann Lewnes, *CMO*

David Wadhvani, *Pres. Digital Media*

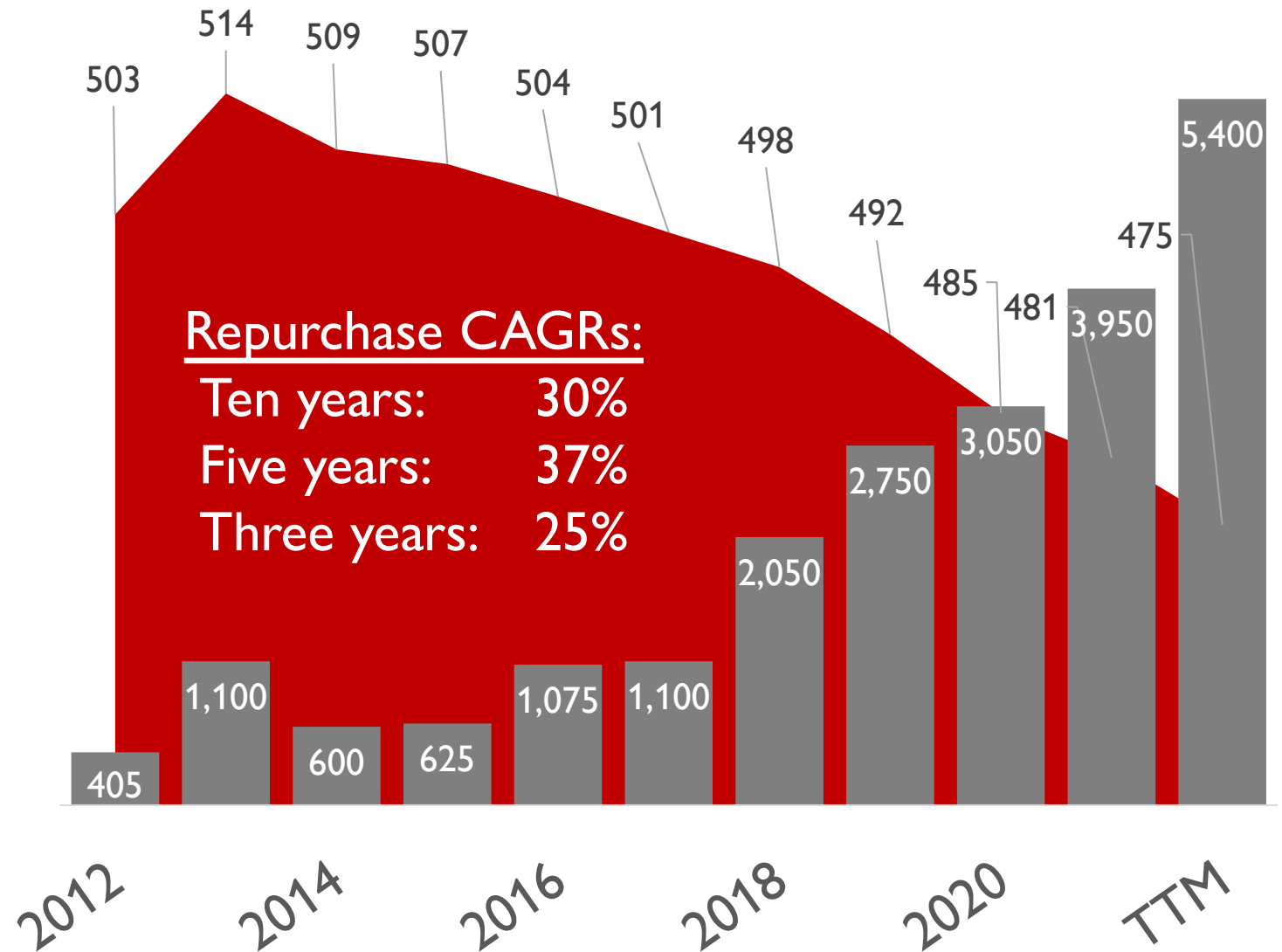
Anil Chakravarthy, *Pres. Digital Experience*

Shares Outstanding & Shares Repurchased

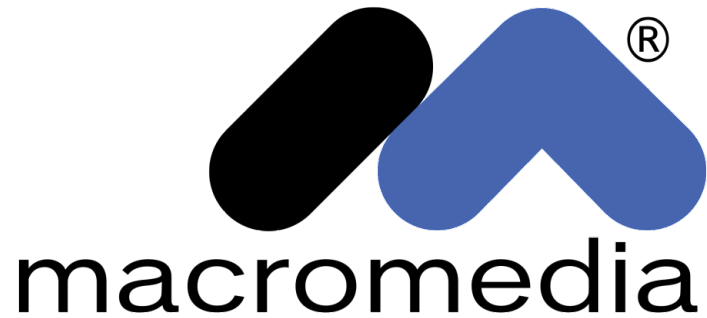


Shares Outstanding & Shares Repurchased

- Current Market Cap: \$203.4B
- 2022 Q1: \$2.1B
- ~1% of Market Cap
- \$10.7B remaining through 2024
- ~5% of Market Cap



Pivotal Mergers & Acquisitions



Dec 3, 2005 – \$3.5bn

- Graphics Multimedia, Web Developing
- Added to Create Suite
 - Flash Player & Shockwave
 - Dreamweaver
 - Fireworks



Sept 15, 2009 – \$1.8bn

- Web Analytics, Measurement, Optimization
- Began Digital Experience Segment
- Integrated workflows for designers/marketers
- Streamlined content creation & delivery of relevant content

Pivotal Mergers & Acquisitions



Oct 3, 2011

- Makers of PhoneGap
 - Open-source platform for building mobile applications
- Primary response to Apple halting support of Flash plug-in



Nov 30, 2011

- Optimization of digital advertising across:
 - Search, Display, Social Media
- Enhanced Digital Marketing Suite by adding:
 - Ad Campaign Optimization
 - Social Marketing Engagement platform

Pivotal Mergers & Acquisitions



May 12, 2018 – \$1.68bn

- Digital Commerce, Predictive Intelligence
- Further enabled shopping experiences for both physical & digital goods



Sept 20, 2018 – \$4.75bn

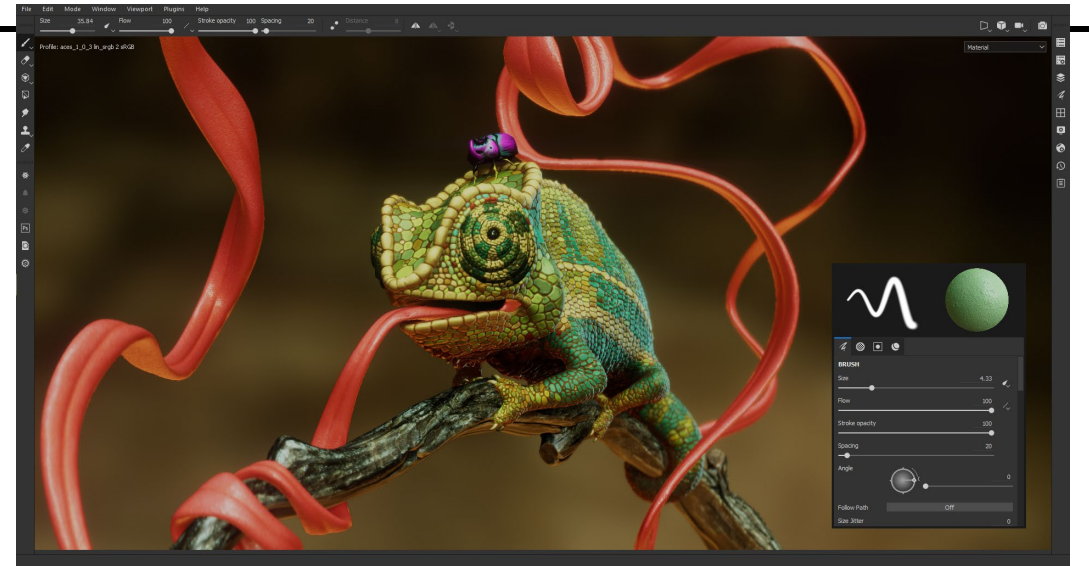
- B2B Marketing Engagement
- Improved connection of marketing engagement and revenue growth
- Aided growth of Marketing Cloud

Pivotal Mergers & Acquisitions



Jan 23, 2019

- Creator of Substance
 - 3D textures & post-production
- Expanded immersive workflows to Creative Cloud



Substance 3D – *Blade Runner 2049*

OSCAR[®]
VISUAL EFFECTS



Pivotal Mergers & Acquisitions



Nov 09, 2020 – \$1.5bn

- Work management platform for Marketers
- Brought efficiencies to collaboration & productivity to marketing teams
- Streamlines planning of collaboration & governance



Oct 7, 2021 – \$1.275bn

- Cloud-based video collaboration platform
- Works with Premiere & AfterEffects
- Enhancement of collaboration for creative projects



Competition

Brandon Chaney

Top competitors | Is Adobe in a good industry?



Competition

Creative Tools & Cloud



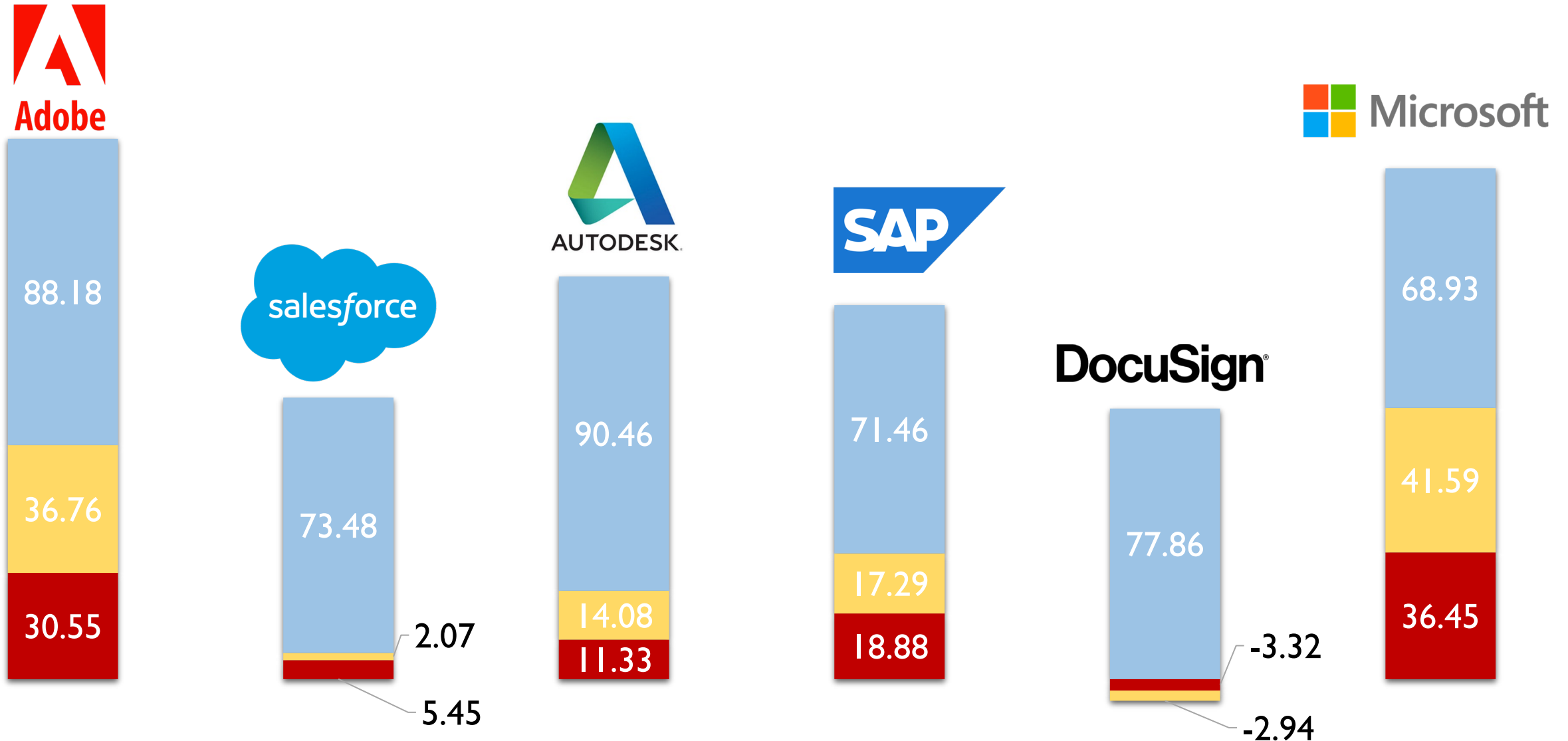
B2B SaaS & DXP



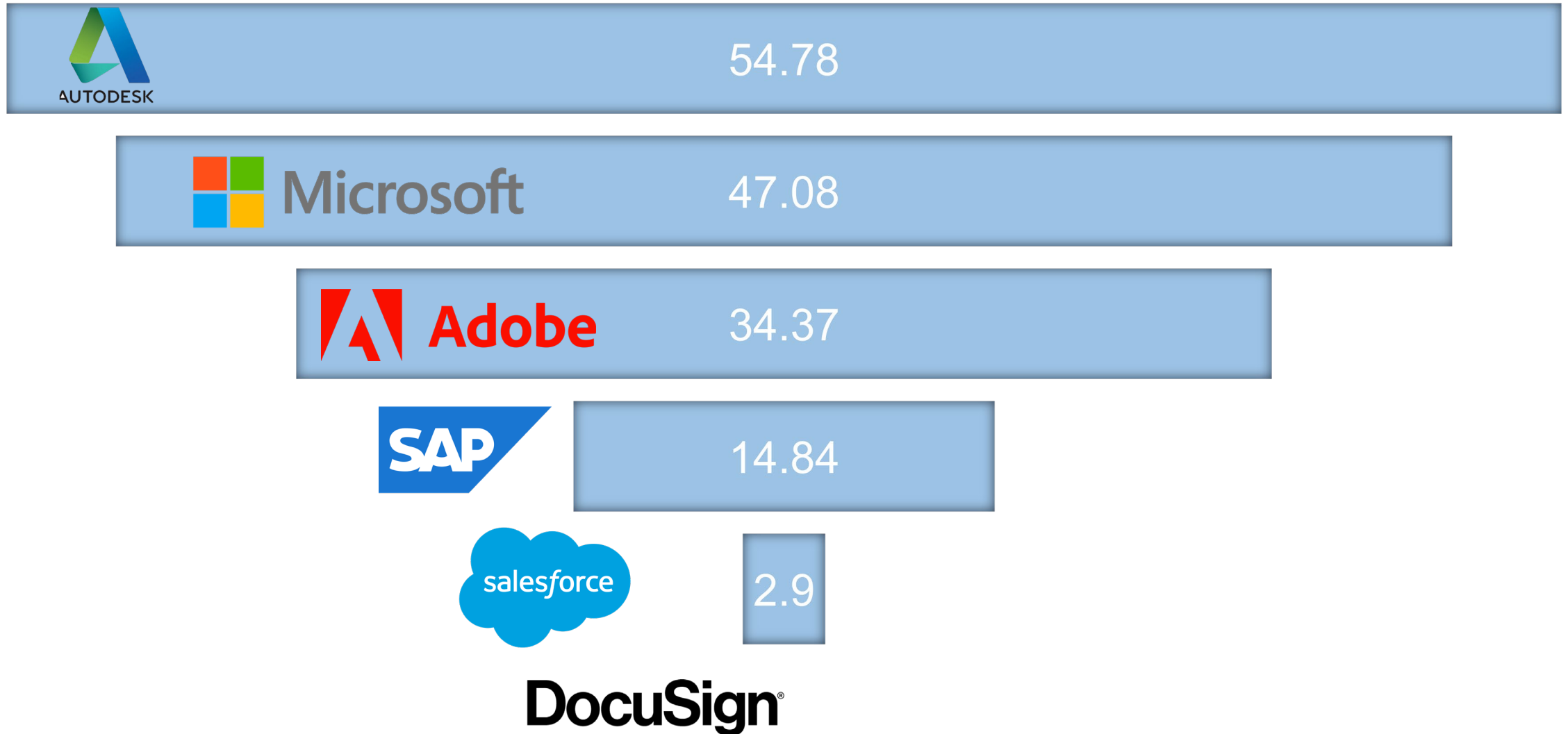
Workflow & Documents



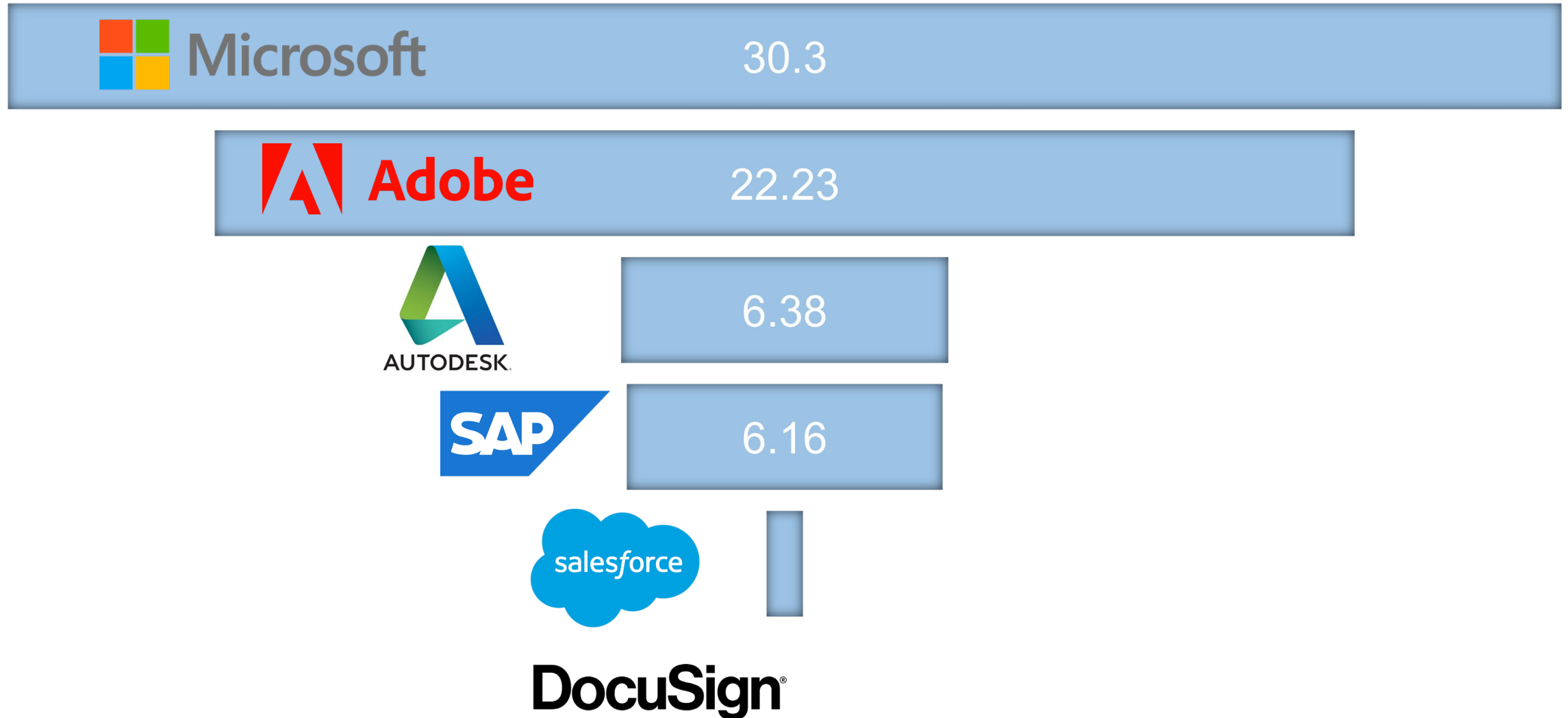
Competition – *Gross, Operating, Net Margins* As a %



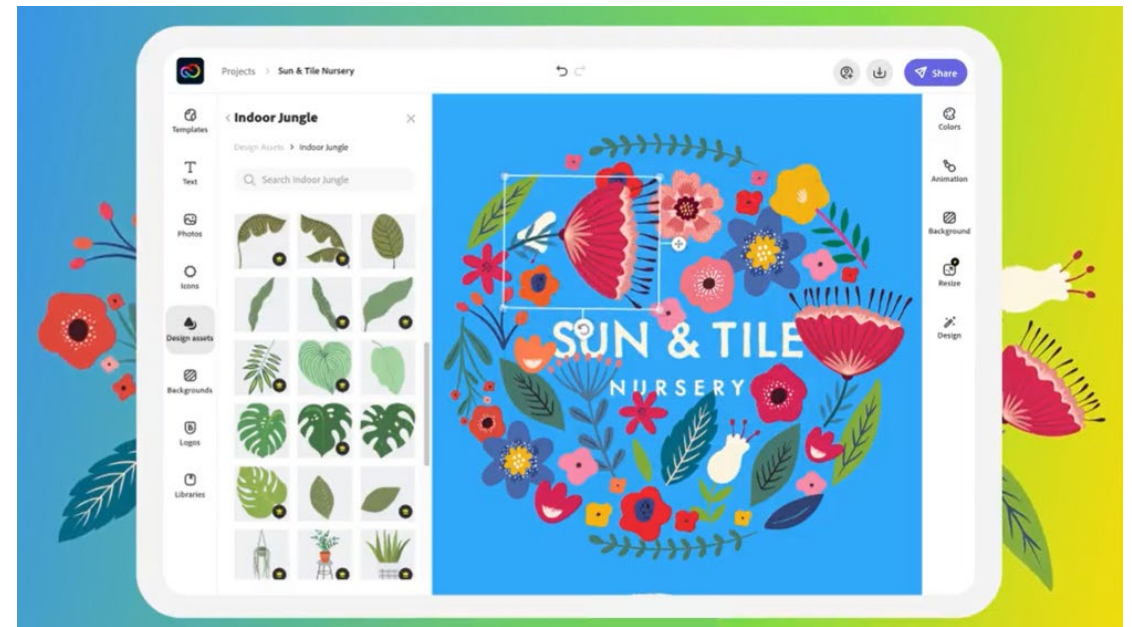
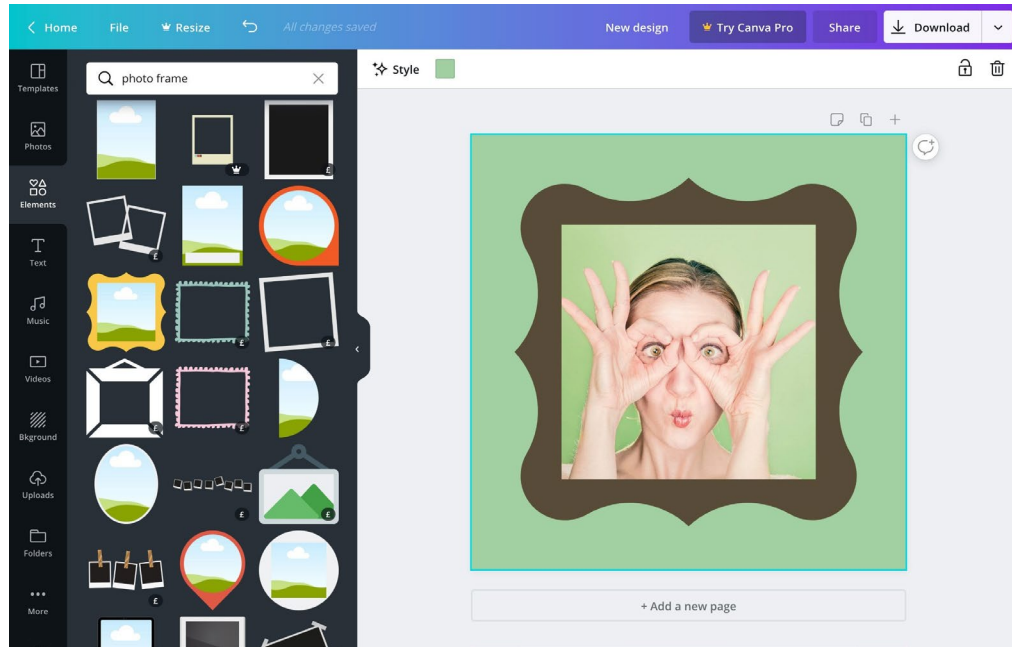
Competition– *Return on Equity*



Competition – *Return on Invested Capital*



Competition – Canva





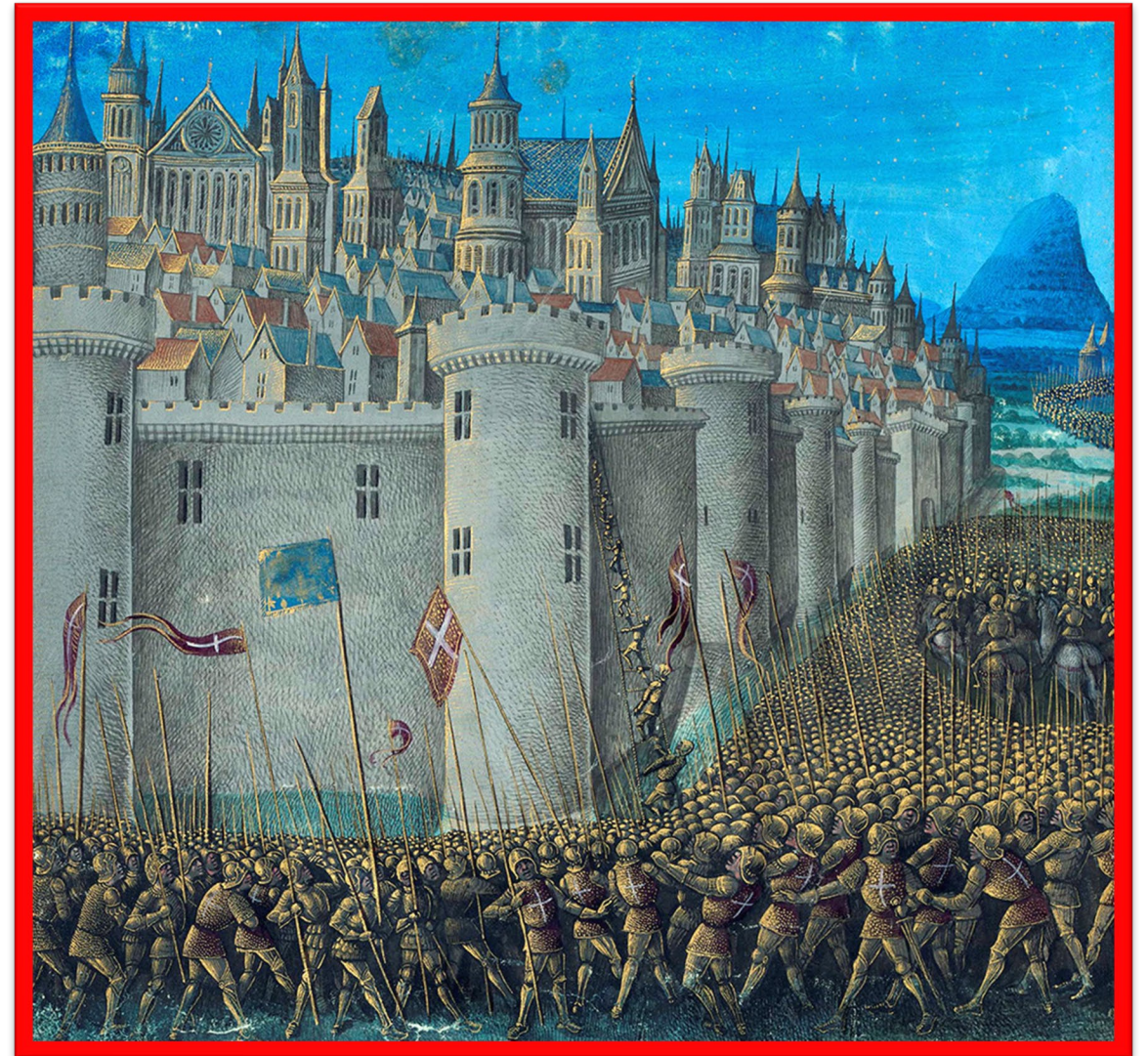
Moat Analysis

Luis Green

Intangible Assets | Network Effects | Switching Costs | Wide Moat

Moat Attack

- Value Investing With The Legends:
 - *Jeff Mueller and Dan Davidowitz*
- You don't know a company has a true moat until it gets attacked
- ADBE since 1982
- Illustrator since 1987
- Photoshop since 1990
- PDF since 1993



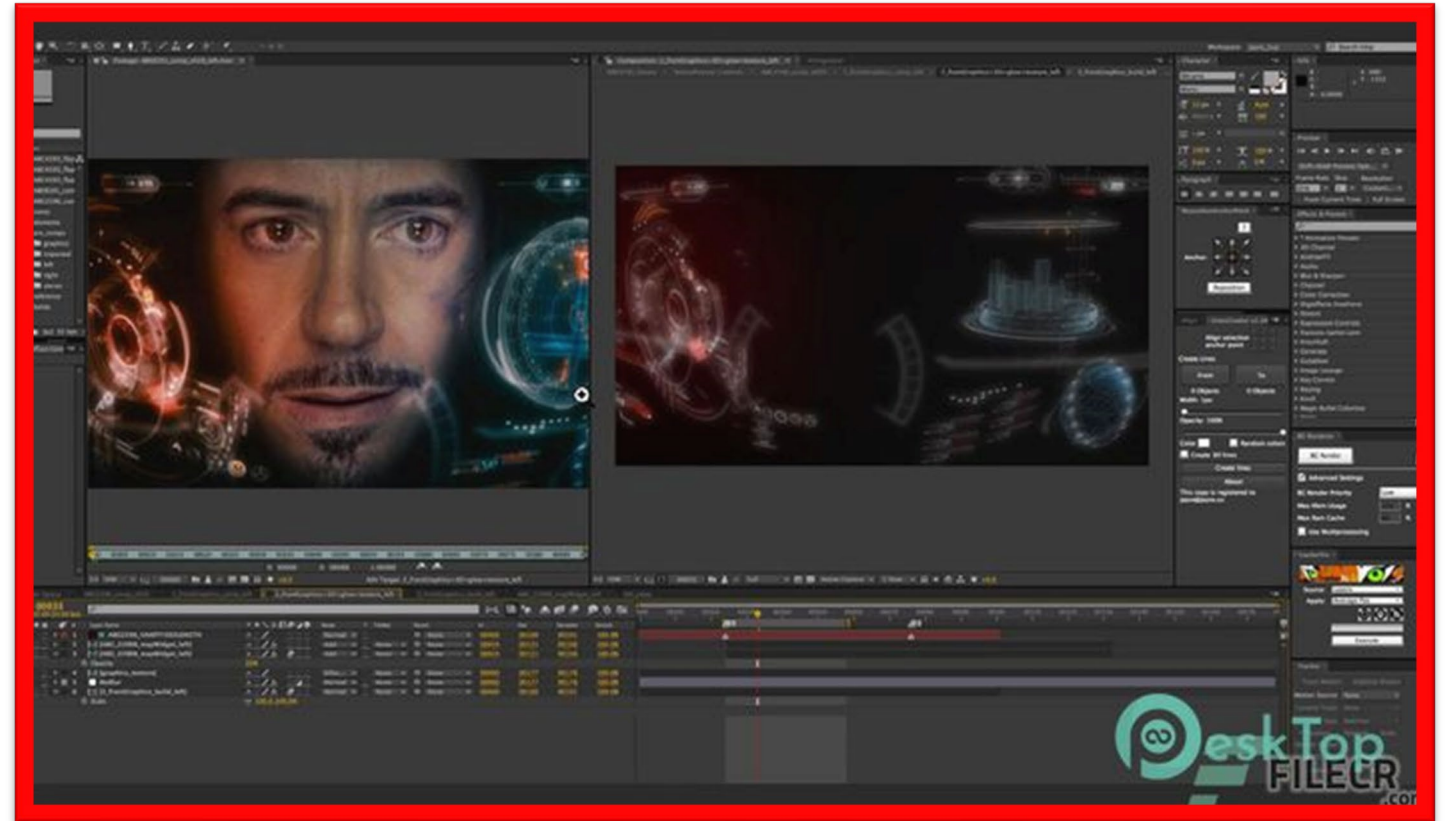
Intangible Assets and Network Effects

- Iconic products
- PDF, Photoshop, Illustrator, In Design, Acrobat, After Effects...
- Incentive to become well versed
- Industry standard
- Creative professionals
- Universities
- Employers



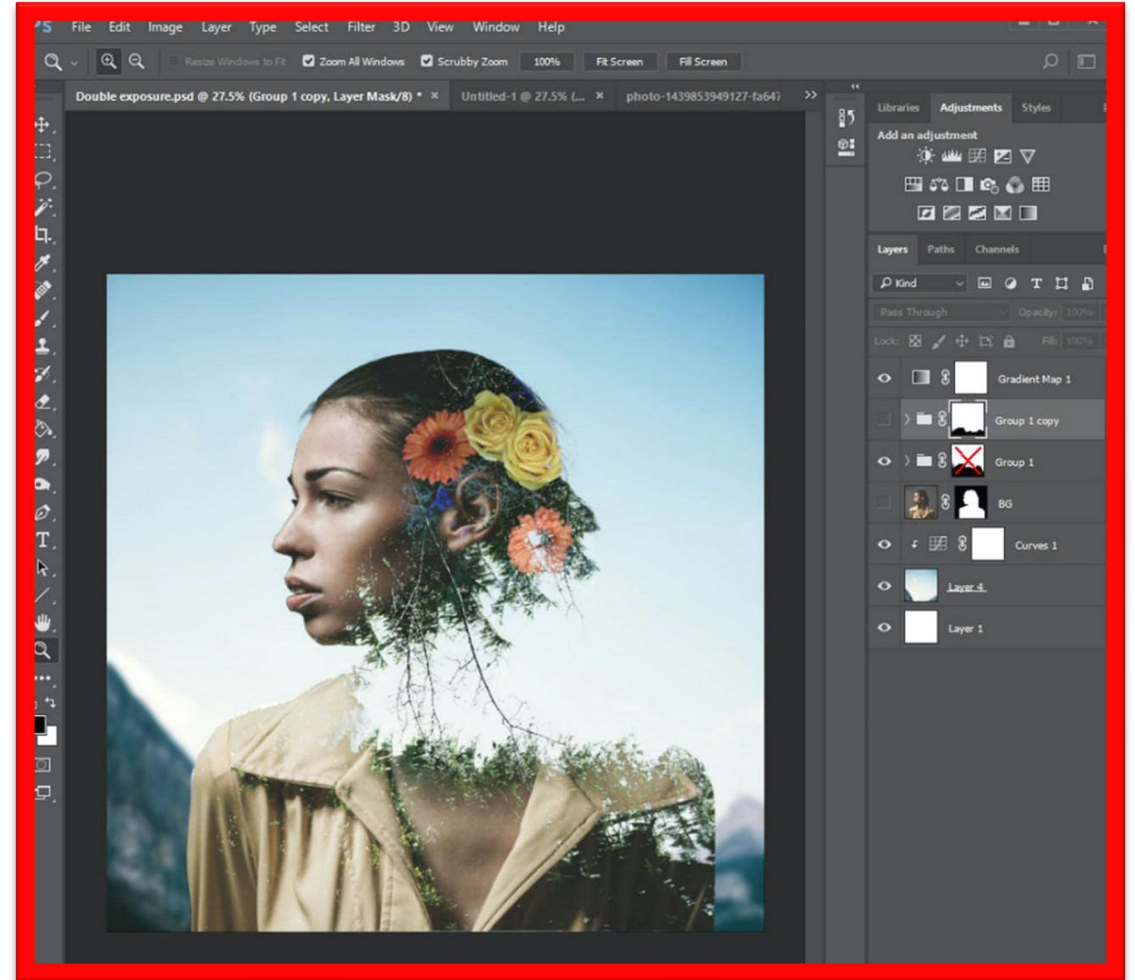
Switching Costs

- Reluctant to switch
- Especially when used by:
 - Professionals
 - Organizations
- Significant time
- Comprehensive
- Lost productivity



Switching Costs *cont.*

- **Photoshop**
 - 2 to 3 months to learn the basics
- **Adobe Illustrator**
 - 6 to 7 months of consistent practice
- **After Effects**
 - 2 to 3 months to learn the basics
- **Premiere Pro**
 - 4 to 5 months of consistent practice and courses





Risk Factors

Luis Green

Wall Street's Mistakes | Progress Disruption



Risk Factors

- Slower growth
- Pandemic boost
- Increased competition
- Cyber security
 - 2012 security breach
- Mergers and Acquisitions
 - Experience Cloud





Growth Opportunities

Ramzi Issa

Expanding Total Addressable Market | Digital Transformation

Updated Total Addressable Markets (TAMs)

2024 Total Addressable Market
~\$205B



Creative Cloud
~\$63B



Document Cloud
~32B



Experience Cloud
~110B

What's causing this growth?

What's causing this growth?

Digital Transformation

Using digital tech to meet changing business and market expectations.

Hybrid Work & Education Environment

- Accenture survey:
 - 83% prefer *hybrid* work model
- Different environment needs new tools

PDF web services

Convert to PDF	JPG to PDF
Word to PDF	PDF to Word
PPT to PDF	PDF to PPT
Excel to PDF	PDF to Excel
PDF to JPG	Reorder PDF Pages
Edit PDF	Compress PDF
Rotate PDF Pages	Merge PDFs
Delete PDF Pages	Split PDF
Extract PDF Pages	Request Signatures
Insert PDF Pages	Fill & Sign
	Protect PDF

Apps

Desktop

Acrobat Reader DC	Acrobat Pro DC	Acrobat Standard DC

Web

Acrobat	Adobe Sign

Mobile

Acrobat Reader	Adobe Sign	Adobe Scan

E-commerce & Personalized Experiences

- \$1T in E-commerce sales
(Adobe Econ. Index)
- Every business needs a digital presence
- Tailored customer engagements



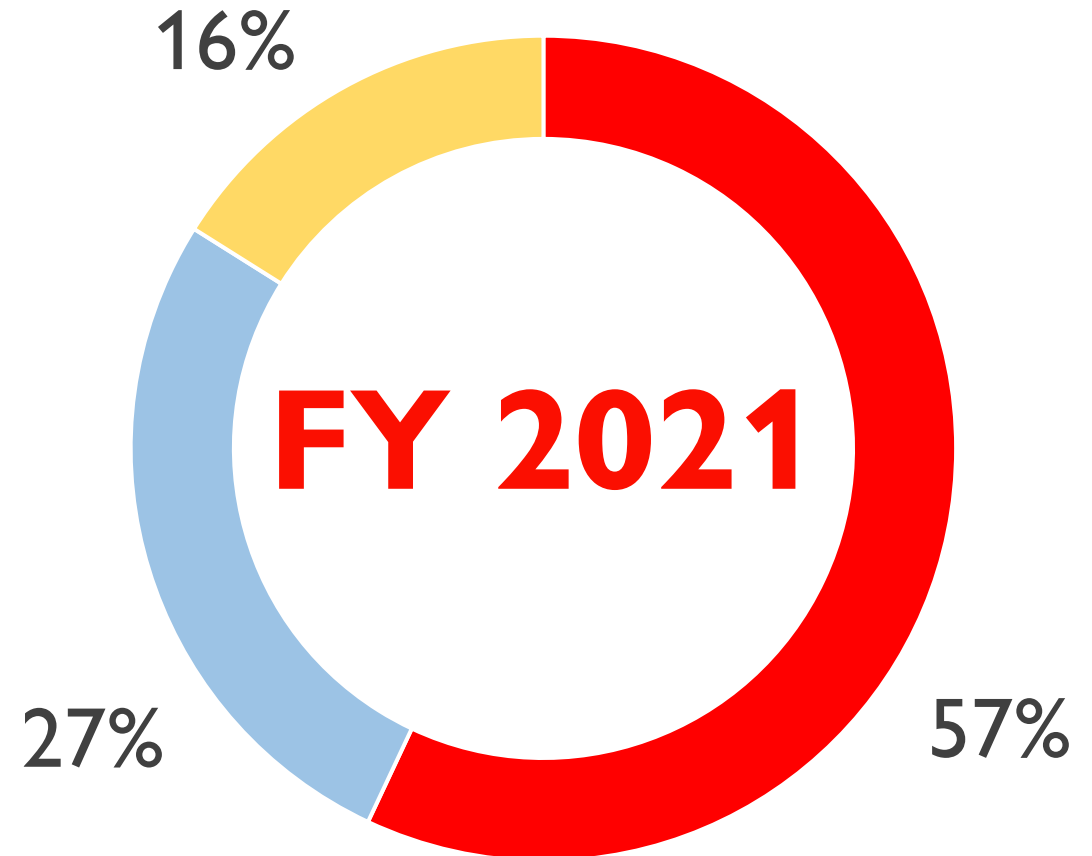
Expanding Creator Economy

- Democratize content creation – Creative Cloud
- >1B active social media accts. posting content & building audience
- Everyone is a content creator



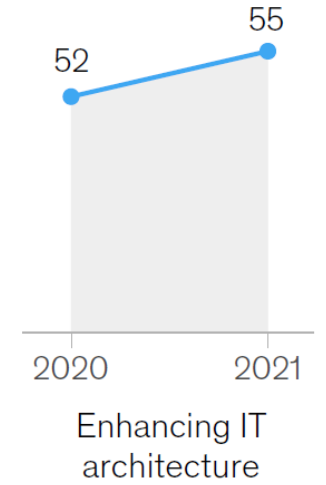
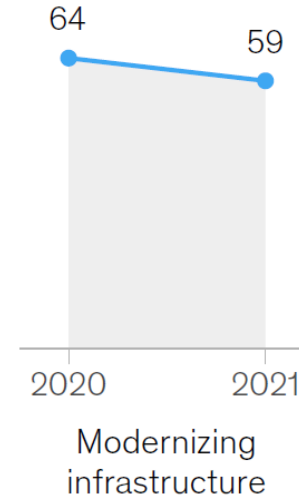
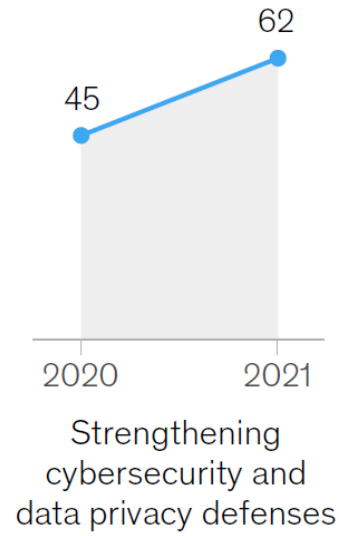
International Expansion

	<i>In millions</i>
Americas	\$8,996
EMEA	\$4,252
APAC	\$2,537



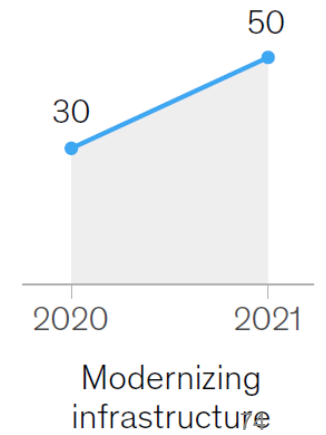
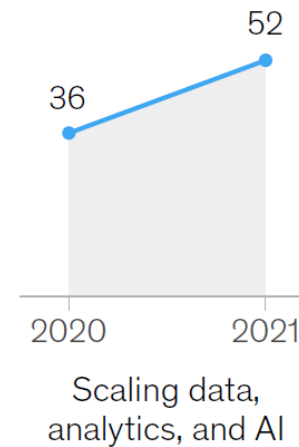
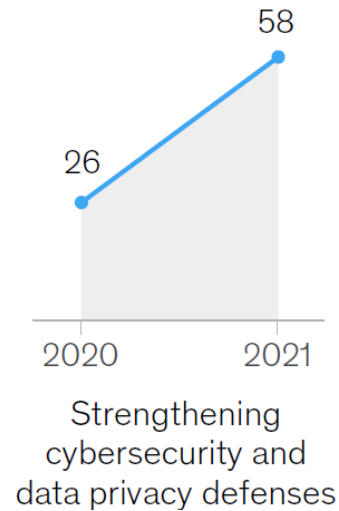
Shifting Priorities in the Information Age

Top technology transformations companies have pursued in **past** 2 years,¹%



100

Top technology transformations companies plan to pursue in **next** 2 years,¹%



100



Valuation

Ethan Sanchez

Value Bands | Quality Metrics | Discounted Cashflows

Terry Smith – Why Quality Matters

1. Don't overpay
2. Only invest in good companies
3. Do nothing

Terry Smith – Why Quality Matters

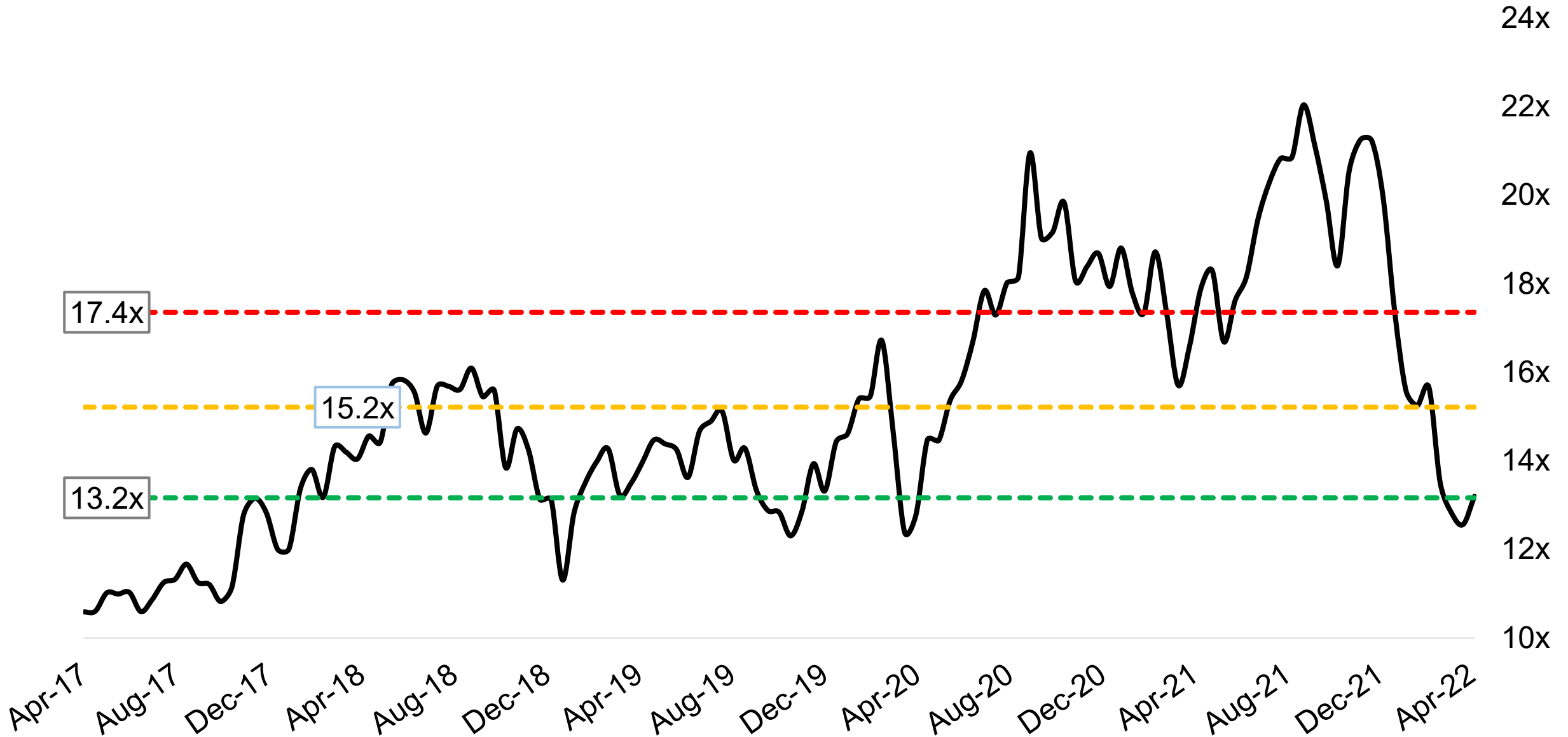
1. Don't overpay

2. Only invest in good companies

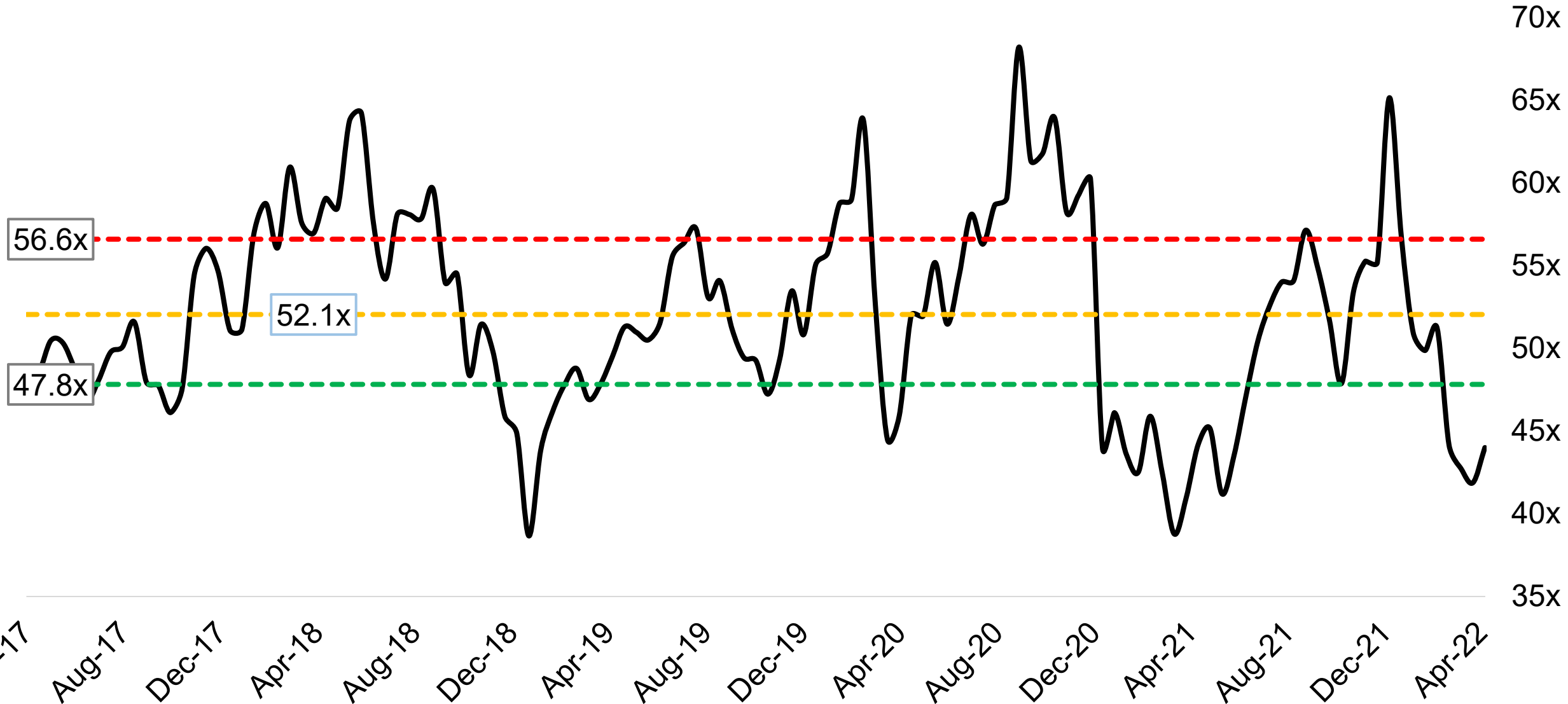
3. Do nothing



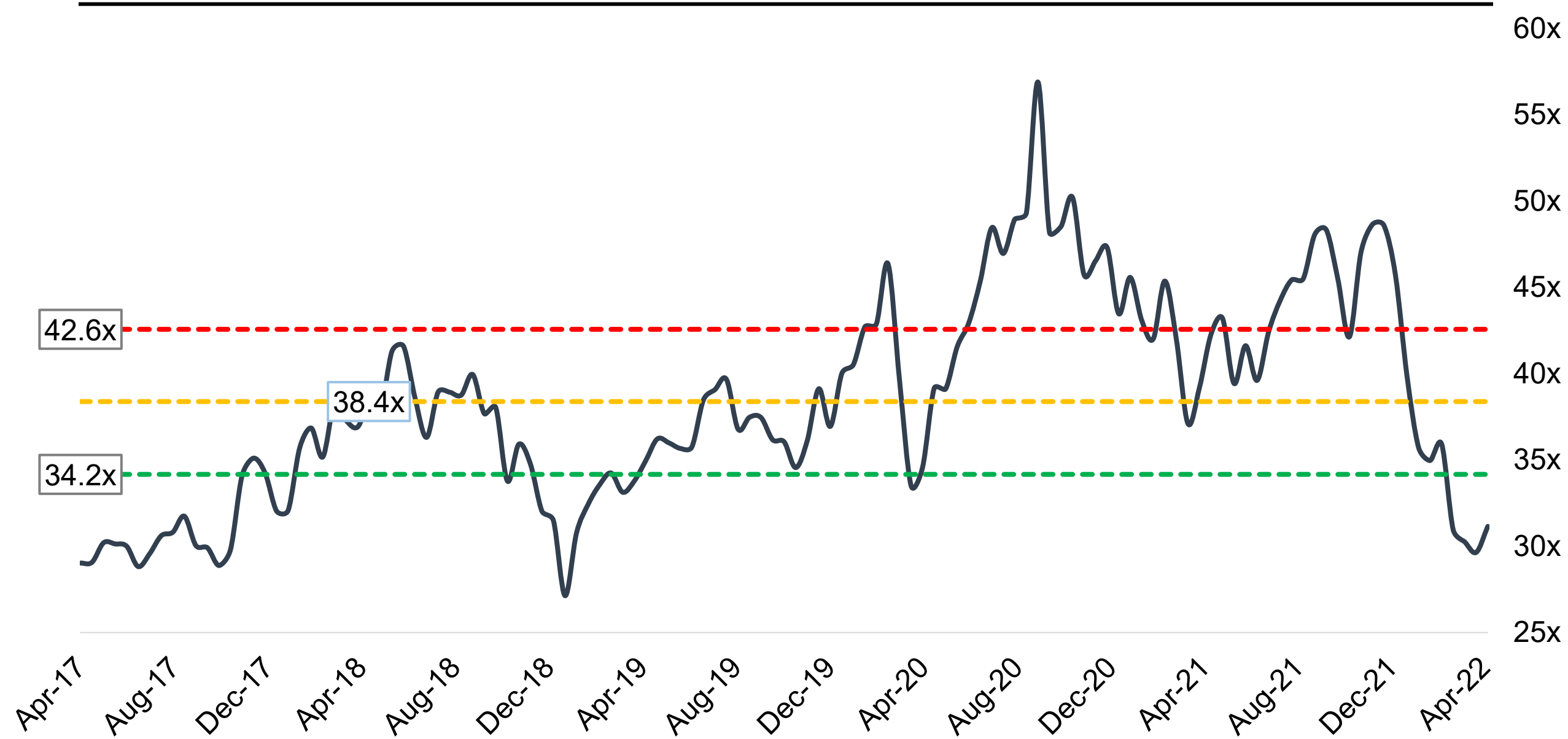
Price to Sales



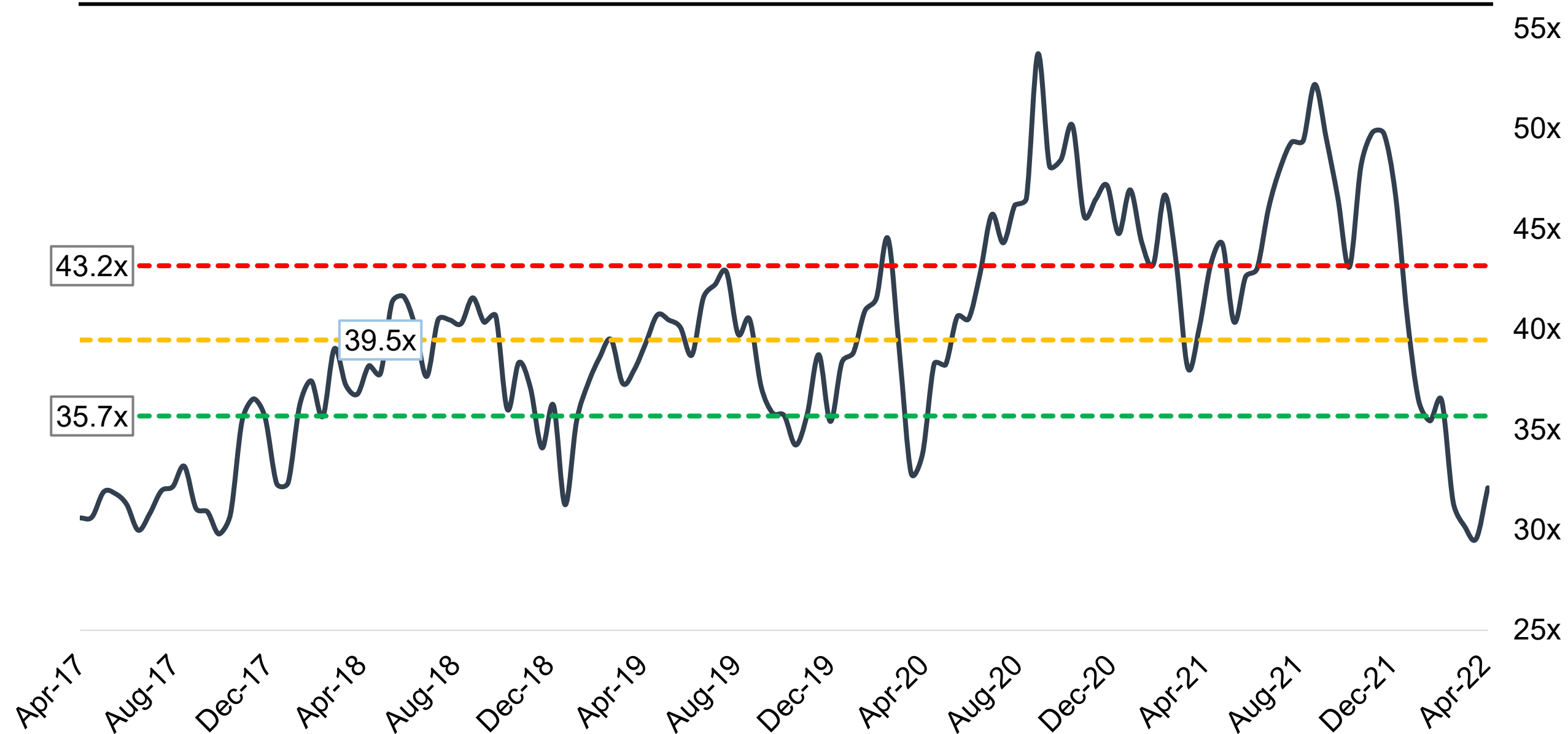
Price to Earnings



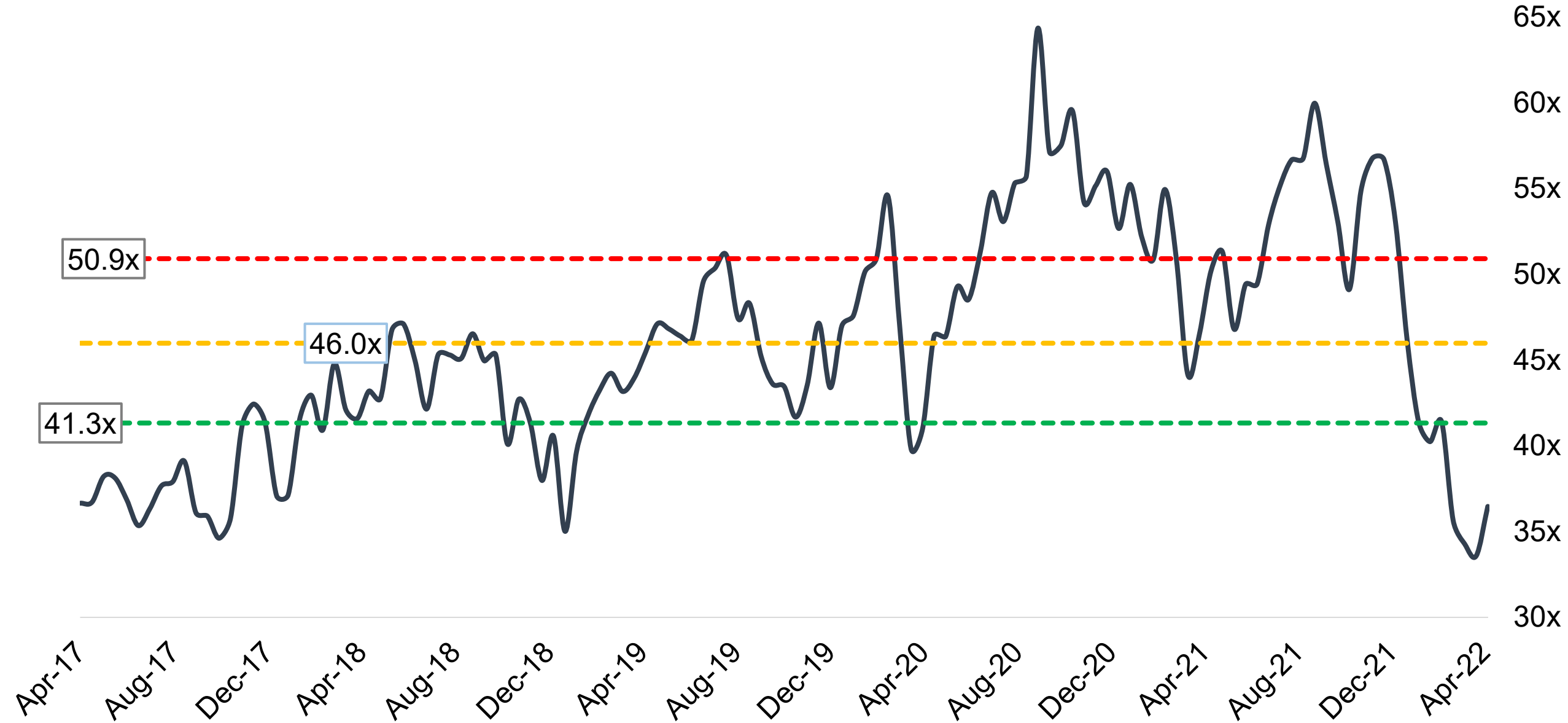
Price to Free Cash Flow



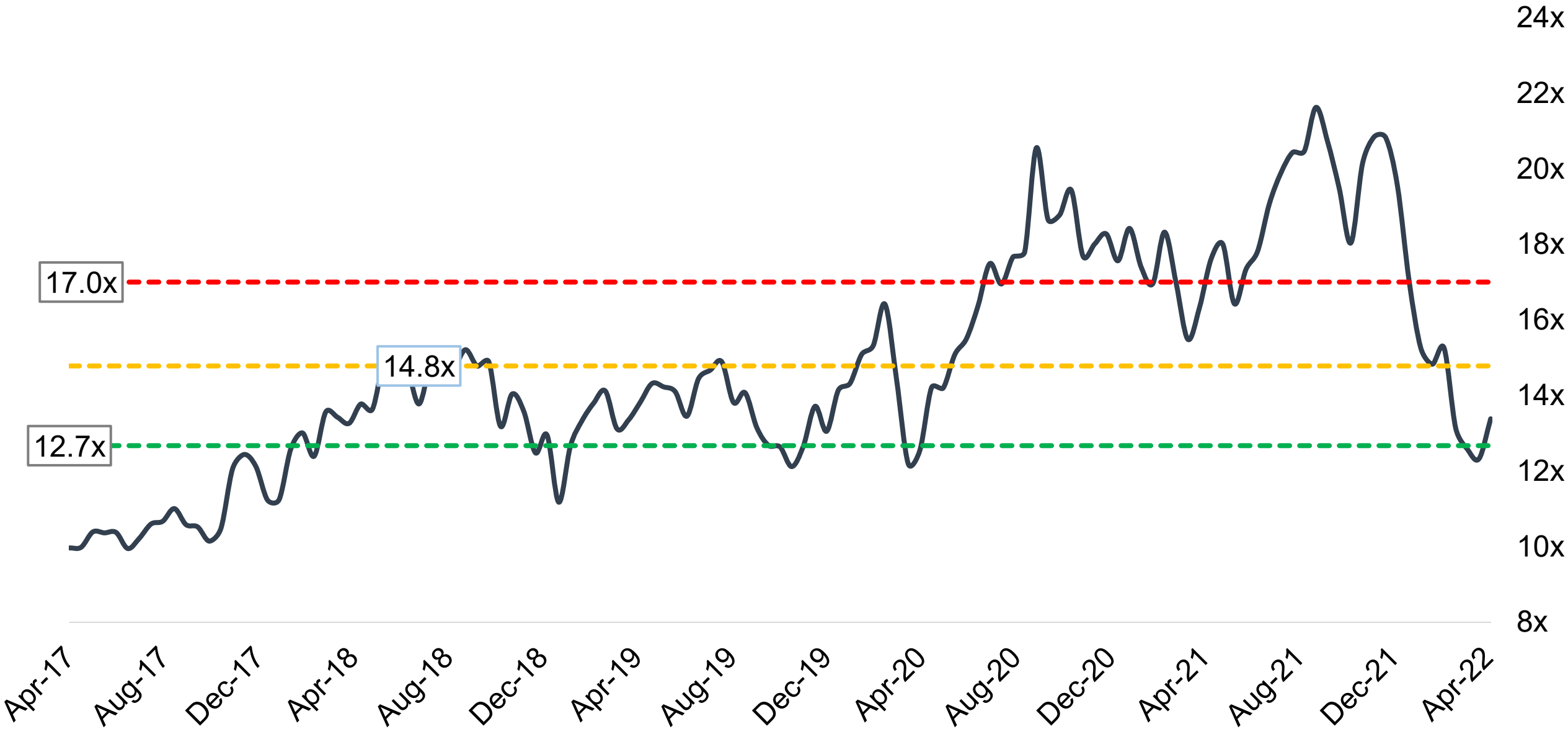
EV to EBITDA



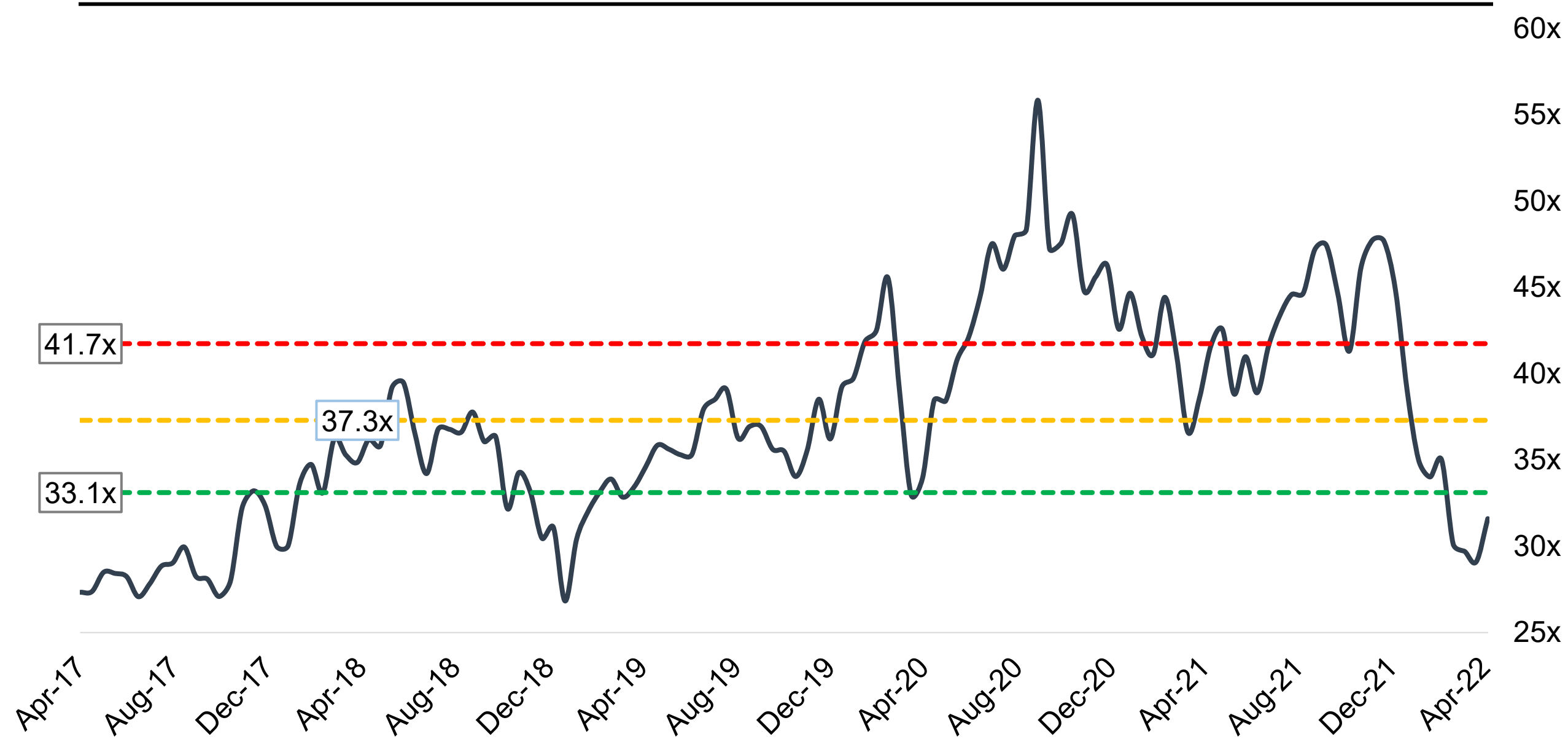
EV to EBIT



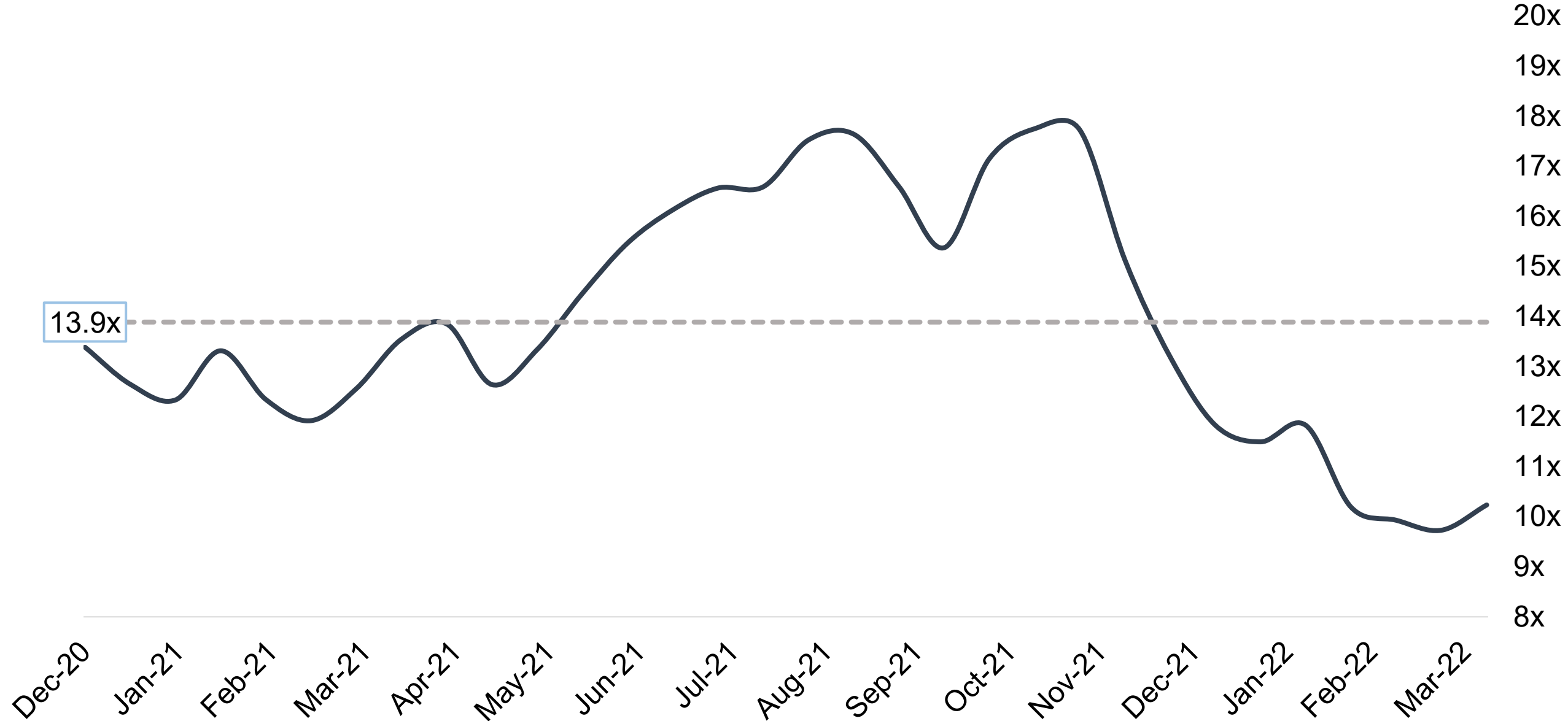
EV to Sales



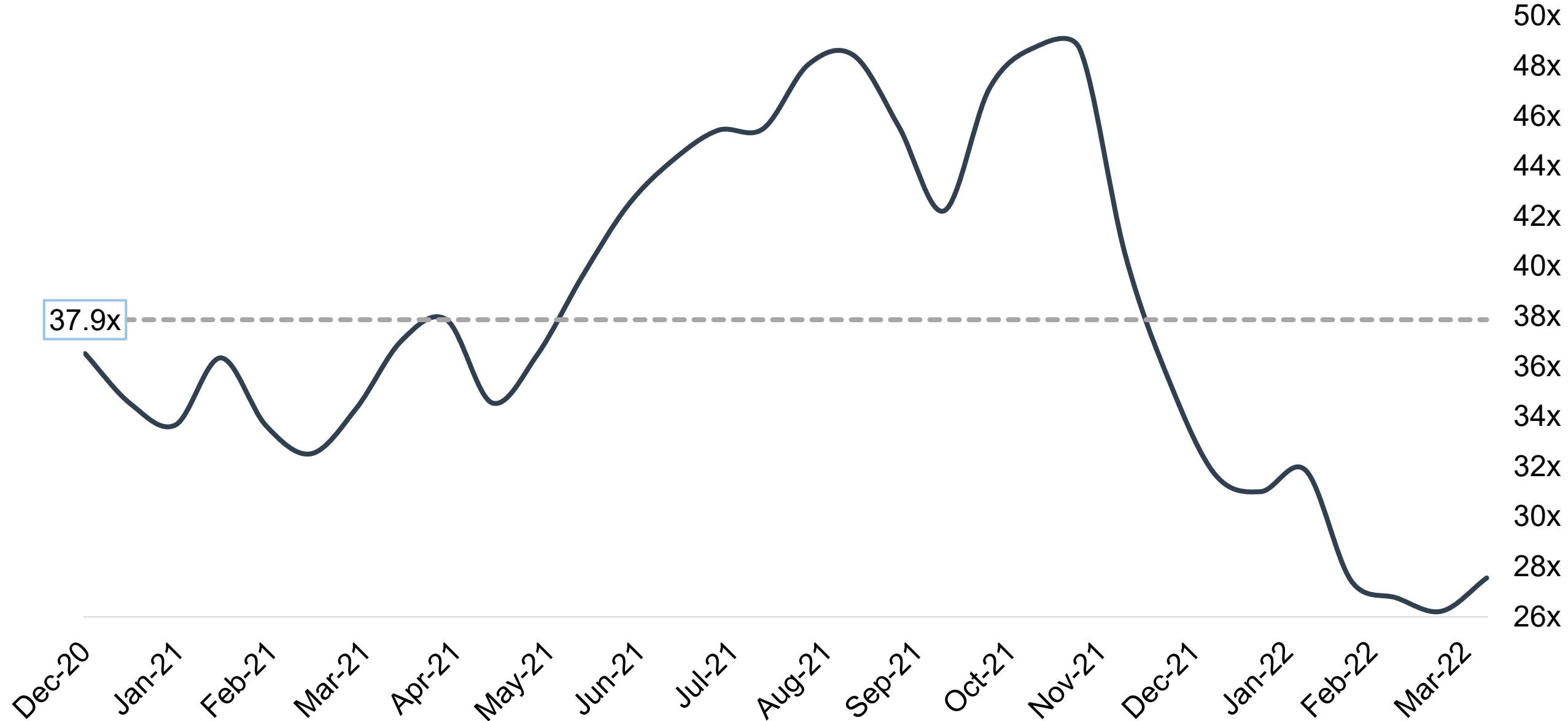
EV to Free Cash Flow



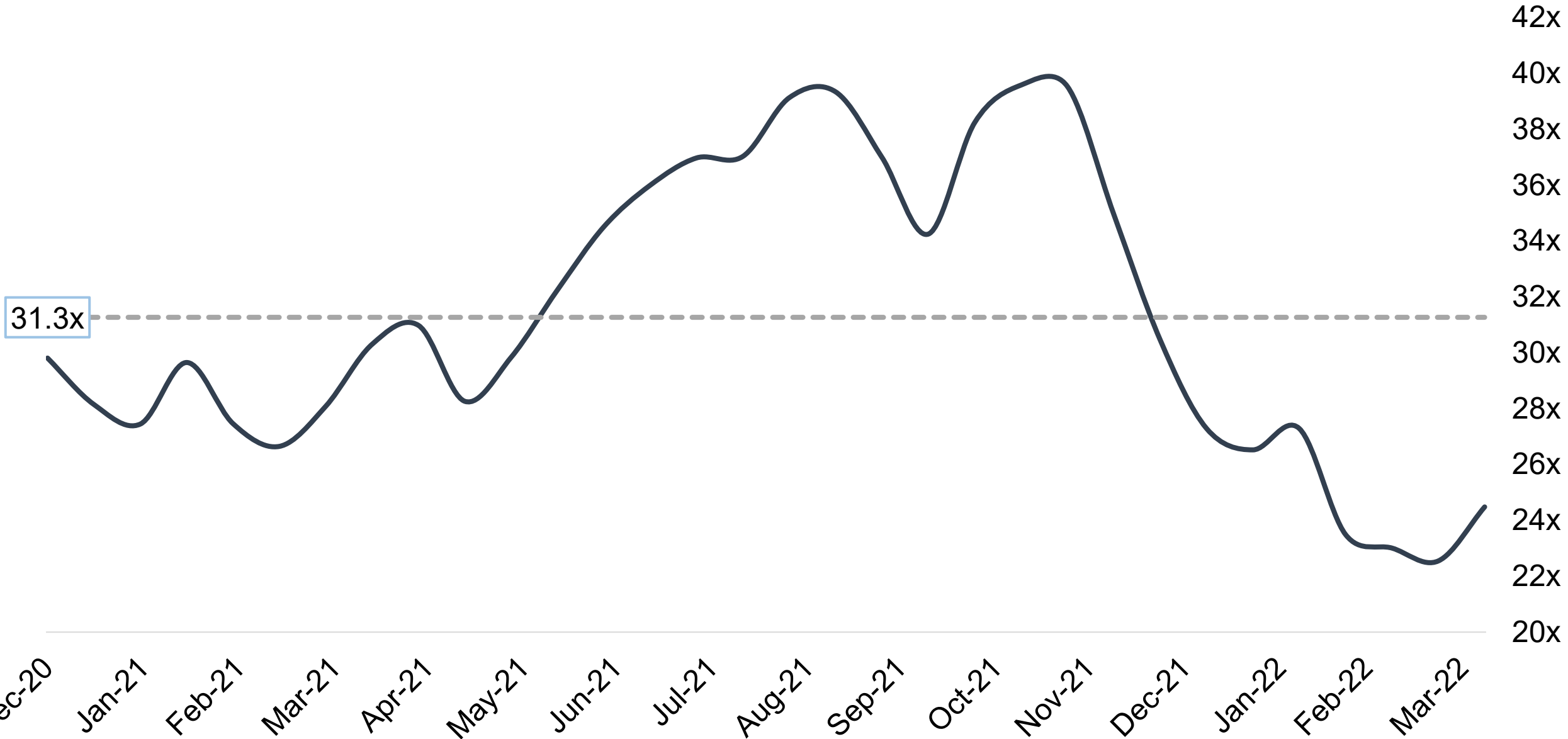
Forward Price to Sales



Forward Price to Earnings



Forward EV to EBITDA



Terry Smith – Why Quality Matters

1. Don't overpay

2. Only invest in good companies

3. Do nothing

Terry Smith – Why Quality Matters

1. Don't overpay

2. Only invest in good companies

3. Do nothing



Terry Smith – *Why Quality Matters*

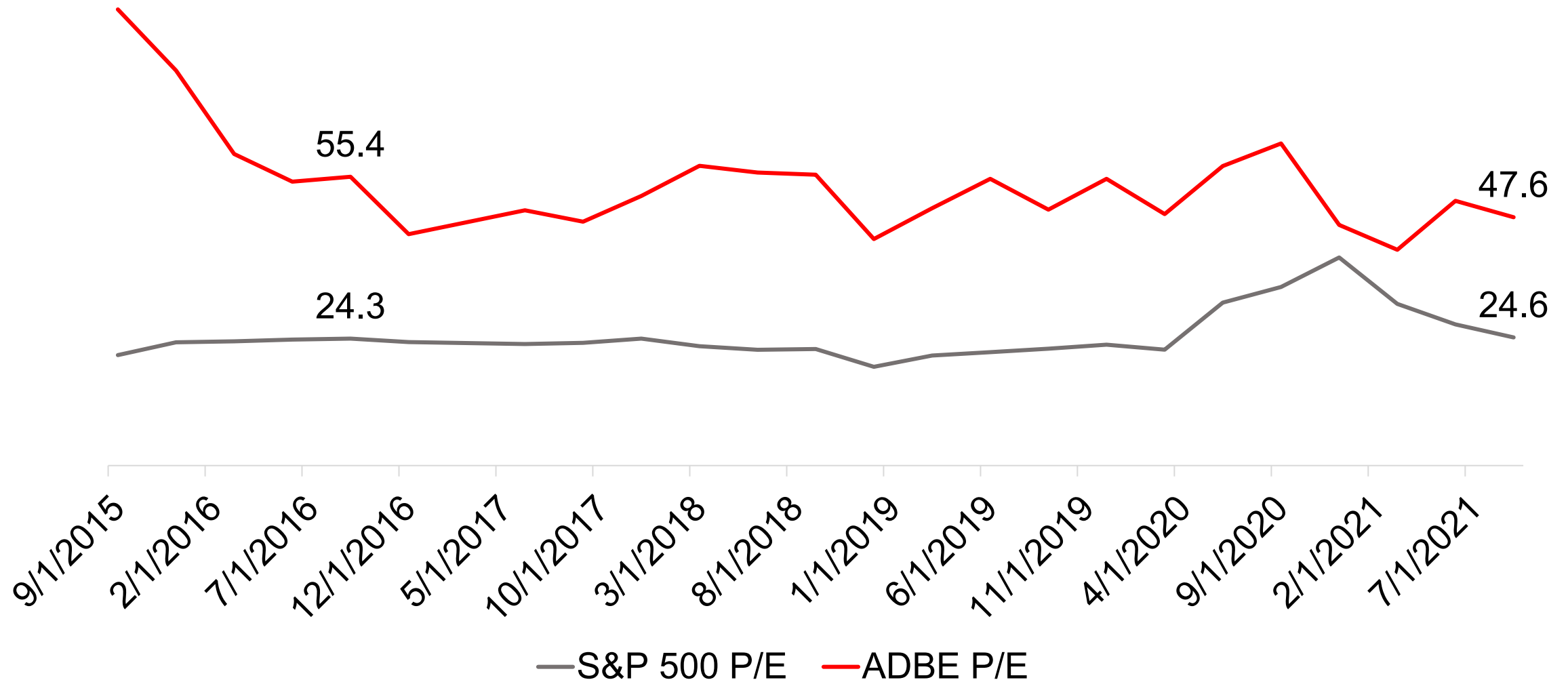
Price to Free Cash Flow



Price to Earnings



Terry Smith – Why Quality Matters



Terry Smith – Why Quality Matters

	S&P 500	ADBE
ROCE	16%	30%
Gross Profit Margin	45%	88%
Operating Margin	17%	36%
Net Profit Margin	13%	31%

Historical Growth Rates

CAGR	10-Year	5-Year	3-Year
Net Income	19%	32%	20%
EPS (Diluted)	20%	33%	21%
FCF	19%	18%	13%
FCF PS	19%	21%	20%

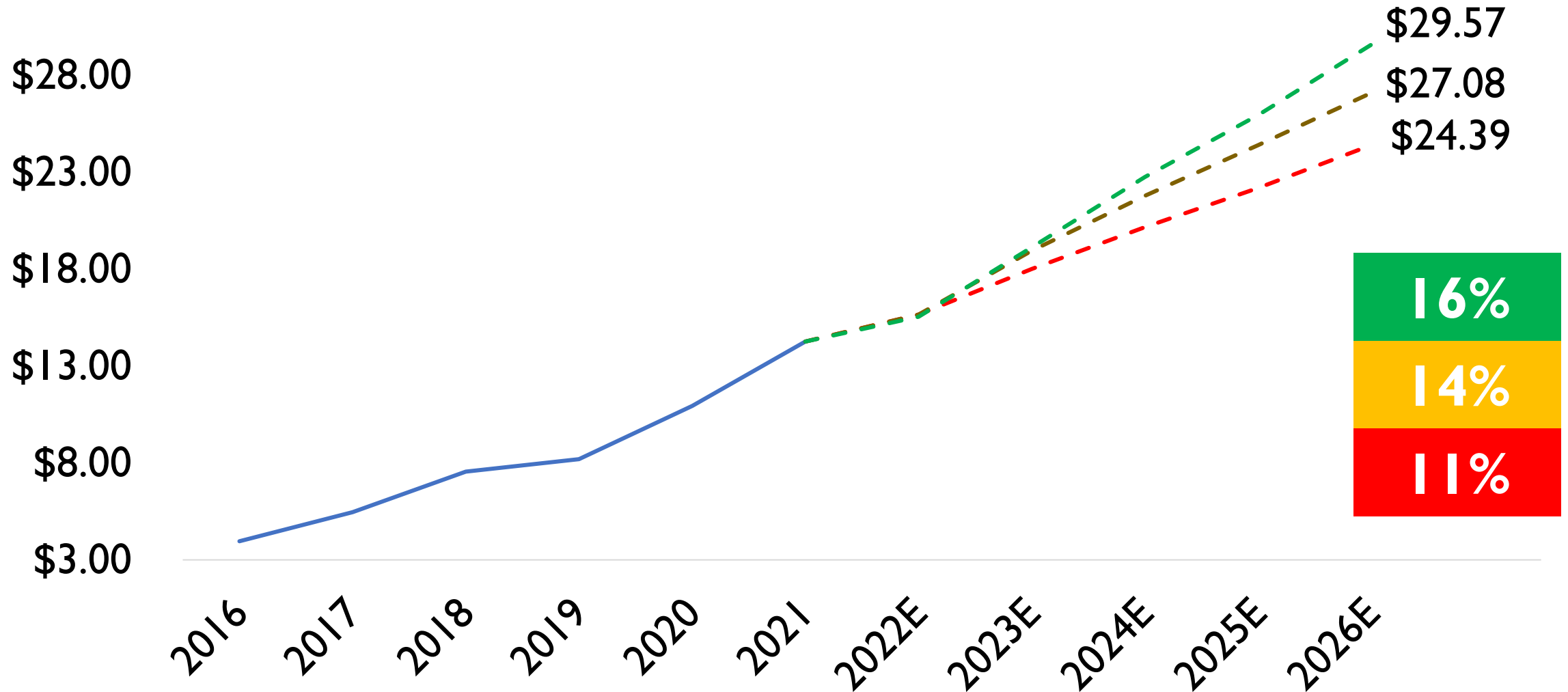
Forward Expected Growth

	Type	Years	Growth Rate
Value Line	Revenue	5	14.5%
Morningstar	Revenue	5	14%
Value Line	EPS	5	11.29%
Y-Charts	EPS	Long-Term	16.86%
Goldman Sachs	EPS	3	19%
Management	EPS	1	9%
Goldman Sachs	FCF	3	15%
Bear	FCF	5	11%
Base	FCF	5	14%
Bull	FCF	5	16%

Inputs for 5-year Valuation Model

	Bear	Base	Bull
TTM FCF PS	\$14.36	\$14.36	\$14.36
P/FCF	20x	30x	40x
Growth Rate	11%	14%	16%
Discount Rate	9%	9%	9%
PEG	1.81	2.14	2.5

Free Cash Flow Valuation Model



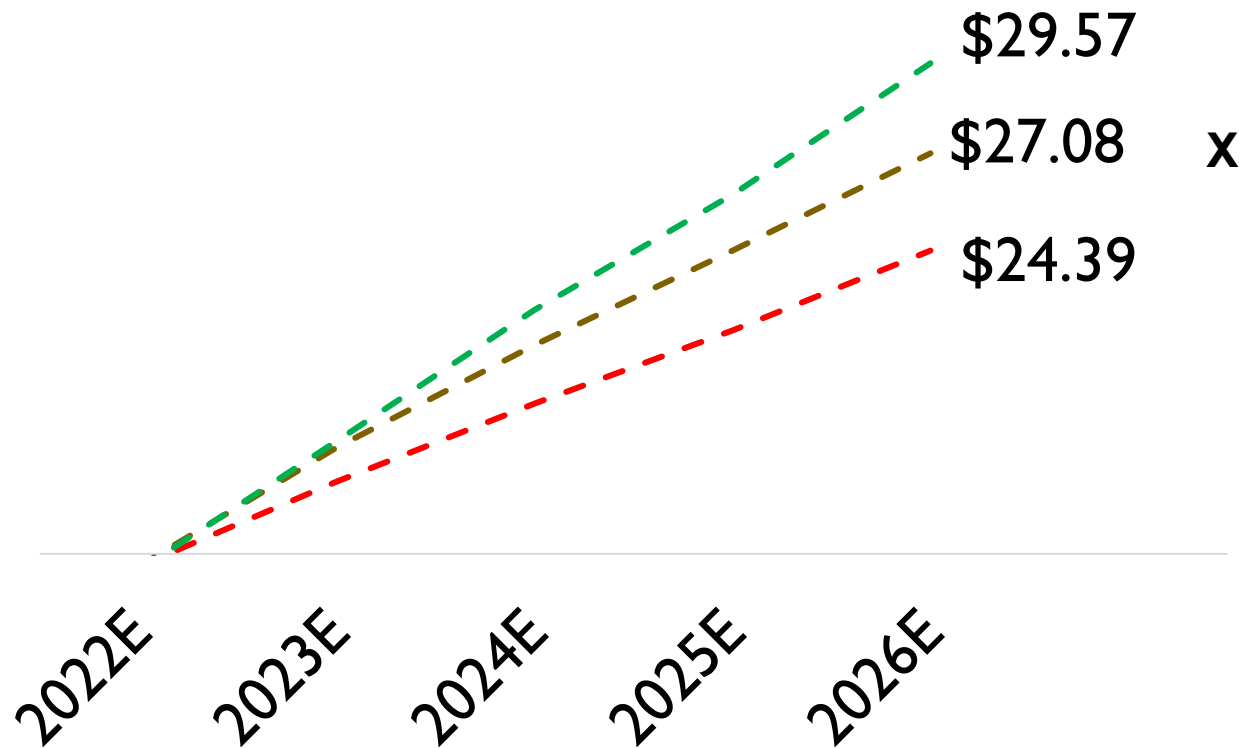
Free Cash Flow Valuation Model

Current Price:
\$444

P/FCF

**Average
Future Price**

**Expected
Annualized
ROR**



40x

\$893

15%

x

30x

=

\$812

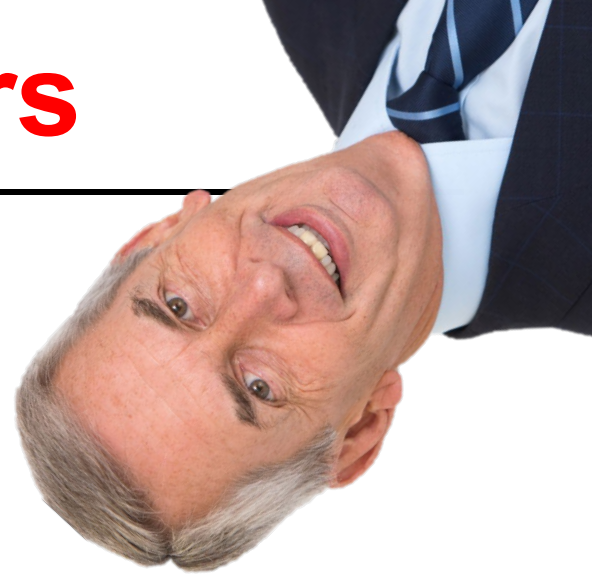
12.8%

20x

\$731

10.5%

Terry Smith – Why Quality Matters



1. Don't overpay
2. Only invest in good companies
- 3. Do nothing**

Sensitivity Analysis

Sensitivity Analysis				
\$14.36		Est. FCF PS growth rate		
Current Price: \$444		11%	14%	16%
P / FCF	20.0x	1.9%	4.0%	6.0%
	30.0x	10.5%	12.8%	15.0%
	40.0x	17.0%	19.5%	21.8%



Conclusion

Ramzi Issa

Take Action, Do Nothing.



Take Action, Do Nothing.

- Cash flow machine
- All four sources of Economic Moat
- Capital-light – *nerds w/ computers!*
- Massive tailwinds
- Rock-solid balance sheet
- One of our best ideas
- Underweighted at ~3%

Proposal

Increase Adobe (ADBE) position to 8% via market order at current price.

Thank You, Rich & Santi!





Adobe

Q&A

April 08, 2022



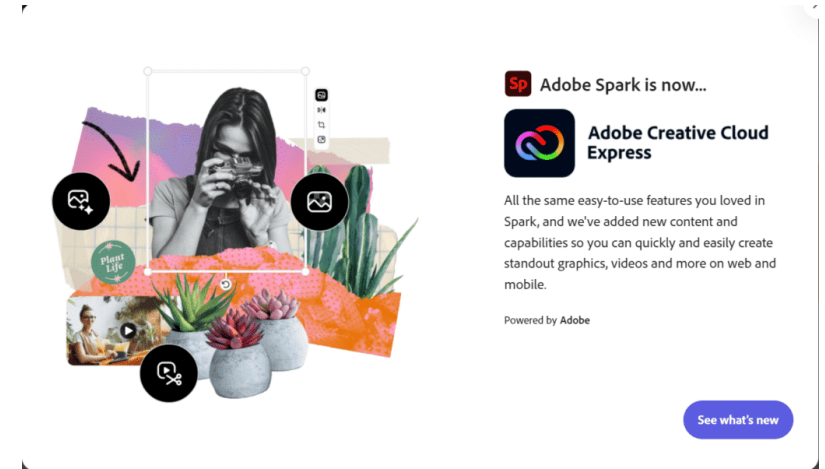


Appendix



Recent News

- October 2021 – Frame.io Acquisition
- Q1 FY2022 – Share Repurchases
 - \$2.1B During Quarter
 - \$10.7B remaining of \$15B repurchase program through 2024
- December 2021 – Launched Creative Cloud Express



Recent News – Creative Cloud Price Increase

Announced Creative Cloud Price Increase (Effective April 2022)

- **Individual “All Apps” Plan**

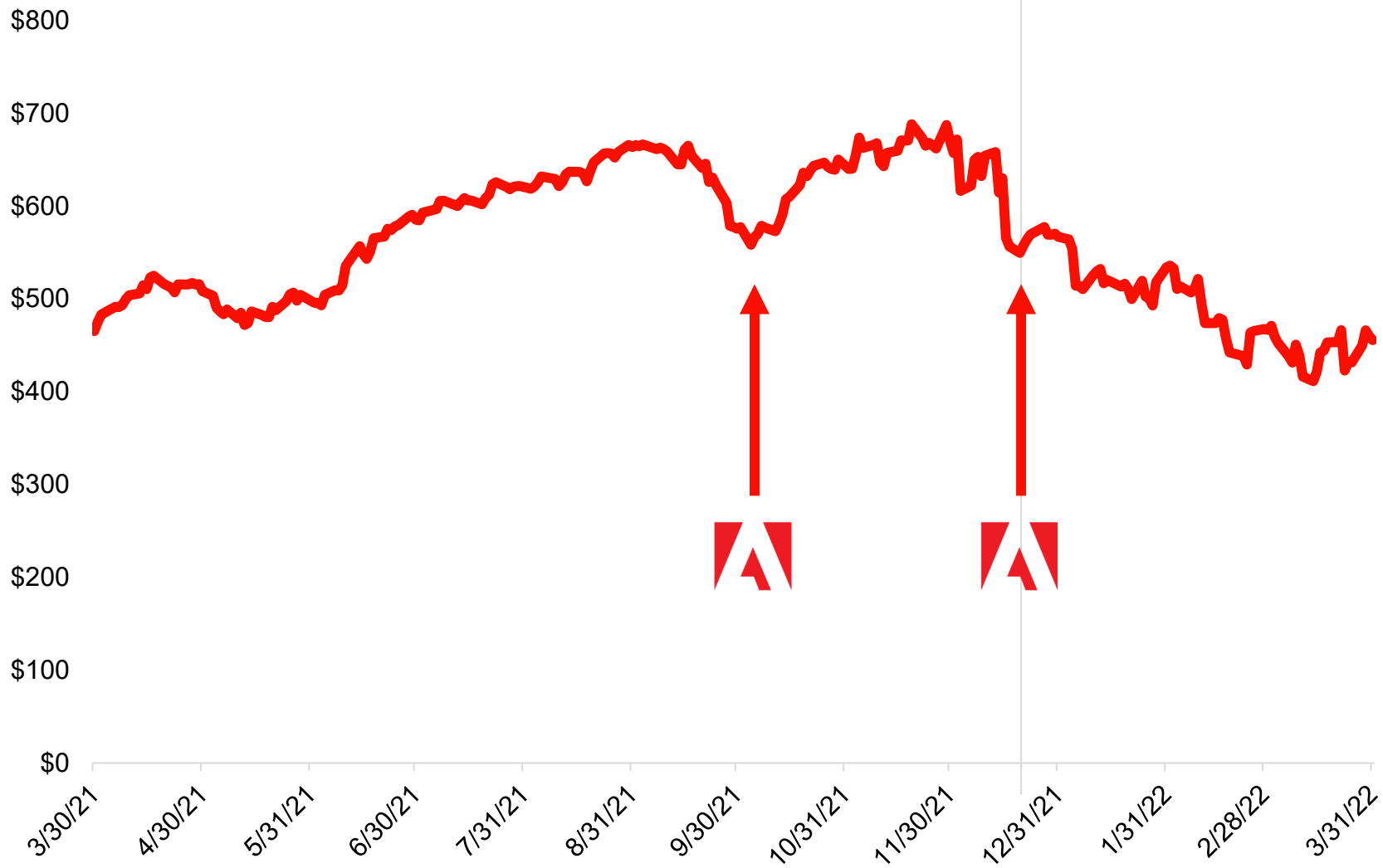
- \$2-\$3 per month increase for “All Apps” individual subscriptions
 - \$52.99 to \$54.99 (Annual, Billed Monthly)
 - \$79.49 to \$82.49 (Month-to-Month)

- **Creative Cloud for Microsoft Teams**

- \$2 increase for Teams single app plans
 - \$33.99 to \$35.99 (per month, per license)
- \$5 increase for Teams “All Apps” plan
 - \$79.99 to \$84.99 (per month, per license)



Stock Performance (52-Week)



- Sept. '21 – Q3 Earnings and new CFO
- Dec. '21 – Missed Earnings Expectations

Digital Media

- Adobe Creative Cloud
 - Photoshop
 - Illustrator
 - Premiere Pro
- Adobe Document Cloud
 - Acrobat
 - Adobe Sign



ADBE Creative Cloud Video



Digital Media – Creative Cloud

- Applications geared toward content creation, design, video and animation, game development, and document creation

End Users:

- Designers
- Knowledge Workers
- Developers
- Marketers
- Students
- Hobbyists
- Small Businesses
- Artists

Ticker: ADBE

Price: \$444.33

5 Year FCF Forecast

								P/FCF	Total Return Price	PV	5 YR Return	Annual Return
Bear	FCF	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	20.0x	\$487.88	\$317.09	9.8%	1.9%
		\$14.36	\$15.65	\$18.00	\$20.16	\$22.18	\$24.39	30.0x	\$731.82	\$475.63	64.7%	10.5%
			9%	15%	12%	10%	10%	40.0x	\$975.76	\$634.18	119.6%	17.0%
Base	FCF	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	20.0x	\$541.55	\$351.97	21.9%	4.0%
		\$14.36	\$15.65	\$18.94	\$21.78	\$24.39	\$27.08	30.0x	\$812.32	\$527.95	82.8%	12.8%
			9%	21%	15%	12%	11%	40.0x	\$1,083.09	\$703.94	143.8%	19.5%
Bull	FCF	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	20.0x	\$595.66	\$387.14	34.1%	6.0%
		\$14.36	\$15.65	\$19.25	\$22.72	\$26.13	\$29.78	30.0x	\$893.49	\$580.71	101.1%	15.0%
			9%	23%	18%	15%	14%	40.0x	\$1,191.33	\$774.28	168.1%	21.8%

Discount rate:

9%

Total RoR Sensitivity

		Est. FCF growth rate		
		11%	14%	16%
P / FCF	20.0x	1.9%	4.0%	6.0%
	30.0x	10.5%	12.8%	15.0%
	40.0x	17.0%	19.5%	21.8%

	Goldman Sachs			
	2021	2022	2023	2024
FCF	\$ 14.36	\$ 15.66	\$ 18.90	\$ 21.74
		9.05%	20.69%	15.03%

Creative Cloud

Total Potential Users in 2024

~4B
Consumers

Hobbyists, Enthusiasts, K-12,
Social Media Users

~900M
Communicators

Students, Marketers,
Knowledge Workers, Businesses

~68M
Creative Pros

Creative Pros

- Seeking power and precision in creative tooling
- Increasingly engaging across multiple media types and surfaces
- Highly collaborative, especially in new work environment

Communicators

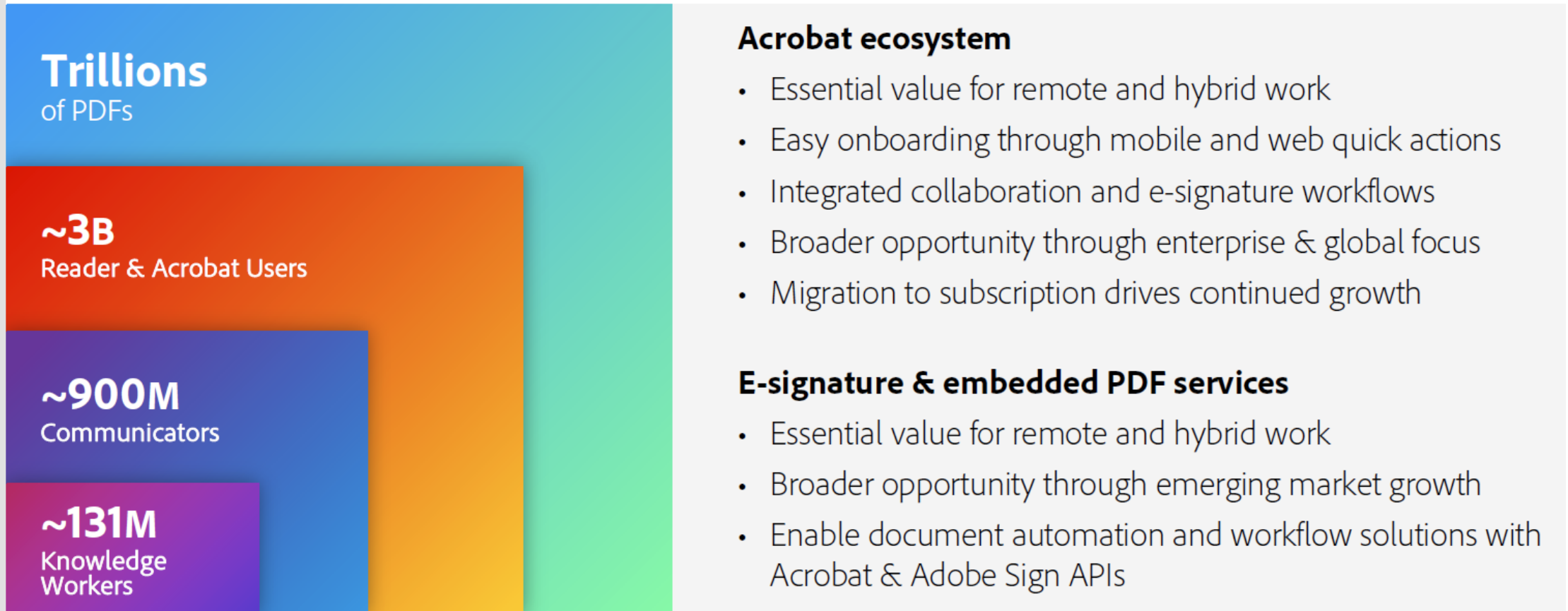
- Focus on tasks and need to stand out with content-rich communication
- Desire content-first authoring paradigm for ease of use
- Many aspire for more power and precision through CC

Consumers

- Engage on social media through creative expression
- Interested in fun web and mobile products

Source: Adobe, International Labor Organization; U.S. Bureau of Labor Statistics; Business Software Alliance

Document Cloud



Source: Adobe, IDC, International Labor Organization; US Bureau of Labor Statistics; Business Software Alliance