

# Adobe (ADBE)

Earnings Update | March 28, 2022

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## Thesis, Key Metrics, & Rating

### Overview

Creative Cloud (applications for content creation, editing, and design across mobile, desktop, and video assets), Document Cloud (document services for pdf, sign, and scan), and Digital Experience Cloud (comprehensive platform to help customers manage real-time customer experiences).

### ADBE Management

Everywhere, whether it is entertainment, education, or enterprise, content is fueling the global economy. The democratization of creativity, the emergence of new ways to work and learn from anywhere, and the business mandate for personalized customer experiences underscore the immense opportunities ADBE has. Everyone needs to express themselves digitally, from the individual on social media to the student creating a more compelling school project to the creative professional making the next marketing campaign. The rise of the creator economy is giving individuals, solopreneurs, and small business owners the opportunity to monetize their passions, their products, and services. Over the last two years, the digital economy has exploded as we experienced a global shift in how we work, learn, and play. Customers and businesses are engaging and transacting digitally. Online shopping is now essential, and the US is on track to surpass \$1T in e-commerce sales this year, according to the Adobe Economy Index.

To succeed, companies must make the digital economy personal with powerful digital experiences that can be personalized to millions of customers in milliseconds.

The pandemic has caused brands around the world to realize the critical need for digital transformation.

### Detailed Summary

ADBE had a fantastic quarter beating consensus and guidance. The reason for the pessimism is that their new guidance did not eat Wall Street's expectations. Analysts expect revenues for the year to slow down relative to the growth in 2021, but to accelerate in 2023.

The Motley Fool summarized it best

Revenues rose 9% YOY to \$4.26B, which exceeded analysts' estimates by \$20M. on an adjusted basis, which excludes an extra week in the prior-year quarter and currency impacts, its revenue rose 17%. Its adjusted net income increased 6% to \$1.6B or \$3.37 per share, which surpassed analysts' expectations by \$0.03

However, ADBE's Q2 guidance missed Wall Street's forecasts. It expects its revenue to rise 13% YOY and for its adjusted EPS to grow 9%. Analysts had expected revenue to grow by 15% and adjusted EPS by 11%.

In FY 2021 ADBE's revenue rose by 25% to \$11.52B. Its Digital Experience revenue, which comes from its enterprise-oriented cloud services, rose 24% to \$3.87B. ADBE's 17% adjusted revenue growth represents a slower start to the year. ADBE's gross margin also fell by 60 basis points YOY to 88% as its operating margin dipped by 10 basis points to 37.1%. attributed to uneven comparisons to its travel and facilities spending throughout the pandemic instead of any long-term challenges.

ADBE shut down its businesses in Russia and Belarus in response to Russia's invasion of Ukraine. It expects that exit to reduce annual revenue by \$75M, but only represents 0.4% of its projected revenue for this year.

ADBE's 13% revenue growth in Q2 indicates its slowdown will continue even as it rolls out new products. ADBE repeatedly emphasized its recent launch of Creative Cloud Express, a new web and mobile-based version of its flagship platform that targets students, social media influencers, and small businesses. ADBE expects the new service to expand its ecosystem beyond its core market of professional designers and media professionals, but the bears think the new service is an eleventh-hour attempt to widen its moat against free photo and video-editing tools.

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IDK why that seems bearish. If the company is trying to widen its moat.

ADBE plans to raise its prices for certain Creative Cloud customers in its first pricing adjustment since 2017. The bulls might interpret that price hike as a demonstration of ADBE's pricing power, but the bears will claim ADBE is trying to squeeze out more revenue from its existing customer to offset its slower growth in new customers.

I agree with both. Both show ADBE's competitive advantage.

Its new products are a demonstration of its ongoing innovation, and the Creative Cloud's latest price hikes indicate it still has plenty of pricing power in the digital media software market.

According to the Motley Fool, analysts expect ADBE's revenue to rise 14% to \$17.9B in FY 2022, then grow 15% in 2023. They expect its adjusted EPS to increase 10% in 2022 and climb by 18% in 2023. Based on those expectations, ADBE trades at 30 times forward earnings and 12 times this year's sales.

### **Thesis**

Creative Cloud is 60% of ADBE's revenue. As the creator economy continues to grow, individuals and businesses alike will see an even greater need to embrace the cutting-edge tools that ADBE offers.

### **Goldman Thesis**

Adobe is a market-leading franchise with a dominant position and pricing power in its core Creative market, which is poised to grow its subscriber's mid-teens driven by Digital initiatives. This leaves us with potentially several years of durable double-digit revenue, earnings, and cash flow growth.

ADBE's franchise stands out as one with a loyal and growing customer base, which considers the brand to be the default tool of their profession despite several attempts by large and small competitors to change the game. While growth in the Digital Experience Cloud (Digital Marketing) has been challenging of late, there are signs that a turnaround is well underway, which could accelerate the overall top-line growth rate. Despite Adobe's high operating margin of 46% in FY21A, we believe the longer-term margins can approach the mid-to-high 40s. This coupled with a double-digit top-line growth rate should drive several years of durable and low-to-mid-teens earnings growth rate

### **Key Trends**

ADBE is well-positioned to benefit as a key enabler for digital transformations across its three platforms.

#### **Customer data and insights**

- ADBE Audience Manager is a real-time data management platform, and when coupled with both ADBE Sensei the company's AI engine, and ADBE's Customer Data Platform provides real-time analytics, personalized user profiles, and multichannel marketing campaigns

#### **Content and commerce**

- Provides tools to help both mid-market and enterprise organizations create and manage their virtual shopping experiences and commerce profiles

#### **Customer Journey**

- Enables organizations to manage their marketing and advertising campaigns across B2C, B2B, and B2E use cases. ADBE Campaign provides customers to manage their B2C marketing campaigns with personalized customer data and profiles to deliver customized experiences across multiple channels. Marketo Engage (Acquired in 2018) enables customer experience management for B2B use cases through an integrated end-to-end platform spanning planning, engagement, and measurement capabilities.

#### **Work Management**

- Through the closed acquisition of Workfront in December 2020, ADBE provides a work management platform to help organizations manage their marketing and creative workflows

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## Risks

Key risks: 1) prolonged and worse-than-expected COVID-19 impact causing slower net new business, deal delays, and longer sales cycle, 2) slower and more volatile Digital Experience growth, 3) slower net new subscriber additions, 4) higher expense growth limiting expansion, and 5) increased competition.

The greatest risk is competition. Low barriers to entry. ADBE must continue to stay on top of the innovation, which they have. They have a SaaS model in which they are constantly updating their offerings. ADBE has released several products during the quarter. One, in particular, is called Express Cloud, which will directly compete against Canva.

## Rating

ADBE looks attractive based on historical valuation metrics and on a 5-year valuation model. Goldman Sachs believes FCF per share will decelerate to 9% in 2022 but accelerate in 2023. Management expects their demand to accelerate in 2024 given their increased TAM targets.

I believe the products ADBE has will continue to be in demand over the long term. Yes, there is strong competition, but ADBE has been around since 1982 with products like Photoshop, PDF, and Illustrator that were created between 1897 and 1993 and to this day are stronger than ever. They are not just comprehensive they have strong brand recognition.

I give ADBE an "Outperform" rating.

I think short-term-oriented investors have sold out. As stated before, growth is projected to slow than in 2022 but accelerated after. The stock price dropping seems like short-term pessimism to me.

## Earnings Recap

### Goldman Sachs

Adobe fell 2% after reporting quarterly results similar to the levels seen in 4Q21 due to:

- Tougher comparable, with Q1 2022 having one less week vs last year
- International events and broader uncertainty created a murky picture for FY 2022, particularly exiting Russia, and Belarus
- Shifting seasonality, placing the burden of Creative ARR performance to 2H
- Creative Cloud approaching maturity as new ARR enters a flattening YOY phase

Remain positive given

- Net new ARR of \$418M likely met investor expectations, coming above the company's guide of \$400M despite Creative ARR flattish YOY
- Pricing optimization, product segmentation, and Creative Cloud Express are possible growth levers. Document Cloud pricing changes starting in Q2 are another positive
- Underlying business dynamics remain strong with new logo adds, improving user retention and seat growth
- The implications of the Ukraine/Russia conflict are a 75M headwind for FY 2022 revenue + \$85M drag on ARR + a 6 cent EPS drawdown
- These changes are less operational changes and demand remains strong

GS lowered its price target to \$605 from \$710 reflecting lower multiples given recent market performance. (Not thinking too much long-term).

### 2022Q1 Recap

Revenue of \$4,226M grew 9% YOY and met consensus figures (17% on an adjusted basis)

Non-GAAP Operating income beat consensus by 2%

Operating margin of 46.8% 1% higher but flat YOY

Non-GAAP EPS of 3.37 was \$0.02 above the guide

- Digital Media segment revenue was \$3.11B up 9% YOY (17% growth on an adjusted basis)
- Creative Cloud grew 7% YOY (16% on an adjusted basis) driven by:
  - Strengthening of the enterprise/SMB spending environment
  - Demand for Creative Cloud Teams



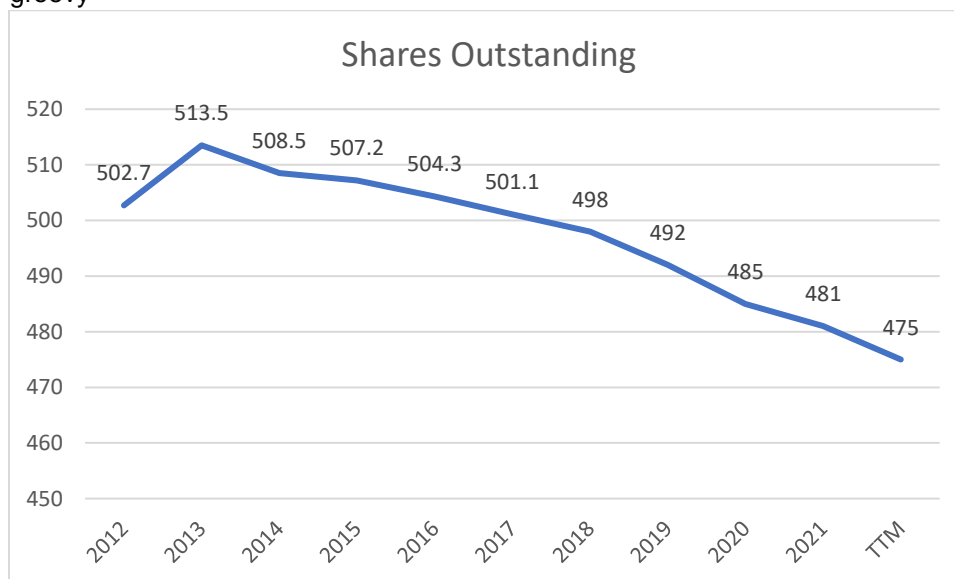
	2022 Q1	2021 Q1	2020 Q1	1 -YR CAGR	2 - YR CAGR
GAAP EPS	\$ 2.66	\$ 2.61	\$ 1.96	1.9%	16.5%
Stock-based compensation expense	\$ 0.66	\$ 0.59	\$ 0.44	11.9%	22.5%
Amortization of intangibles	\$ 0.21	\$ 0.19	\$ 0.19	10.5%	5.1%
Investment (gains) losses	\$ 0.02	\$ (0.01)	\$ 0.01		41.4%
Income tax adjustments	\$ (0.18)	\$ (0.24)	\$ (0.33)	-25.0%	-26.1%
Non-GAAP diluted EPS	\$ 3.37	\$ 3.14	\$ 2.27	7.3%	21.8%

	Three Months Ended	
	March 4, 2022	March 5, 2021
Cash flows from operating activities:		
Net income	\$ 1,266	\$ 1,261
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	213	196
Stock-based compensation	322	260
Unrealized investment (gains) losses, net	17	—
Other non-cash adjustments	153	138
Changes in deferred revenue	141	471
Changes in other operating assets and liabilities	(343)	(554)
Net cash provided by operating activities	1,769	1,772

	2022 Q1	2021 Q1	2020 Q1	1 -YR CAGR	2 - YR CAGR
Operating Cash Flow	\$ 1,769	\$ 1,772	\$ 1,325	-0.2%	15.5%
PP&E	\$ 100	\$ 59	\$ 94	69.5%	3.1%
Free cash flow	\$ 1,669	\$ 1,713	\$ 1,231	-2.6%	16.4%

#### Capital Allocation

- ADBE repurchased 3.8M shares during the quarter at a cost of \$2.1B at an average price of \$552.63 per share
- The company has \$10.7B remaining of their \$15B authorization that was granted in December 2020 and goes through 2024
- The company's market cap is \$203.4B so the remaining buybacks are 5.26% of the market cap
- The Q1 purchases were 1.03% of the market cap
- The company expects its ongoing buybacks to boost its EPS by an average of two cents per quarter this year
- That is very groovy



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10-year CAGR	-0.57%
5-year CAGR	-1.06%

ADBE has repurchased its common stock at a rate of -0.57% over the last 10-years and that number have accelerated to -1.06% over the last 5-years. The company has been buying 1% of the company over the last 10-years.

#### Impact of War in Ukraine

- On March 4, 2022, ADBE announced half of all new sales of ADBE products and services in Russia and Belarus
- ADBE reduced its Digital Media ARR by \$75M, which represents all ARR for an existing business in Russia
- While ADBE will continue to provide Digital Media in Ukraine, the company reduced ARR by an additional \$12M, which represented the entire Digital Media business in Ukraine
- This results in a total ARR reduction of \$87M and an expected revenue impact of \$75M for the year
- ARR is the book of business, but there is no way to really get payments. And with all the sanctions that are there, what we have factored is that book of business, because we are not going to be getting payments from RUSSIA

#### Company-Specific Metrics

##### Annualized Recurring Revenue (ARR)

- Digital Media ARR increased \$418M quarter to quarter to \$12.57B
- Creative ARR grew to \$10.54B
- Document Cloud ARR grew to \$2.03B
- RPO of \$13.83B an increase of 19% YOY benefiting from enterprise bookings

##### Total Addressable Market

- ADBE expanded its 2024 TAM to \$205B vs \$147B for 2023 and \$138B for 2022
- Creative Cloud expanded to \$63B vs \$41B in 2023, representing a 54% growth as the company looks to capture more share via new products (such as Creative Cloud Express), benefits from content creation, and upsell to higher-priced SKUs
- Experience Cloud, with a \$110B expected TAM + 29% vs 2023, is benefiting from enterprises seeking platforms that provide a singular view of their customers, expand omnichannel presence, and improve customer journeys across commerce, marketing, analytics, etc.

#### Earnings Transcript

##### Creative Cloud

- ADBE continues to lead in the core creative categories of imaging, design, video, and illustration
- They are advancing new media types like 3D and immersive for the metaverse platforms
- ADBE is building applications for every surface and audience across web, mobile, and desktop
- They are investing heavily in collaboration services that are integrated into the applications
- The company continues to see demand across all creative cloud segments: individuals, SMBs, teams, and enterprises with key wins at Disney, the FAA, IBM, ING Bank, Kohl's, and the New Mexico Public Education Department

##### Creative Cloud Express

- Q1 highlights include the launch of Creative Express
- Their new template is driven by the web and mobile products making it easy for anyone to create and share content
- Its zero-friction onboarding will bring millions of small business owners, social influencers, and students into the Creative Cloud family and empower them to create everything from social posts to marketing materials
- Creative Cloud Express features thousands of gorgeous templates, millions of stunning stock images and videos, and fonts
- Directly competes with Canva's easy-to-use platform. Creative Express does not have slide show templates





- Creative Cloud Express has 175M stock images and videos
- They have 20K fonts, the largest online font library available, and thousands of templates that have been really carefully crafted and designed by some of the best creatives in the world

On the video front, the explosive demand for video content shows no signs of abating

- In Q1 ADBE launched new AI-powered innovations in Premiere Pro that help merge music into video sequences and accelerate transcripts
- Frame.io, the collaboration video solution that ADBE acquired last year. Frame closed more deals than any prior quarter while increasing deal sizes to record levels
- As creativity has become a team sport, ADBE will extend its leadership in video collaboration
- There has been a tremendous interest in Substance 3D and 3D Modeler beta as brands bring together the physical and digital worlds and begin their journeys to become metaverse-ready
- Substance has already been adopted by brands like Coca-Cola, NASCAR, and NVIDIA for marketing and e-commerce

#### Document Cloud

- Q1 highlights include strong growth in Adobe Sign, driven by unifying e-signature functionality in Acrobat and new Sign integrations with ADBE Commerce and Workfront
- On mobile they saw billions of Acrobat mobile PDFs opened in Q1
  - This usage with their effort to convert users to paid subscribers on mobile is working
- Acrobat mobile ARR grew over 70% YOY
- Document Cloud enterprise continues to do well with key wins including Medallia, Mercedes-Benz, Richo Europe, Shimizu, and United Health

#### Document Cloud

- ARR surpassed \$2B growing at 29%
- Continues to be ADBE's fastest-growing business
- Demonstrating accelerating document productivity reflecting how Acrobat and PDF are essential to the way people work in a digital-first world
- Growth drivers included strong Acrobat subscriptions, new licensing and renewal for Acrobat for Teams offering in the SMG segment, momentum in Adobe Sign with strong YOY growth of Sign transactions

#### Experience Cloud

- New innovations
- New real-time customer data capabilities with the integration of Adobe Real-Time CDP and Adobe Target
- Adobe Real-Time is used by a large and growing base of customers such as DICK's Sporting Goods, Henkel, Panera, Real Madrid, Service Now, and Verizon.

ADBE was named a leader in 3 industry analyst reports focused on core customer experience management segments

- First is Gartner's Magic Quadrant for Experience Platforms

Figure 1: Magic Quadrant for Digital Experience Platforms

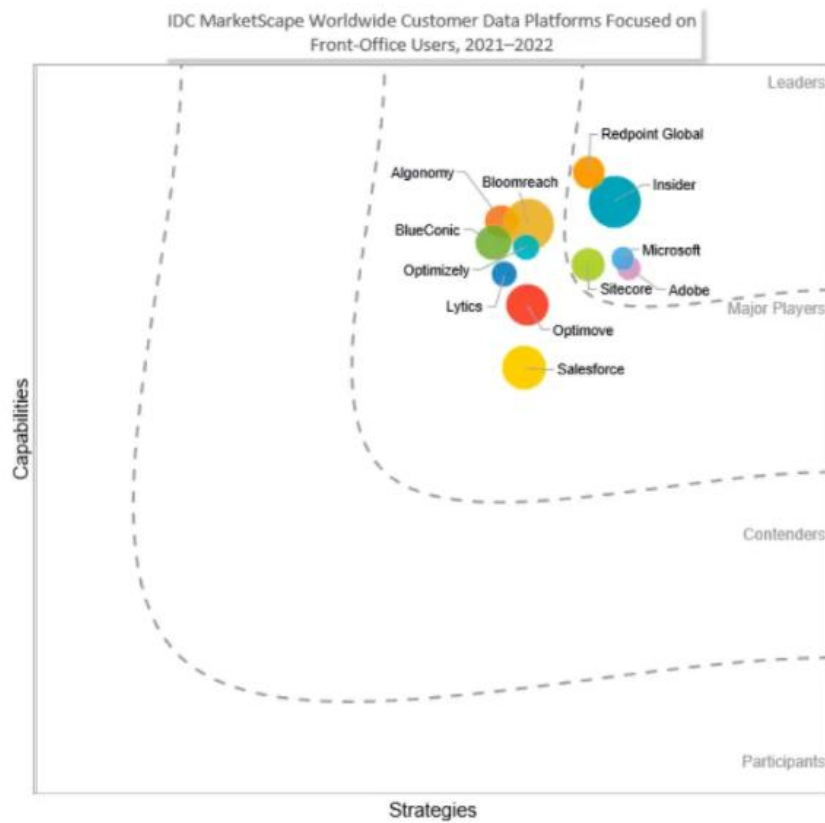


Source: Gartner (February 2022)

Source: [ADBE](#)

- Second, is the inaugural IDC Market Scape for CDPs for Front Office





Source: IDC, 2021

Source: ADBE

- Lastly, the Forrester Wave for Digital Asset Management
- Adobe Experience Manager Asset is a modern asset management platform built to organize, create, manage, and publish rich digital assets, such as videos, images, emerging media formats such as 3D
- The Creative Cloud and Workfront have been integrated to the platform to simplify complex creative work, and marketing processes into a single workflow

FIGURE 1

**Forrester Wave™: Digital Asset Management For Customer Experience, Q1 2022****THE FORRESTER WAVE™**

## Digital Asset Management For Customer Experience

Q1 2022



Source: Forrester Research, Inc. Unauthorized reproduction, citation, or distribution prohibited.

## Commentary & Outlook

### Q2 2022 Guidance

Total revenue	~\$4.34 billion	
Digital Media annualized recurring revenue (ARR)	~\$440 million of net new ARR	
Digital Media segment revenue (Y/Y growth)	~13%	~14% (constant currency <sup>2</sup> )
Digital Experience segment revenue (Y/Y growth)	~15%	~16% (constant currency <sup>2</sup> )
Digital Experience subscription revenue (Y/Y growth)	~17%	~18% (constant currency <sup>2</sup> )
Tax rate	GAAP: ~20%	Non-GAAP: ~18.5%
Earnings per share <sup>3</sup>	GAAP: ~\$2.44	Non-GAAP: ~\$3.30

- The company expects to have lower stock-based compensation as a result its GAAP tax rate is now at 19.5%
- In Digital Media, ADBE expects strong second half ARR performance across Document Cloud and Creative Cloud, including continued strength of emerging businesses like Acrobat Web, Frame.io, Substance, and Creative Cloud Express
- ADBE expects ARR to increase sequentially in Q3 and Q4 from a new offering and pricing structure that starts late in Q2. They will be increasing prices.
- Adobe plans to raise its prices for certain Creative Cloud customers in its first pricing adjustment since 2017. The bull might interpret that price hike as a demonstration of Adobe's pricing power, but the bears will claim Adobe is trying to squeeze out more revenue from its existing customers to offset its slower growth in new customers. I see it as both. They may be experiencing slower growth from the pandemic, but because they have pricing power, they can pull this lever.
- As the world, reopens, management expects travel and facilities expenses to increase

According to the Motley Fool, analysts expect ADBE's revenue to rise 14% to \$17.9B in FY 2022, then grow 15% in 2023. They expect its adjusted EPS to increase 10% in 2022 and climb by 18% in 2023. Based on those expectations, ADBE trades at 30 times forward earnings and 12 times this year's sales.

### Key Q&A Topics

The last pricing update that we made was back in 2017. And you've seen since then the number of different initiatives that we have and offerings that we've introduced, whether it was the 3D offerings, what we've done on the web, what we've done in mobile, what we've done in Creative Cloud Express. We have added new applications. We've doubled down on collaboration. We added millions of stock assets and thousands of fonts.

The price increases may be in the creative cloud products. ADBE continues to attract billions of people to the platform. And with all the new offerings they have.

## Interpretations of Financial Statements

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	LTM	Trend	Threshold
<b>IOFS</b>													
Revenue	4,404	4,055	4,147	4,796	5,854	7,302	9,030	11,171	12,868	15,785	16,142		
Gross Margin	89.0%	85.5%	85.0%	84.5%	86.0%	86.2%	86.8%	85.0%	86.6%	88.2%	88.0%		>20%
Operating Margin	26.7%	11.1%	10.4%	18.8%	25.5%	29.7%	31.5%	29.3%	32.9%	36.8%	36.7%		>10%
Net Margin	18.9%	7.2%	6.5%	13.1%	20.0%	23.2%	28.7%	26.4%	40.9%	30.5%	29.9%		
FCF Margin	27.9%	23.8%	27.5%	26.8%	34.1%	37.5%	41.7%	36.0%	41.2%	43.6%	42.4%		>10%
R&D + SG&A / Gross Inc	68.7%	85.5%	86.2%	76.0%	68.8%	64.3%	62.6%	63.8%	60.5%	57.1%	57.1%		<80%
D&A / Gross Inc	7.6%	9.3%	8.9%	8.4%	6.6%	5.2%	4.4%	8.0%	6.8%	5.7%	5.7%		<10%
Int Exp / Operating Inc	5.7%	15.0%	13.8%	7.1%	4.7%	3.4%	3.1%	4.8%	2.7%	1.9%	-		<15%
Capex / Net Income	32.6%	65.0%	55.3%	29.4%	17.4%	10.5%	10.3%	13.4%	8.0%	7.2%	7.2%		
<b>Returns</b>													
ROE	13.4%	4.3%	4.0%	9.1%	16.2%	21.3%	29.1%	29.7%	44.2%	34.4%	34.3%		>15%
ROE FCF	18.4%	14.3%	16.8%	18.3%	26.9%	32.3%	40.2%	38.2%	40.0%	46.5%	49.6%		
ROTE	41.9%	21.5%	16.9%	56.0%	72.9%	75.2%	(78.8)%	(156.8)%	452.3%	1560.5%	(632.6)%		
ROIC	10.8%	3.5%	3.2%	7.3%	12.8%	17.2%	21.7%	21.0%	32.8%	26.6%	26.5%		>15%
ROCE	14.4%	4.8%	4.9%	10.5%	15.5%	21.2%	22.6%	24.9%	27.4%	29.8%	30.3%		>15%
ROA	8.8%	2.8%	2.5%	5.6%	9.6%	12.4%	15.6%	14.9%	23.4%	18.7%	18.6%		
<b>Leverage &amp; Liquidity</b>													
Obligation Ratio <sup>(1)</sup>	0.1x	2.4x	3.7x	1.6x	0.8x	NC	1.0x	1.6x	0.0x	0.2x	0.5x		<5
Obligation Ratio FCF <sup>(1)</sup>	0.1x	0.7x	0.9x	0.8x	0.4x	NC	0.7x	1.2x	0.0x	0.1x	0.4x		
Payout Ratio	-	-	-	-	-	-	-	-	-	-	-		

In 2012, ADBE made the decision to replace priority licenses with a SaaS model. ADBE transitioned from a provider of one-time purchase products to a SaaS model. The customer would no longer buy its software suite and own it for life. Instead, customers would pay a monthly subscription to access the suite. Designers can access all of the software tools that they need, without having to worry about future updates and pay a monthly or annual fee for all of it.

However, at the time of its first subscription release, it offered its cloud services alongside its traditional software purchase, an option that was only retired in 2017. The company made sure that nothing about the transition was a surprise.

Source: <https://medium.com/bigfootcapital/7-lessons-from-adobes-successful-transition-to-saas-d0f7250ab352>

## Valuation

ADBE looks attractive based on historical valuation metrics and on a 5-year valuation model. Goldman Sachs believes FCF per share will decelerate to 9% in 2022 but accelerate in 2023. Management expects their demand to accelerate in 2024 given their increased TAM targets.

I believe the products ADBE has will continue to be in demand over the long term. Yes, there is strong competition, but ADBE has been around since 1982 with products like Photoshop, PDF, and Illustrator that were created between 1897 and 1993 and to this day are stronger than ever. They are not just comprehensive they have strong brand recognition.

I give ADBE an "Outperform" rating.

I think short-term-oriented investors have sold out. As stated before, growth is projected to slow than in 2022 but accelerated after. The stock price dropping seems like short-term pessimism to me.

## Cash Flow (\$ mn)

	11/21	11/22E	11/23E	11/24E
Net income	4,822.0	5,018.1	5,975.0	6,927.8
D&A add-back	788.0	849.9	929.9	994.3
Minority interest add-back	—	—	—	—
Net (inc)/dec working capital	1,053.0	771.0	978.2	990.3
Others	523.0	1,257.7	1,449.7	1,631.5
<b>Cash flow from operations</b>	<b>7,186.0</b>	<b>7,896.6</b>	<b>9,332.8</b>	<b>10,543.8</b>
Capital expenditures	(330.0)	(559.3)	(609.7)	(664.5)
Acquisitions	(2,682.0)	(106.0)	—	—
Divestitures	—	—	—	—
Others	(507.0)	(54.0)	—	—
<b>Cash flow from investing</b>	<b>(3,519.0)</b>	<b>(719.3)</b>	<b>(609.7)</b>	<b>(664.5)</b>
Dividends paid	—	—	—	—
Share issuance/(repurchase)	(428.0)	(175.0)	—	—
Inc/(dec) in debt	67.0	—	—	—
Others	(3,940.0)	(8,400.0)	(4,000.0)	(4,000.0)
<b>Cash flow from financing</b>	<b>(4,301.0)</b>	<b>(8,575.0)</b>	<b>(4,000.0)</b>	<b>(4,000.0)</b>
<b>Total cash flow</b>	<b>(634.0)</b>	<b>(1,397.7)</b>	<b>4,723.1</b>	<b>5,879.3</b>
Free cash flow	6,856.0	7,337.3	8,723.1	9,879.3
Free cash flow per share (basic) (\$)	14.36	15.66	18.90	21.74

Source: Company data, Goldman Sachs Research estimates.

Ticker: ADBE												
Price: \$437.70												
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	11.5%	2.2%
		\$14.36	\$15.65	\$18.00	\$20.16	\$22.18	\$24.39	30.0x	\$731.82	\$475.63	67.2%	10.8%
		9%	15%	12%	10%	10%	40.0x	\$975.76	\$634.18	122.9%	17.4%	
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	23.7%	4.3%
		\$14.36	\$15.65	\$18.94	\$21.78	\$24.39	\$27.08	30.0x	\$812.32	\$527.95	85.6%	13.2%
		9%	21%	15%	12%	11%	40.0x	\$1,083.09	\$703.94	147.5%	19.9%	
Bull	FCF	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	20.0x	\$575.96	\$374.33	31.6%	5.6%
		\$14.36	\$15.65	\$18.94	\$22.16	\$25.26	\$28.80	30.0x	\$863.94	\$561.50	97.4%	14.6%
		9%	21%	17%	14%	14%	40.0x	\$1,151.92	\$748.67	163.2%	21.4%	

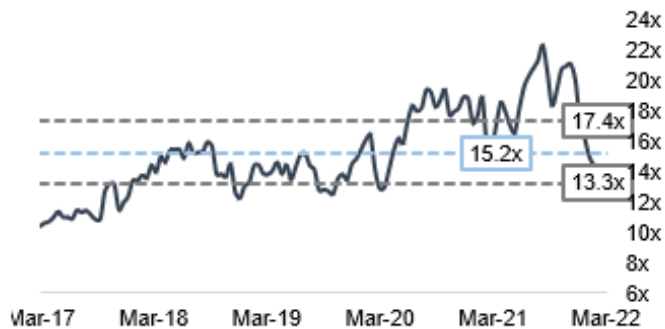
Discount rate:  
9%

Total RoR Sensitivity				
\$14.36		Est. FCF growth rate		
P / FCF		11%	14%	15%
	20.0x	2.2%	4.3%	5.6%
	30.0x	10.8%	13.2%	14.6%
	40.0x	17.4%	19.9%	21.4%

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

## Valuebands | 5 Years

Price to Sales



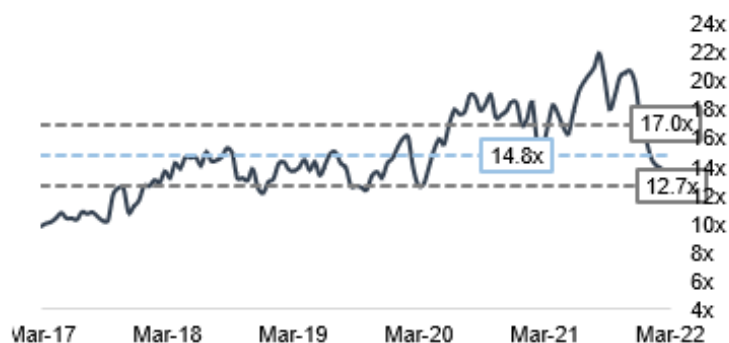
Price to Earnings



Price to Free Cash Flow



EV to Sales



EV to EBITDA



EV to EBIT





## EV to Free Cash Flow



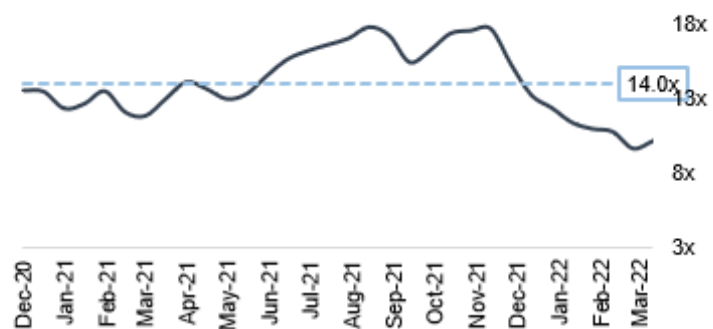
## Free Cash Flow Yield



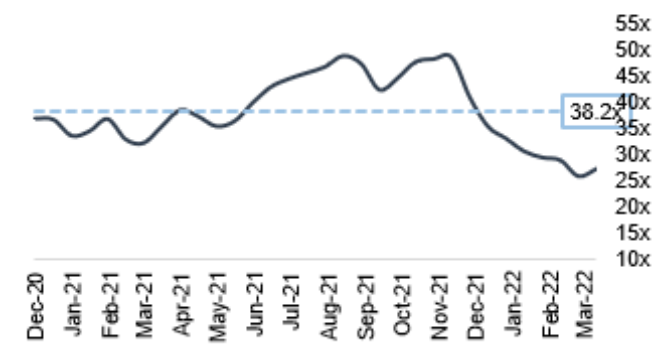
## Dividend Yield

No Dividend

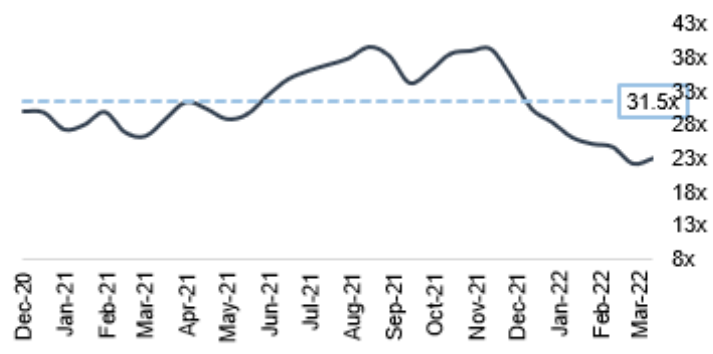
## Forward Price to Sales



## Forward Price to Earnings



## Forward EV to EBITDA



## Appendix

### Exhibit – Appendix



2022Q1 - ADBE -  
Appendix (1).pdf

