

Adobe (ADBE)

Earnings Update

Hold | Outperform

Carson, Pablo Samanez | April 19, 2024



Overview (Approx. 1 Page)

Adobe is a leading multimedia software company which provides products, services, and software. Which is mainly through a software-as-a-service (SaaS) models. Adobe makes most of its revenue by providing subscriptions through their products which consist of digital media, digital experiences, and publishing and advertising. Adobes subscription model is very successful and has helped them stay very dominant in the software market. Adobe also benefits from their switching costs as they are essentially a monopoly in the creative software market. And a Network effect in the company's digital media products, as the education system for creative minds use adobe digital media products. This company is about 6% of our holding. We bought it in 2022 at 260 shares at a cost basis of around \$424, and currently trading at around \$466 a share.

Recent News is Adobe announced an artificial intelligence (AI) assistant for Acrobat on Monday. Acrobat AI Assistant summarizes and answers questions about documents, provides intelligent citations and quickly generates and formats content for sharing," Adobe said in a release. The AI assistant will be available through an add-on subscription which starts at \$4.99 per month. Adobe's revenue for Q1 revenue grew 11% year-over-year growth and is roughly at \$5.18 Bn. GAAP earnings per share came in lower due to the termination of Figma transaction. GAAP EPS at \$1.36, and non-GAAP EPS at \$4.48. Taking out the termination, cash flows from operations would have been \$1 billion more, and GAAP EPS would have been \$2.19 higher.

Moving on to KPIs we will look at the different segments of adobe starting with Digital Media with revenues of \$3.82 Bn at 12% (yoy) growth. Digital Media ARR revenues of \$15.76 Bn up 14% (yoy) growth. Document Cloud revenues of \$750 Mn at 18% (yoy) growth. Creative revenue of \$3.07 Bn up 11% (yoy) growth. Digital experience revenue of \$1.29 Bn with 10% (yoy) growth, and Digital experience subscription revenue of \$1.16 Bn growing 12% (yoy). Additionally Adobe bought back 3.1 million shares during the quarter.

Adobe's guidance for the second quarter raised concerns, as the company did not reiterate its full-year outlook for net new annual recurring revenue (ARR) of \$1.9 billion, which it had previously felt confident about. The Q2 guidance for digital media net new ARR of \$440 million was only slightly higher than Q1's \$432 million, implying a more back-end-loaded year. Management's explanations around pricing tailwinds, new product launches, and AI adoption driving the second-half ramp-up were convoluted, adding to the confusion. However, Morningstar believes Adobe's strong track record, upcoming product releases, robust subscriber growth, AI momentum, and recent pricing actions support the company's ability to deliver on its second-half outlook, despite the near-term cloudiness. The firm maintained its \$610 fair value estimate, viewing the stock selloff as a temporary dislocation given Adobe's wide economic moat and long-term growth prospects.

To note as well, Adobe shares dropped in after-hours trading Thursday as the company reported first-quarter earnings surpassing analyst estimates, but issued soft guidance for the second quarter. The company's revenue for the first fiscal quarter of 2024 at \$5.18 billion hit a record high that beat estimates, while net income and diluted earnings per share came in at \$2.05 billion and \$4.48, respectively, also above projections. However, Adobe issued a weak outlook for second quarter, guiding for revenue between \$5.25 billion and \$5.3 billion, while analysts anticipated \$5.3 billion. The company did not include guidance for the full year, as it did in the first quarter of 2023. Adobe also announced a \$25 billion buyback program.

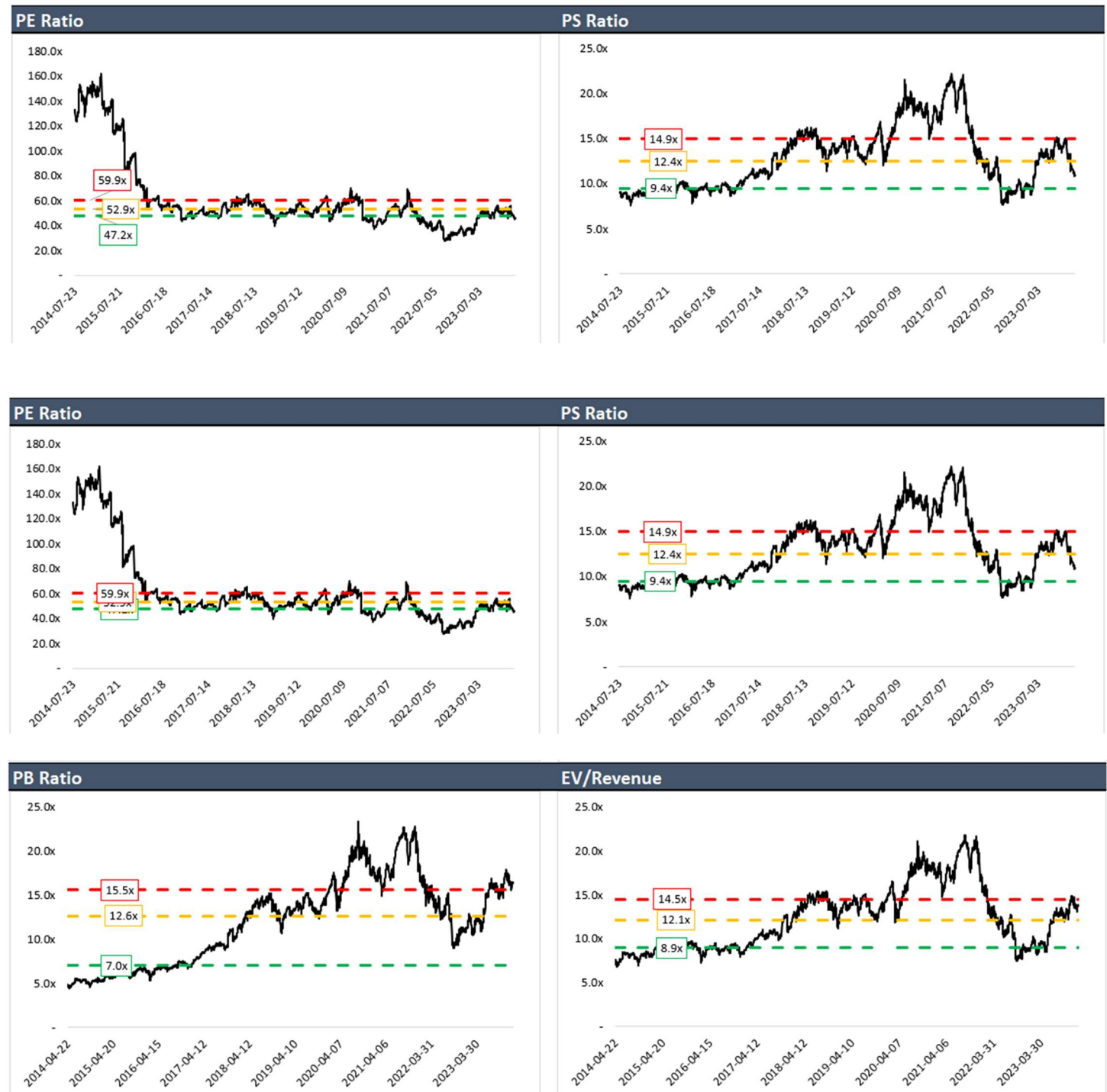
My recommendation is to hold and see how this company performs in future quarters.

IOFS (Approx. 1 Page)

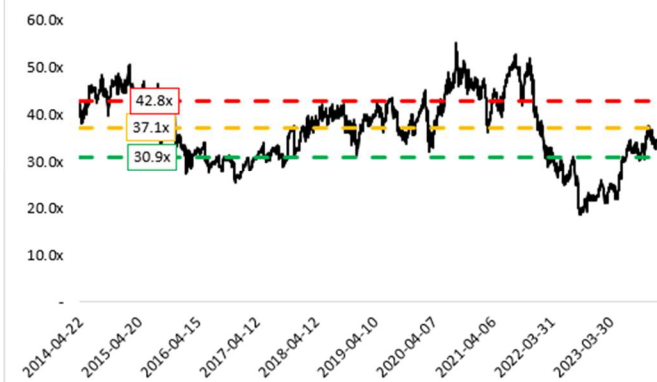
	2014-11	2015-11	2016-11	2017-11	2018-11	2019-11	2020-11	2021-11	2022-11	2023-11	TTM
IOFS											
Revenue	\$ 4,147	\$ 4,796	\$ 5,854	\$ 7,302	\$ 9,030	\$ 11,171	\$ 12,868	\$ 15,785	\$ 17,606	\$ 19,409	\$ 19,936
Gross profit	\$ 3,525	\$ 4,051	\$ 5,035	\$ 6,291	\$ 7,835	\$ 9,498	\$ 11,146	\$ 13,920	\$ 15,441	\$ 17,055	\$ 17,560
Operating Income	\$ 433	\$ 903	\$ 1,494	\$ 2,168	\$ 2,840	\$ 3,268	\$ 4,237	\$ 5,802	\$ 6,098	\$ 6,650	\$ 6,971
Net Income	\$ 268	\$ 630	\$ 1,169	\$ 1,694	\$ 2,591	\$ 2,951	\$ 5,260	\$ 4,822	\$ 4,756	\$ 5,428	\$ 4,801
Free Cash Flow	\$ 1,139	\$ 1,285	\$ 1,996	\$ 2,735	\$ 3,762	\$ 4,027	\$ 5,308	\$ 6,882	\$ 7,396	\$ 6,942	\$ 6,487
EBIT	\$ 421	\$ 938	\$ 1,506	\$ 2,212	\$ 2,883	\$ 3,362	\$ 4,292	\$ 5,818	\$ 6,120	\$ 6,912	\$ 6,277
EBITDA	\$ 735	\$ 1,277	\$ 1,837	\$ 2,538	\$ 3,229	\$ 4,119	\$ 5,049	\$ 6,606	\$ 6,976	\$ 7,784	\$ 7,149
Dividend Yield %	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Gross Margin	85.0%	84.5%	86.0%	86.2%	86.8%	85.0%	86.6%	88.2%	87.7%	87.9%	88.1%
Operating Margin	10.4%	18.8%	25.5%	29.7%	31.5%	29.3%	32.9%	36.8%	34.6%	34.3%	35.0%
Net Margin	6.5%	13.1%	20.0%	23.2%	28.7%	26.4%	40.9%	30.5%	27.0%	28.0%	24.1%
FCF Margin	27.5%	26.8%	34.1%	37.5%	41.7%	36.0%	41.2%	43.6%	42.0%	35.8%	32.5%
D&A/ Gross Profit	8.9%	8.4%	6.6%	5.2%	4.4%	8.0%	6.8%	5.7%	5.5%	5.1%	5.0%
R&D/ Gross Profit	24.0%	21.3%	19.4%	19.5%	19.6%	20.3%	19.6%	18.2%	19.3%	20.4%	20.4%
SG&A/ Gross Profit	62.3%	54.7%	49.4%	44.9%	43.0%	43.4%	40.9%	38.8%	40.1%	39.7%	38.9%
SBC/ Revenue	8.0%	7.0%	6.0%	6.2%	6.8%	7.1%	7.1%	6.8%	8.2%	8.9%	8.8%
Capex/ Net Income	55.3%	29.4%	17.4%	10.5%	10.3%	13.4%	8.0%	7.2%	9.3%	6.6%	6.2%
Dividend Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Shares Outstanding	508.5	507.2	504.3	501.1	498.0	492.0	485.0	481.0	471.0	459.0	456.0
Returns %											
ROE	4.0%	9.0%	15.7%	20.0%	27.7%	28.0%	39.7%	32.6%	33.8%	32.9%	31.1%
ROTE	18.3%	46.5%	85.7%	87.8%	0.0%	0.0%	0.0%	655.2%	7671.0%	444.9%	346.7%
ROIC	4.1%	7.7%	13.7%	18.0%	19.4%	15.7%	25.6%	22.1%	19.8%	21.3%	21.5%
ROCE	4.9%	10.5%	15.5%	21.2%	22.6%	24.9%	27.4%	29.8%	31.1%	34.1%	31.2%
ROA	2.5%	5.6%	9.6%	12.4%	15.6%	14.9%	23.4%	18.7%	17.5%	19.1%	16.9%
ROC	3.2%	7.1%	12.5%	16.4%	19.2%	20.1%	30.3%	25.5%	26.2%	26.9%	25.1%
Leverage & Liquidity											
LT Debt	911	1907	1892	1881	4125	989	4117	4123	3629	3634	2138
ST Debt	603	0	0	0	0	3149	0	0	500	0	1497
PF Stock	0	0	0	0	0	0	0	0	0	0	0
Leases*7	23	0	0	0	0	0	1143	1132	1026	884	889
Pension SF	0	0	0	0	0	0	0	0	0	0	0
Cash	\$ 1,117	\$ 877	\$ 1,011	\$ 2,306	\$ 1,643	\$ 2,650	\$ 4,478	\$ 3,844	\$ 4,236	\$ 7,141	\$ 6,254
Obligation Ratio ^{1H}	1.6x	1.6x	0.8x	(0.3)x	1.0x	0.5x	0.1x	0.3x	0.2x	(0.5)x	(0.4)x
Cash/ Revenue	26.9%	18.3%	17.3%	31.6%	18.2%	23.7%	34.8%	24.4%	24.1%	36.8%	31.4%
Per Share Data											
Revenue	\$ 8.16	\$ 9.46	\$ 11.61	\$ 14.57	\$ 18.13	\$ 22.71	\$ 26.53	\$ 32.82	\$ 37.38	\$ 42.29	\$ 43.51
Owners Earnings	\$ 1.52	\$ 2.08	\$ 3.49	\$ 4.61	\$ 6.57	\$ 7.08	\$ 9.27	\$ 12.10	\$ 12.76	\$ 11.29	\$ 10.19
Earnings	\$ 0.53	\$ 1.24	\$ 2.32	\$ 3.38	\$ 5.20	\$ 6.00	\$ 10.83	\$ 10.02	\$ 10.10	\$ 11.82	\$ 10.46
Operating Cash Flow	\$ 2.53	\$ 2.90	\$ 4.36	\$ 5.81	\$ 8.09	\$ 8.99	\$ 11.81	\$ 15.03	\$ 16.64	\$ 15.91	\$ 14.79
Free Cash Flow	\$ 2.24	\$ 2.53	\$ 3.96	\$ 5.46	\$ 7.55	\$ 8.19	\$ 10.94	\$ 14.31	\$ 15.70	\$ 15.12	\$ 14.15
Dividends	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Book Value	\$ 13.62	\$ 14.07	\$ 15.02	\$ 17.22	\$ 19.20	\$ 21.83	\$ 27.69	\$ 31.15	\$ 30.41	\$ 36.30	\$ 34.13
Tangible Book Value	\$ 3.19	\$ 2.26	\$ 3.24	\$ 4.59	\$ (6.74)	\$ (3.90)	\$ 2.43	\$ 0.65	\$ (0.40)	\$ 5.77	\$ 3.63
Valuation											
P/E	139.0x	73.8x	44.3x	52.3x	48.3x	51.6x	44.2x	66.9x	34.2x	51.7x	45.4x
P/S	9.0x	9.7x	8.9x	12.1x	13.8x	13.6x	18.0x	20.4x	9.2x	14.5x	10.9x
P/FCF	32.9x	36.1x	26.0x	32.4x	33.2x	37.8x	43.7x	46.8x	22.0x	40.4x	33.4x
P/B	5.4x	6.5x	6.9x	10.3x	13.1x	14.2x	17.3x	21.5x	11.3x	16.8x	13.9x
PEG	-	-	39.0x	2.4x	1.1x	1.3x	1.4x	2.3x	1.3x	1.8x	1.4x
EV/EBIT	81.8x	46.3x	31.9x	37.5x	42.8x	44.4x	53.1x	54.5x	25.8x	39.7x	33.4x

Valuation

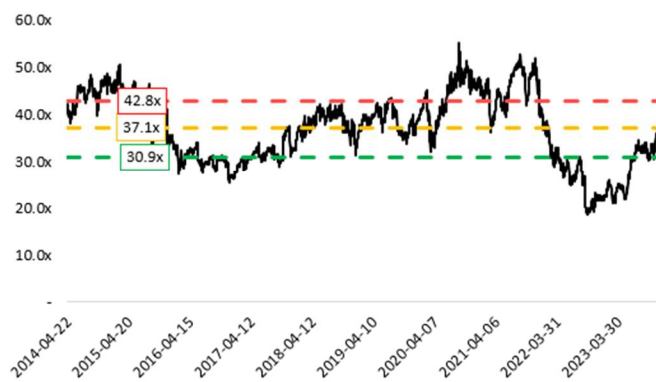
Valuation table, value bands, discounted cash flow, any detail that helps frame the valuation, etc.



EV/EBITDA



EV/EBIT



Ticker: ADBE

Price: \$473.18

5 Year Discounted Cash Flow

								Total Return				
								P/E	Price	PV	5 YR Return	Annual Return
Bear	EPS	Current	2024	2025	2026	2027	2028	15.0x	\$451.99	\$268.23	(4.5)%	(0.9)%
		\$15.65	\$17.84	\$20.34	\$23.19	\$26.43	\$30.13	25.0x	\$753.32	\$447.06	59.2%	9.7%
			14%	14%	14%	14%	14%	30.0x	\$903.98	\$536.47	91.0%	13.8%
Base	EPS	Current	2024	2025	2026	2027	2028	15.0x	\$493.06	\$292.60	4.2%	0.8%
		\$15.65	\$18.15	\$21.06	\$24.43	\$28.34	\$32.87	25.0x	\$821.76	\$487.67	73.7%	11.7%
			16%	16%	16%	16%	16%	30.0x	\$986.11	\$585.21	108.4%	15.8%
Bull	EPS	Current	2024	2025	2026	2027	2028	15.0x	\$634.46	\$376.52	34.1%	6.0%
		\$15.65	\$19.09	\$23.29	\$28.42	\$34.67	\$42.30	25.0x	\$1,057.43	\$627.54	123.5%	17.4%
			22%	22%	22%	22%	22%	30.0x	\$1,268.92	\$753.04	168.2%	21.8%

Market Value vs Intrinsic Value



Total RoR Sensitivity

		Est. EPS growth rate		
		13%	15%	16%
P / E	28.0x	3.0%	4.8%	5.9%
	35.0x	7.7%	9.6%	10.7%
	42.0x	11.7%	13.7%	14.8%