

Adobe Inc. (ADBE)

Earnings Update

Hold | Market Perform

William Errett | September 20, 2024



Overview

- Adobe possesses Intangible Assets from iconic products that represent the industry standard, a Network Effect which compounds Adobe products as what professionals must use, and Switching Costs due to the long time that is needed to learn how to use their products.
- Adobe makes software services that are used for photo and video editing and more.
- A large portion of Adobe revenue is recurring due to their subscription model.

Results

- Revenue finished at \$5.41 billion for Q3, which represents 11% growth.
- Earnings Per Share Non-GAAP finished at \$4.65 beating by 2.5%
- Shares fell by 8% after earnings due to guidance below Wall Street estimates

Key Performance Indicators

- “Record Q3 net new Digital Media Annual Recurring Revenue of \$504 million, with exiting Remaining Performance Obligations surpassing \$18 billion and growing at 15% per year.”
- Adobe’s main segment Digital media increased by 11%
- Roughly 80% of Adobe’s revenue is recurring from all of their segments

Guidance

- 4Q Guidance for revenue between \$5.5 billion and \$5.55 billion, below estimates it would be at \$5.6 billion
- Estimated another \$550 million Net New Annual Recurring Revenue
- GAAP EPS estimated around \$3.60 and non-GAAP EPS of \$4.65



Adobe®

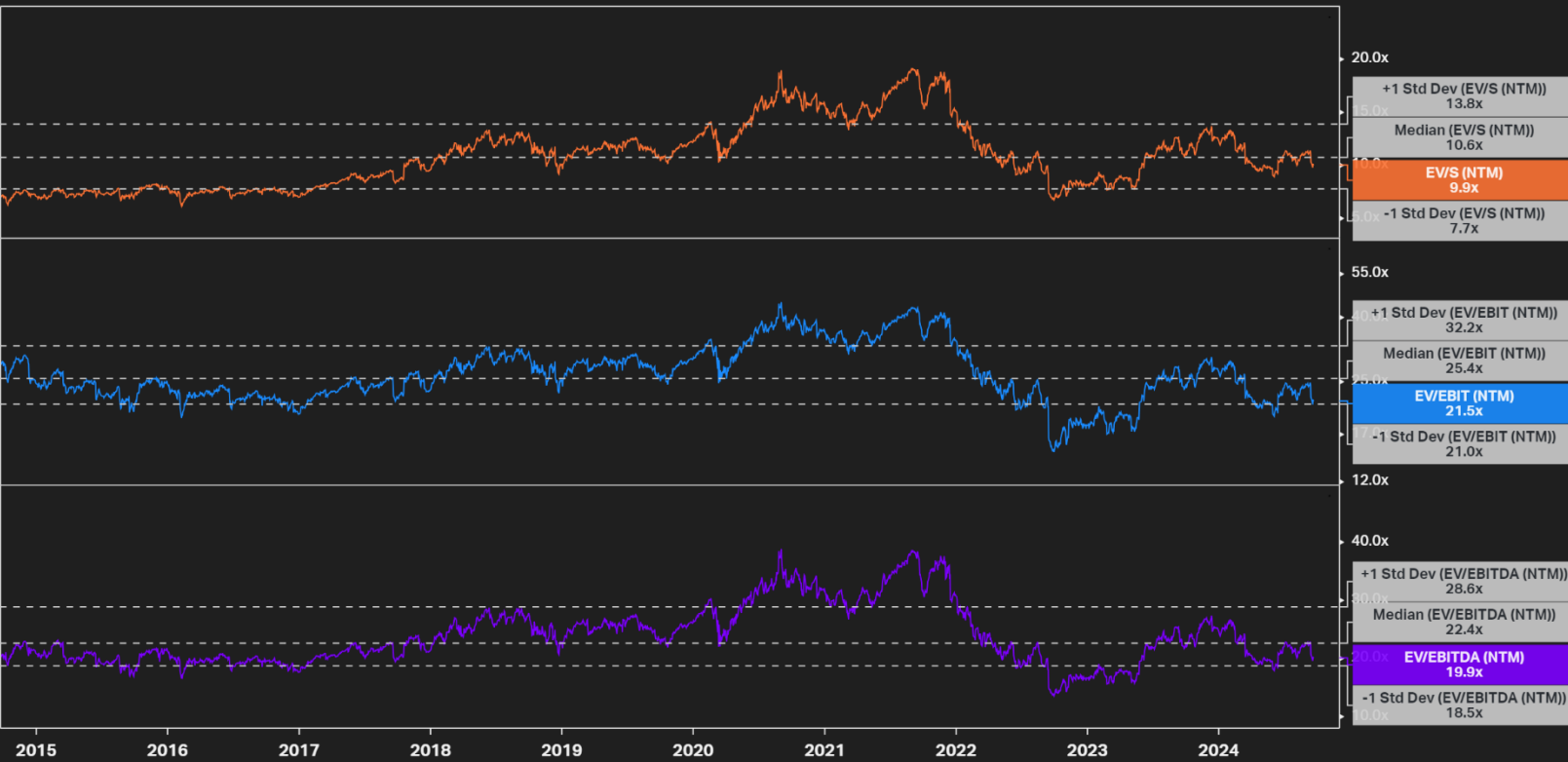
ADBE												CAGRS		
In Millions Except Per Share Data												3-Years	5-Years	10-Years
	2014-11	2015-11	2016-11	2017-11	2018-11	2019-11	2020-11	2021-11	2022-11	2023-11	TTM	Threshold		
Revenue	\$ 4,147	\$ 4,796	\$ 5,854	\$ 7,302	\$ 9,030	\$ 11,171	\$ 12,868	\$ 15,785	\$ 17,606	\$ 19,409	\$ 20,947		14.7%	16.5%
Cost of Goods Sold	\$ 622	\$ 744	\$ 820	\$ 1,010	\$ 1,195	\$ 1,673	\$ 1,722	\$ 1,865	\$ 2,165	\$ 2,354	\$ 2,376		11.0%	14.5%
Gross Profit	\$ 3,525	\$ 4,051	\$ 5,035	\$ 6,291	\$ 7,835	\$ 9,498	\$ 11,146	\$ 13,920	\$ 15,441	\$ 17,055	\$ 18,571		15.2%	16.8%
Gross Margin %	85%	84%	86%	86%	87%	85%	87%	88%	88%	88%	89%	> 40%		
Selling, General, & Admin. Expense	\$ 2,196	\$ 2,217	\$ 2,486	\$ 2,822	\$ 3,366	\$ 4,125	\$ 4,559	\$ 5,406	\$ 6,187	\$ 6,764	\$ 7,041		14.1%	15.0%
% of Gross Profit	62%	55%	49%	45%	43%	43%	41%	39%	40%	40%	38%	< 30%		
EBITDA	\$ 735	\$ 1,277	\$ 1,837	\$ 2,538	\$ 3,229	\$ 4,119	\$ 5,049	\$ 6,606	\$ 6,976	\$ 7,784	\$ 7,756		15.5%	19.2%
Depreciation, Depletion and Amortization	\$ 314	\$ 339	\$ 332	\$ 326	\$ 346	\$ 757	\$ 757	\$ 788	\$ 856	\$ 872	\$ 861		4.8%	20.3%
% of Gross Profit	9%	8%	7%	5%	4%	8%	7%	6%	6%	5%	5%	< 10%		
Operating Income	\$ 433	\$ 903	\$ 1,494	\$ 2,168	\$ 2,840	\$ 3,268	\$ 4,237	\$ 5,802	\$ 6,098	\$ 6,650	\$ 7,527		16.2%	18.5%
Operating Margin %	10%	19%	26%	30%	31%	29%	33%	37%	35%	34%	36%	> 20%		
Interest Expense	\$ 60	\$ 64	\$ 70	\$ 74	\$ 89	\$ 157	\$ 116	\$ 113	\$ 112	\$ 113	\$ 147			
% of Operating Income	14%	7%	5%	3%	3%	5%	3%	2%	2%	2%	2%	< 35%		
EBIT	\$ 421	\$ 938	\$ 1,506	\$ 2,212	\$ 2,883	\$ 3,362	\$ 4,292	\$ 5,818	\$ 6,120	\$ 6,912	\$ 6,895		17.2%	19.1%
Tax Rate %	26%	28%	19%	21%	7%	8%	-26%	15%	21%	20%	21%			
Net Income	\$ 268	\$ 630	\$ 1,169	\$ 1,694	\$ 2,591	\$ 2,951	\$ 5,260	\$ 4,822	\$ 4,756	\$ 5,428	\$ 5,360		1.1%	15.9%
Net Margin %	6%	13%	20%	23%	29%	26%	41%	31%	27%	28%	26%	> 10%		
Shares Outstanding (Diluted Average)	508.5	507.2	504.3	501.1	498.0	492.0	485.0	481.0	471.0	459.0	448.0		-1.8%	-1.6%
EPS (Diluted)	\$ 0.53	\$ 1.24	\$ 2.32	\$ 3.38	\$ 5.20	\$ 6.00	\$ 10.83	\$ 10.02	\$ 10.10	\$ 11.82	\$ 11.84		3.0%	17.8%
ROE %	4%	9%	16%	20%	28%	28%	40%	33%	34%	33%	35%	> 15%		
ROC %	3%	7%	13%	16%	19%	20%	30%	25%	26%	27%	27%	> 15%		
Net Income	\$ 268	\$ 630	\$ 1,169	\$ 1,694	\$ 2,591	\$ 2,951	\$ 5,260	\$ 4,822	\$ 4,756	\$ 5,428	\$ 5,360			
Capital Expenditure	\$ 148	\$ 185	\$ 204	\$ 178	\$ 267	\$ 395	\$ 419	\$ 348	\$ 442	\$ 360	\$ 182			
% of Net Income	55%	29%	17%	11%	10%	13%	8%	7%	9%	7%	3%	< 50%		
Free Cash Flow	\$ 1,139	\$ 1,285	\$ 1,996	\$ 2,735	\$ 3,762	\$ 4,027	\$ 5,308	\$ 6,882	\$ 7,396	\$ 6,942	\$ 6,550			
FCF Margin %	27%	27%	34%	37%	42%	36%	41%	44%	42%	36%	31%	> 10%		
Purchase of Business	\$ 30	\$ 826	\$ 48	\$ 460	\$ 6,314	\$ 101	\$ -	\$ 2,682	\$ 126	\$ -	\$ -			
Dividends Per Share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Dividend Payout Ratio	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	< 60%		
Dividend Yield %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			
Repurchase of Stock	\$ 600	\$ 625	\$ 1,075	\$ 1,100	\$ 2,050	\$ 2,750	\$ 3,050	\$ 3,950	\$ 6,550	\$ 4,400	\$ 8,000			
Stock Based Compensation	\$ 334	\$ 336	\$ 349	\$ 454	\$ 610	\$ 788	\$ 909	\$ 1,069	\$ 1,440	\$ 1,718	\$ 1,819			
% of Revenue	8.0%	7.0%	6.0%	6.2%	6.8%	7.1%	7.1%	6.8%	8.2%	8.9%	8.7%			
Obligation Ratio	1.6x	1.6x	0.8x	-0.3x	1.0x	0.5x	0.1x	0.2x	0.1x	-0.6x	-0.2x	< 5.0x		
Short-Term Debt	\$ 603	\$ -	\$ -	\$ -	\$ -	\$ 3,149	\$ -	\$ -	\$ 500	\$ -	\$ 1,499			
Long-Term Debt	\$ 911	\$ 1,907	\$ 1,892	\$ 1,881	\$ 4,125	\$ 989	\$ 4,117	\$ 4,123	\$ 3,629	\$ 3,634	\$ 4,128			
Preferred Stock	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Pension Shortfall	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Leases x7	\$ 23	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 644	\$ 679	\$ 609	\$ 511	\$ 490			
Cash and Cash Equivalents	\$ 1,117	\$ 877	\$ 1,011	\$ 2,306	\$ 1,643	\$ 2,650	\$ 4,478	\$ 3,844	\$ 4,236	\$ 7,141	\$ 7,193			



- Adobe operates with a negative obligation ratio due to a large cash balance
- Return on Equity and Return on capital have increased in the last 3 years
- Net Margin compression in the last 12 months

Valuation

Value Bands:



koyfin



koyfin

Valuation:

Ticker: ADBE												
Price: \$525.00												
								P/E	Total Return Price	PV	5 YR Return	Annual Return
Bear	EPS	<u>Current</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	25.0x	\$550.38	\$326.63	4.8%	0.9%
		\$11.84	\$15.04	\$16.54	\$18.19	\$20.01	\$22.02	30.0x	\$660.46	\$391.95	25.8%	4.7%
			27.0%	10.0%	10.0%	10.0%	10.0%	35.0x	\$770.54	\$457.28	46.8%	8.0%
Base	EPS	<u>Current</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	25.0x	\$627.41	\$372.34	19.5%	3.6%
		\$11.84	\$15.39	\$17.39	\$19.65	\$22.21	\$25.10	30.0x	\$752.89	\$446.80	43.4%	7.5%
			30%	13%	13%	13%	13%	35.0x	\$878.37	\$521.27	67.3%	10.8%
Bull	EPS	<u>Current</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	25.0x	\$712.81	\$423.02	35.8%	6.3%
		\$11.84	\$15.75	\$18.27	\$21.19	\$24.58	\$28.51	30.0x	\$855.38	\$507.62	62.9%	10.3%
			33%	16%	16%	16%	16%	35.0x	\$997.94	\$592.23	90.1%	13.7%