

LAYMAN BROTHERS



History

- Adobe Systems Incorporated was founded in December of 1982 by John Warnock and Charles Geschke.
- IPO August 20, 1986 @ 22 cents
- First company in Silicon Valley history to be profitable first year.
- Adobe Creek – John Warnock's house

Overview

- Creative Cloud- Application
- Adobe Experience Cloud
- Services and Support
- Publishing

Operating Segments

- Digital Media- Provides teams or individuals products and services that allow them to create and promote their content.
- Digital Experience- Provides services for creating, managing, measuring and optimizing digital marketing on multiple channels.
- Publishing software- Smallest portion of their earnings, pertains to legacy technical document publishing, web application development and high-end printing.

News

- At MAX 2018 reveals new advancements in their Subscription based Creative Cloud service.
- Acquiring competitor Marketo, a marketing and sales management company, benefitted their experience cloud segment.
- Acquired Magento, an eCommerce online service company.
- Microsoft, Adobe, and SAP announce Open Data initiative

How Consumers Purchase Adobe

Creative Cloud Plans & Pricing

Individuals

Business

Students and Teachers

Schools and Universities

Photography

US\$ 9⁹⁹
/mo

Photography plan (20GB) ▾

Annual plan, paid monthly ▾

Includes:

- Lightroom CC
- Lightroom Classic CC
- Photoshop CC
- 20GB of cloud storage

[Compare photography plans](#)

Add Adobe Stock. Get one month free.*

BUY NOW

Single App

US\$ 20⁹⁹
/mo

Choose an app ▾

- Your choice of one creative app like Photoshop CC, Illustrator CC, or Adobe XD CC
- Includes: 100GB of cloud storage, Adobe Portfolio, Adobe Fonts, and Adobe Spark with premium features

Add Adobe Stock. Get one month free.*

BUY NOW

BEST VALUE

All Apps

US\$ 52⁹⁹
/mo

Annual plan, paid monthly ▾

- The entire collection of 20+ creative desktop and mobile apps including Photoshop CC, Illustrator CC, and Adobe XD CC
- Includes: 100GB of cloud storage, Adobe Portfolio, Adobe Fonts, and Adobe Spark with premium features
- Up to 10TB of cloud storage (Call for details)

Add Adobe Stock. Get one month free.*

BUY NOW

All Apps + Adobe Stock

US\$ 82⁹⁸
/mo

Annual plan, paid monthly

- The entire collection of 20+ creative desktop and mobile apps including Photoshop CC, Illustrator CC, and Adobe XD CC
- Get 10 free Adobe Stock images. Your first month of Adobe Stock is free with the 10 Images/mo. plan
- Cancel Adobe Stock risk-free within the first month

BUY NOW

Creative Cloud

<p>Acrobat XI Pro Create, edit and sign PDF documents and forms Download</p>	<p>Adobe Audition Audio recording, mixing, and restoration Download</p>	<p>Adobe Muse Website design without coding Download</p>	<p>Adobe Premiere Pro Video production and editing Download</p>	<p>Adobe Scout Profile Flash games on web & devices Download</p>	<p>After Effects Cinematic visual effects and motion graphics Download</p>
<p>Behance Showcase & discover creative work Get started</p>	<p>Bridge Centralize your creative assets Download</p>	<p>Business Catalyst Online tools for website management and hosting Get started</p>	<p>Creative Cloud Desktop access to Creative Cloud Download</p>	<p>Digital Publishing Suite, Single Edition Create content and publish apps Get started</p>	<p>Dreamweaver Websites, app design and coding Download</p>
<p>Edge Animate Create interactive and animated web content Download</p>	<p>Edge Code Code HTML, CSS, and JavaScript Download</p>	<p>Edge Inspect Preview and inspect web designs on mobile devices Download</p>	<p>Edge Reflow Design the Responsive Web Download</p>	<p>Edge Web Fonts Get started with free web fonts Get started</p>	<p>ExtendScript Toolkit Add script to your creative apps Download</p>
<p>Extension Manager Easily install & manage extensions Download</p>	<p>Fireworks Image editing for websites and apps Download</p>	<p>Flash Builder IDE for coding Flash apps & mobile device packaging Download</p>	<p>Flash Professional Interactive experiences, game design & mobile device packaging Download</p>	<p>Gaming SDK Create ActionScript games Download</p>	<p>Ideas Vector based drawing Download</p>
<p>Illustrator Vector graphics and illustration Download</p>	<p>InCopy Collaborate with copywriters & editors Download</p>	<p>InDesign Page design, layout, and publishing Download</p>	<p>Kuler Inspiring color themes for any project Get started</p>	<p>Lightroom Digital photo processing and editing Download</p>	<p>PhoneGap Build Package mobile apps in the cloud Get started</p>
<p>Photoshop Image editing and compositing Download</p>	<p>Photoshop Touch Image editing and compositing Download</p>	<p>Prelude Metadata ingest, logging, and rough cuts Download</p>	<p>ProSite Build & manage your personal portfolio site Get started</p>	<p>SpeedGrade Film finishing and color grading Download</p>	<p>Story Plus Collaborative screenwriting, reporting, and scheduling tools Get started</p>
<p>Typekit Design with premium web fonts Get started</p>					

Experience Cloud



Growth Opportunities

Expansion of cloud services

- SaaS subscription model has shown high levels of growth as well as control over data
- Adobe will expand margins at a healthy rate once it becomes fully integrated into its new business model

Expansion of enterprise data understanding

- Analytics cloud & Sensei gives Adobe and its clients more understanding of the data ecosystem
- Partnership with Microsoft gives Adobe more data and reach into the understanding of its clients

Larger B2C appeal

- Growing digital media use from youtubers in particular
- Adobe already has established strong B2C appeal whereas competitors are more B2B

Continued Partnerships or M&A

- Adobes willingness to partner with large competing firms helps the firm to access more capital and lever its higher access to data
- Adobe could be an M&A target with its continued success in customer relationship and data market

SWOT Analysis

Strength

- Subscription payment method
- One stop Creative design service
- Expansive product list
- Partnerships with competition to understand data ecosystem

Weakness

- Inability to keep up with consumer demands through new software could harm operations
- Creative software packages are pricey and can drive away consumers
- New entrants into their market segments

Opportunity

- Expansion of software to mobile devices.
- Growth of new cloud services
- Opportunity for increased international usage

Threats

- Intense competition from other big tech companies
- Development of new services or software.
- Susceptible to foreign currency value fluctuation
- Threat from hackers, data breaches, etc.

Moat

Switching Costs

- Adobe's creative software is the gold standard
- Tying digital experience with creation software creates an all in one ecosystem
- Education systems heavily rely on Adobe software and once students enter the job market, employers often use Adobe due to its broad array of products paired with pre-existing knowledge from new recruits

Network Effect

- Increase in digital endorsements from a growing population of bloggers and youtubers
- Partnerships with Microsoft can increase Adobe's footprint in the B2B market
- Designers and marketers for firms can access all the software needed under an Adobe subscription

Qualitative Analysis

Qualitative Analysis	
Criteria	Pass/Fail
Competitive Advantage?	Yes
Easily Explainable?	Yes
Heavily Unionized?	No
Heavy Capital Infusion?	No
Heavy R&D?	Yes
Obsolete Inventory?	No
Chronic one-time write offs?	No
Raise prices to offset inflation?	Yes
Sell more in the future?	Yes
Billion dollar competitor?	No
Total	90.0% 9 out of 10

IOFS

Quantitative Analysis			
LTM	Value	Threshold	Pass/Fail
Gross Profit Margin	87.1%	Above 20%	Pass
SGA to Gross Profit	44.9%	Below 80%	Pass
R&D to Gross Profit	19.5%	Below 10%	Fail
Depreciation	4.5%	Below 10%	Pass
Interest to Operating Income	0.4%	Below 15%	Pass
Net Profit Margin	23.2%	Above 10%	Pass
Current Ratio	2.1	Above 1	Pass
Obligation Ratio	0	Below 5	Pass
Adjusted Debt to SE	0.2	Below 0.8	Pass
ROE	27.9%	Above 15%	Pass
ROIC	22.9%	Above 15%	Pass
Payout Ratio	0.0%	Below 60%	Pass
Preferred Stock	None	None	Pass
Capital Expenditures	2.8%	Below 25%	Pass
Net Earnings Trend	Increasing	Increasing	Pass
Retained Earnings Trend	Increasing	Increasing	Pass
Total	93.8%		15 out of 16

Dupont Historical

	Net Profit Margin	Total Asset Turnover	Financial Leverage Multiplier	ROE
2015	13.13%	0.43	1.67	9.1%
2016	19.96%	0.48	1.71	16.2%
2017	23.20%	0.50	1.71	20.2%
TTM	28.16%	0.58	1.73	28.2%

Dupont (Competitors)

Company 2017	Net Profit Margin	Total Asset Turnover	Financial Leverage Multiplier	ROE
ADBE	23.20%	0.50	1.71	20.02%
CRM	1.72%	0.60	2.34	2.40%
ORCL	24.74%	0.28	2.51	17.33%
SAP	17.13%	0.55	1.67	15.75%
MSFT	26.39%	0.39	2.85	29.06%
GOOG	11.42%	0.56	1.29	8.30%

Industry Breakdown

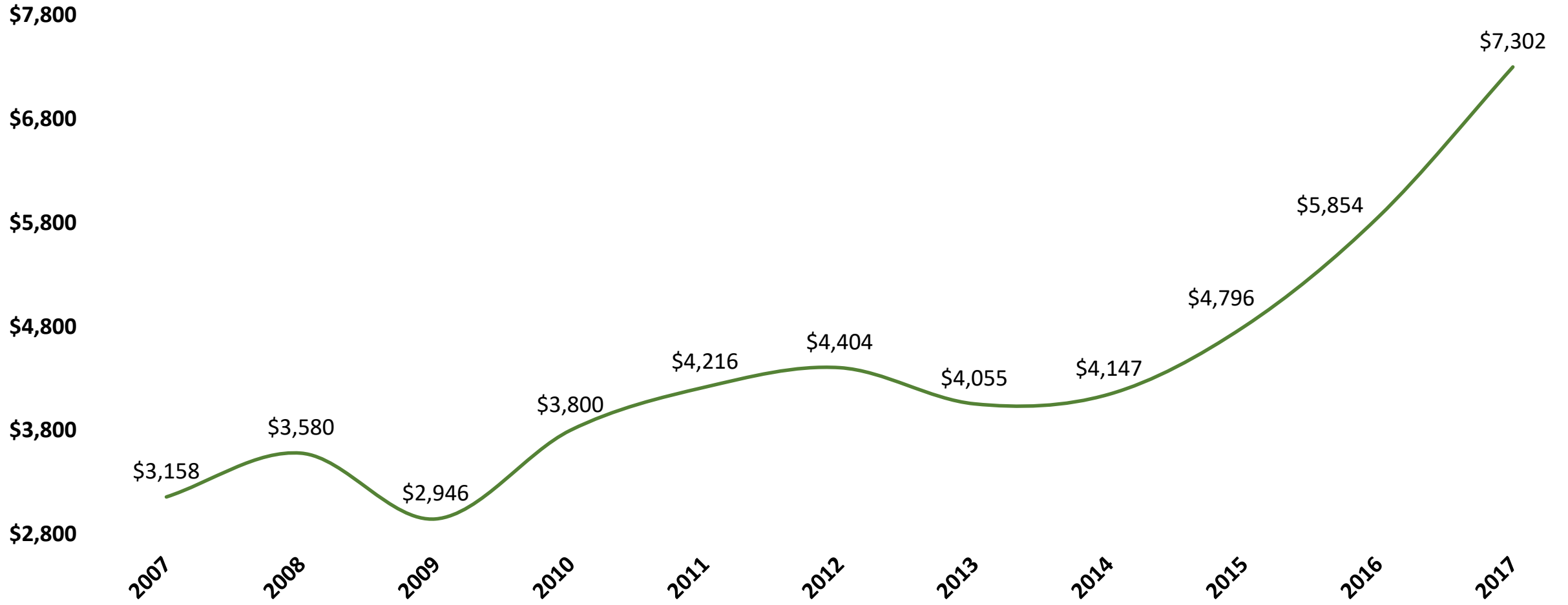
TTM	Adobe (ADBE)	Salesforce (CRM)	Oracle (ORCL)	SAP SE (SAP)	Microsoft (MSFT)	Alphabet (GOOG)
Market Cap	\$123.46B	\$106.54B	\$181.70B	\$128.0B	\$831.47B	\$765.40B
Revenue	\$8,572M	\$11,818M	\$39,837M	\$28,572M	\$110,360M	\$123,898M
P/E	52.25	136.81	52.27	26.25	51.35	47.86
P/S	14.71	8.82	4.94	4.64	7.63	6.28
P/B	13.99	7.72	4.98	4.16	10.02	4.73
EV/EBIT	45.18	113.88	11.97	20.89	19.76	22.92
ROA	16.32%	3.64%	2.87%	9.60%	6.58%	8.29%
ROE	20.02	7.43%	7.97%	16.50%	19.84%	10.44%
Gross Margin	87.09%	74.04%	79.67%	69.81%	65.25%	57.41%
Operating Margin	32.30%	4.23%	35.76%	22.01%	31.77%	24.48%
Net Margin	28.16%	6.45%	9.74%	17.62%	15.02%	13.61%

Debt Analysis

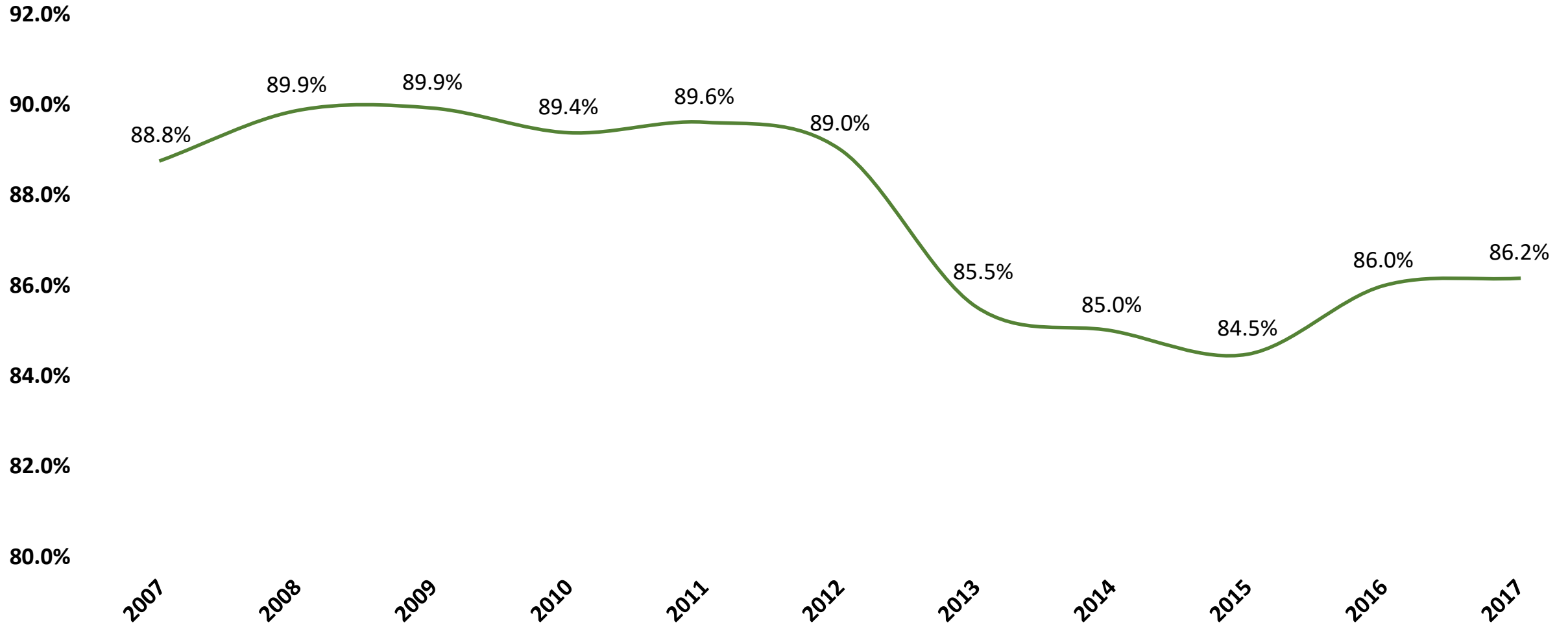
Debt Schedule		
\$ 900 million	4.75%	2020
\$ 1 billion	3.25%	2025

Statistical Array Analysis

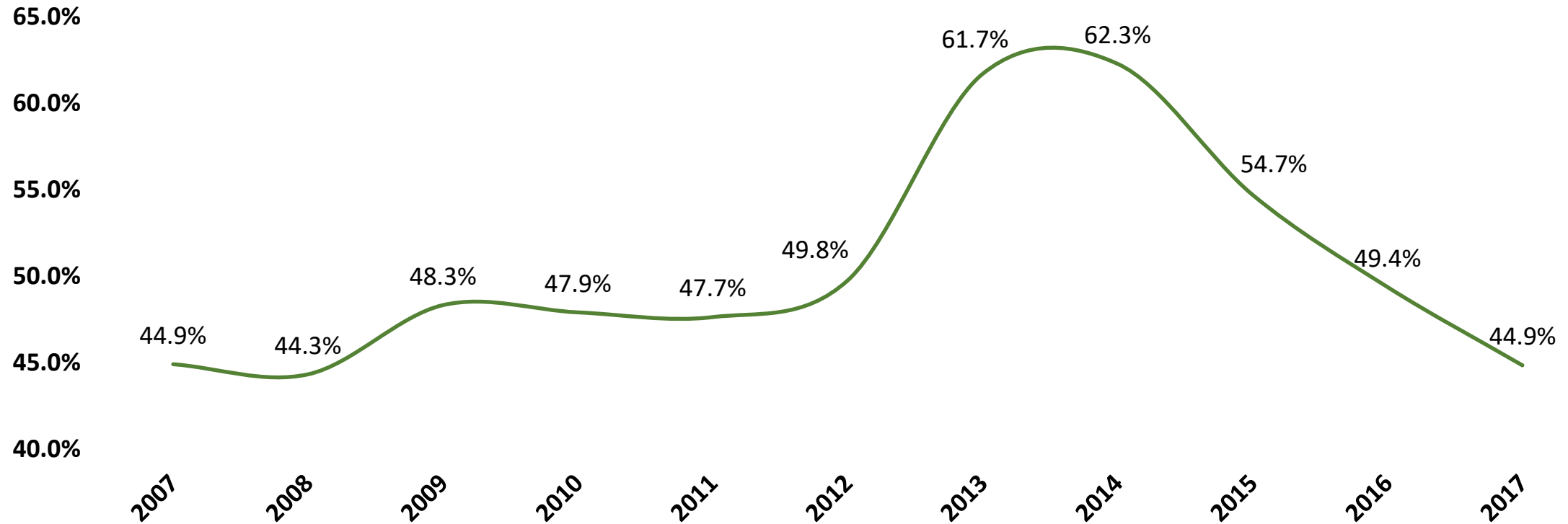
Revenue (*\$ in billions*)



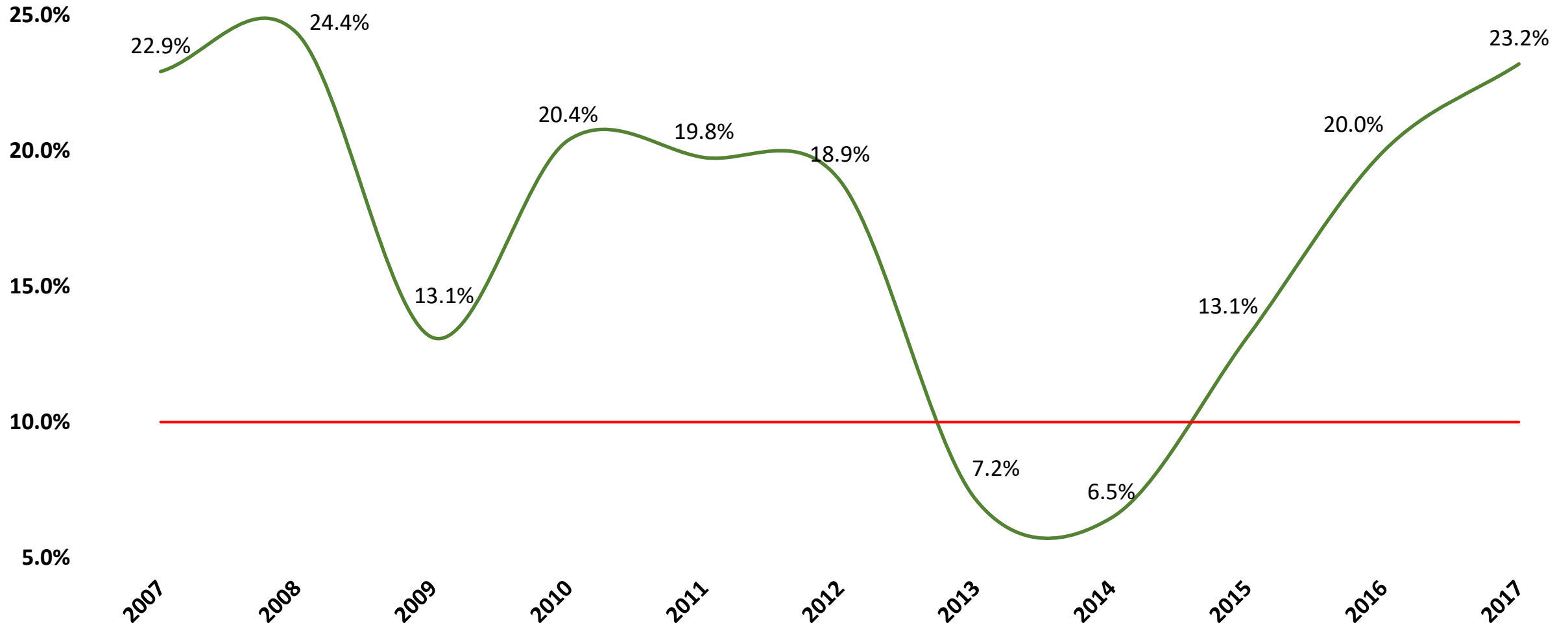
Gross Profit Margin



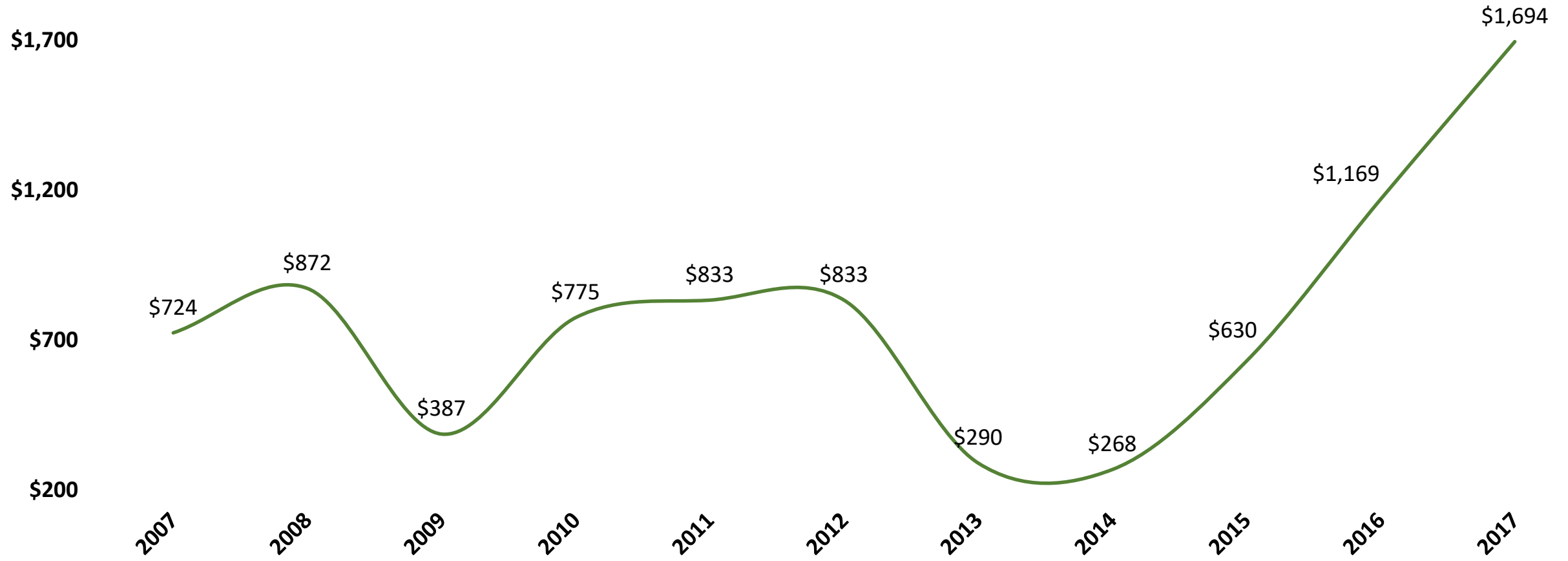
SG&A to Gross Profit



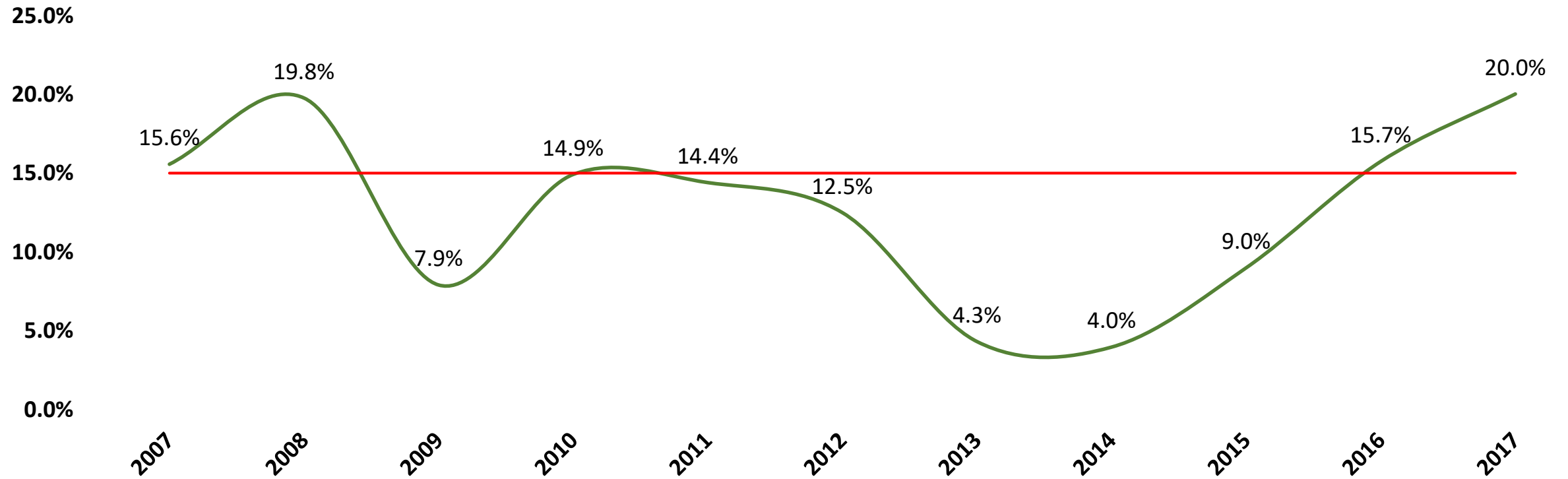
Net Profit Margin



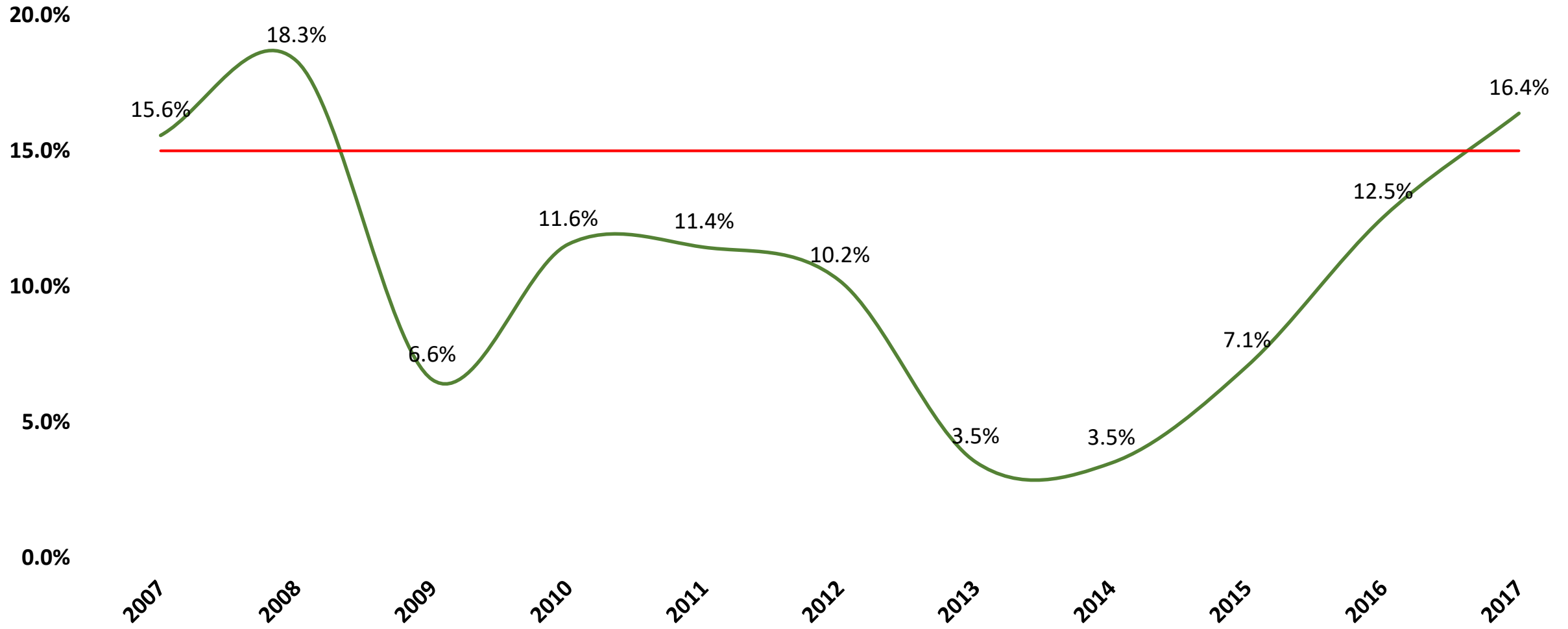
Net Income



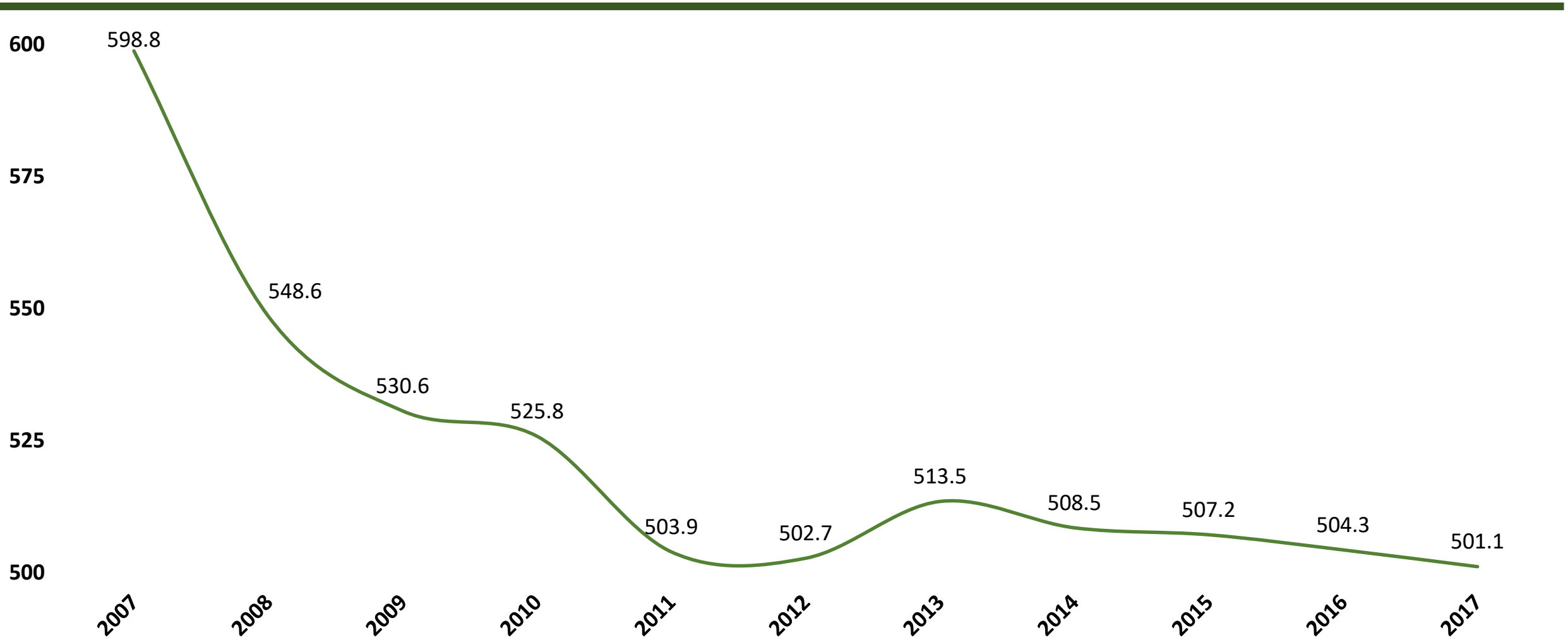
Return On Equity



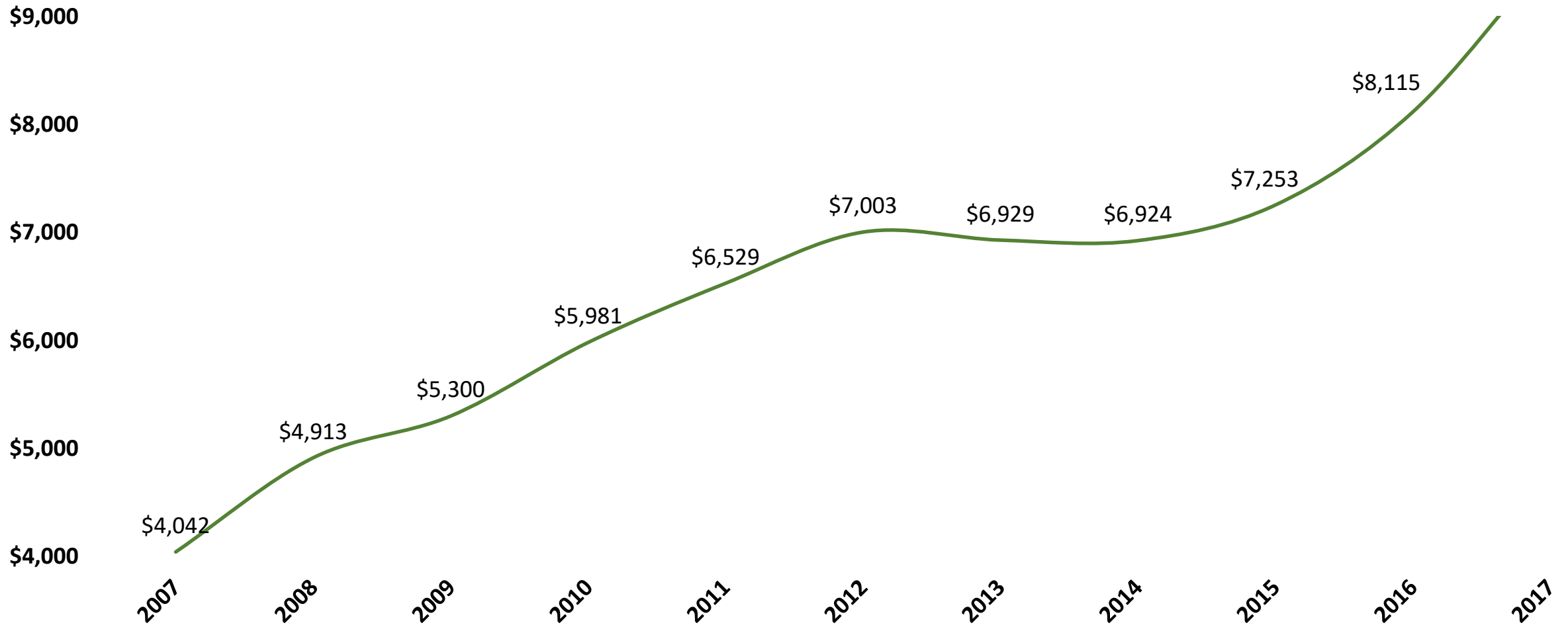
Return On Invested Capital



Diluted Shares Outstanding *(in millions)*

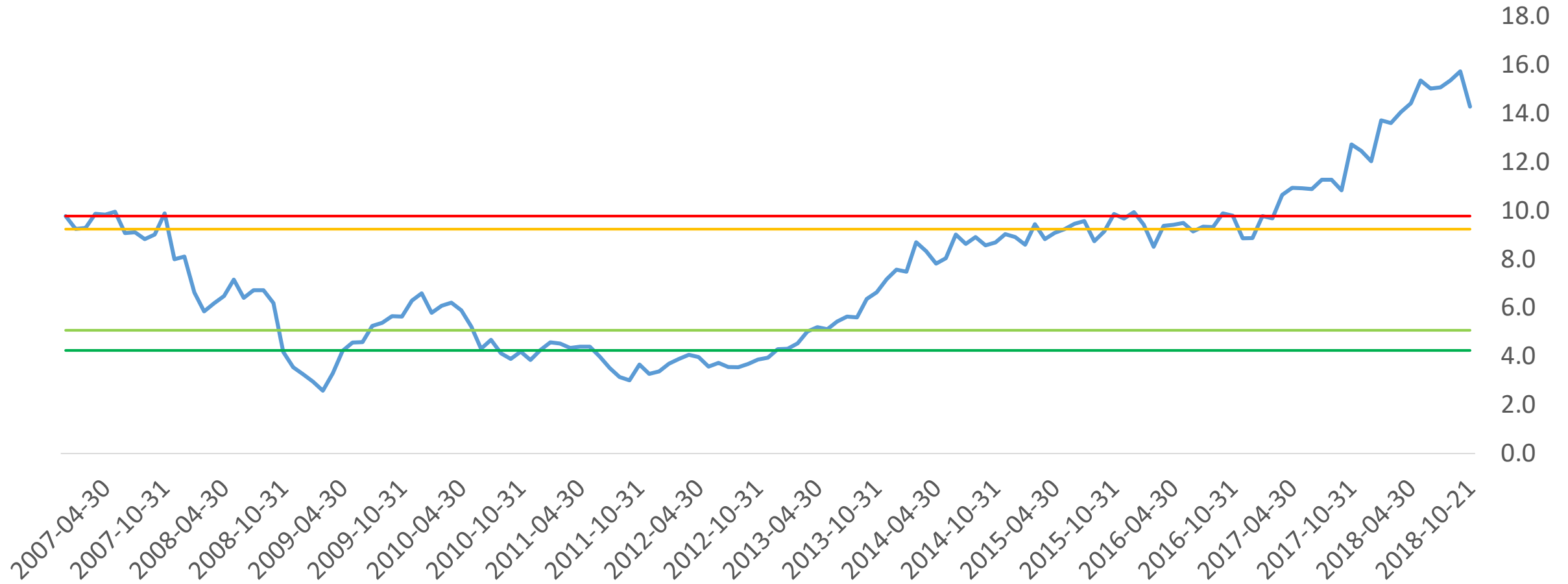


Retained Earnings

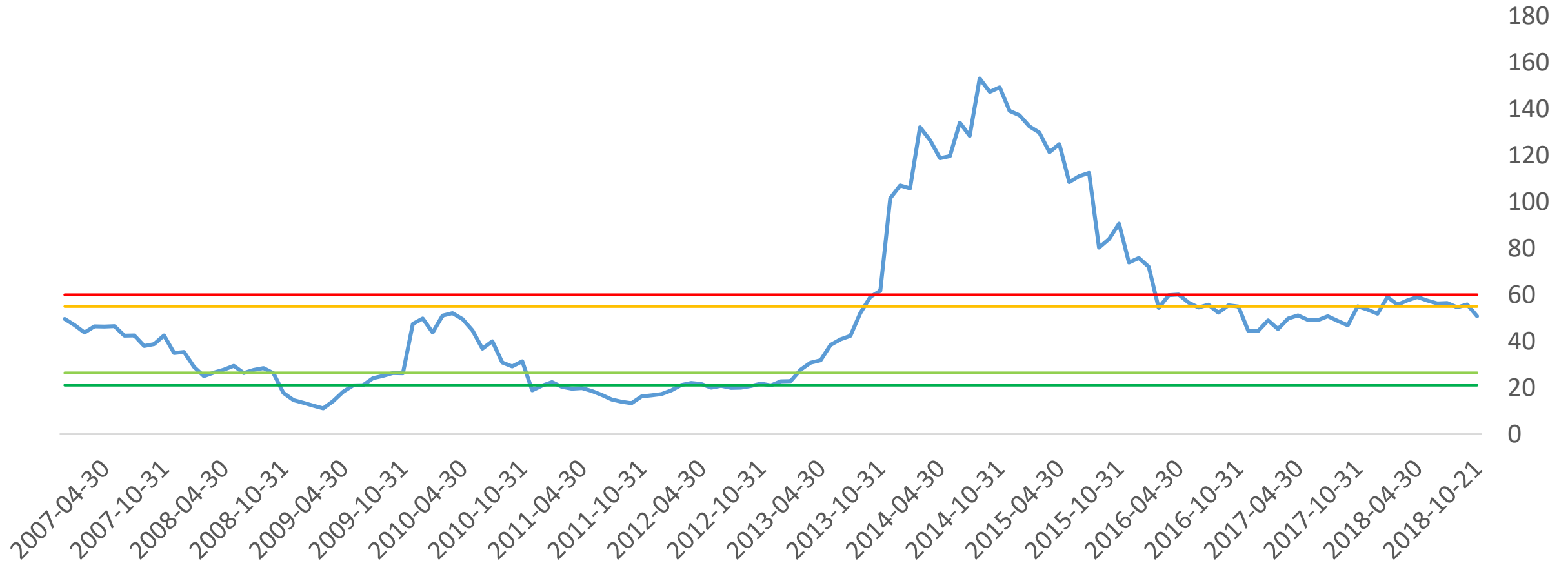


Value Bands

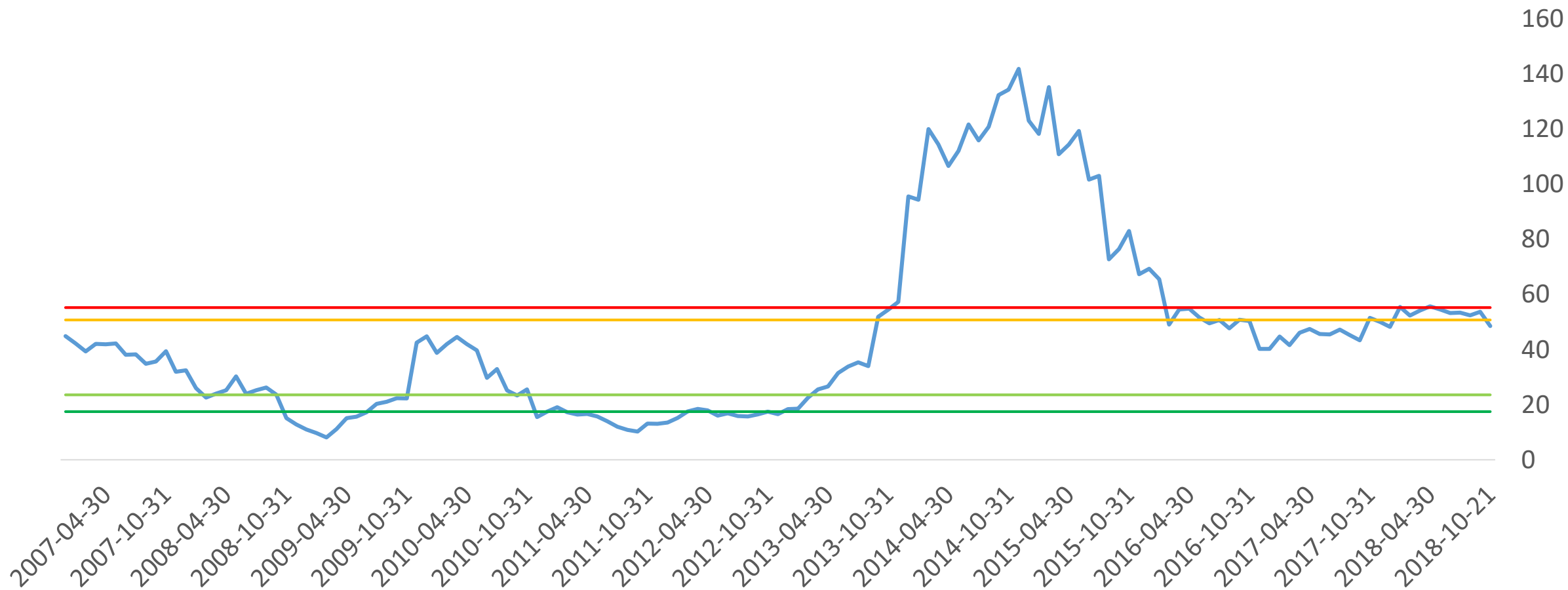
Price / Sales



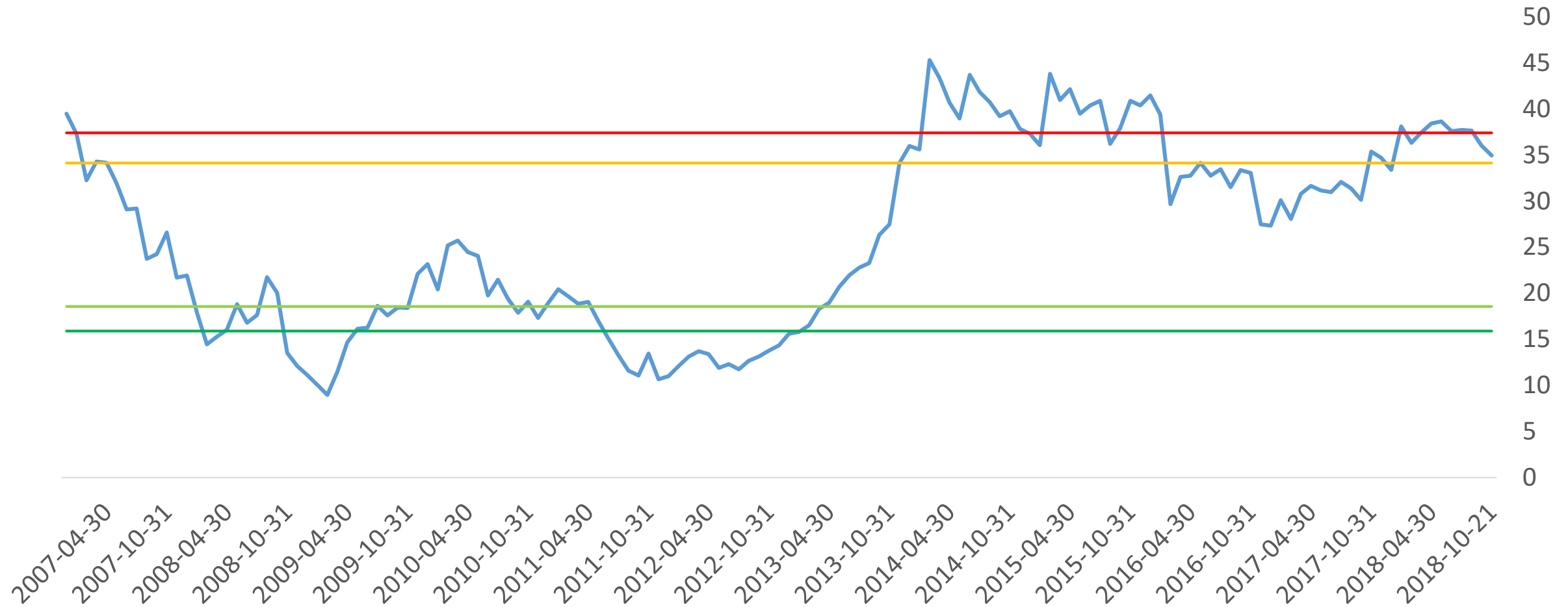
Price / Earnings



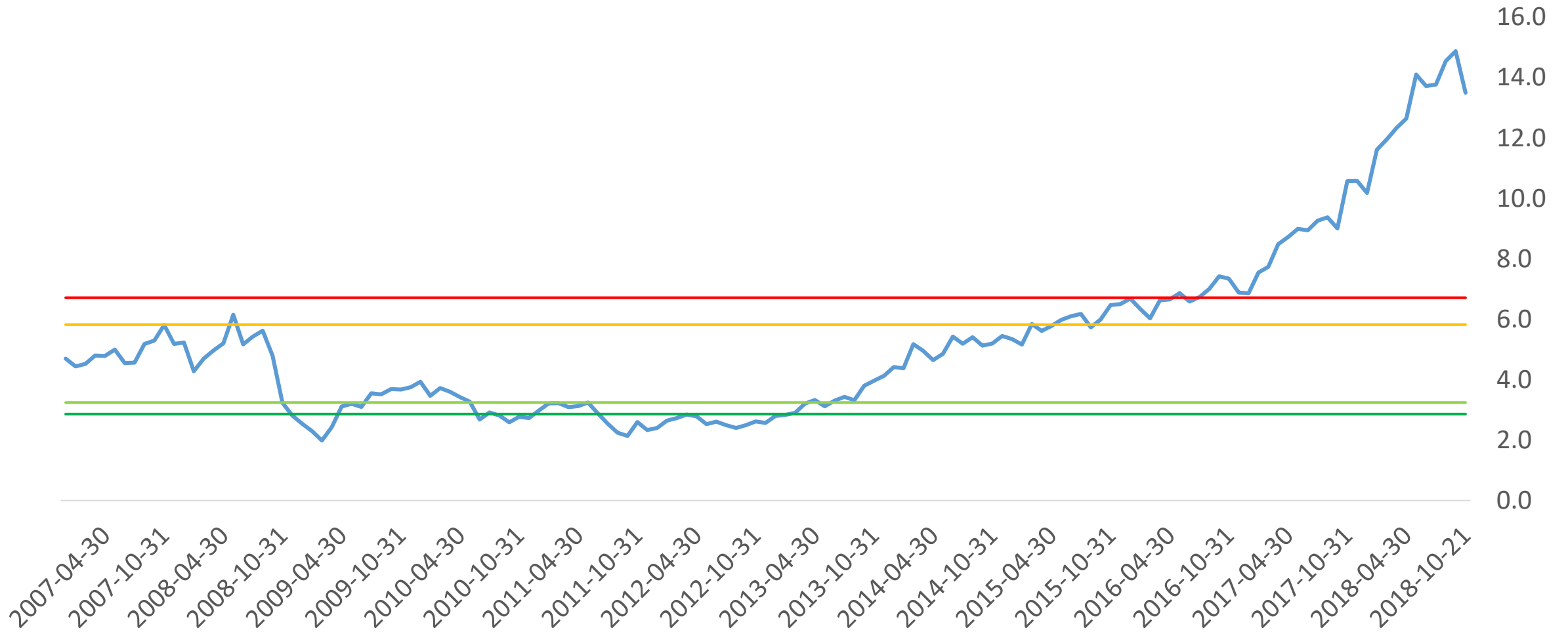
Price / Earnings - Cash



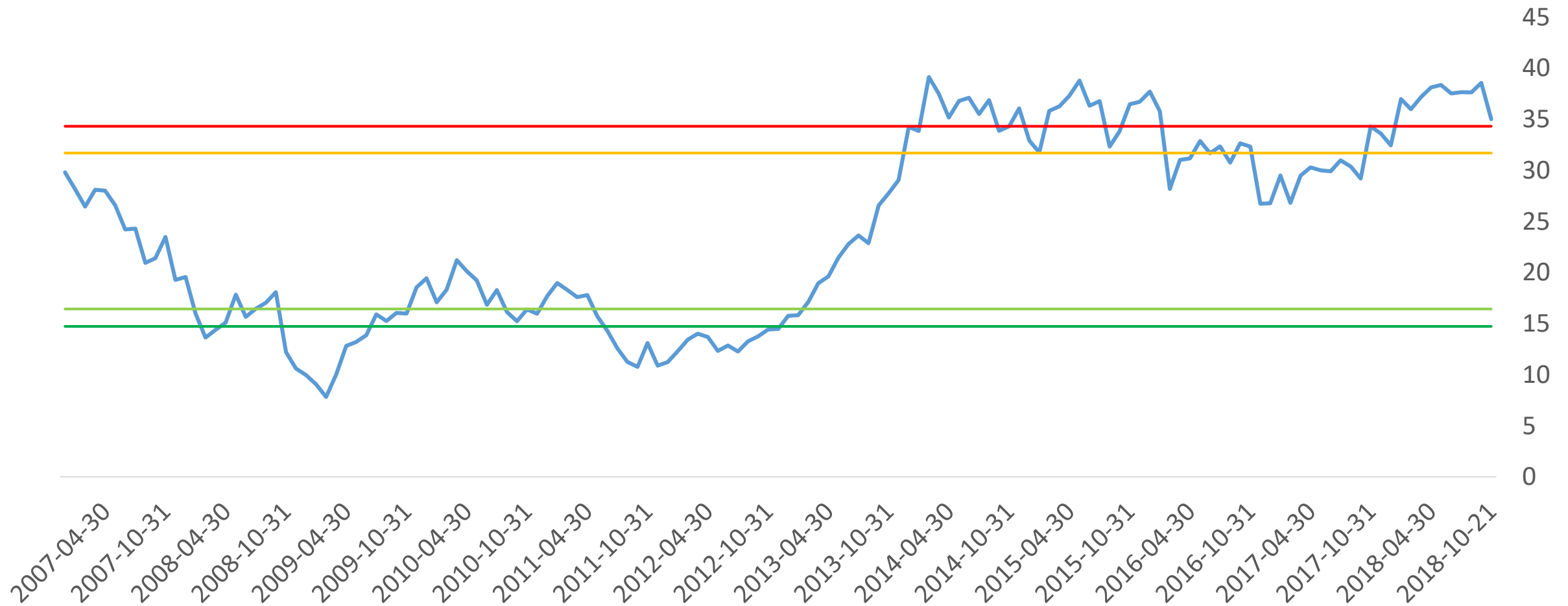
Price / Owner's Earnings



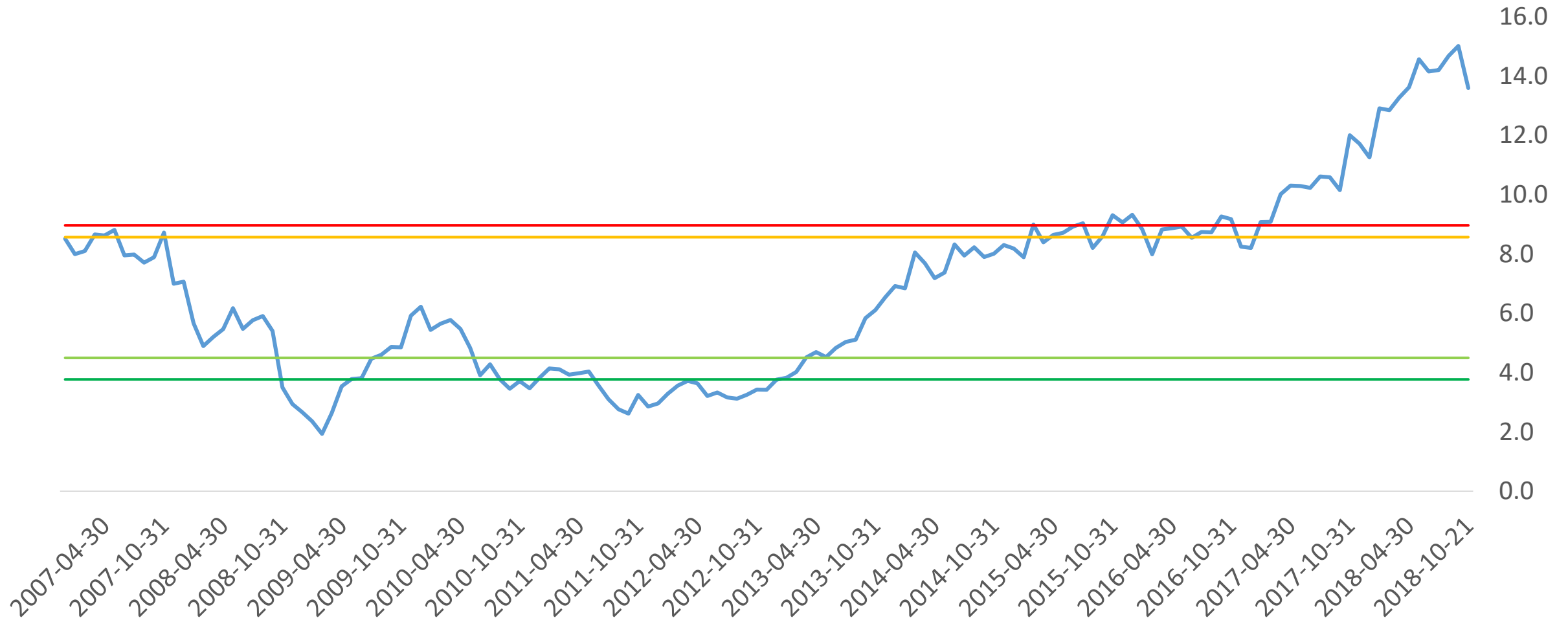
Price / Book



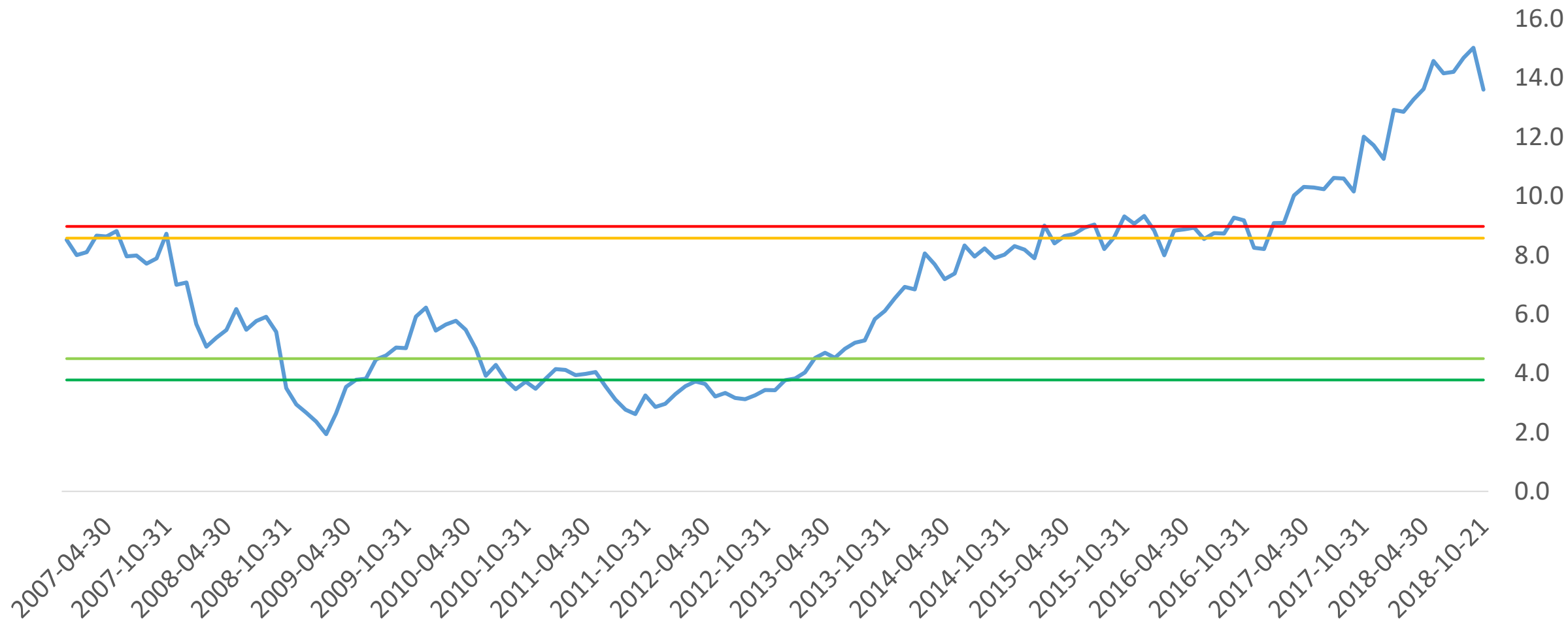
Price / Free Cash Flow



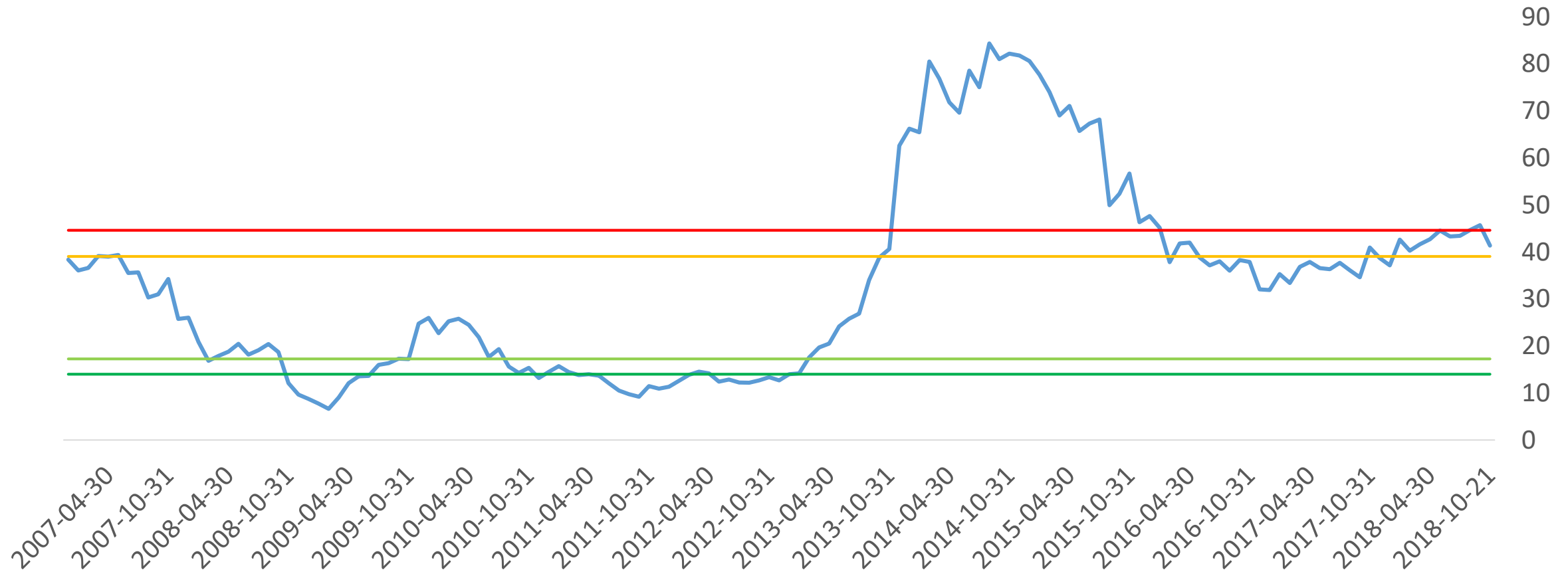
EV / Revenue



EV / EBITDA





EV / EBIT



Conscious Investor



10 YEAR

	11/08	11/09	11/10	11/11	11/12	11/13	11/14	11/15	11/16	11/17	EPSttm	Years
EPS (\$)	1.590	0.730	1.470	1.650	1.660	0.560	0.530	1.240	2.320	3.380	\$4.840	10
SPS (\$)	6.804	5.636	7.470	8.589	8.912	8.172	8.336	9.633	11.774	14.812		10

HGROWTH	STAEGR [®]	
5.57%	42.33%	
8.26%	86.63%	



6 Year

	11/08	11/09	11/10	11/11	11/12	11/13	11/14	11/15	11/16	11/17	EPSSttm	Years
EPS (\$)	1.590	0.730	1.470	1.650	1.660	0.560	0.530	1.240	2.320	3.380	\$4.840	6
SPS (\$)	6.804	5.636	7.470	8.589	8.912	8.172	8.336	9.633	11.774	14.812		6

HGROWTH	STAEGR [®]	
30.99%	50.88%	
11.54%	90.48%	

3 Year

	11/08	11/09	11/10	11/11	11/12	11/13	11/14	11/15	11/16	11/17	EPSttm	Years
EPS (\$)	1.590	0.730	1.470	1.650	1.660	0.560	0.530	1.240	2.320	3.380	\$4.840	3
SPS (\$)	6.804	5.636	7.470	8.589	8.912	8.172	8.336	9.633	11.774	14.812		3

HGROWTH	STAEGR [®]	
65.10%	95.17%	
24.00%	99.63%	

3 Year Safety Net

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET [®]
Default	238.44	\$4.840	72.01	65.10%	0.0%	71.49%
Safety	238.44	\$4.840	37.63	20.00%	0.0%	16.81%

Cut P/E by 43%

Cut HG by 70%

3 Year Kill It Again

	Price	EPS _{ttm}	P/E Ratio	HGrowth	Payout	STRET [®]
Default	238.44	\$4.840	72.01	65.10%	0.0%	71.49%
Safety	238.44	\$4.840	37.63	20.00%	0.0%	16.81%
Saved						
Options	283.44	\$4.840	25.00	8.00%	0.0%	-0.81%

Cut P/E by 65%

Cut HG by 87%

Discounted Cash Flow

		Exit Multiple					Key Assumptions					
		17.0	17.5	18.0	18.5	19.0	Revenue	2019	2020	2021	2022	2023
WACC	7.0%	\$ 305.76	\$ 313.37	\$ 320.98	\$ 328.58	\$ 336.19	Strong	21.0%	21.0%	20.0%	20.0%	19.0%
	7.5%	\$ 299.09	\$ 306.52	\$ 313.95	\$ 321.38	\$ 328.82	Base	20.0%	20.0%	19.0%	18.0%	18.0%
	8.0%	\$ 292.59	\$ 299.85	\$ 307.12	\$ 314.38	\$ 321.64	Weak	18.0%	17.0%	16.0%	16.0%	17.0%
	8.5%	\$ 286.27	\$ 293.37	\$ 300.47	\$ 307.56	\$ 314.66	EBITDA Margin					
	9.0%	\$ 280.12	\$ 287.06	\$ 293.99	\$ 300.93	\$ 307.86	Strong	43.5%	45.0%	46.0%	47.0%	47.0%
WACC	7.0%	\$ 284.33	\$ 291.41	\$ 298.50	\$ 305.58	\$ 312.66	Base	43.0%	44.0%	45.0%	46.0%	46.0%
	7.5%	\$ 278.13	\$ 285.05	\$ 291.96	\$ 298.88	\$ 305.80	Weak	41.0%	40.0%	40.0%	40.0%	41.0%
	8.0%	\$ 272.09	\$ 278.85	\$ 285.61	\$ 292.37	\$ 299.13	EBIT Margin					
	8.5%	\$ 266.22	\$ 272.82	\$ 279.43	\$ 286.03	\$ 292.64	Strong	40.0%	41.0%	42.0%	42.5%	43.0%
	9.0%	\$ 260.50	\$ 266.95	\$ 273.41	\$ 279.86	\$ 286.32	Base	38.0%	39.0%	40.0%	40.5%	41.0%
WACC	7.0%	\$ 231.95	\$ 237.70	\$ 243.45	\$ 249.20	\$ 254.95	Weak	36.0%	35.0%	35.0%	35.0%	36.0%
	7.5%	\$ 226.91	\$ 232.52	\$ 238.14	\$ 243.76	\$ 249.38	D&A					
	8.0%	\$ 222.00	\$ 227.49	\$ 232.98	\$ 238.47	\$ 243.95	Capex	5.7%	Tax Rate	15.0%		
	8.5%	\$ 217.22	\$ 222.59	\$ 227.95	\$ 233.31	\$ 238.68	Estimates					
	9.0%	\$ 212.58	\$ 217.82	\$ 223.06	\$ 228.30	\$ 233.54	Revenue	2018	2019			
							EBITDA	4.9%	19.9%			
							EBIT	43.2%	44.4%			
								38.5%	39.6%			

Intraportfolio

Ticker	P/E
MCK	9.69
DIS	14.82
OMC	15.27
ORCL	15.67
UHAL	16.19
DG	16.75
UNP	17.20
PEP	18.46
QCOM	19.98
BRK.B	20.33
HD	20.63
PII	21.63
CHRW	21.72
TSCO	22.74
MSFT	23.34
ULTA	26.58
NKE	27.90
NSRGY	31.22
MA	32.00
ADBE	51.20

Intraportfolio

Ticker	P/B
BRK.B	1.4
UHAL	1.8
MCK	2.7
DIS	2.9
QCOM	4.2
NSRGY	4.5
DG	4.6
ORCL	5.0
UNP	5.4
PII	6.2
OMC	7.2
TSCO	7.6
CHRW	8.1
ULTA	9.0
MSFT	10.0
NKE	13.1
ADBE	13.7
PEP	15.1
MA	39.6
HD	52.0

Intraportfolio

Ticker	P/FCF
MCK	9.89
BRK.B	13.78
DIS	14.08
UNP	17.73
UHAL	18.17
TSCO	20.36
OMC	20.82
NSRGY	21.13
PII	22.5
DG	24.73
CHRW	25.62
MSFT	26.05
ADBE	26.27
ULTA	26.73
ORCL	28.22
PEP	29.29
NKE	29.76
HD	35.4
MA	38.85

Intraportfolio

Ticker	P/S
BRK.B	0.12
CHRW	0.78
TSCO	0.97
MCK	1.13
NSRGY	1.23
ULTA	1.45
QCOM	1.71
OMC	2
PII	2.14
ORCL	2.43
NKE	2.63
PEP	2.85
UHAL	3.1
ADBE	3.21
UNP	4.33
DIS	4.97
DG	5.12
MSFT	7.61
HD	14.4
MA	15.35

Intraportfolio

Ticker	EV/EBIT
MCK	9.44
QCOM	9.91
DIS	12.08
UHAL	13.37
TSCO	14.25
OMC	14.85
DG	15.02
NSRGY	15.35
ULTA	15.85
ORCL	16.3
PII	16.33
CHRW	16.37
NKE	19.07
MSFT	19.71
PEP	24.41
ADBE	24.76
MA	28.31
UNP	34.37
HD	42.72

Intraportfolio

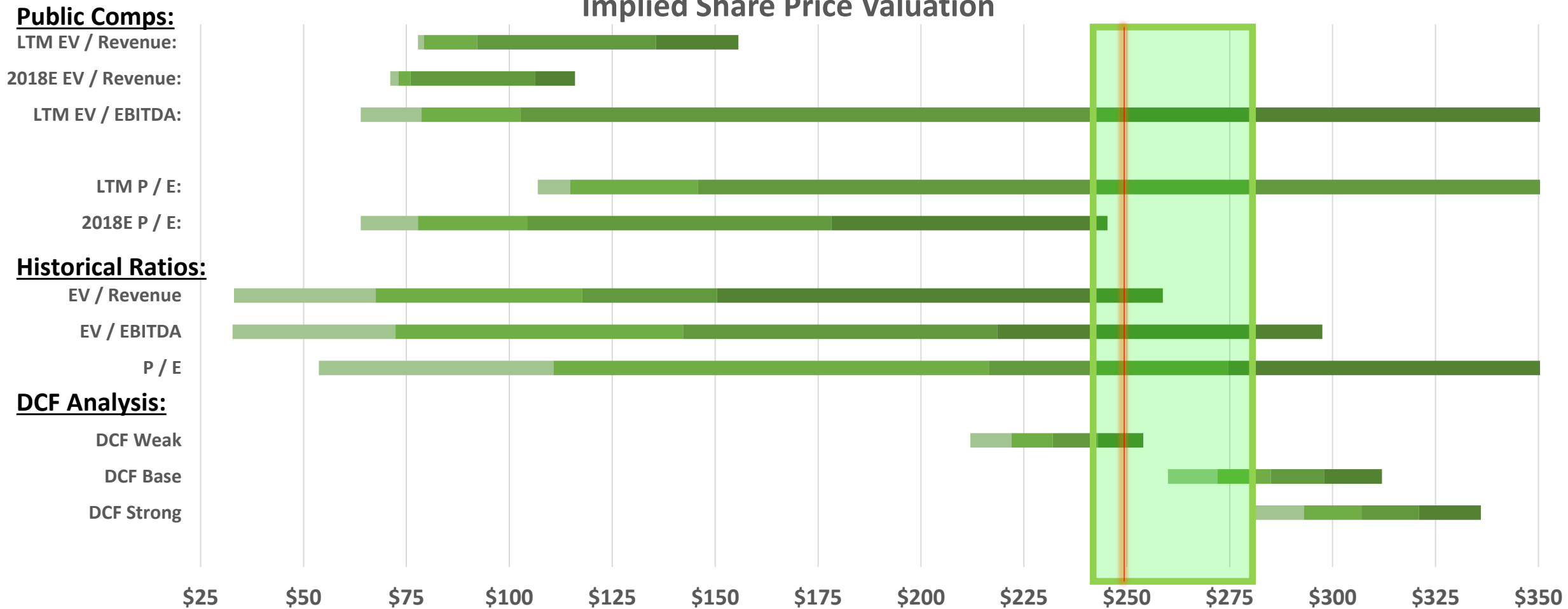
Ticker	ROE
MCK	47.4%
ORCL	44.6%
CHRW	40.3%
NKE	36.3%
ULTA	34.9%
TSCO	28.9%
NSRGY	28.8%
HD	28.2%
UHAL	27.5%
DIS	25.0%
QCOM	24.8%
MSFT	19.8%
ADBE	19.8%
OMC	18.6%
PII	14.3%
PEP	13.6%
UNP	10.9%
DG	10.0%
BRK.B	2.0%

Intraportfolio

Ticker	ROIC
UNP	-
MSFT	52.5%
NKE	44.6%
OMC	43.5%
DG	31.9%
ULTA	26.6%
MCK	25.7%
CHRW	24.0%
ADBE	23.6%
HD	23.1%
NSRGY	20.8%
UHAL	18.8%
QCOM	17.7%
PII	17.2%
ORCL	16.7%
TSCO	15.9%
PEP	13.0%
BRK.B	12.4%
DIS	9.0%

Valuation

Implied Share Price Valuation



Recommendation

Current Price: \$249.57

Estimated Fair Value: \$280

Margin of Safety: 13%

Recommendation: Limit order of \$245

Conclusion

Growth Story

Benefiting from change in business model

Long term stability