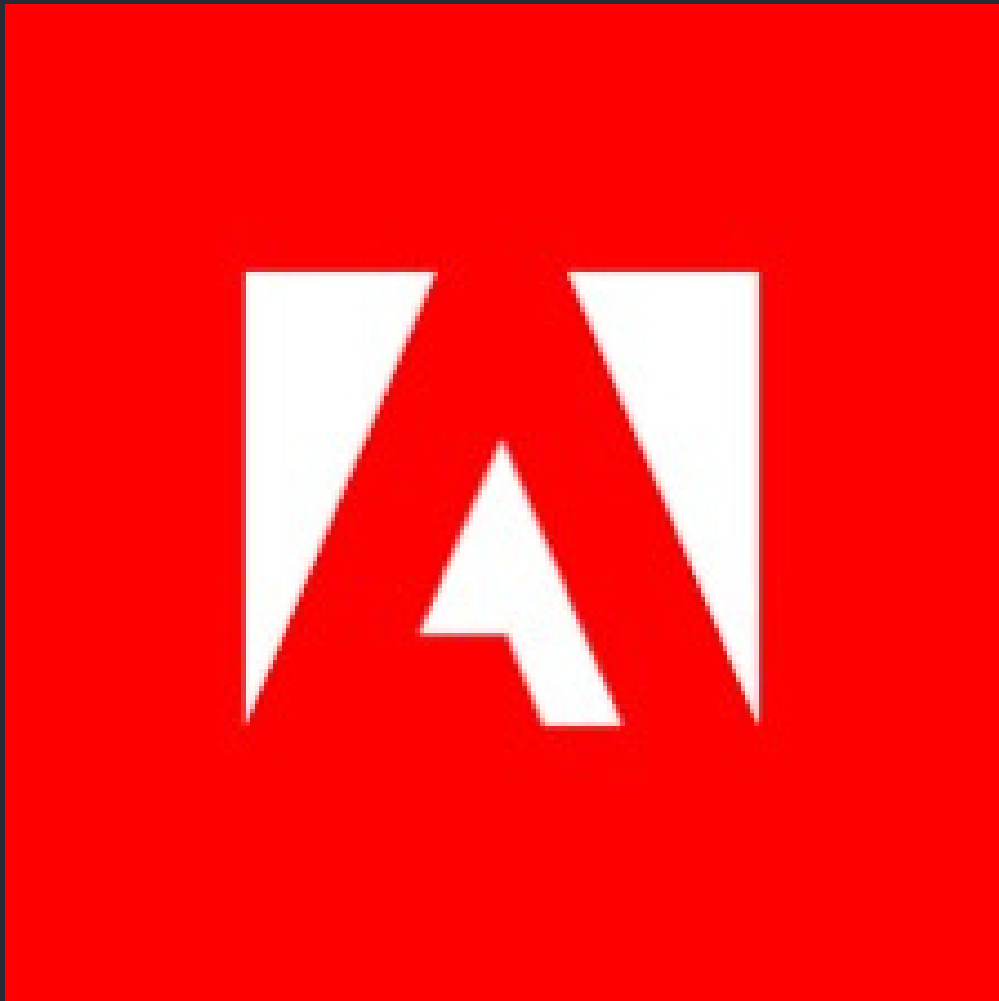


# Adobe (ADBE)

january 10, 2025





# **Contents:**

**Investment Thesis**  
**Company Overview**  
**Opportunities**  
**Risks**  
**Margins/Multiples**  
**Fair Value**

# Company Overview

Adobe Inc. is a global leader in digital media and marketing solutions, best known for its creative software like Photoshop, Illustrator, Premiere Pro, and Acrobat. Founded in 1982 and headquartered in San Jose, California, Adobe has revolutionized how individuals and businesses create, manage, and distribute digital content. The company operates primarily through its Creative Cloud, which offers a suite of design and editing tools, and its Experience Cloud, which helps businesses optimize customer interactions through AI-driven analytics and marketing solutions.

Adobe's strong Moat and competitive positioning, with their products such as photoshop and acrobat, having been the industry standard for years, will guarantee the company solid profit streams with modest growth for the foreseeable future, especially with the implementation of AI in the Digital Media and Digital Experience segments. The market has overreacted in fears of a shrinking market share and earnings forecasts, which presents little real threat to the company long term and allow for us to buy this stock at cheaper prices.

# Company Overview

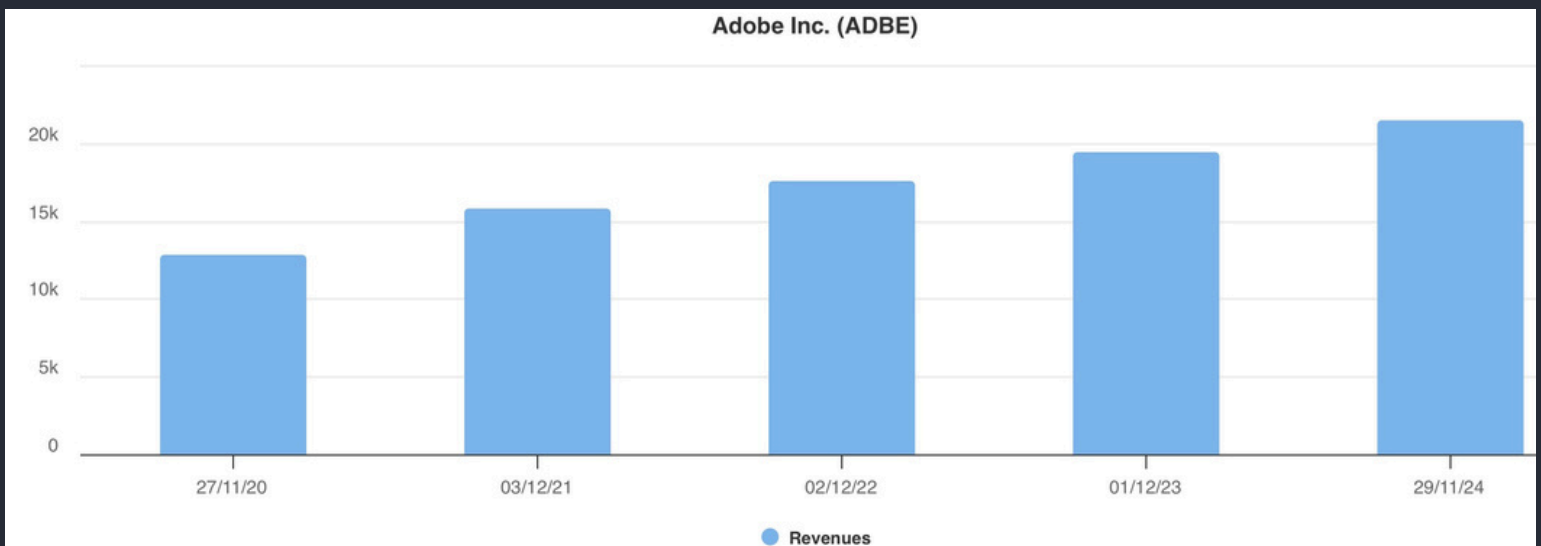
Adobe Digital Media, their multimedia software designed for content creation, editing, and distribution across various digital platforms represents 73% of their revenue. This includes industry-leading applications like Adobe Photoshop, Adobe Premiere Pro, and Adobe After Effect. These software applications are the standard for their respective industries, which leads the companies to stick with Adobe's software because of the costs incurred by changing to another platform.

Adobe's Digital Media segment has demonstrated strong financial performance, generating \$4.15 billion in revenue in Q4 FY 2024, a 12% year-over-year increase. The segment's growth is primarily driven by the Creative Cloud (\$3.30 billion revenue) and Document Cloud (\$843 million revenue) divisions. Adobe's Digital Media Annualized Recurring Revenue (ARR) reached \$17.33 billion, reflecting strong customer adoption and retention, which reflects Adobe's economic MOAT and serves as a baseline for future, reliable, cash flow generations. We will reflect these stable, low growth projections in our price target calculation.

# Company Overview

Adobe's Digital Experience segment, which represents about 25% of their revenue, provides enterprise solutions for customer analytics, and market optimization. Adobe Experience Cloud, their main product offers products for content management, personalization, AI-driven insights, and customer journey analytics. The same logic for the Digital Media segment applies, changing costs to switch these applications are very high, keeping companies reliant on Adobe's software.

This segment reported \$5.37 billion in revenue for fiscal year 2024, representing a 10% year-over-year growth. Of that, recurring subscription revenue was \$4.86 billion, reflecting a 12% increase from the previous year.



# Opportunities

Adobe Firefly is a generative AI suite built into their Digital Media segment enabling users to create images, text effects, and design elements from simple prompts. Firefly is central to Adobe's AI push, making design more accessible within their already popular products. The ability to implement AI into what the market perceives as standard allows for users to stay inside Adobe's ecosystem and not switch to Chat GPT or other AI tools, which would allow for extra profitability by cross selling. This product is perceived by the market as the biggest opportunity for rapid growth for the company.

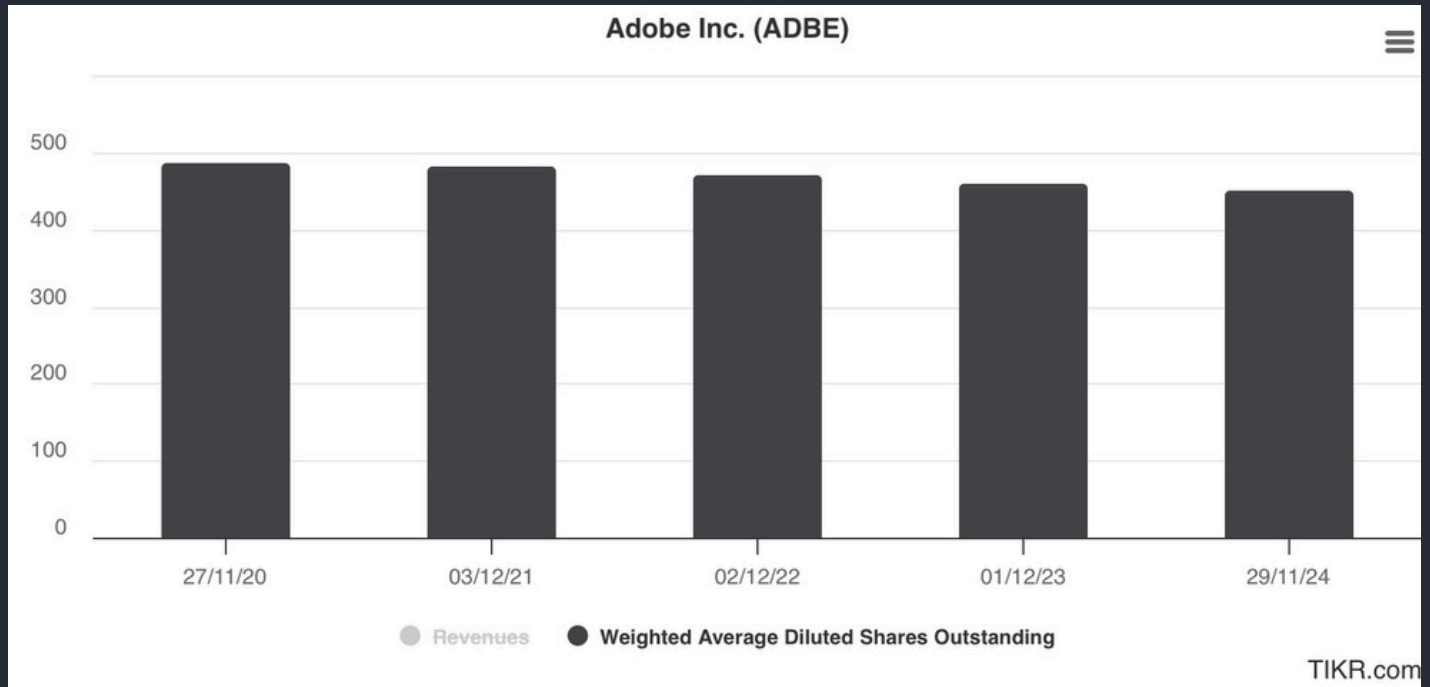
Adobe GenStudio is an AI-driven platform for marketing and advertising, helping brands automate content creation, personalization, and campaign execution. The same philosophy applied to the Adobe Firefly applies here, where it will keep users into their ecosystem and empower greater profitability.



# Opportunities

The company is using its cash reserves to buy back shares.

They are currently in a \$25 billion repurchase program, buying around 1% of their outstanding shares in the 4Q2024.



As their cash reserves keep strong and scares of market share diminishing rise, Adobe could explore M&A opportunities to acquire these smaller AI firms. Adobe's loyal client base is likely to keep loyal to them, especially as they implement AI features into their softwares. This way, it could be beneficial for smaller AI companies to be acquired by Adobe to break into this high barrier to entry market, and, in return, Adobe could benefit from great new applications into their products.

# Risks

The company forecasts Digital Media segment revenue between \$17.25 billion and \$17.40 billion, below the anticipated \$17.65 billion. This conservative outlook has raised concerns among investors about Adobe's competitive positioning and growth prospects in the evolving digital media landscape, with some thinking they'll lose market share to new companies such as Canva and other AI powered tools.

Adobe's Employee Stock Purchase Plan (ESPP) allows employees to purchase company stock at a discounted rate. However, Adobe has been doing this more than average, which, if continued into the long term will override their share buyback program and leading to share dilution



## Risks

Another concern is their AI implementation through Firefly. While it offers seamless integration with Adobe's suite of products, some users have noted that competing platforms like Chat GPT may produce more diverse and creative outputs. Perceptions of Firefly's efficiency relative to competitors could influence user adoption and satisfaction, posing a risk to Adobe's market share in the creative software industry.

Adobe also faces the risk of low or stagnant growth as its core Creative Cloud and Digital Experience segments mature, making it harder to sustain past expansion rates. Increased competition from AI-driven design tools (Midjourney, Canva, OpenAI's Sora) and enterprise software rivals (Salesforce, Microsoft) further challenges its dominance. The failed Figma acquisition weakens its position in web-based design, limiting inorganic growth opportunities. Without breakthrough innovations or successful expansion into high-growth markets, Adobe will fall into these risks.

# Multiples and Margins

Gross Margin: 89.04%

Operating Margin: 36.00%

Net Income Margin: 25.90%

Free Cash Flow (FCF) Margin: 32.28%



Adobe, following the stock's -40% drop since all time highs and -20% drop since December, trades at historical low multiples, as seen in the pictures. It is true that the company won't bring groundbreaking growth statistics in the next following years, but I believe there must be a multiples expansion coming in soon. This won't bring their P/FCF ratio to their ATH but, as soon as the market realizes is overreaction, we should expect their P/FCF to go to more normal levels

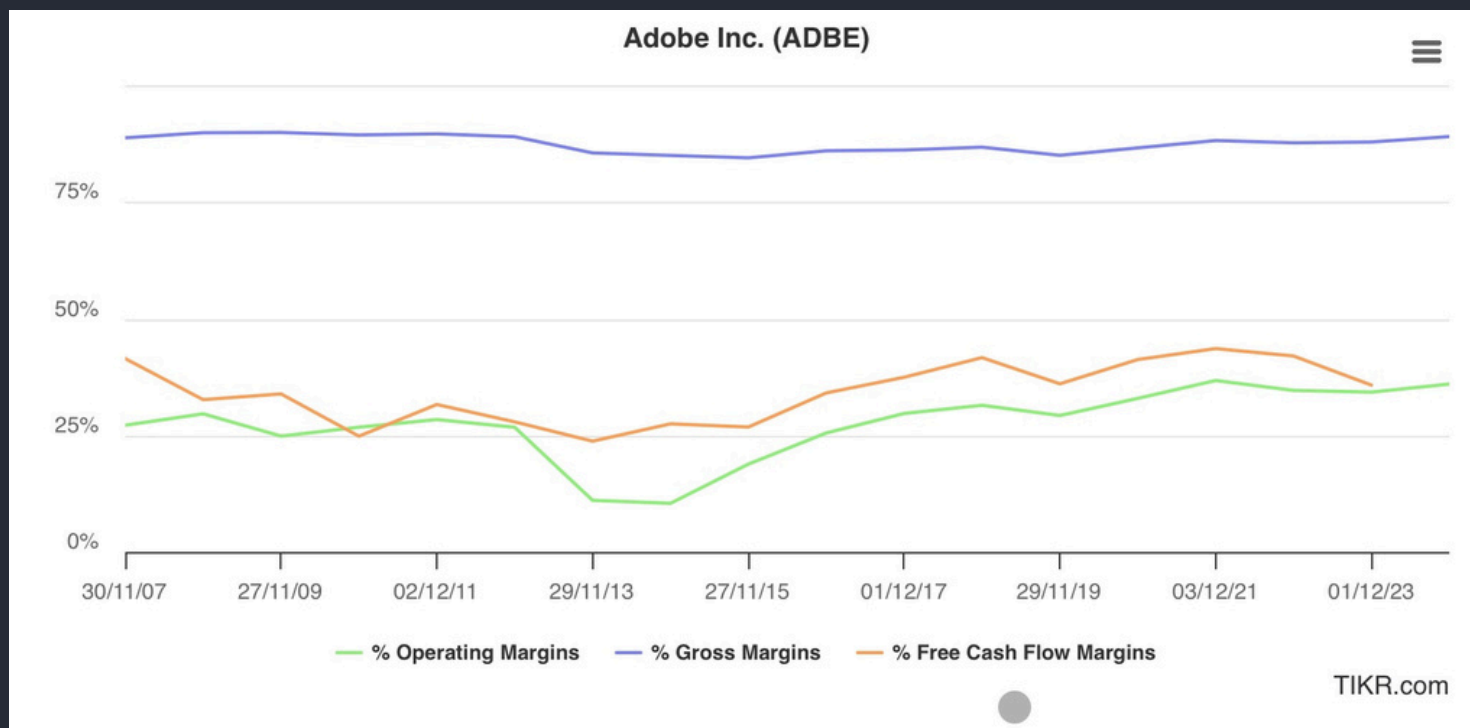
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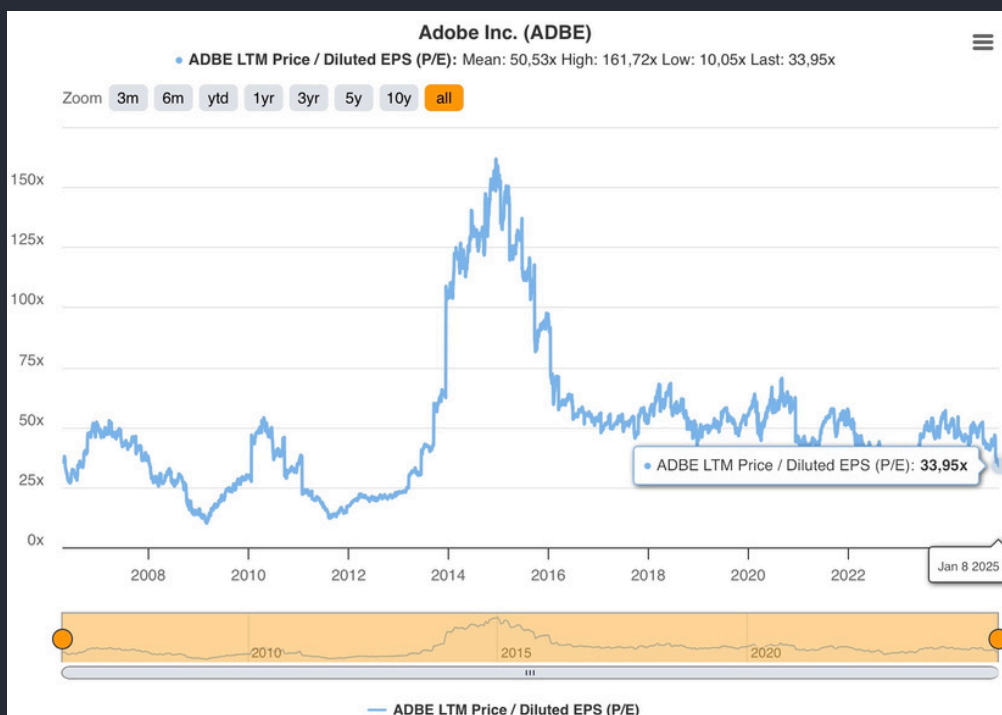
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# Multiples and Margins



## Fair Value

To calculate Adobe's fair price, let's assume the following statistics:

Revenue Growth: 10%

Free Cash Flow Margin: 36%

P/FCF: 25x

Period: 5 Years

Shares outstanding change per year: -0.5%

Revenue in 5 years: \$34.64 Billion

Free Cash Flow in 5 Years: \$12.47 Billion

Price in 5 years: \$311.77 Billion

Compounded annual return rate: 11.4%

Adobe is a high quality company with an extremely wide economic Moat that will be able to resist the threats perceived by the market currently. Although it won't see high growth as it has in the past, it is a fantastic company with great opportunities ahead and, at the current price, presents a buying opportunity.