



Stock Pitch

July 2, 2019

Adobe Inc.

Ticker: ADBE

Current Price: \$294.65 USD

Target Price: \$322.94 USD

Summary

This stock pitch analyzes Adobe Inc. in its entirety in order to present a final recommendation, which is based on three key factors. The analysis includes that of the management team, the computer software industry, and Adobe's business model. Risks and catalysts specific to Adobe will be detailed in addition to a comprehensive outline of the company's financial health.

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Investa Insights

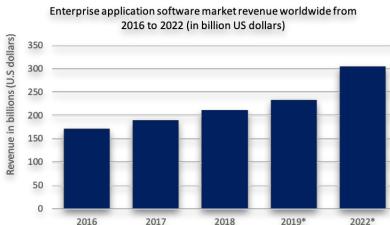


Industry Outlook



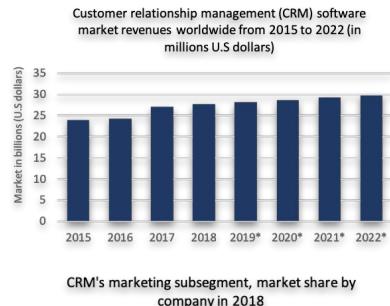
Enterprise Software Industry Outlook

Worldwide enterprise application software revenue totalled more than \$193.6B in 2018, a 12.5% increase from 2017 revenue of \$172.1B. CRM made up nearly 25% of the entire enterprise software revenue market.



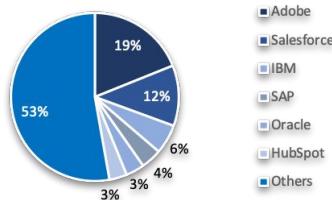
Consumer Relations Management (CRM)

Salesforce leads the worldwide CRM market with 19.5% market share in 2018
Adobe and Salesforce grew faster than the overall market, increasing CRM revenues to 21.7% and 23.2% respectively



Marketing CRM Software

Adobe dominates the marketing subsegment of CRM
Gartner estimates the marketing subsegment being the highest growing subsegment among CRM segments with the market estimated to \$12.2B since 2018



Industry Trends

Rise of Subscription Businesses

- The subscription of e-commerce market has grown more than 100% over the past five years
- The market has grown from \$57M in sales in 2011 to \$2.6B in 2016. In 2013, Adobe shifted to subscription based, focus more on recurring revenue and customer retention over customer acquisition
- Stronger business model since sales are guaranteed over a period of time rather than a single purchase, easier for business planning and revenue forecasting

"Freemium Model"

- Free services plus advanced features for an extra cost
- Drive traffic, typically ~3% conversion

B2B Business Entering Digital Age

- SaaS growing \$76billion from 2018-2020
- B2B e-commerce rapidly growing, allowing businesses to efficiently identify suppliers and new business opportunities

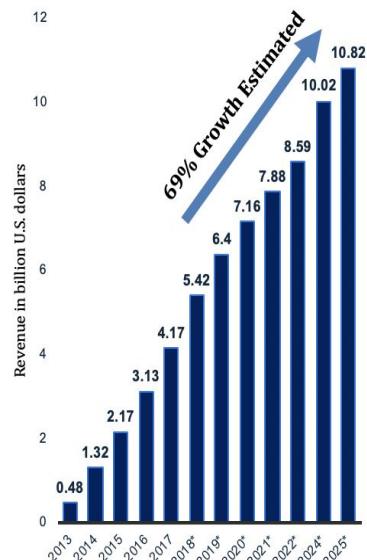
In the News

- Salesforce announces Customer 360, a common data repository for users unifying existing cloud services
- IBM closing acquisition of Red Hat, intending to grow the company's open source software faster than other players (by a landslide)
- SAP acquires Qualtrics - showing similar mechanical and organic growth rates as Adobe
- Adobe acquires Marketo - a leader in customer experience management and B2B marketing software
- Adobe acquires TubeMogul - continuing to diversify its media software offerings

Investment Thesis I : The Power of Adobe Creative Cloud



Adobe Creative Cloud Revenue



Why Creative Cloud

- Adobe takes on a recurring-revenue approach
- Subscription services take up a stacking revenue approach that will benefit Adobe in the long run
- Creative Cloud advances integration between Adobe software for increased user experience

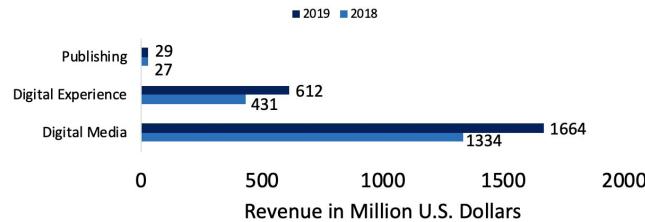
Current Performance

- Adobe has designed a variety of subscription plans to target various markets
- Creative Cloud revenue has increased by \$5.92 billion USD since released
- Adobe has gained approximately 10.5 million Creative Cloud subscribers

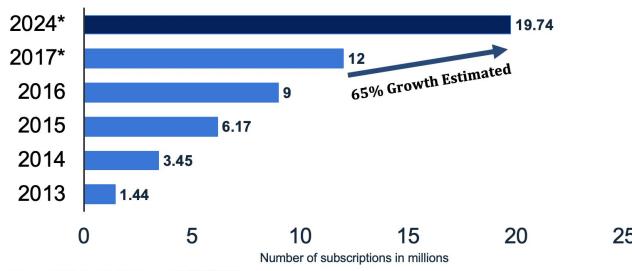
The Future of Creative Cloud

- Adobe Creative Cloud Revenue is estimated to grow by 69% by 2025
- Adobe Creative Cloud is estimated to increase subscribers by 65% by 2024

Adobe Creative Cloud Revenue Breakdown



Adobe Creative Cloud Subscriptions


[Company Overview](#)
[Industry Outlook](#)
[Investment Thesis](#)
[Catalysts and Risks](#)
[Valuation](#)
[Resources](#)

Investment Thesis III: Increase Presence in Marketing Automation Market



Marketo Acquisition

- Acquisition of Marketo for \$4.75 billion, therefore allowing them to break into the B2B SaaS market strong
- Brings \$350 million of revenue (2018)
- Client-based Acquisition



Organic Growth

- \$414 million increase in Digital Experience revenue over the last year
- Adobe reports an increase in Adobe Creative Cloud revenue

Bain 40% Rule

Growth + Net Profit Margin > 40%

Bain 40% Rule statistically outperforms the market and holds true solely with organic growth y/o/y

B2B Marketing Automation Market Participation

With the acquisition of Marketo, Adobe is now able to participate in the B2B marketing automation market. Adobe needed the functionality of Marketo, such as the company's leading Engagement Platform that empowers marketers to create lasting relationships and grow revenue

	2018	2017	2016
Adobe Revenue	\$ 9,030,008.00	\$ 7,301,505.00	\$ 5,854,430.00
Sales Increase	\$ 1,728,503.00	\$ 1,447,075.00	\$ 1,058,919.00
Major Acquisition Revenue	\$ 500,000.00	\$ 181,000.00	
Organic Growth	\$ 1,228,503.00	\$ 1,266,075.00	\$ 1,058,919.00
y/o/y %	15.70%	19.52%	19.89%
Profit Margin	28.69%	23.20%	19.96%
Total	44.39%	42.72%	39.85%
Bain 40% Rule	TRUE	TRUE	FALSE

Synergies

- Upselling vs new customer **cost synergies up to \$0.61 per \$1 of new customer revenue** in SaaS market
- Marketo brings data that will allow Adobe to target their marketing efforts ~ **50 000 customers to target**
- Increased **breadth of cloud ecosystem** encouraging customers to adopt adobe products in all aspects of their business

Catalysts



Insulated Against Trade Wars

Despite the fact that many tech stocks are deeply affected by the ongoing trade war as they manufacture in China, have rare-earth metal inputs, or large amounts of revenues dependent on the region, Adobe's cloud-based services are more resilient to trade war headwinds and have much lower exposure.



Fed Pivot On Inflation

Historically, companies with more pricing power can maintain profit margins in higher inflation environments as they can offset rising input prices with higher products prices.



Heavy Competition

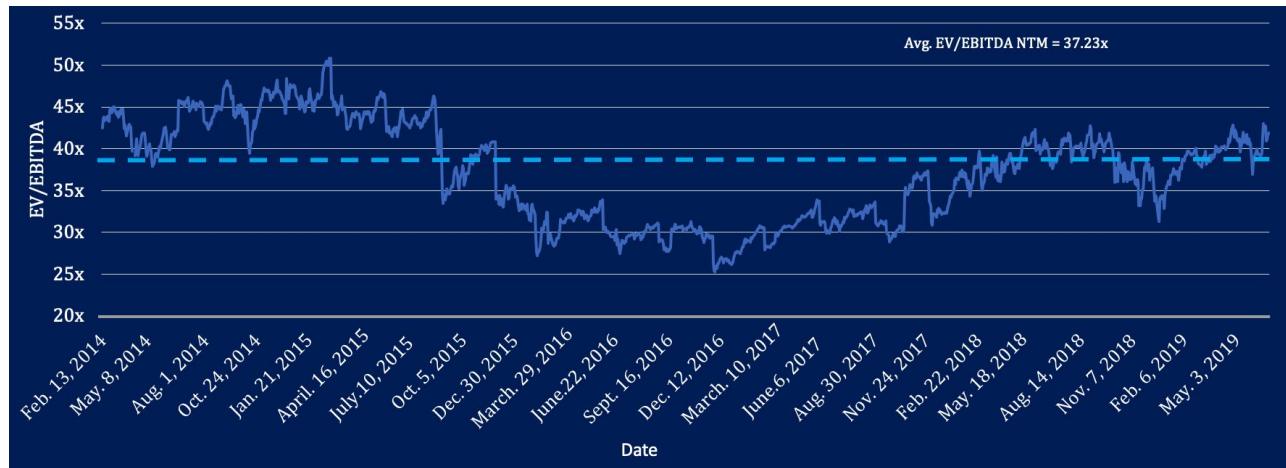
Adobe faces intense competition from large companies like Oracle, Autodesk, Salesforce, Alphabet, and Apple. For example, Apple sells their products with their own video and graphics editing programs pre-installed.



Recent Acquisitions

Adobe is still realizing the acquisitions it made in 2018. The company has relied in part on strategic acquisitions to fuel its growth, which can potentially be risky in the event that there are no attractive acquisitions targets.

Historical Multiple Analysis



Metric	Multiple		Implied Price		Implied Return	
	Historic Mean		Historic Mean		Historic Mean	
	X	(\$/share)	(\$/share)	(\$/share)	(\$/share)	(\$/share)
EV/EBITDA	37.23x	\$ 255.77				-13.2%
Current Share Price				\$ 294.65		

Valuation



Analyst Recommendations

Company	Price Target	Recommendation
Goldman Sachs	\$300.00	BUY
Bank of America	\$323.00	BUY
Credit Suisse Group	\$325.00	BUY
Barclays	\$333.00	BUY
Morgan Stanley	\$340.00	BUY
JPMorgan Chase & Co.	\$329.00	BUY
Wells Fargo & Co.	\$275.00	HOLD
Canaccord Genuity	\$320.00	BUY
Average:	\$315.55	BUY

Valuation Summary

Analysis	Price	Weight
Street Consensus	\$315.55	20%
Gordon Growth Method	\$327.22	25%
Terminal Multiple Method	\$320.63	25%
Comparable Analysis	\$361.47	20%
Historical Multiple Analysis	\$255.77	10%
Average	\$322.94	100%

Current Price

\$294.65

Target Price

\$322.94

Upside

9.6%

Final Recommendation: HOLD

Company Overview

Industry Outlook

Investment Thesis

Catalysts and Risks

Valuation

Resources

1. Yahoo Finance
2. Adobe Annual Reports
3. Statista.com
4. CNET
5. Forbes
6. The Motley Fool
7. Barron's
8. Nasdaq
9. Mergent Online
10. Reuters
11. Factiva
12. IBIS World
13. Morningstar
14. EY
15. Wall Street Journal
16. Infront Analytics
17. Deloitte
18. PwC
19. Bain
20. CardConnect
21. BMO Capital Markets
22. Owler

Justification and Assumptions

- Downward pressure on margins from new entrants offering unique creative products will flatten out EBITDA past the 5-year mark
- Adobe will achieve its goal to become a market leader in the high-growth digital experience segment
- Adobe will bolster its creative software sales by 30% through packaging its existing creative bundles with enterprise software
- Recent acquisitions of Marketo and Magento have unrealized synergies with larger company, and will hold revenue growth above 10% per year
- Subscription-based pricing plan results in 85% of Adobe's revenue coming from recurring sources, so revenue will grow steadily into future
- Cash to sharply increase in 2019 to improve liquidity to pay interest on debts
- Cooling off from recent acquisition blitz will result in net working capital to sharply decrease in 2019 before increasing steadily to fuel growth

Investa Insights: Queen's Chapter



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Company Overview

Industry Outlook

Investment Thesis

Catalysts and Risks

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