



Adobe Inc. (NASDAQ:ADBE)

*Bay Shen*

*Market Data as of 29-Jan-2025*

---

## Business Overview

- Adobe Inc. (NASDAQ: ADBE) is a global leader in software solutions, specializing in creative tools, digital media, document management, and marketing software
- Adobe operates through three segments: Digital Media, Digital Experience, and Publishing & Advertising with an estimated ~30M in subscribers, with no single entity contributing over 2% of revenue

## Investment Thesis

### Why Is This a Good Business?

- Adobe's moat comes from high switching costs and a strong brand.
- Its tools have a steep learning curve, making transitions costly for enterprises. Its products are widely used across creative industries that Adobe faces little direct competition in, allowing it to charge a premium on its products.

### What Is The Market Missing?

- The market is discounting Adobe's ability to monetize genAI and questions historical capital allocation, such as the failed Figma Acquisition

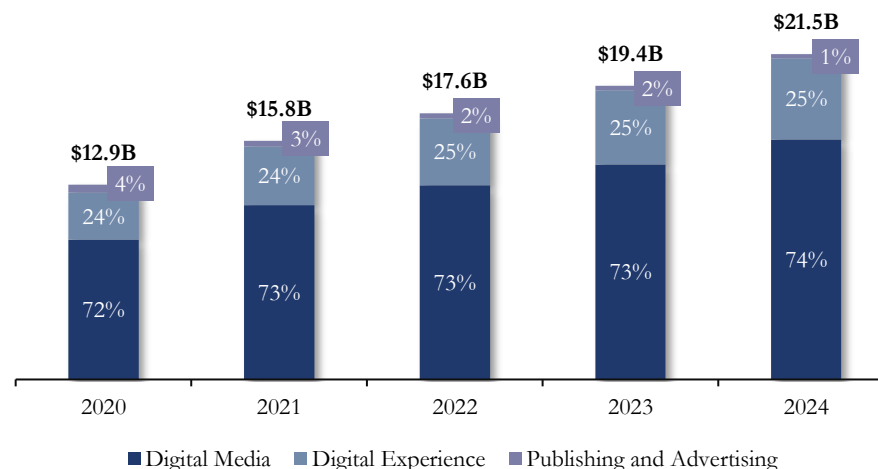
**We recommend that YUSIF wait on ADBE until a 15% implied upside at \$422.65**

*Adobe is the leading global provider of creative and digital experience software solutions*

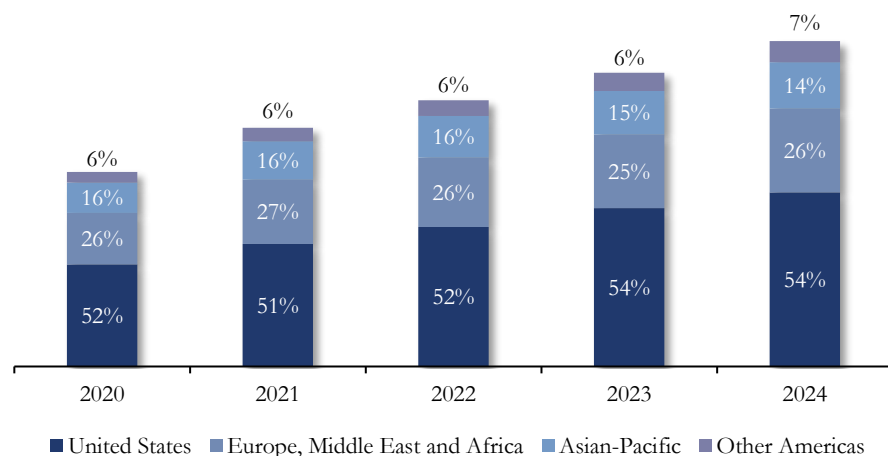
## What Does Adobe Do?

- Adobe is a global leader by market share in creative and digital experience software, providing tools and services that allow individuals and businesses to create, manage, and optimize digital content, enhanced by AI technology
- The company operates in three core segments; digital media, digital experience and publishing and advertising
- Holds ~80% global market share within their creative software segment with products such as Adobe Creative Cloud, Document Cloud, Firefly, and Acrobat
- Generates revenue through subscriptions, software licensing; direct sales via Adobe.com and app stores, pay-per-use models for tools like Firefly, and contracts with enterprises and governments

## Subscription Revenue Segments



## Revenue by Region



## Adobe Sales Split & Growth

- Digital media annualized recurring revenue (ARR) of ~\$17.3B, up 13% from 2023
  - Creative revenue growing 10%, document cloud revenue growing 18% and digital experience revenue rising 10%
  - Top 5 customers make up 3.45% of revenue
- Subscription revenue grew to 95% of Adobe's total revenue in 2024, up from 90% in 2020
- Increase in subscription revenue percentage accentuates Adobe's successful transition to a recurring revenue model
  - Adobe holds a gross customer retention rate above 90%
- Digital Media TAM was ~\$205B in 2024 and is projected to grow by 13% to ~\$293B by 2027
- Adobe does **not** disclose subscriber count/growth or contract length

## Understanding Adobe's offerings and historical transformation

### Creative Cloud Products

- **Digital Media (74%):** Adobe's main revenue driver is helping people create and share digital content while benefiting from growing demand in social media and video platforms
  - Ex. Adobe Photoshop, Premiere Pro, Acrobat
- **Digital Experience (25%):** Provides a platform that helps businesses enhance their online customer connections, driven by the need for personalized digital interactions
  - Ex. Adobe Experience Manager (AEM), Analytics, Campaign
- **Publishing and Advertising (1%):** Supporting niche areas like eLearning and technical publishing, maintaining some relevance for legacy customers but experiencing a decline over time
  - Ex. Adobe Captivate, FrameMaker, Advertising Cloud

### Pricing Structure

Companies	Product(s)	Pricing Structure (Monthly, USD)
Adobe	Creative Cloud	Individual: \$59.99 Business: \$89.99/user
Canva	Canva Pro Canva for Teams	Individual: \$12.99 Business: \$14.99/user
Figma	Figma Professional, Figma Organization	Individual: \$15 Business: \$45/user
Autodesk	Fusion 360	Individual: \$85 Business: \$150/user

### Historical Timeline of Adobe

Early Years 1980s	Expansion 1990s	Transformations 2000s	Subscription Era 2010s	Innovations 2020s
Founded in 1982	Photoshop, standard for photo editing	Adobe Creative Suite (CS)	Adobe CS6	Cross-Cloud Collaboration tools
PostScript for Desktop Publishing	PDF and Adobe Acrobat	Adobe CS2	Creative Cloud Subscription Model	Adobe Firefly enabling generative AI
Illustrator for graphics editing	\$1B in Annual Revenue	\$3B in Annual Revenue driven by CS	\$6B in Annual Revenue	\$12B in Annual Revenue

# 5-Year Share Price Performance

*AI monetization concerns and increased competition weigh on share price*

## Commentary

- Adobe stock recovered in 2023. Experienced 77% growth as generative AI adoption became a key focus, with Firefly program gaining traction but facing free alternatives
- Q4'24 earnings beat expectations, but FY25 revenue guidance lowered by ~1.3% as AI monetization concerns and competition increased; stock tumbled 10%
- Management sees 2025/2026 as a key year for AI monetization, aiming to drive new revenue and sustain growth
- \$25B share buyback at a 31.1x PE multiple was highly scrutinized
- Adobe maintains strong margins, cash flows and buybacks, with a 24% ROIC; dividend issuance can signal prudent capital allocation, boosting market confidence;

Market Cap	\$192.8B
Share Price	\$441.7
Beta	1.3
PE Ratio (2025E)	21.6x
Div. Yield	--
ROIC	24.0%
52-week Range	\$403.8-\$638.3

## Share Price Performance

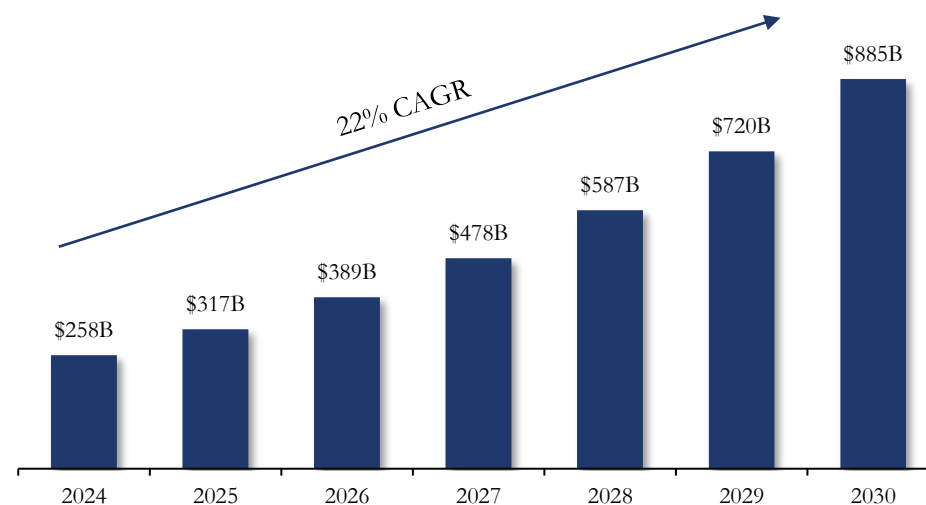


*Adobe is a dominant leader in the consolidated creative software industry*










## Creative Software Industry

- The creative software market includes tools for graphic design, video editing, digital content creation, and marketing automation used across industries like entertainment, advertising, and gaming
- The industry is shifting towards cloud-based, AI-powered content creation, making tools more accessible, collaborative, and efficient through subscription-based models
- GenAI is transforming digital workflows by automating design, video production, and content generation, improving speed and creativity
- The global creative software market is expected to grow steadily, driven by platform consolidation and AI-powered innovation
- Adobe's creative cloud, specially design tools, faces intense competition from Canva and Figma due to their free of cost, cloud-based, user-friendly collaborative features

## Industry Growth and Size



## Competitive Landscape

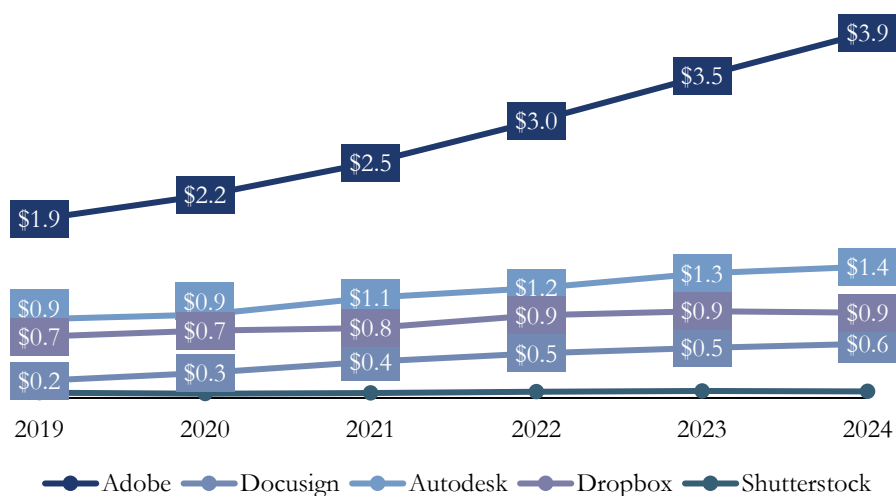
Creative Cloud	Document Cloud	Digital Experience
 <b>Canva</b> - Online design tool for graphics & presentations.	 <b>DocuSign</b> - Digital signatures & document workflow automation	 <b>Salesforce</b> - Cloud-based CRM for sales and marketing
 <b>Figma</b> - Cloud-based UI/UX design and prototyping tool	 <b>Dropbox</b> - Cloud storage & document collaboration service	 <b>Oracle</b> - Enterprise cloud and database management solutions
 <b>Affinity</b> - Creative design software with no subscription	 <b>Microsoft</b> - Cloud storage & document collaboration platform	 <b>Hubspot</b> - Marketing & sales automation for businesses

## *Adobe leads creative software genAI and can outspend competitors in R&D and marketing*

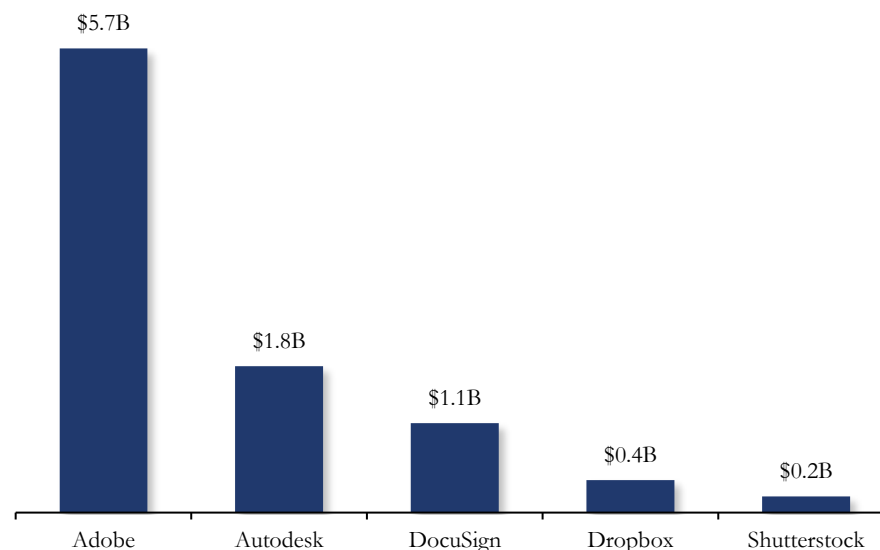
### AI Tailwinds

- The creative software industry is undergoing rapid change to include AI offerings in its product portfolio. Companies like Canva (Magic Media AI), Figma (FreePik AI) and Autodesk (Project Bernini) are incorporating AI to meet the growing demand for automated content creation
  - Main players in genAI text-to-image software utilize models such as Dall-E, Stable Diffusion, and Midjourney
  - Adobe has integrated AI offerings such as Firefly and Sensei, where are internal models trained by the company
- Leading tech giants such as Microsoft, Google, Meta, and utility companies within the space are expected to invest \$1T+ on genAI CapEx within the next few years

### Industry R&D Spend (\$USD)



### Sales/Marketing Spend (\$USD)



### Rapid Improvement of Gen-AI Software

2014 saw the creation of GANs which was a breakthrough for Gen-AI and its ability to create high-quality images. 2015 followed this with the integration of diffusion models

2021 and 2022 saw the public release of Dall-E, Stable Diffusion and Midjourney. Generated images still had many visible flaws such as text and human hands

Today the biggest models come from the big tech players and include Imagen, Dalle-3, Midjourney and Firefly. Initial flaws have been corrected but images are still somewhat disguisable as AI

# Investment Thesis: Why Is This a Good Business?

*Adobe is an industry leader with a strong moat*

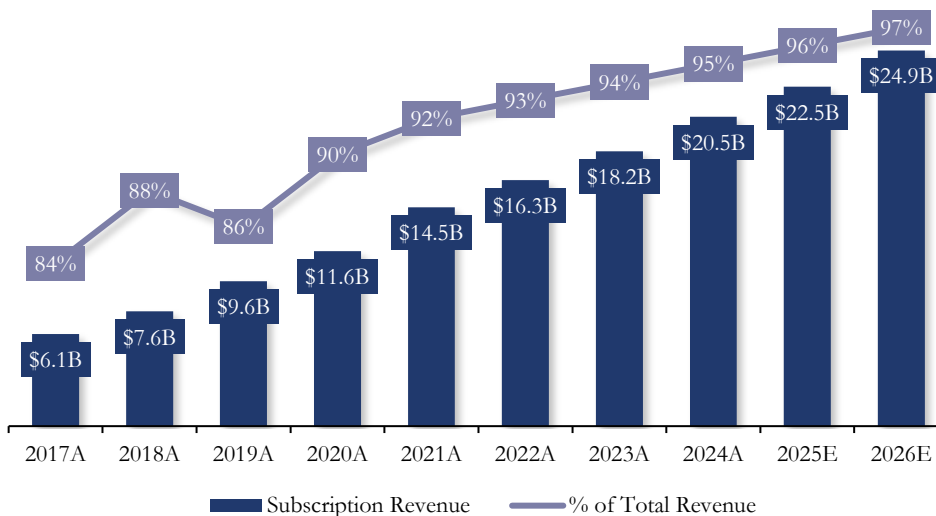
## High Switching Costs

- It is expensive and time consuming to train employees on new software
  - Adobe's professional-level tools are powerful and have a steep learning curve. Veterans in the industry with 10+ years of experience still need to search up how to do things—near impossible to fully master the software
  - Enterprises have to sacrifice time and earnings to move designers to a new platform that they are unfamiliar with
  - Designers may also be unwilling to change software at risk that they become less desirable to future employers
- Adobe's file formats on Photoshop (.PSD), Illustrator (.AI), and InDesign (.INDD) are industry standards within the digital design segment
- Adobe Express added 4,000 new businesses this year

## Brand Name & Network Effect

- Adobe's products are industry standard tools
  - Photoshop, Illustrator, and Lightroom are used by most photographers and designers, and Premier Pro is used extensively in both amateur and professional film and TV
  - EEAAO, Deadpool, and Gone Girl were edited on Premier
  - Acrobat PDF solutions are a mainstay in Law
- The more people use Adobe's products, the more they become ingrained in the industry
  - Newcomers are incentivized to train on Adobe products to be competitive in the job market, and Arts students are required to use Adobe Creative Cloud products for schoolwork
  - Adobe saw an 84% increase in education access this back-to-school timeline in comparison to last year's back-to-school

## Adobe Subscription Revenue Growth



## Adobe Can Command a Premium To Competitors

- Customers are willing to pay more for Adobe's products
  - Due to Adobe's monopolistic status, customers reluctantly have to deal with price increases as there are not many acceptable alternatives
  - Customers lured in by Creative Cloud's teaser rate tend to remain customers even after starting to pay the \$60/month full rate
  - Since the release of Creative Cloud in 2013, Adobe has consistently been priced as a premium offering in the market, and still has held their historically market dominant position
- Any loss of subscribers is still relegated primarily to retail consumers, which has little impact on potential future growth



# Investment Thesis: What Is The Market Missing?

*Market discounts monetization efforts and places heavy emphasis on consumer growth*

## Discounting Adobe's Efforts on Gen AI Monetization

- Street is criticizing Adobe's ability to monetize its genAI offerings
  - "The industry as is still figuring out how to appropriately capture value from genAI innovations, and in that respect, Adobe is unfortunately on the leading edge" – Deutsche Bank
- We believe that these are unwarranted concerns because no other business is attempting to monetize at this scale
  - Tech giants within the creative software space are expected to spend ~\$1T on AI CapEx within the next few years with very little attempt at monetizing these offerings
  - Expectation that additional SKU for "Creative Cloud + genAI" in some fashion would enable Adobe to better monetize their genAI innovations at the professional level
  - DC uplift from Acrobat AI Assistant (premium SKU)

## Firefly is the Most Commercially Viable GenAI Model

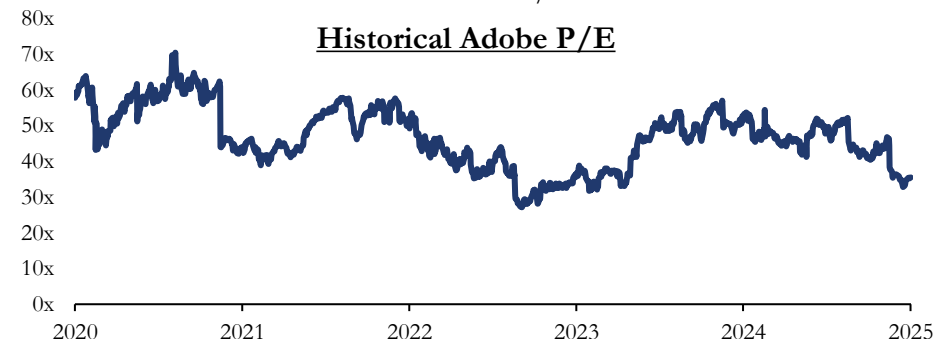
- Adobe's Firefly generative AI model is just as capable as industry alternatives but more commercially viable
  - Firefly is trained on copyright-safe datasets (such as images taken from the Adobe stock library), therefore outputs can be used in enterprise settings
  - Other competitors like Midjourney use blanket data scraping from the web, resulting in potential copyright and ethical concerns, especially with things like digital art
  - Firefly has undergone 16B generations since its launch
  - Firefly's video model integration in Premiere Pro, drove a 70% increase in the number of beta users since its launch at MAX
- Brands such as IBM, Gatorade, Mattel have been using Firefly for new campaigns and advertising

## Too Much Emphasis On Prosumer And Retail Growth

- Street cites slowing growth in hobbyist/prosumer segments and losing share to competitors as key headwind
- We think that most of the future subscription growth will be from enterprises, who are willing to pay a premium for support and advanced features
  - Management ranks the consumer segment as the smallest driver of growth in the next few years
- Even then, Adobe Express, priced lower than Canva's paid tier is now in a better position target the lower-end market, providing low-cost users with access to the Adobe ecosystem
  - Company management plans on disclosing more information about Express in coming filings

## Underutilized Cash Balance

- For the Figma acquisition, Adobe converted short-term investments into cash (\$2B). However, since the deal was blocked by regulators, Adobe sat on ~\$7B in cash of which they decided to repurchase shares at 40x+ P/E, which was criticized by the market
  - Repurchase program authorized up to \$25B until 2028 at a more attractive ~20x forward P/E



# The Bear Case: What Could Go Wrong?

*Adobe faces innovative competitors and is criticized for deceptive practices*

---

## ■ **Highly Competitive Industry: Failure to Innovate Will Lead to Stagnant Growth**

- ❑ Many see the rise of genAI as a threat to the creative design industry, potentially replacing existing design workflows. But Adobe's Firefly is just as capable as comparable models, easier to integrate with existing Creative Cloud user workflows, and more commercially viable than currently available alternatives given its copyright-safe training data
- ❑ “Better” paid alternatives to individual products possess significant trade-offs. For example, Apple's Final Cut Pro, locks users into the Apple ecosystem, and Affinity Creative Suite lacks the reliability and support of Adobe's products
- ❑ Free and “freemium” alternatives such as Canva lack the feature set performance of Adobe products unless the user pays for a subscription similar to that of Creative Cloud. Most of these solutions run within a browser, fundamentally limiting performance on large projects

## ■ **Bad Consumer Sentiment & Deceptive Business Practices**

- ❑ Consumer sentiment towards Adobe has become negative during the switch from a perpetual license to its subscription model, increasing the probability of customers choosing potentially better alternatives down the line. More recently, alleged hidden termination fees have led to a pending FTC lawsuit

## ■ **Piracy**

- ❑ Customers stay subscribed due to exclusive features, AI tools such as Firefly, cloud collaboration, and integrations are unavailable in pirated versions. The subscription-based model requires online authentication for CC software
- ❑ Adobe pursues lawsuits and actions against entities involved in large-scale piracy

## ■ **Over-Improving Adobe's Products May Cannibalize Sales**

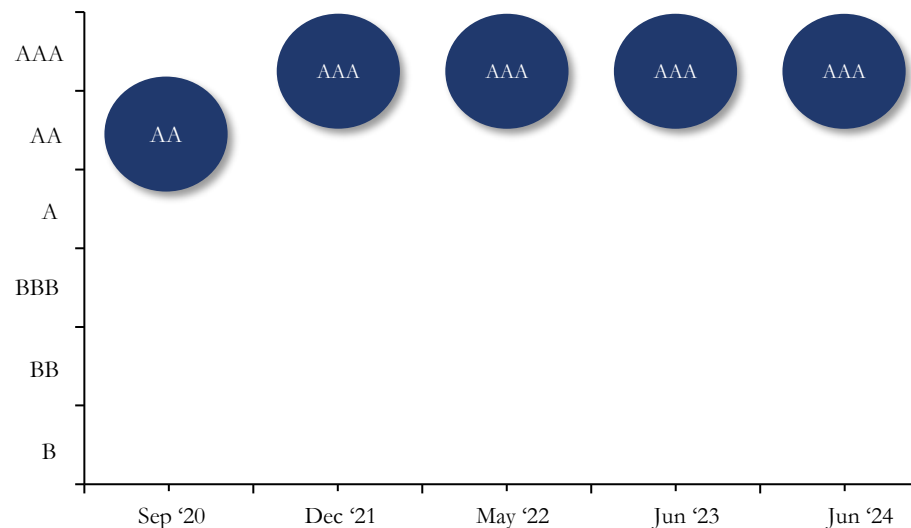
- ❑ If Adobe's generative AI solutions improve to the point where individual designers can do the jobs of many, enterprises may downsize and reduce the number of subscriptions they purchase
- ❑ The World Economic Forum cites Graphic Design as the 11<sup>th</sup> fastest declining job based on employers' predictions

## Adobe's commitment to sustainability and corporate responsibility

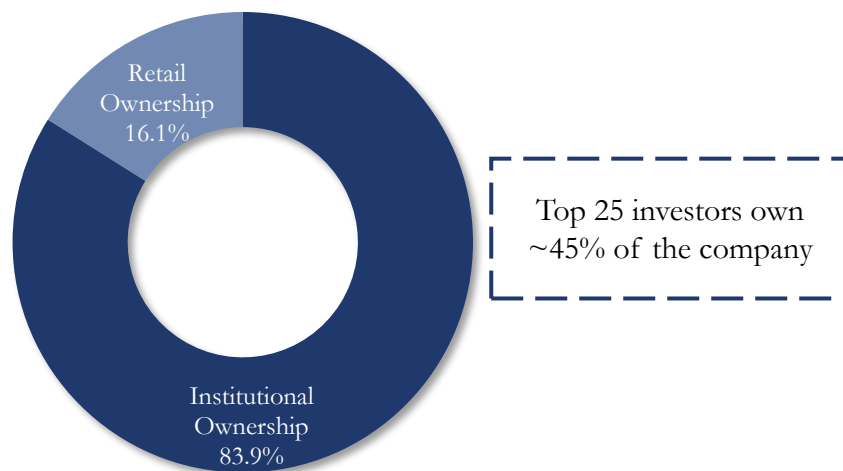
### Environmental and Social Initiatives

- **Environmental Initiative:** Committed to a net zero emissions target by 2050, where Adobe currently sources 100% of its energy for its operations through renewable sources
- **Environmental Initiative:** Adobe is attempting to reduce 23.4M lbs of CO<sub>2</sub>e emissions per 1M digital signed pagers. Makes it rated the strongest against its peers
- **Data Privacy & Employee Engagement:** Adobe prioritizes AI ethics, security, and transparency, with initiatives like Content Credentials to combat misinformation. It invests in diversity programs (35.3% women workforce, 29% in leadership) and employee development through Adobe Digital Academy & SheSparks.

### MSCI Rating



### Ownership Breakdown



### Key Executives

Shantanu Naryan



Chairman & CEO since 2007.  
Previous experience: VP & GM at Silicon Graphics

Dan Durn



CFO since 2021.  
Previous experience: CFO at Applied Materials

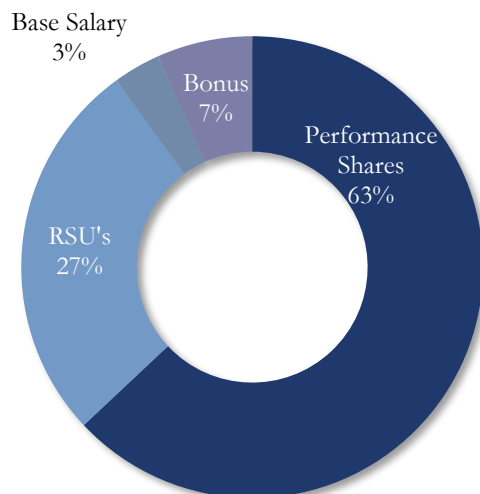
Anil Chakravarthy



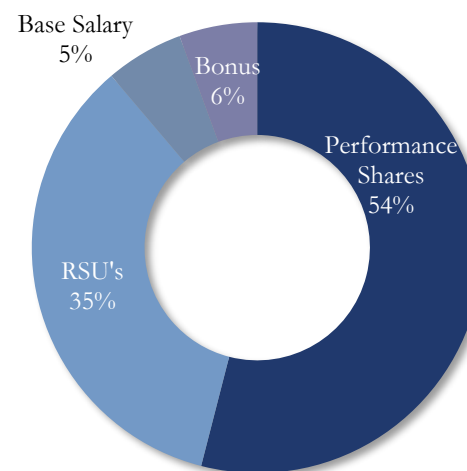
President of Digital Experiences since 2020.  
Previous experience: CEO at Informatica

## Adobe has a highly independent board with largely performance-based compensation

### CEO Breakdown of Compensation



### All Other NEO's Breakdown of Compensation



### Board Composition

Nominee	Age	Director Since	Principal Occupation	Audit	Compensation & Human Resources	Governance
Shantanu Narayen	61	2007	Chairman & CEO of Adobe Inc.		✓	
Amy L. Banse	61	2012	Venture Partner at Mosaic General Partnership, LLC		✓	✓
Frank A. Calderoni	67	2012	Former CEO at Anaplan, Inc.	Chair		✓
Kathleen Kelly Oberg	64	2019	Former EVP & CFO at Marriott International	✓		
-Cristiano R. Amon	54	2023	CEO & Director of QUALCOMM Incorporated		✓	
M. Brett Biggs	55	2022	Former CFO of Walmart Inc.	✓		
Melanie Boulden	51	2020	EVP & Chief Growth Officer at Tyson Foods, Inc.		✓	
Laura B. Desmond	59	2012	CEO of Eagle Vista Partners		✓	✓
Spencer A. Neumann	53	2022	CFO of Netflix, Inc.	✓		
Dheeraj Pandey	49	2019	CEO & Co-Founder of DevRev, Inc	✓		
David A. Ricks	56	2018	Chairman & CEO of Eli Lilly and Company		✓	
Daniel L. Rosensweig	62	2009	Former CEO & President of Chegg, Inc			✓

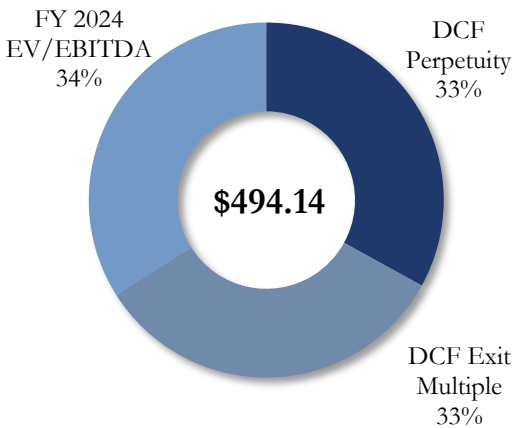
### Board Compensation Structure & Voting Rights

- Adobe's CEO and NEO compensation is 96.7% and 94.4% variable, mainly driven by performance shares, RSUs, and bonuses, with only a small portion as a fixed base salary
- Scott Belsky, Adobe's Chief Strategy Officer and Executive Vice President of Design & Emerging Products announced his resignation effective March 15, 2025, to join A24 as a partner
- One-share, one-vote structure—Equal voting rights for all shareholders
- The company has a \$25B stock buyback program running until 2028, which reduces outstanding shares and may concentrate voting power among long-term holders and executives
- 92% of Adobe's board members are independent, and 33% of the board comprises female directors The Governance & Sustainability Committee oversees ESG. The average tenure of board members is 6.4 years.

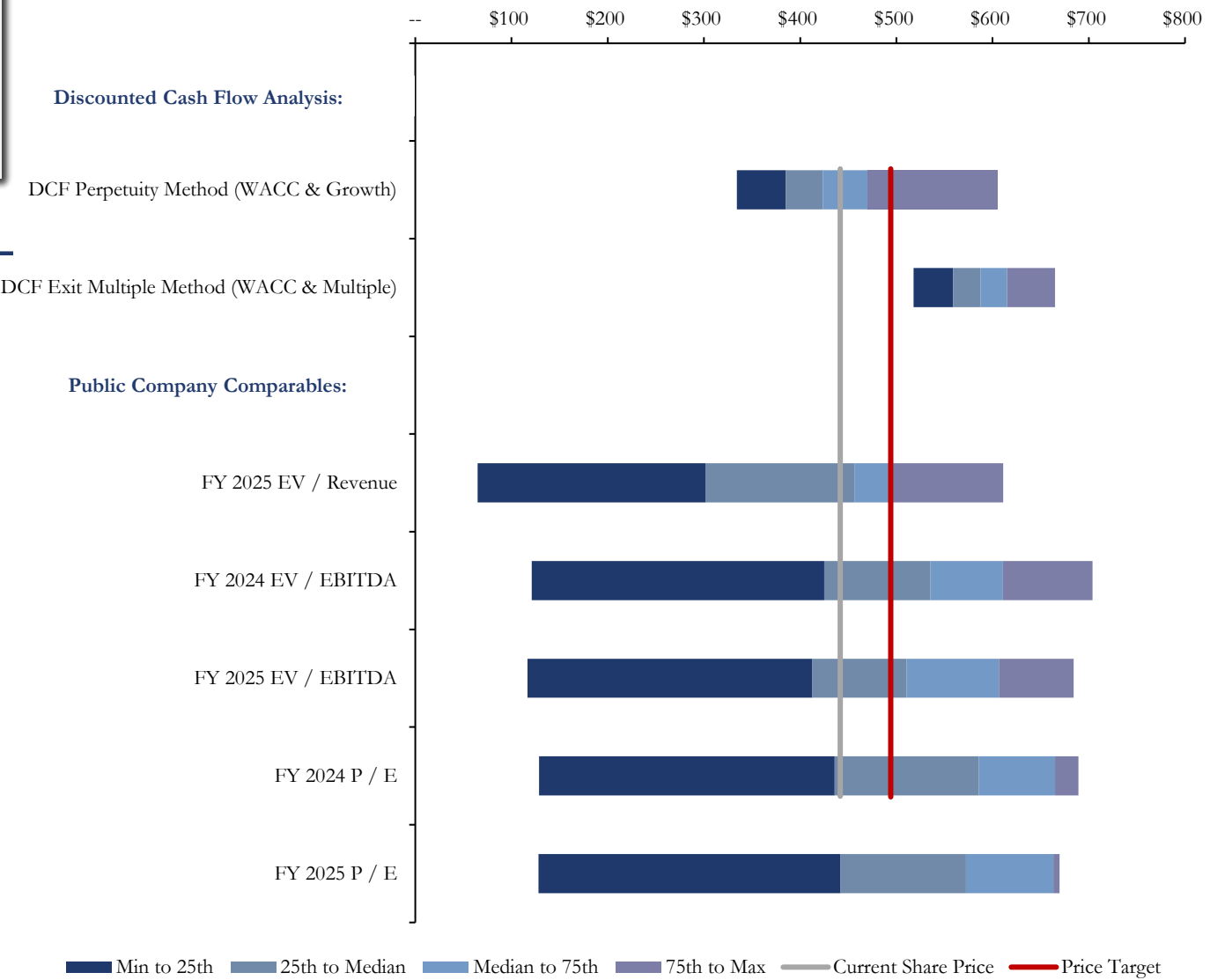
We recommend that YUSIF  
wait on ADBE until a 15%  
implied upside

Results and Weighting

- Current Price: \$441.68
- Target Price: \$494.14
- Implied Upside: 11.9%
- Attractive Price: \$422.65



Football Field Summary



# Discounted Cash Flow Analysis

Discounted Cash Flow (In \$ Millions)															
	2017A	2018A	2019A	2020A	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Revenue:															
Digital Media	5,010	6,325	7,707	9,233	11,520	12,842	14,216	15,864	17,609	19,370	21,288	23,297	24,998	26,273	27,245
% of Growth		26.2%	21.8%	19.8%	24.8%	11.5%	10.7%	11.6%	11.0%	10.0%	9.9%	9.4%	7.3%	5.1%	3.7%
Digital Experience	2,118	2,073	2,795	3,125	3,867	4,422	4,893	5,366	5,865	6,364	6,860	7,363	7,791	8,118	8,345
% of Growth		(2.1%)	34.8%	11.8%	23.7%	14.4%	10.7%	9.7%	9.3%	8.5%	7.8%	7.3%	5.8%	4.2%	2.8%
Publishing & Advertising	173	632	669	510	398	342	300	275	264	256	251	248	250	251	252
% of Growth		265.3%	5.9%	(23.8%)	(22.0%)	(14.1%)	(12.3%)	(8.3%)	(4.0%)	(3.0%)	(2.0%)	(1.0%)	0.5%	0.5%	0.5%
Total Revenue	7,301	9,030	11,171	12,868	15,785	17,606	19,409	21,505	23,538	25,990	28,398	30,909	33,038	34,641	35,842
% of Growth		23.7%	23.7%	15.2%	22.7%	11.5%	10.2%	10.8%	9.5%	10.4%	9.3%	8.8%	6.9%	4.9%	3.5%
Cost of Revenue:															
Digital Media	240	249	290	352	429	561	665	680	702	724	747	769	791	813	835
% of Revenue	3.3%	2.8%	2.6%	2.7%	2.7%	3.2%	3.4%	3.2%	3.2%	3.2%	3.1%	3.0%	2.8%	2.8%	2.8%
Digital Experience	763	679	1,056	1,126	1,321	1,502	1,603	1,589	1,707	1,829	1,958	2,095	2,237	2,389	2,552
% of Revenue	10.4%	7.5%	9.5%	8.8%	8.4%	8.5%	8.3%	7.4%	7.4%	7.2%	7.0%	7.0%	6.8%	6.8%	6.8%
Publishing & Advertising	7	267	327	244	115	102	86	89	89	90	90	90	91	91	92
% of Revenue	0.1%	3.0%	2.9%	1.9%	0.7%	0.6%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Total Cost of Revenue	1,010	1,195	1,673	1,722	1,865	2,165	2,354	2,358	2,498	2,643	2,794	2,954	3,118	3,293	3,479
% of Revenue	13.8%	13.2%	15.0%	13.4%	11.8%	12.3%	12.1%	11.0%	10.6%	10.2%	9.8%	9.6%	9.4%	9.5%	9.7%
Gross Profit	6,291	7,835	9,498	11,146	13,920	15,441	17,055	19,147	21,040	23,346	25,604	27,955	29,920	31,348	32,363
% of Margin	86.2%	86.8%	85.0%	86.6%	88.2%	87.7%	87.9%	89.0%	89.4%	89.8%	90.2%	90.4%	90.6%	90.5%	90.3%
Operating Expenses:															
R&D	1,224	1,537	1,930	2,188	2,540	2,987	3,473	3,944	4,307	4,756	5,027	5,409	5,716	5,889	5,986
% of Revenue	16.8%	17.0%	17.3%	17.0%	16.1%	17.0%	17.9%	18.3%	18.3%	18.3%	17.7%	17.5%	17.3%	17.0%	16.7%
Sales & Marketing	2,197	2,620	3,224	3,591	4,321	4,968	5,351	5,764	6,355	7,017	7,582	8,191	8,656	9,007	9,211
% of Revenue	30.1%	29.0%	28.9%	27.9%	27.4%	28.2%	27.6%	26.8%	27.0%	27.0%	26.7%	26.5%	26.2%	26.0%	25.7%
General & Administrative	624	744	880	968	1,085	1,219	1,413	1,529	1,671	1,845	1,959	2,133	2,214	2,321	2,330
% of Revenue	8.5%	8.2%	7.9%	7.5%	6.9%	6.9%	7.3%	7.1%	7.1%	7.1%	6.9%	6.9%	6.7%	6.7%	6.5%
Total Operating Expenses	4,045	4,901	6,034	6,747	7,946	9,174	10,237	11,237	12,334	13,619	14,568	15,733	16,585	17,217	17,527
(+) Depreciation	325	346	736	757	788	856	872	857	942	1,040	1,136	1,236	1,322	1,386	1,434
% of Sales	4.5%	3.8%	6.6%	5.9%	5.0%	4.9%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
EBITDA	2,571	3,280	4,200	5,156	6,762	7,123	7,690	8,767	9,648	10,767	12,172	13,459	14,656	15,517	16,270
% of Margin	35.2%	36.3%	37.6%	40.1%	42.8%	40.5%	39.6%	40.8%	41.0%	41.4%	42.9%	43.5%	44.4%	44.8%	45.4%
(-) Depreciation	(325)	(346)	(736)	(757)	(788)	(856)	(872)	(857)	(942)	(1,040)	(1,136)	(1,236)	(1,322)	(1,386)	(1,434)
Operating Income	2,246	2,934	3,464	4,399	5,974	6,267	6,818	7,910	8,706	9,728	11,036	12,222	13,335	14,132	14,837
% Effective Tax Rate	20.7%	7.2%	7.9%	(26.0%)	15.4%	21.0%	20.0%	19.7%	19.7%	19.7%	19.7%	19.7%	19.7%	19.7%	19.7%
NOPAT	1,781	2,723	3,190	5,543	5,054	4,951	5,454	6,352	6,991	7,811	8,862	9,814	10,708	11,348	11,914
(+) Depreciation	325	346	736	757	788	856	872	857	942	1,040	1,136	1,236	1,322	1,386	1,434
(-) CapEx	(178)	(267)	(395)	(419)	(348)	(442)	(360)	(183)	(636)	(702)	(710)	(773)	(760)	(797)	(753)
% of Revenue	2.4%	3.0%	3.5%	3.3%	2.2%	2.5%	1.9%	0.9%	2.7%	2.7%	2.5%	2.5%	2.3%	2.3%	2.1%
(+/-) Change in NWC		583	16	568	812	642	257	555	967	589	593	677	527	425	311
Unlevered Free Cash Flow	1,928	3,385	3,547	6,449	6,306	6,007	6,223	7,581	8,265	8,738	9,881	10,955	11,796	12,362	12,906
% of Growth		75.6%	4.8%	81.8%	(2.2%)	(4.7%)	3.6%	21.8%	9.0%	5.7%	13.1%	10.9%	7.7%	4.8%	4.4%



# Discounted Cash Flow Model & Sensitivity Analysis

*Exit Multiple Method yields a 18.2% upside from an exit multiple of 18.0x*

## Model Assumptions

- Revenue assumptions in 2025E come from industry tailwinds including Cyber Monday as well as the company starting to monetize AI, like Firefly. 2026E revenue growth is driven from the full effect of capturing pricing from Firefly and managements goals of a tiered system with the adobe ecosystem
  - \$200M headwind in Q1 of 2025 coming from foreign exchange and moving subscribers to perpetual offerings was accounted for
- R&D spend, and Sales/Marketing were kept at or close to 2024A as the company will need to push marketing efforts to sell Firefly/Sensei as well as supply enough capital to improve the AI models
- The exit EBITDA multiple of 18x excludes SBC and given the 3-year historical median and average EV/NTM EBITDA of approximately 21x, a ~3x discount was applied to reach a 18x exit multiple

Perpetuity Growth Method	
Cumulative PV of UFCF	54,387.6
% of Enterprise Value	29.8%
<b>Terminal Value</b>	
Final Year UFCF	12,905.8
Perpetuity Growth Rate	2.0%
WACC	8.0%
Terminal Value	219,398.6
PV of Terminal Value	128,017.0
% of Enterprise Value	70.2%
<b>Total Enterprise Value</b>	<b>182,404.6</b>
Plus: Cash	7,613.0
Less: Debt	(5,628.0)
<b>Total Equity Value</b>	<b>184,389.6</b>
Diluted Shares Outstanding	435.3
<b>Implied Share Price</b>	<b>\$423.59</b>
Current Share Price	\$441.68
<b>Implied Margin of Safety</b>	<b>(4.1%)</b>

Exit Multiple Method	
Cumulative PV of UFCF	54,387.6
% of Enterprise Value	24.1%
<b>Terminal Value</b>	
Final Year EBITDA	16,270.4
Exit EBITDA Multiple	18.0x
WACC	8.0%
Terminal Value	292,866.7
PV of Terminal Value	170,884.9
% of Enterprise Value	75.9%
<b>Total Enterprise Value</b>	<b>225,272.5</b>
Plus: Cash	7,613.0
Less: Debt	(5,628.0)
<b>Total Equity Value</b>	<b>227,257.5</b>
Diluted Shares Outstanding	435.3
<b>Implied Share Price</b>	<b>\$522.07</b>
Current Share Price	\$441.68
<b>Implied Margin of Safety</b>	<b>18.2%</b>

		Perpetuity Growth Method				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	7.0%	\$440.30	\$470.24	\$506.15	\$550.06	\$604.93
	7.5%	\$407.18	\$431.81	\$460.92	\$495.85	\$538.54
	8.0%	\$379.11	\$399.64	<b>\$423.59</b>	\$451.90	\$485.87
	8.5%	\$355.06	\$372.36	\$392.33	\$415.63	\$443.17
	9.0%	\$334.26	\$348.99	\$365.83	\$385.26	\$407.92

		Exit EBITDA Multiple				
		16.0x	17.0x	18.0x	19.0x	20.0x
WACC	7.0%	\$501.93	\$525.21	\$548.48	\$571.76	\$595.04
	7.5%	\$489.97	\$512.50	\$535.03	\$557.56	\$580.09
	8.0%	\$478.45	\$500.26	<b>\$522.07</b>	\$543.88	\$565.69
	8.5%	\$467.35	\$488.47	\$509.58	\$530.70	\$551.81
	9.0%	\$456.65	\$477.10	\$497.54	\$517.99	\$538.44

		Perpetuity Growth Method				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	7.0%	(0.3%)	6.5%	14.6%	24.5%	37.0%
	7.5%	(7.8%)	(2.2%)	4.4%	12.3%	21.9%
	8.0%	(14.2%)	(9.5%)	<b>(4.1%)</b>	2.3%	10.0%
	8.5%	(19.6%)	(15.7%)	(11.2%)	(5.9%)	0.3%
	9.0%	(24.3%)	(21.0%)	(17.2%)	(12.8%)	(7.6%)

		Exit EBITDA Multiple				
		16.0x	17.0x	18.0x	19.0x	20.0x
WACC	7.0%	13.6%	18.9%	24.2%	29.5%	34.7%
	7.5%	10.9%	16.0%	21.1%	26.2%	31.3%
	8.0%	8.3%	13.3%	<b>18.2%</b>	23.1%	28.1%
	8.5%	5.8%	10.6%	15.4%	20.2%	24.9%
	9.0%	3.4%	8.0%	12.6%	17.3%	21.9%

# Comparable Company Analysis

*Adobe trades at a discount to peers on an EV/EBITDA basis with ROIC of 24.0%*

Company Name	Equity Value (\$M)	Enterprise Value (\$M)	EV / Revenue			EV / EBITDA			P / E			Leverage Debt/EBITDA
			LTM	2024E	2025E	LTM	2024E	2025E	LTM	2024E	2025E	
DocuSign, Inc.	\$19,339	\$18,527	6.4x	6.3x	5.9x	79.5x	19.2x	17.0x	19.1x	26.1x	24.3x	0.5x
Autodesk, Inc.	\$65,350	\$65,951	11.1x	10.8x	9.6x	47.0x	28.3x	25.3x	59.9x	36.2x	32.5x	1.7x
Dropbox, Inc.	\$10,039	\$11,171	4.4x	4.4x	4.4x	18.3x	10.5x	10.1x	17.4x	13.0x	12.9x	3.1x
Salesforce, Inc.	\$340,231	\$339,652	9.1x	8.9x	8.2x	35.5x	24.0x	21.8x	57.3x	34.7x	31.0x	1.2x
Shutterstock, Inc.	\$1,003	\$1,176	1.3x	1.3x	1.1x	8.2x	4.7x	4.2x	27.6x	6.6x	6.0x	2.1x
Microsoft Corporation	\$3,288,273	\$3,319,631	12.7x	12.7x	11.2x	23.4x	23.3x	20.7x	35.5x	35.8x	32.5x	0.7x
Oracle Corporation	\$458,822	\$547,545	10.0x	10.0x	9.0x	24.5x	19.7x	16.9x	39.5x	27.3x	24.5x	4.2x
Apple Inc.	\$3,599,466	\$3,561,875	9.0x	9.0x	8.5x	25.9x	25.9x	24.5x	37.4x	34.1x	32.1x	0.6x
Maximum	\$3,599,466	\$3,561,875	12.7x	12.7x	11.2x	79.5x	28.3x	25.3x	59.9x	36.2x	32.5x	4.2x
75th Percentile	\$1,166,185	\$1,240,567	10.2x	10.2x	9.1x	38.4x	24.5x	22.4x	43.9x	34.9x	32.2x	2.3x
Median	\$202,790	\$202,801	9.1x	9.0x	8.4x	25.2x	21.5x	18.9x	36.4x	30.7x	27.8x	1.5x
Average	\$972,815	\$983,191	8.0x	7.9x	7.2x	32.8x	19.4x	17.6x	36.7x	26.7x	24.5x	1.8x
25th Percentile	\$17,014	\$16,688	5.9x	5.8x	5.5x	22.1x	17.0x	15.2x	25.5x	22.8x	21.4x	0.7x
Minimum	\$1,003	\$1,176	1.3x	1.3x	1.1x	8.2x	4.7x	4.2x	17.4x	6.6x	6.0x	0.5x
Adobe Inc.	\$192,263	\$190,433	8.9x	8.9x	8.1x	22.7x	17.7x	16.3x	34.6x	23.4x	21.6x	0.7x

Company Name	Revenue Growth		EBITDA Growth		Net Income Growth		EBITDA Margin			Return Metrics (LTM)		
	2024E	2025E	2024E	2025E	2024E	2025E	LTM	2024E	2025E	ROIC	ROA	ROE
DocuSign, Inc.	7.2%	6.4%	NM	12.8%	NM	7.6%	8.0%	32.7%	34.6%	5.7%	3.2%	68.5%
Autodesk, Inc.	11.4%	12.6%	91.4%	11.6%	99.1%	11.3%	23.6%	38.1%	37.8%	18.3%	8.8%	53.2%
Dropbox, Inc.	1.7%	0.5%	91.7%	4.0%	70.2%	1.1%	24.1%	41.7%	43.2%	17.3%	10.5%	na
Salesforce, Inc.	8.9%	9.1%	53.3%	10.5%	137.4%	11.7%	25.7%	37.2%	37.7%	6.4%	5.0%	10.2%
Shutterstock, Inc.	7.4%	12.4%	69.0%	12.6%	38.6%	8.7%	15.9%	26.6%	26.6%	8.5%	5.2%	6.9%
Microsoft Corporation	14.7%	13.4%	21.4%	12.2%	11.4%	10.1%	54.3%	54.7%	54.1%	19.5%	14.6%	34.3%
Oracle Corporation	6.5%	11.0%	37.1%	16.2%	65.6%	11.4%	40.7%	50.6%	53.0%	10.2%	7.5%	124.9%
Apple Inc.	2.5%	5.9%	5.6%	5.8%	4.5%	6.1%	34.7%	34.7%	34.7%	45.4%	22.5%	136.5%
Median	7.3%	10.0%	53.3%	11.9%	65.6%	9.4%	24.9%	37.7%	37.7%	13.8%	8.2%	53.2%
Average	7.5%	8.9%	52.8%	10.7%	61.0%	8.5%	28.4%	39.5%	40.2%	16.4%	9.7%	62.1%
Adobe Inc.	10.5%	9.7%	48.1%	8.5%	51.6%	8.1%	39.1%	50.2%	49.6%	24.0%	16.3%	36.3%

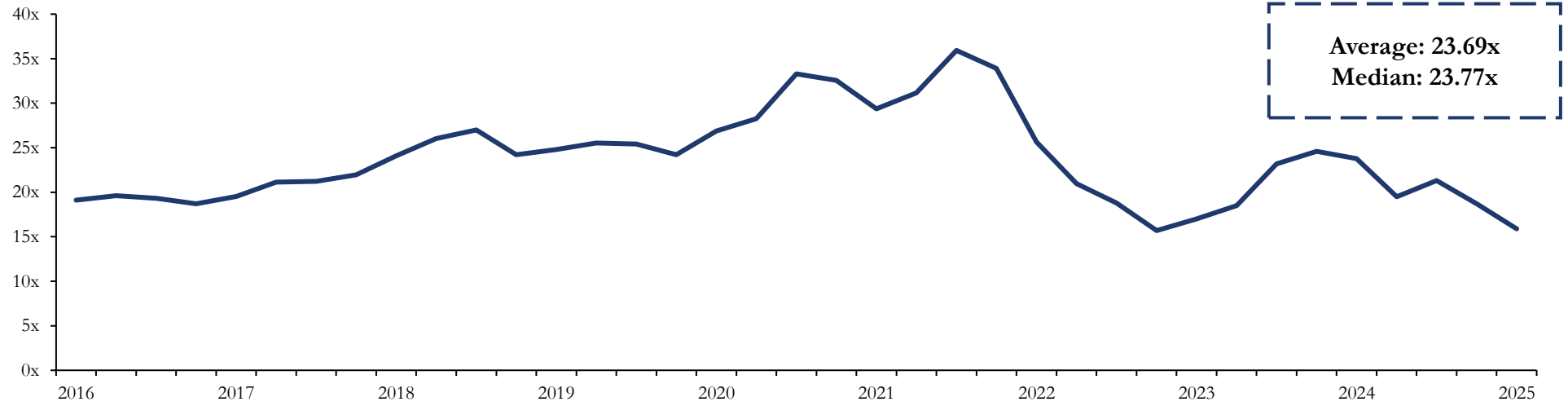
## Commentary

- Since Adobe's Digital Media segment represents the largest portion of its business, peers such as Autodesk, Microsoft, and Apple were selected based on their comparable creative software offerings. Additional factors, including market capitalization and geographic presence, were also considered
- Peers such as DocuSign and Dropbox were chosen given the direct competition towards Adobe Acrobat
- Peers like Salesforce and Oracle were chosen given the competition towards Adobe Experience Cloud, which is a primary market for enterprise software
- CCA suggests that Adobe trades at a discount to all peers on an EV/EBITDA basis while maintaining a 0.7x Debt/EBITDA ratio, indicating a healthy valuation for the company

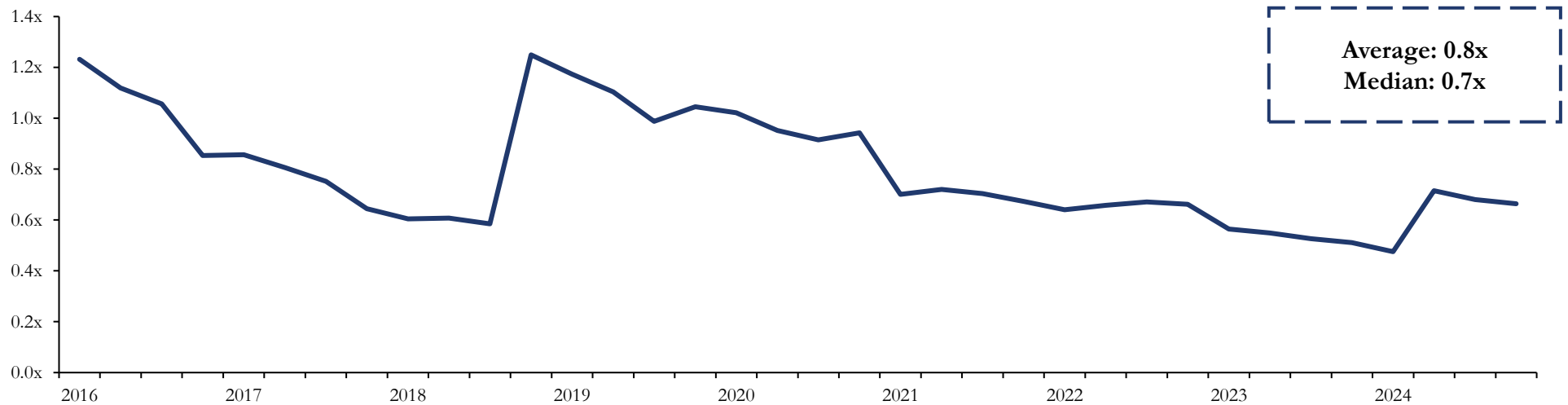


## Appendix

## Historical Average: EV/NTM EBITDA



## Historical Average: Total Debt/EBTIDA



## Creative Cloud Price Increases on the Individual App (November 2023)

Billing Timeline	Former Price (CAD)	New Price (CAD)	Net Price Increase (CAD)
Annual Billed Monthly	\$27.99	\$29.99	\$2.00
Month-to-Month	\$40.99	\$44.99	\$5.00
Annual Prepaid	\$311.88	\$347.88	\$36.00

## Creative Cloud Price Increases for All Apps (November 2023)

Billing Timeline	Former Price (CAD)	New Price (CAD)	Net Price Increase (CAD)
Annual Billed Monthly	\$71.99	\$78.99	\$7.00
Month-to-Month	\$107.99	\$117.99	\$10.00
Annual Prepaid	\$791.88	\$863.88	\$72.00

## General Price Increases of Adobe

- Starting January 15<sup>th</sup>, 2025, the price of the Adobe Creative Cloud Photography plan that provides 20GB of storage will experience the following price change:
  - Annual Billed Monthly: \$12.99 CAD to \$19.99 CAD
- Starting January 15<sup>th</sup>, 2025, the price of the Adobe Lightroom plan that provides 1TB of storage has the following worldwide price changes:
  - Annual Billed Monthly: \$9.99 USD to \$11.99 USD
- When Adobe first released Adobe Creative Cloud the were the pricing options for all apps:
  - Annual Subscription Price: \$50/month; Month-to-Month Subscription: \$75/month; Corporate Customers: \$70/user

# Adobe's Accelerated Stock Repurchase (ASR) History

## Fiscal Year 2024

Date of ASR	Number of Shares Delivered	Average Price Paid
ASR entered into Dec 2023	~3.5M	\$626.68
ASR entered into Mar 2024	~5.2M	\$578.11
ASR entered into Jun 2024	~4.6M	\$475.94
ASR entered into Sept 2024	~3.6M	\$546.30

## Fiscal Year 2023 & Fiscal Year 2022

Date of ASR	Number of Shares Delivered	Average Price Paid
ASR entered into Dec 2022	~4.0M	\$348.46
ASR entered into Dec 2021	~5.3M	\$451.55

- Adobe has a \$25B accelerated stock buyback program running until 2028. Of which, as of FY2024 \$9.5B has already been utilized
- The original program was authorized for \$15B, however was changed to \$25B in March of 2024

## Fiscal Year 2019, 2018 and 2017

Date of Repurchase	Number of Shares Delivered	Average Price Paid
FY2017	~4.2M	\$118.00
FY2018	~3.9M	\$151.80
FY 2019	~9.8M	\$270.23

# Firefly Vs Midjourney Examples

*Firefly on the right, Midjourney on the left*

Realistic Photo – “The Cliffs of Moher”



Close up – “Close-up of a woman's face during a party”



Other Artists – “A quiet night in the style of Van Gogh”



3D Render – “Lit Candle on a desk”



## Gatorade

Gatorade, owned and operated by PepsiCo announced and launched the integration of a Gen-AI powered design experience utilizing Adobe Firefly on its Gatorade iD free membership platform

At the Adobe MAX 2024 Creativity Conference, Gatorade's Senior Director of Marketing and Vice President of Design at PepsiCo, announced the unveil of the Firefly experience on Gatorade.com

Resulted in customers being to personalize their own squeeze bottles on the Gatorade website using Firefly's gen-AI technology to create the designs. The bottle retails for \$34.99

## IBM

IBM used Firefly as part of their "Let's Create" brand campaign. Firefly's technology allowed the IBM to use text-to-image prompts to generate 200+ assets and 1,000+ marketing variations

The "Let's Create" campaign from IBM performed well above previous benchmarks, driving 26x higher engagement and reached audiences that were ~20% C-level executives

IBM leverages Firefly to revolutionize client experiences with AI-powered designed, while also streamlining internal creative workflows for ~1,600 professional designers

## Tapestry

Tapestry, which is the parent company of renowned brands like Coach, Kate Spade and Stuart Weitzman began using Adobe Firefly to create custom AI models within their design process

Digital twins integrates a virtual replica of a physical product, and overtime, became a popular way for brands to enhance their product development cycle. Tapestry embraced Firefly and its commercially-safe AI models to meet this demand

Firefly was fed existing Coach handbags to train a single-concept model for each bad/style. This allowed Firefly to ingest various "Coach Codes" and create the iconic hang tag

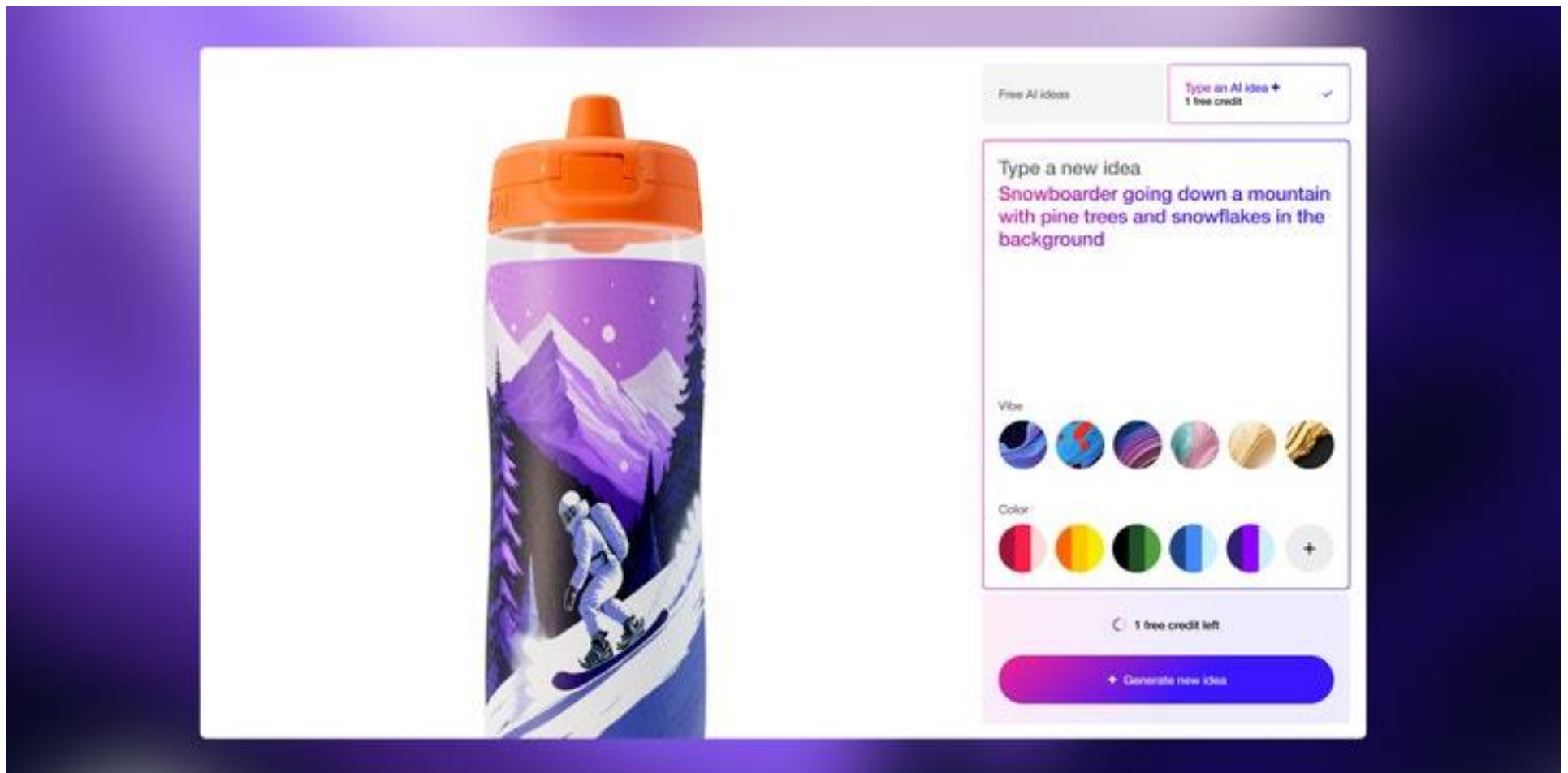
## Mattel

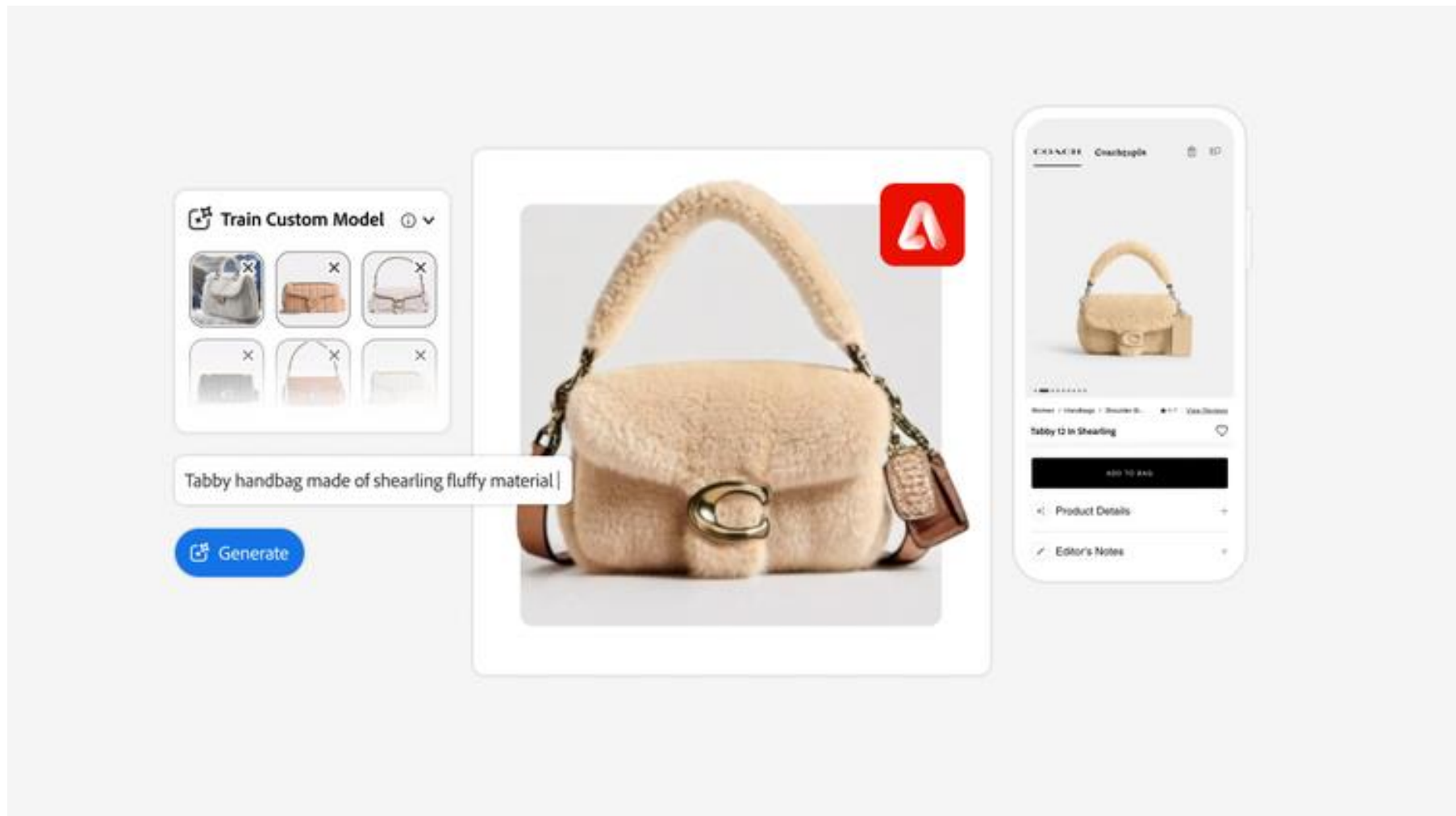
Mattel designers utilize Firefly for idea generation with the goal of creative concepts in less time

Firefly has accelerated workflows for Mattel designers as they are able to produce blueines and other high-fidelity results more efficiently using text-prompts

Firefly was used to generate packaging concepts for Barbie products including the Holiday Barbie 2024 release as well as the Sue Bird barbie collection

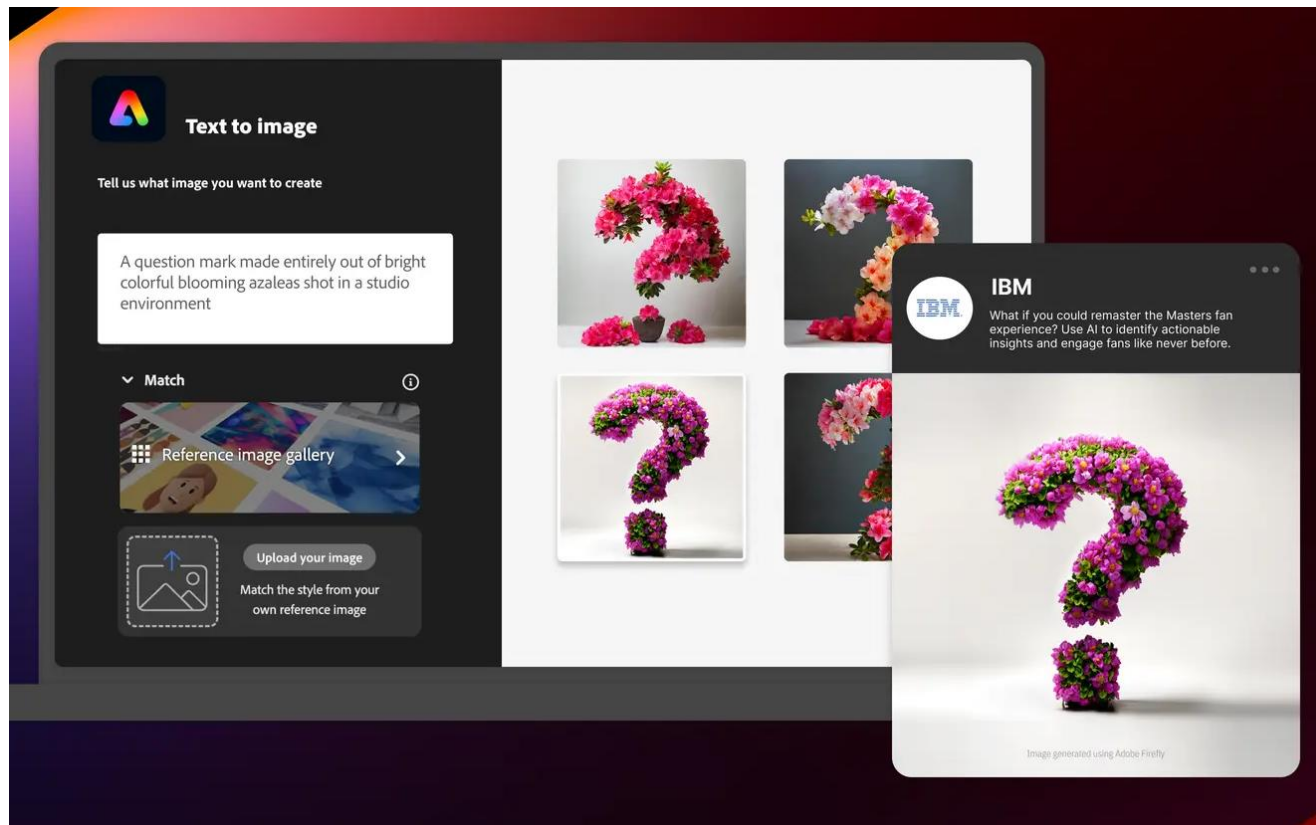








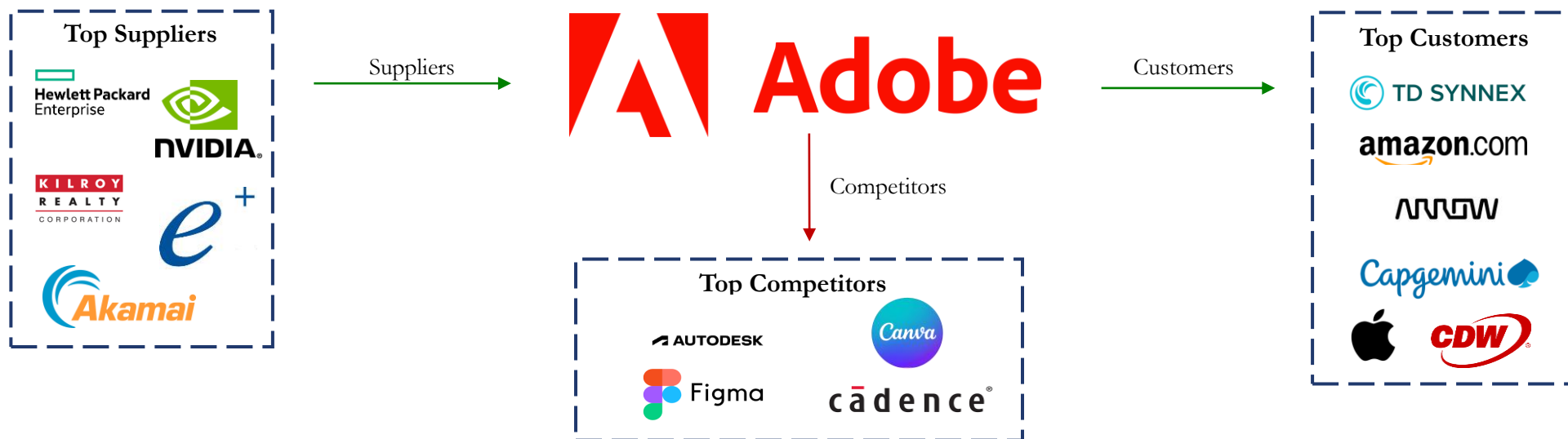




# Adobe's Customer Mix

## Exploring Adobe's role and professional-level product portfolio

### Adobe's Role Visualized



### Adobe's Top Supplier Breakdown (2025)

Companies	% of Revenue	% of Cost of Service
Hewlett Packard Enterprises	0.17%	2.00%
NVIDIA Corp	0.02%	1.06%
Kilroy Realty Corp	2.47%	0.97%
ePlus Inc	0.15%	0.41%

### Adobe's Top Customer Breakdown (2025)

Companies	% of Revenue	% of Cost of Service
TD SYNTEX	1.20%	0.48%
Amazon.com	0.75%	0.05%
Arrow Electronics	0.56%	0.48%
Apple	0.49%	0.05%