CFRA

Adobe Inc.

Recommendation	**Price**	**12-Mo. Target Price**	**Report Currency**	**Investment Style**
BUY ★★★★★	USD 560.36 (as of market close Sep 08, 2023)	USD 580.00	USD	Large-Cap Growth

Equity Analyst Angelo Zino, CFA

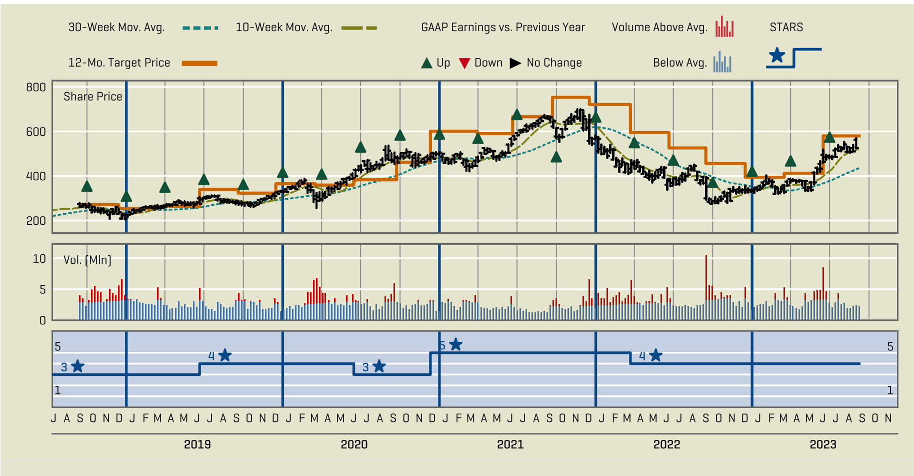
GICS Sector Information Technology
Sub-Industry Application Software

Summary Adobe is a provider of software applications used for creative content creation and one of the leading providers of marketing automation and e-commerce applications.

Key Stock Statistics (Source: CFRA, S&P Global Market Intelligence (SPGMI), Company Reports)

52-Wk Range	**USD 570.24 - 274.73**	Oper.EPS2023**E**	**USD 15.75**	Market Capitalization[B]	**USD 255.41**	Beta	**1.33**
Trailing 12-Month EPS	**USD 14.71**	Oper.EPS2024**E**	**USD 17.97**	Yield [%]	**N/A**	3-yr Proj. EPS CAGR[%]	**15**
Trailing 12-Month P/E	**38.09**	P/E on Oper.EPS2023**E**	**35.58**	Dividend Rate/Share	**N/A**	SPGMI's Quality Ranking	**B+**
USD 10K Invested 5 Yrs Ago	**21,480.0**	Common Shares Outstg.[M]	**456.00**	Trailing 12-Month Dividend	**N/A**	Institutional Ownership [%]	**85.0**

Price Performance



Source: CFRA, S&P Global Market Intelligence
Past performance is not an indication of future performance and should not be relied upon as such.
Analysis prepared by **Angelo Zino, CFA** on Jun 20, 2023 11:29 AM ET, when the stock traded at **USD 483.61**.

Highlights

- ▶ We project sales to grow 13% in FY 2024 (Nov.) and 12% in FY 2025 compared to our outlook for a 10% increase in FY 2023. Sales are being led by demand across Creative Cloud (+9% in May-Q; 59% of sales), Document Cloud (+11%; 14%) and Experience Cloud (+12%; 22%), with strength in Digital Media ($470M net new ARR). We see higher monetization of non-paying users because of the tethered cloud model and down-market adoption of Creative Cloud with more affordable bundles as well as cross-sell opportunities. We anticipate higher sales in Document Cloud, benefiting from the ongoing growth of e-signatures, often as part of digital transformation projects. We are encouraged by potential monetization of AI across ADBE's ecosystem, as generative AI will drive higher ARPUs and retention across flagship applications.
- ▶ We forecast an adjusted EBITDA margin in the high-40% range through FY 2025, on greater operating leverage, specifically from ADBE's higher margin Creative and Document businesses. Yet, margins are likely to be negatively impacted by higher AI costs.
- ▶ We estimate annual free cash flow of $8.8B in FY 2024 and $10B in FY 2025, compared to $7.8B in FY 2023. Net cash stands at about $3B.

Investment Rationale/Risk

- ▶ Our Buy recommendation reflects our view of potential AI monetization opportunities, dominant position in select content creation apps with formidable competitive advantages, and cross-selling prospects. We positively view ADBE's generative AI roadmap, with Firefly attracting significant interest across platforms (e.g., Photoshop, Illustrator), with 0.5B assets created in beta (more than 80x anticipated). We think early indications show AI offers significant value to customers and will have potential upside to monetization efforts, as Firefly is offered as both as a standalone freemium offering for consumers and a separate enterprise offering. We see increasing contribution from Document Cloud and like operational execution.
- ▶ Risks to our recommendation and target price include a hack or data theft or, over time, share loss and pricing pressure from cheaper or free alternatives to Creative Cloud, especially apps optimized for touch screens and mobile devices.
- ▶ Our 12-month target price of $580 is based on a P/E of 32x our CY 2024 EPS estimate of $18.12, above peers but below historical averages. This compares to the three- and five-year historical forward averages of 38.9x and 36.5x, respectively.

Analyst's Risk Assessment

LOW	**MEDIUM**	HIGH

Our risk assessment reflects the rapidly changing nature of application software and the relatively higher risk from disruptive new entrants, offset by our view of the company's strong market position, formidable competitive moat, solid balance sheet, and management team that has an impressive history of making the right strategic decisions and executing consistently in line with those decisions.

Revenue/Earnings Data

Revenue (Million USD)

	1Q	2Q	3Q	4Q	Year
2025	--	--	--	--	**E** 24,468
2024	**E** 5,156	**E** 5,427	**E** 5,551	**E** 5,713	**E** 21,847
2023	4,655	4,816	**E** 4,850	**E** 5,000	**E** 19,325
2022	4,262	4,386	4,433	4,525	17,606
2021	3,905	3,835	3,935	4,110	15,785
2020	3,091	3,128	3,225	3,424	12,868

Earnings Per Share (USD)

	1Q	2Q	3Q	4Q	Year
2025	--	--	--	--	**E** 20.74
2024	**E** 4.35	**E** 4.45	**E** 4.52	**E** 4.65	**E** 17.97
2023	3.80	3.91	**E** 4.00	**E** 4.04	**E** 15.75
2022	3.37	3.35	3.40	3.60	13.71
2021	3.14	3.03	3.11	3.20	12.48
2020	2.27	2.45	2.57	2.81	10.10

Fiscal Year ended Nov 30. EPS Estimates based on CFRA's Operating Earnings; historical earnings are adjusted. In periods where a different currency has been reported, this has been adjusted to match the current quoted currency.

Dividend Data

No cash dividends have been paid in the last year.

Adobe Inc.

Business Summary Jun 16, 2023

CORPORATE OVERVIEW. Adobe (ADBE) is the largest provider of applications used to produce visual content, best known for its Creative Cloud apps, Photoshop (#1 in photo editing, raster graphics), Illustrator (#1 in drawing, vector graphics), InDesign (#1 in page layout), and Premiere Pro (#1 in video editing). Its apps are used by graphic designers, photographers, publishers, video producers, animators, and other creative professionals ADBE estimates at 49 million globally, growing 11% per year since '15. ADBE's apps are also used by students, hobbyists, and part-time artists. Pro or not, today's creatives are rapidly replacing or fortifying physical media artistic expression with digital media. From simple photo filters to full-blown 3D animation, this surge in digital media is a trend with lots of room to run, in our view.

The company operates through three segments: Digital Media (73% of May-Q revenue), Digital Experience (25%), and Publishing and Advertising (2%).

The flagship of ADBE's Digital Media business is Adobe Creative Cloud, a subscription service that allows members to use its creative products integrated with cloud-delivered services across desktop, web, and mobile devices. Users can choose between the speed and ease of use of Adobe Express, the company's task-based, template-first web and mobile application, or the greater power and precision of its flagship Creative Cloud applications. The company's customers rely on its products for content creation, photo editing, design, video and animation production, mobile app and gaming development, and more. The company has significant opportunities to grow by advancing every creative category across devices and the web, expanding content-first, task-based creativity with Adobe Express and 3D and immersive content creation with Substance 3D. ADBE's Digital Media segment also includes its Adobe Document Cloud business, a unified, cloud-based document services platform, which integrates Adobe's pioneering PDF technology with its Acrobat and Adobe Acrobat Sign applications to deliver fully digital document workflows.

Within Digital Experience, Adobe Experience Cloud is powering digital businesses by providing experiences to their customers via a comprehensive suite of solutions. The company helps businesses and enterprises invest in solutions that aid their goals to transform how they engage with their customers and constituents digitally.

The Publishing and Advertising segment contains legacy products and services that address diverse market opportunities, including eLearning solutions, technical document publishing, web conferencing, document and forms platform, web application development, high-end printing, and the company's Adobe Advertising Cloud offerings.

COMPANY HISTORY. In '82, John Warnock and Charles Geschke left Xerox PARC to start Adobe out of the Warnock's garage in Los Altos, California. Its first product was PostScript, a Page Description Language (PDL) allowing any application to print to any printer and have the output match the screen image, a feature known as "WYSIWYG," for "what you see is what you get." While this seems trivial today, PostScript solved a key compatibility issue for PC and Mac users simply trying to print documents. PostScript opened the door for third-party printers to enter the market and laid the foundation for the rise of desktop publishing, a frequent justification for purchasing Macs and, a little later, Wintel PCs. Success was catalyzed by a '85 deal to license PostScript to Apple for five years. Apple built PostScript into all Macs and a new line of printers, cementing an early lead in desktop publishing for both companies.

ADBE capitalized on this lead in the late '80s by adding the core apps of its Creative Suite bundle, now Creative Cloud: Photoshop, Illustrator, and PageMaker by Aldus, which ADBE acquired in '94, then replaced with InDesign. In '93, ADBE extended PostScript to include all printable aspects of a document (i.e., text, fonts, vector graphics, and raster images) in a single file for a consistent printed output independent of app, operating system, or printer, establishing the widely used Portable Document Format or "PDF" format. Acrobat, the app creating and viewing PDFs, was never a big revenue contributor, but, as the PDF standard has incorporated more interactive elements, ADBE launched a bundle of Acrobat and related apps as Document Cloud in '15, with digital signatures, encryption, access control, annotations, etc., targeting the automation of document-based processes, and has benefited considerably from the need to complete transactions remotely with e-signatures.

FINANCIAL TRENDS. As ADBE began shifting to a subscription-based model, it hit an initial "subscription shift headwind" limited growth from '11 through '15. The headwind occurred because a traditional Creative Suite license sale was more than twice the revenue from the first year of a Creative Cloud subscription. When subscriptions exceed 50% of total revenue, the headwind becomes a tailwind because, over the six years between major version upgrades, a Creative Cloud subscription brings in about 3x more than a new Creative Suite license sale (including annual support at 20% of the license sale with about one third of customer uptake) and roughly 5x vs. upgrades and support revenue from existing customers. When subscription revenue jumped from 50% of the total in FY 14 to 67% in FY 15, total revenue growth accelerated from 2% in FY 14 to 16% in FY 15, then grew 20%+ Y/Y until FY 20 when Covid-19 dropped it to 16%. In FY 21, revenue growth came right back to 23%, then fell to 12% in FY 22 as the subscription shift tailwind faded, economic growth slowed, and the dollar strengthened.

This headwind-tailwind dynamic plays out for profitability, too, though with some lag. The initial headwind drove operating margin into the teens before recovering to 26% in FY 16. Since then, operating margin has risen consistently, even during the pandemic, hitting 40% in FY 19, 43% in FY 20, and 46% in FY 21, before slipping to 45% in FY 22. As its tethered cloud model continues to scale, we expect operating margin to push past 50% in FY 26, a level traditional software businesses rarely attain.

Corporate information

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Officers

Chairman & CEO
S. Narayen

Senior VP, Chief Accounting Officer & Corporate Controller
M. S. Garfield

Executive VP, General Counsel, Chief Trust Officer & Corporate Secretary
D. Rao

CFO and Executive VP of Finance, Technology Services & Operations
D. J. Durn

Board Members

A. L. Banse
D. A. Ricks
D. L. Rosensweig
D. Pandey
F. A. Calderoni
K. K. Oberg
L. B. Desmond
M. B. Biggs
M. Boulden
P. N. Allaway
S. A. Neumann
S. Narayen

Domicile
Delaware

Founded
1982

Employees
29,239

Stockholders
928

Auditor
KPMG LLP - Klynveld Peat Marwick Goerdeler

Adobe Inc.

Quantitative Evaluations

Fair Value Rank		1 · **2** · 3 · 4 · 5 (LOWEST … HIGHEST). Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).
Fair Value Calculation	**USD 455.87**	Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that ADBE is overvalued by USD 104.49 or 18.65%
Volatility		LOW · **AVERAGE** · HIGH
Technical Evaluation	**BULLISH**	Since September, 2023, the technical indicators for ADBE have been BULLISH"
Insider Activity		**UNFAVORABLE** · NEUTRAL · FAVORABLE

Expanded Ratio Analysis

	2022	2021	2020	2019
Price/Sales	9.13	18.79	18.00	13.62
Price/EBITDA	23.95	46.50	48.17	37.80
Price/Pretax Income	26.77	51.98	55.46	47.48
P/E Ratio	24.91	49.40	47.23	45.79
Avg. Diluted Shares Outstg. (M)	470.90	481.00	485.50	491.60

Figures based on fiscal year-end price

Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years
Net Income	NM	17.24	22.93
Sales	11.54	16.37	19.25
Ratio Analysis (Annual Avg.)			
Net Margin (%)	27.01	32.81	30.71
% LT Debt to Capitalization	19.42	21.17	20.18
Return on Equity (%)	32.97	37.18	34.06

Company Financials Fiscal year ending Nov 30

Per Share Data (USD)	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Tangible Book Value	-0.40	0.65	2.43	-3.90	-6.74	4.59	3.25	2.26	3.18	2.72
Free Cash Flow	15.75	14.42	11.04	8.28	7.67	5.54	4.01	2.58	2.29	1.92
Earnings	10.10	10.02	10.83	6.00	5.20	3.38	2.32	1.24	0.53	0.56
Earnings (Normalized)	13.71	12.48	10.10	6.76	6.76	4.31	3.01	2.08	1.29	1.34
Dividends	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Payout Ratio (%)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Prices: High	675.21	699.54	536.88	313.11	277.61	186.27	111.09	92.57	74.69	57.99
Prices: Low	274.73	420.78	255.13	204.95	165.68	98.00	71.27	68.98	53.93	33.78
P/E Ratio: High	49.20	56.10	53.20	46.30	41.10	43.20	36.90	44.50	57.90	43.30
P/E Ratio: Low	20.00	33.70	25.30	30.30	24.50	22.70	23.70	33.20	41.80	25.20
Income Statement Analysis (Million USD)										
Revenue	17,606	15,785	12,868	11,171	9,030	7,302	5,854	4,796	4,147	4,055
Operating Income	6,098	5,802	4,237	3,268	2,840	2,168	1,494	903.00	433.00	449.00
Depreciation + Amortization	618.00	576.00	571.00	757.00	346.00	326.00	332.00	339.00	314.00	321.00
Interest Expense	112.00	113.00	116.00	157.00	89.00	74.00	70.00	64.00	60.00	68.00
Pretax Income	6,008	5,705	4,176	3,205	2,794	2,138	1,435	874.00	361.00	356.00
Effective Tax Rate	20.80	15.50	-26.00	7.90	7.30	20.80	18.60	28.00	25.70	18.60
Net Income	4,756	4,822	5,260	2,951	2,591	1,694	1,169	630.00	268.00	290.00
Net Income (Normalized)	3,767	3,556	2,602	1,971	1,751	1,331	896.80	530.30	235.10	239.80
Balance Sheet and Other Financial Data (Million USD)										
Cash	6,096	5,798	5,992	4,177	3,229	5,820	4,761	3,988	3,739	3,174
Current Assets	8,996	8,669	8,146	6,495	4,857	7,248	5,840	4,822	4,602	4,046
Total Assets	27,165	27,241	24,284	20,762	18,769	14,536	12,697	11,727	10,786	10,380
Current Liabilities	8,128	6,932	5,512	8,191	4,301	3,527	2,812	2,214	2,494	1,526
Long Term Debt	3,629	4,123	4,117	989.00	4,135	1,882	1,892	1,907	911.00	1,499
Total Capital	18,684	19,470	17,972	14,668	13,497	10,342	9,317	8,909	8,290	8,239
Capital Expenditures	442.00	348.00	419.00	395.00	267.00	178.00	204.00	185.00	148.00	188.00
Cash from Operations	7,838	7,230	5,727	4,422	4,029	2,913	2,200	1,470	1,287	1,152
Current Ratio	1.11	1.25	1.48	0.79	1.13	2.05	2.08	2.18	1.85	2.65
% Long Term Debt of Capitalization	19.40	21.20	22.90	6.70	30.60	18.20	20.30	21.40	11.00	18.20
% Net Income of Revenue	27.00	30.50	40.90	26.40	28.70	23.20	20.00	13.10	6.50	7.20
% Return on Assets	14.01	14.08	11.76	10.33	10.66	9.95	7.64	5.01	2.55	2.75
% Return on Equity	33.00	34.40	44.20	29.70	29.10	21.30	16.20	9.10	4.00	4.30

Source: S&P Global Market Intelligence. Data may be preliminary or restated; before results of discontinued operations/special items. Per share data adjusted for stock dividends; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Adobe Inc.

Sub-Industry Outlook

CFRA has a positive fundamental outlook for the S&P 500 Application Software sub-industry, driven by long-term secular digital transformation and IT automation trends, offset partially by softer demand in the current macroeconomic climate.

Enterprise software spending remained slow in Q1, as leaner IT budgets impeded the magnitude of sales across the majority of software names under CFRA's coverage. Management observed similar traits of greater cloud optimization behavior with clients; clients are more carefully inspecting their data usage and storage volumes with cloud services, and becoming more judicious about exceeding data limits in order to avoid incurring overage charges. Layoffs, especially in the technology sector, have also lowered software needs (especially with seat-based software subscriptions), and increased spending scrutiny with added layers of approval have slowed the pace of deal close rates, increased deferrals and cancellations, longer sales cycles, and deals slipping out of the quarter. Cumulatively, the impact from these factors have led to sluggish annual recurring revenue (ARR) and remaining performance obligations (RPO) growth, as well as smaller deal sizes. We expect these sales patterns to continue in Q2, pressuring top-line growth.

However, we also see weakness potentially bottoming out in Q2 and growth to pick up in 2H 2023 as we lap these challenging quarters. With easier comparisons ahead and likely more positive sentiment on the economy, we believe companies will begin to incrementally increase their investments on important growth and transformation projects and deferred upgrades. In fact, technology research firm Gartner raised its worldwide IT spending in 2023 to 12.3% Y/Y, up from its previous forecast of 9.3% in the early part of the year. Likewise, software constituents in the S&P 500 are projected to report revenue growth of 9.8% Y/Y for 2023, up 80 bps from its earlier consensus forecast of 9% a quarter ago. We see this as a solid indicator of a recovery in the industry.

It would be remiss of us to not mention AI and its impact on software's outlook. We think AI (and Generative AI) will be the catalyst for new product interest and capability growth within software as vendors prioritize infusing AI algorithms and leveraging large language models to generate new services and features, while enhancing performance and effectiveness of their current offerings. Leading vendors have already begun to set the pace with a slew of AI-powered product launches, notably Microsoft, and we expect a trend to start with other software firms over the next year. During the Q1 earnings conference calls, many firms reported experimenting with generative AI technologies to build new features in their solutions. A handful expect new product releases at the end of the year. We see significant opportunities for generative AI technologies to be incorporated into application software to enhance productivity, automate work processes, extract valuable insights in analytics, and improve observability and application performance monitoring capabilities.

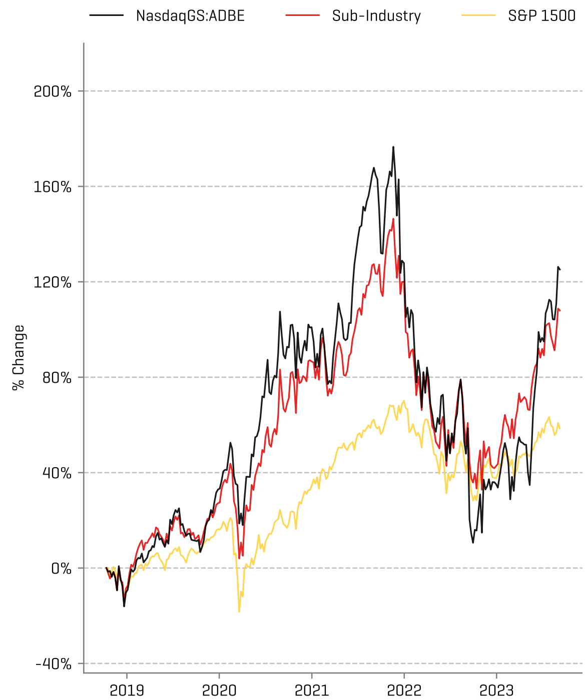
With top-line growth still facing headwinds in Q2, we would expect tighter expense management to persist with most firms, driving margin expansion on a year-over-year basis. We raise our 2023 EPS growth forecast for software firms in the S&P 500 by 290 bps to 13.7%, reflecting margin gains and a stronger revenue growth outlook in the second half of the year.

/ Janice Quek

Industry Performance

GICS Sector: Information Technology
Sub-Industry: Application Software

Based on S&P 1500 Indexes
Five-Year market price performance through Sep 09, 2023



NOTE: A sector chart appears when the sub-industry does not have sufficient historical index data.

All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS).

Past performance is not an indication of future performance and should not be relied upon as such.

Source: CFRA, S&P Global Market Intelligence

Sub-Industry: Application Software Peer Group*: Application Software

Peer Group	Stock Symbol	Exchange	Currency	Recent Stock Price	Stk. Mkt. Cap. (M)	30-Day Price Chg. (%)	1-Year Price Chg. (%)	P/E Ratio	Fair Value Calc.	Yield (%)	Return on Equity (%)	LTD to Cap (%)
Adobe Inc.	**ADBE**	**NasdaqGS**	**USD**	**560.46**	**255,458.0**	**7.7**	**47.6**	**38.0**	**455.87**	**N/A**	**33.7**	**19.2**
Atlassian Corporation	TEAM	NasdaqGS	USD	206.92	53,257.0	5.5	-12.1	108.0	N/A	N/A	-99.1	49.7
Autodesk, Inc.	ADSK	NasdaqGS	USD	221.01	47,244.0	8.8	7.2	31.0	179.73	N/A	89.8	59.0
Cadence Design Systems, Inc.	CDNS	NasdaqGS	USD	241.46	65,626.0	5.5	41.3	53.0	175.68	N/A	32.2	18.2
Constellation Software Inc.	CSU	TSX	CAD	2,803.17	59,553.0	39.0	85.7	46.0	1,212.90	0.1	14.0	30.6
Intuit Inc.	INTU	NasdaqGS	USD	553.61	155,154.0	10.5	27.2	38.0	422.91	0.7	14.1	25.5
Roper Technologies, Inc.	ROP	NasdaqGS	USD	494.34	52,751.0	0.6	21.5	32.0	N/A	0.6	7.7	25.5
SAP SE	SAP	NYSE	USD	139.95	162,682.0	4.0	63.6	34.0	N/A	1.2	2.8	13.1
Salesforce, Inc.	CRM	NYSE	USD	222.53	216,522.0	5.2	45.2	32.0	133.22	N/A	2.7	11.7
Synopsys, Inc.	SNPS	NasdaqGS	USD	458.09	69,668.0	5.1	38.0	46.0	333.56	N/A	17.6	0.3
Workday, Inc.	WDAY	NasdaqGS	USD	250.47	65,623.0	10.1	51.1	53.0	N/A	N/A	-2.1	31.2

*For Peer Groups with more than 10 companies or stocks, selection of issues is based on market capitalization.
NA-Not Available; NM-Not Meaningful.
Note: Peers are selected based on Global Industry Classification Standards and market capitalization. The peer group list includes companies with similar characteristics, but may not include all the companies within the same industry and/or that engage in the same line of business.

Analyst Research Notes and other Company News

June 16, 2023
12:54 AM ET... CFRA Reiterates Buy Rating on Shares of Adobe, Inc. (ADBE 490.91****):
We boost our 12-month target to $580 from $412, on P/E of 32x our CY 24 EPS estimate of $18.12, above peers but below historical averages. We raise our FY 23 (Nov.) EPS estimate to $15.75 from $15.64, keep FY 24 at $17.97 and FY 25 at $20.74. ADBE posts May-Q EPS of $3.91 vs. $3.35, beating the $3.79 consensus. Sales grew 10% (+13% constant currency), led by higher demand across Creative Cloud (+9%), Document Cloud (+11%), and Experience Cloud (+12%), with strength in Digital Media ($470M net new ARR). We positively view ADBE's generative AI roadmap, with Firefly attracting significant interest across platforms (e.g., Photoshop, Illustrator) and as 0.5 billion assets were created in beta (more than 80x anticipated). Early success shows greater potential for AI monetization, as Firefly is pushed as both a standalone freemium offering for consumers and a separate enterprise offering. Generative AI will drive higher ARPUs and retention, in our view. Net cash stands at about $3B with annual FCF of about +$8B. / Angelo Zino, CFA

March 17, 2023
09:57 AM ET... CFRA Reiterates Buy Rating on Shares of Adobe, Inc. (ADBE 353.29****):
We raise our target by $18 to $412 due to: 1) solid FY 1Q23 (Feb-Q) results with roughly in-line Y/Y revenue growth of 9% (13% in constant currency), although still a significant deceleration from the mid-teens growth of FY 1H22; 2) reiterated revenue guidance for '23, but raised EPS guidance, +$0.10 to $4.40, implying 12% Y/Y growth; 3) attractive valuation for long-term investors with a forward P/E at 22.2x vs. a three-year mean of 36.6x. Our target is a product of our EPS forecast for '24 of $17.97, now $0.12 higher, and a 22.9x P/E (one-year mean, less 8%, reflecting higher risk from the Figma acquisition and the negative balance sheet impact). 1Q revenue of $4.66b, +9% Y/Y, beat consensus by $30m; EPS of $3.80 grew 13% Y/Y and beat by $0.11. We also up our EPS forecasts for '23 by $0.07 to $15.64 and for '25 by $0.11 to $20.74. The pending $20b acquisition of Figma, a cloud-based provider of design collaboration apps, holds significant upside potential, but is also expensive and under regulatory scrutiny. / John Freeman

December 16, 2022
05:03 PM ET... CFRA Maintains Buy Rating on Shares of Adobe, Inc. (ADBE 338.54****):
We cut our target by $62 to $394 due to: 1) tepid FY 4Q22 results, in our view, especially for revenue (+10% Y/Y), a deceleration from 12% in 3Q and 14% in 2Q, albeit higher in constant currency; 2) reiterated '23 guidance; 3) attractive valuation for long-term investors with a fwd. P/E at 24.0x vs. a 3-year mean of 37.6x. Our target is a product of our EPS forecast for '24 of $17.85, now $0.19 lower, and a 22.1x P/E (6-month mean, less 8%, reflecting higher execution/distraction risk from the Figma acquisition and the negative balance sheet impact). 4Q revenue of $4.53b (+10% Y/Y) missed consensus by $3m; EPS of $3.60 grew 13% Y/Y and beat by $0.10. We also cut our EPS forecast for '23 by $0.25 to $15.57 and initiate '25 at $20.63. The $20b acquisition of Figma, an innovative cloud-based provider of design collaboration apps, holds significant upside potential, but is also expensive, given only ~$400m in Figma ARR for '22. The deal also gained regulatory scrutiny as a potential distraction for leadership. / John Freeman

September 15, 2022
02:20 PM ET... CFRA Maintains Buy Rating on Shares of Adobe, Inc. (ADBE 308.44****):
We lower our target by $70 to $456 due to: 1) disappointing FY 3Q22 results, especially for revenue (+12% Y/Y), a deceleration from 14% Y/Y growth in 2Q; 2) the $20b acquisition of Figma, an innovative provider of web-based design collaboration, which holds significant upside potential, but is expensive given only ~$400m in Figma ARR for 2022; 3) attractive valuation for long-term investors with a fwd. P/E at 25.6x vs. a 3-year mean of 38.4x. Our $456 target is a product of our EPS forecast for '24 of $18.04, now $0.77 lower and pulled forward from '23, and a 25.3x P/E (6-month mean, less 8% reflecting the higher execution risk from the Figma acquisition and the negative impact on ADBE's balance sheet). 2Q revenue of $4.43b (+12% Y/Y) missed consensus by $6m; EPS of $3.40 grew 13% Y/Y, beating by $0.06. We also cut our EPS view for '22 by $0.10 to $13.60 and for '23 by $0.23 to $15.82. The return potential is substantial as implied by our target, but execution risk has also increased considerably, in our view. / John Freeman

June 21, 2022
12:07 AM ET... CFRA Keeps Buy Rating on Shares of Adobe, Inc. (ADBE 360.79****):
We lower our target by $69 to $526 due to: 1) better-than-expected results, especially for revenue, +14% Y/Y, a moderate acceleration from 9% Y/Y growth in 1Q; 2) lower FY22 guidance, implying Y/Y growth of 12% for revenue, down from 13%, and 8% Y/Y growth for EPS, down from 10%; 3) with shares down 36% YTD, we still see an attractive entry point for long-term investors, though ADBE is likely to get hit harder over the next year, assuming a global recession, as it is somewhat more exposed to consumer and discretionary spending vs. its more purely enterprise-focused peers. Our $526 target is a product of our EPS forecast for '23 of $16.05, now $0.17 lower, and a 32.8x P/E (6-month mean, reflecting the hit to discretionary spending from consumers/hobbyist due to the present negative economic outlook). 2Q revenue of $4.26b, +14% Y/Y, beat consensus by $39m; EPS of $3.35 grew 13% Y/Y, beating by $0.04. We also lower our EPS forecast for '22 by $0.07 to 13.70, but we leave '24 unchanged at $18.81. / John Freeman

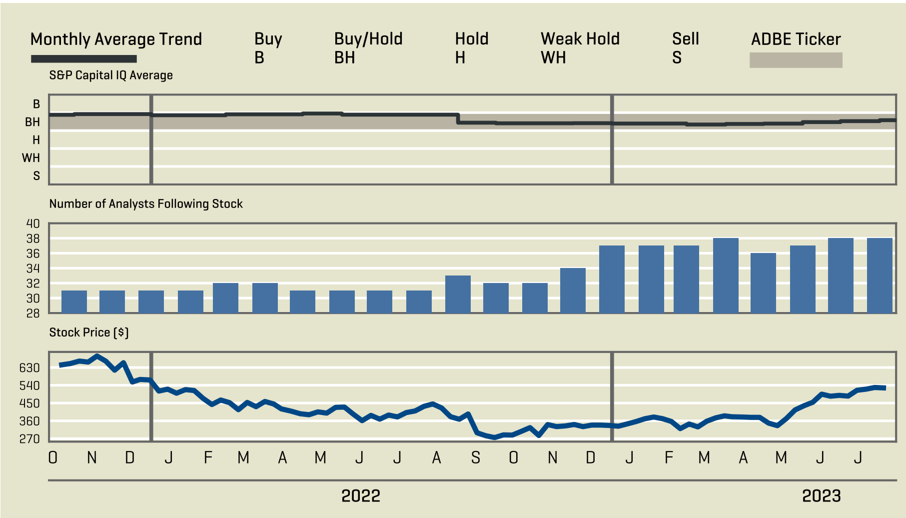
March 23, 2022
01:53 PM ET... CFRA Lowers Rating on Shares of Adobe, Inc. to Buy from Strong Buy (ADBE 421.32****):
We lower our target by $126 to $595 due to: 1) the second weak quarter in a row, as revenue grew just 9% Y/Y, though we acknowledge the difficult Y/Y comparison, compounded by this Feb-Q being a week shorter than last year's as well as some purchase hesitation likely due to the war in Ukraine; 2) unchanged FY22 guidance, implying Y/Y growth of 13% for revenue and 10% for EPS; and 3) shares being down 26% year-to-date – we still see an attractive entry point for those with a long-term horizon, but the magnitude of the recent growth deceleration is a concern and the hit to investor confidence likely keeps the upside limited for a few quarters. Yet, a bright spot was Document Cloud grew 37% Y/Y to 13% of total revenue. Our $595 target is a product of our EPS forecast for '23 of $16.22, down $0.98, and a 36.7x P/E (4-year mean). 1Q revenue of $4.26b, +9% Y/Y, beat consensus by $24m; EPS of $3.37 grew 7% Y/Y, beating by $0.03. We also lower our EPS forecasts for '22 by $0.78 to 13.77 and for '24 by $1.40 to $18.81. / John Freeman

December 17, 2021
04:59 PM ET... CFRA Maintains Strong Buy Rating on Shares of Adobe, Inc. (ADBE 556.64*****):
We lower our target by $32 to $721 due to: 1. fairly weak FY 4Q21 (Nov-Q) results, especially on EPS, just hitting consensus but coming in $0.05 below our forecast, and tepid guidance for FY 22, though management tends to be particularly conservative when giving initial guidance for an upcoming year; 2. with shares down 18% since Nov. 29, we see an attractive entry point for the dominant leader in apps to produce creative visual content, a segment very much on "the right side of Moore's Law" and benefiting from multiple trends – e.g., the global rise of creative professionals, the digitization and automation of document-based processes, and the shift of ad spend to online/mobile, still only ~60% complete. Our $721 target is a product of our EPS forecast for '23 of $17.20, now $1.21 lower, and a 41.9x P/E (two-year mean). 4Q revenue of $4.11b, +20% Y/Y, beat consensus by $20m; EPS of $3.20 was up $0.39 Y/Y, matching consensus. We lower our EPS forecast for '22 by $0.63 to 14.55 and initiate '24 at $20.21. / John Freeman

Note: Research notes reflect CFRA's published opinions and analysis on the stock at the time the note was published. The note reflects the views of the equity analyst as of the date and time indicated in the note, and may not reflect CFRA's current view on the company.

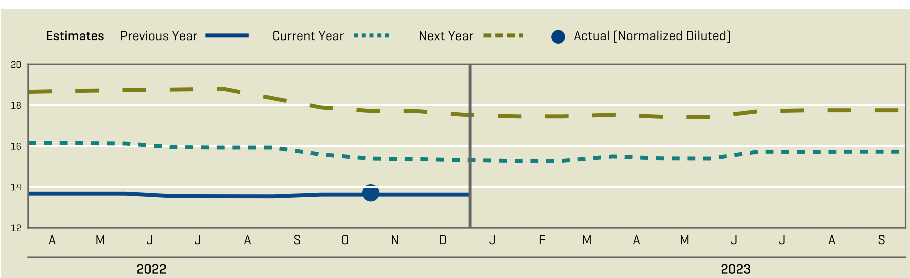
Adobe Inc.

Analysts Recommendations



	No. of Recommendations	% of Total	1 Mo.Prior	3 Mos.Prior
Buy	17	45	17	15
Buy/Hold	7	18	7	6
Hold	14	37	14	16
Weak hold	0	0	0	0
Sell	0	0	0	0
No Opinion	0	0	0	0
Total	38	100	38	37

Wall Street Consensus Estimates



Fiscal Year	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2024	17.75	18.76	16.63	31	31.57
2023	15.73	15.93	15.40	30	35.63
2024 vs. 2023	▲ **13%**	▲ **18%**	▲ **8%**	▲ **3%**	▼ **-11%**
Q3'24	4.50	4.62	4.25	17	124.67
Q3'23	3.97	4.04	3.80	26	141.09
Q3'24 vs. Q3'23	▲ **13%**	▲ **14%**	▲ **12%**	▼ **-35%**	▼ **-12%**

Forecasts are not reliable indicator of future performance.
Note: A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.
Note: For all tables, graphs and charts in this report that do not cite any reference or source, the source is S&P Global Market Intelligence.

Wall Street Consensus Opinion

Buy/Hold

Wall Street Consensus vs. Performance

For fiscal year 2023, analysts estimate that ADBE will earn USD 15.73. For fiscal year 2024, analysts estimate that ADBE's earnings per share will grow by 12.85% to USD 17.75.

Glossary

STARS

Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (MSCI AC Asia Pacific Index, MSCI AC Europe Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to help investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Global Market Intelligence's Quality Ranking

(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and S&P Capital IQ Earnings & Dividend Rankings stability of earnings and dividends are deemed key elements in establishing S&P Global Market Intelligence's earnings and dividend rankings for common stocks, which are designed to capsulize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+	Highest	B	Below Average
A	High	B-	Lower
A	Above	C	Lowest
B+	Average	D	In Reorganization
NC	Not Ranked		

EPS Estimates

CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

12-Month Target Price

The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

Abbreviations Used in Equity Research Reports

CAGR - Compound Annual Growth Rate
CAPEX - Capital Expenditures
CY - Calendar Year
DCF - Discounted Cash Flow
DDM - Dividend Discount Model
EBIT - Earnings Before Interest and Taxes
EBITDA - Earnings Before Interest, Taxes, Depreciation & Amortization
EPS - Earnings Per Share
EV - Enterprise Value
FCF - Free Cash Flow
FFO - Funds From Operations
FY - Fiscal Year
P/E - Price/Earnings
P/NAV - Price to Net Asset Value
PEG Ratio - P/E-to-Growth Ratio
PV - Present Value
R&D - Research & Development
ROCE - Return on Capital Employed
ROE Return on Equity
ROI - Return on Investment
ROIC - Return on Invested Capital
ROA - Return on Assets
SG&A - Selling, General & Administrative Expenses
SOTP - Sum-of-The-Parts
WACC - Weighted Average Cost of Capital

Dividends on American Depository Receipts (ADRs) and American Depository Shares (ADSs) are net of taxes (paid in the country of origin).

Qualitative Risk Assessment

Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:

★★★★★ **5-STARS (Strong Buy):**
Total return is expected to outperform the total return of a relevant benchmark, by a notable margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ **4-STARS (Buy):**
Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months.

★★★☆☆ **3-STARS (Hold):**
Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months.

★★☆☆☆ **2-STARS (Sell):**
Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months.

★☆☆☆☆ **1-STAR (Strong Sell):**
Total return is expected to underperform the total return of a relevant benchmark by a notable margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:

In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the MSCI AC Europe Index and the MSCI AC Asia Pacific Index, respectively.

Adobe Inc.

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Stocks are ranked in accordance with the following ranking methodologies:

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Quantitative Stock Reports:
Quantitative rankings are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative rankings refer to the Glossary section seof the report for detailed methodology and the definition of Quantitative rankings.

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STARS Stock Reports:

Global STARS Distribution as of June 30, 2023

Ranking	North America	Europe	Asia	Global
Buy	38.5%	36.8%	46.7%	39.8%
Hold	52.4%	48.0%	44.0%	49.8%
Sell	9.2%	15.3%	9.3%	10.4%
Total	100.0%	100.0%	100.0%	100.0%

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