

Adobe Inc.

Four Key Points from Adobe Fireside

We hosted a fireside chat with Adobe's Head of IR and came away with a better appreciation on the TAM expansion potential for FireFly, the focus on adoption, consistent margins, and Figma financing mechanics. More below...

Four takeaways from our fireside chat with Jonathon Vaas, head of Adobe IR: (1) the main focus for FireFly is adoption/delightful experience - this worked with Acrobat web where free to paid conversion was higher than desktop; (2) GenAI will be TAM expanding for Adobe, just as we saw with other generational shifts (good example on video editing software below) - we think ADBE is targeting billions of potential users, and expect TAM estimates to be revised up at March 2024 analyst day; (3) Adobe's preference is for growth, particularly given the FireFly opportunity, which will drive an investment cycle - but margins should still be consistent given leverage in other areas like DX or S&M, making us feel fine with our 40-50bps of margin expansion in FY24; and (4) we continue to believe the Figma acquisition will close, and recap the financing mechanics including the stock component and thoughts on cash-on-hand/debt mix where we believe ADBE usually keeps a minimum of ~\$3B in cash on the balance sheet - more below.

- **Focus on FireFly is adoption - if that is successful, monetization will arguably take care of itself, as Adobe saw with Acrobat on the web; Firefly is targeting billions of users.** Adobe's focus in FireFly is growing adoption, which we think is off to a strong start with 90% of Firefly web app users being non-Adobe users. By lowering the barriers to adoption with things like lower price point and preventing "generative anxiety," the goal would be to convert more of these users to paid, which is not a new sales motion - remember when Adobe launched Acrobat on the web for free, the company saw free-to-pay conversion was 5x higher than on desktop. The natural question becomes what could this opportunity be like in the coming quarters/years, which of course is still tough to gauge - but Adobe is clearly targeting a user opportunity in the billions, and as an example showed that it already has a user base of over 600M non-creative professional free and paid MAU across mobile, web, or desktop for CC and DC.
- **Gen AI will be TAM expansionary - good example is video editing software versus manual video editing; we expect TAM estimates to go up at March 2024 analyst day.** Recall, a bear case earlier this year on GenAI was that it would potentially negatively affect the number of creative professional jobs, and thus lower the potential seat TAM. We came away from Adobe Max (and this webinar) feeling Adobe strongly feels it is accretive to the TAM, just as we have seen with other generational shifts in technology. One example was the advent of video editing, which replaced manual editing (i.e., scissors, glue, film, etc.) - the analogy would be that video editing software at that time would cannibalize TAM for editors, but in fact the amount of video content exploded, which outweighed the productivity gains from software,

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CORE Company Update

ADBE	EQUAL WEIGHT
U.S. Software	POSITIVE
Price Target	USD 640.00
Price (25-Oct-23)	USD 521.14
Potential Upside/Downside	+22.8%

U.S. Software

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and thus expanded the TAM for video editing. Recall, Adobe will be hosting its analyst day in March 2024, which we expect will showcase bigger TAMs as a result of Firefly, which remember will now span across multiple content types.

- **The growth opportunity from Firefly necessitates an investment cycle - but margins should stay consistent, given leverage in other areas.** Adobe talked about their preference/ orientation toward growth, particularly with their innovation in GenAI, and how this necessitates an investment cycle. But Mr. Vaas was clear in saying this does not mean margins have to go down - there are other efficiencies in the business like in DX or in sales and marketing that can help keep margins consistent. For this reason, we feel comfortable with our estimate of 40-50 bps of organic margin expansion next year - but also go back to Adobe's comments at MAX noting there is still room for margin expansion long term.
- **We continue to think Figma deal will close; on the financing, two points: (1) minimum of ~\$3B in cash means \$6-7B in incremental debt; (2) \$10B in stock will be issued at ~\$377 by our estimates.** We continue to believe Adobe will clear and close their proposed acquisition of Figma (private, not covered), which recently had some regulatory deadlines extended into early 2024. With that premise, we wanted to recap some thoughts on financing the \$20B acquisition with 50% cash and 50% stock. On the cash portion of the consideration, we believe Adobe tends to keep a minimum of \$3B on the balance sheet and currently has \$6B on the balance sheet, so we could see ~\$6-7B in incremental debt being used to finance the deal, or slightly less depending on when the deal closes and the additional cash flow. On the stock component, recall the 8k filing at the time said price conversion was made public around the time the deal was announced "\$10 billion in Company Shares, based on the average closing price per share of Company Shares for the ten trading days ending on September 13, 2022," which we estimate works out to \$377.84.

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Primary Stocks (Ticker, Date, Price)

Adobe Inc. (ADBE, 25-Oct-2023, USD 521.14), Equal Weight/Positive, CD/CE/J

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Atlassian (TEAM)	AudioCodes Ltd. (AUDC)	Autodesk Inc. (ADSK)
Bandwidth Inc. (BAND)	BigCommerce (BIGC)	Braze Inc. (BRZE)
CCC Intelligent Solutions (CCCS)	Ceridian HCM Holding Inc. (CDAY)	Check Point Software Technologies Ltd. (CHKP)

Confluent, Inc. (CFLT)	Couchbase (BASE)	CrowdStrike Holdings, Inc (CRWD)
CyberArk Software (CYBR)	Datadog, Inc. (DDOG)	Definitive Healthcare Corp (DH)
Descartes Systems Group (DSGX)	DigitalOcean (DOCN)	DoubleVerify Holdings, Inc. (DV)
Dynatrace, Inc. (DT)	Elastic N.V. (ESTC)	Everbridge, Inc. (EVBG)
EverCommerce Inc. (EVCN)	Five9, Inc. (FIVN)	Fortinet, Inc. (FTNT)
Freshworks Inc. (FRSH)	Gen Digital Inc. (GEN)	GitLab Inc. (GTLB)
HubSpot, Inc. (HUBS)	Intapp, Inc. (INTA)	Integral Ad Science Holding Corp. (IAS)
Intuit Inc. (INTU)	Jamf Holding Corp. (JAMF)	Klaviyo, Inc. (KVYO)
Lightspeed Commerce Inc. (LSPD)	LivePerson, Inc. (LPSN)	MeridianLink, Inc. (MLNK)
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OpenText Corp. (OTEX)	Oracle Corp. (ORCL)	Palo Alto Networks (PANW)
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PowerSchool Holdings, Inc (PWSC)	Procore Technologies, Inc. (PCOR)	PTC Inc. (PTC)
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SAP SE (SAP)	SecureWorks (SCWX)	SentinelOne, Inc. (S)
ServiceNow, Inc. (NOW)	Similarweb Ltd. (SMWB)	Skillsoft Corp. (SKIL)
Smartsheet Inc. (SMAR)	Snowflake Computing (SNOW)	Splunk Inc. (SPLK)
Sprinklr, Inc. (CXM)	Sprout Social, Inc. (SPT)	Tenable Holdings Inc (TENB)
Teradata Corp. (TDC)	Twilio Inc. (TWLO)	Tyler Technologies, Inc. (TYL)
UiPath, Inc. (PATH)	Varonis Systems, Inc. (VRNS)	Veeva Systems Inc. (VEEV)
VMware Inc. (VMW)	WalkMe Ltd. (WKME)	Workday Inc. (WDAY)
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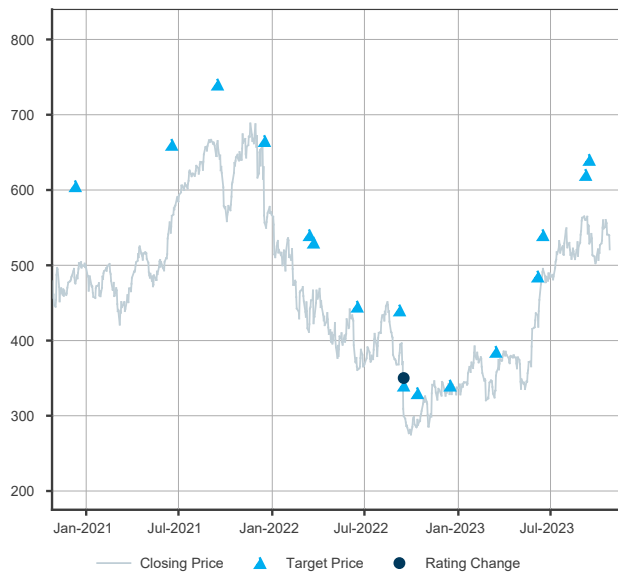
Stock Rating: **EQUAL WEIGHT**

Industry View: **POSITIVE**

Closing Price: **USD 521.14** (25-Oct-2023)

Rating and Price Target Chart - USD (as of 25-Oct-2023)

Currency=USD



Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

Publication Date	Closing Price*	Rating	Adjusted Price Target
15-Sep-2023	552.16		640.00
08-Sep-2023	560.46		620.00
16-Jun-2023	478.99		540.00
06-Jun-2023	434.18		485.00
16-Mar-2023	333.61		385.00
16-Dec-2022	328.71		340.00
13-Oct-2022	286.15		330.00
16-Sep-2022	309.13	Equal Weight	340.00
08-Sep-2022	368.30		440.00
17-Jun-2022	365.08		445.00
23-Mar-2022	466.45		530.00
15-Mar-2022	411.50		540.00
17-Dec-2021	614.86		665.00
16-Sep-2021	661.08		740.00
18-Jun-2021	565.59		660.00
11-Dec-2020	475.91		605.00

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