



## Company Overview

Adobe, Inc. (ADBE) is a leading provider of software solutions for creative and marketing professionals. The company features the best of both the internet and software industries, as they have highly predictable and profitable revenue streams with a vast open-ended total addressable market ("TAM"), and exposure to broad technology trends. Business lines are as follows:

1. **Creative Cloud (59% of revenues):** ADBE offers software that enables creative professionals to create content. Marquee products include Photoshop, Illustrator, Premier Pro. This side of the business has 95% gross margins.
2. **Document Cloud (11% of revenues):** ADBE offers software that enables knowledge workers to create, edit, scan, and collaborate on PDFs. This side of the business has >95% gross margins.
3. **Digital Experience Cloud (27% of revenues):** ADBE offers software and services that enable personalized marketing, advertising, and commerce across channels. This business has 62% gross margins.

Name	Ticker	D + G
Adobe Inc.	ADBE	15.67%

## Last Twelve Months Highlights:

ADBE reported Q4 '20 results alongside its 2020 Financial Analyst Day in December, including presentations from senior management across the company. The company reported +14% YoY total revenue growth, above market consensus (+12% YoY) and guidance (+12% YoY). ADBE delivered \$548M in net new Digital Media (vs. the company's guidance of \$540M). The big takeaways from analyst day are that management outlined a large and expanding total addressable market ("TAM"), as the ongoing COVID-19 pandemic continues to drive digital transformation initiatives and cloud adoption across industries, including regulated verticals where adoption has historically lagged. Management outlined a 2023 TAM of ~\$147B, growing 25% YoY.

## Bull Case:

- **Competitive Moat** – We believe that ADBE has been making significant investment in the next generation of technology that will enable it to remain at the top of the heap for years to come. Despite its host of competitors, ADBE has a history of defending, and in many cases, taking share, from competitors. For example, ADBE's InDesign program because of its relentless focus on product improvement.
- **Growth in Free Cash Flow** – Free Cash Flow is also a key focus for investors. Since ADBE has completed the heavy lifting in transitioning its business to SaaS, the company has exhibited impressive EPS and FCF growth. To put a finer point to things, ADBE currently has a 40% - 41% adj. EBIT margin, which has risen from 29% in FY 2015. Continued margin expansion and strong FCF growth will continue as the business get natural SaaS operating margin lift.
- **Expanded Growth Drivers within the Creative Cloud Segment** - The key thrust of our argument here is that content creation is growing. It is growing in the professional community and it is growing even more on the individual or hobbyist level. More importantly, this trend is happening internationally, and the thing all these people have in common is that they need creative tools, enter Adobe's solutions.

## Bear Case:

- **Necessity for Continuous Product Development** – Acquiring and developing new products and features is costly and expensive. These investments may not produce the expected return and could put ADBE at a competitive disadvantage.
- **Slower User Adoption Rate** – Digital media has grown ~12% over the last three years (as of EOY 2020). If this rate starts to slow due to 1) new user adoption slows (if the market is more saturated than previously thought), and 2) user monetization struggles. We believe that this could weigh on the growth trajectory, and most likely the stock price.
- **Experience Cloud Competition** – The marketing technology space has several alternative vendors. On the enterprise front, there are real competitors in Salesforce, SAP, IBM, Oracle, and Google. Digital forward agencies such as WPP may also decide to invest in more in-house technology as well.

## Overall Thesis:

We believe that ADBE is far and away the most dominant company in multimedia software. Its "creative" services alone does \$7.74B/year in revenue (fiscal 2020), and that number has been growing at a strong clip for quite some time. On top of that, Adobe is branching out into new verticals that enjoy great synergies with its multimedia offerings. The stage is set for Adobe to achieve years of profitable growth. The company has de facto ownership of the creative software market and has a dominant position in the digital experience market, especially given the recent smart acquisitions of Marketo and Magento. ADBE's strong competitive position is evidenced by its 40% EBIT margin. The company is levered to major internet themes, including digitalization of content, the shift to mobile platforms, and the consumption of video across numerous channels.

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