

ADOBE, INC. (ADBE)

Technology

November 21, 2024

Stock Rating

SELL

Investment Thesis

We recommend a SELL rating for Adobe, as its current market price of \$500 reflects a 6.8% premium to our DCF price of \$468 per share. While integrating generative AI into its Creative Cloud and Experience Cloud platforms is expected to drive revenue growth, competitive pressures from emerging AI players like OpenAI and Canva threaten market share, particularly among entry-level users.

Drivers of Thesis

- **Generative AI:** Adobe's investment in generative AI positions it to expand its total addressable market by democratizing creativity for non-professional users. We expect double-digit growth in the Digital Media segment through FY27 before moderating to 5% in the terminal year.
- **Digital Experience Growth:** The Digital Experience segment is forecasted to be the fastest-growing unit, driven by increased adoption of Experience Cloud and AI tools like Adobe Sensei GenAI and GenStudio. Adobe can further leverage its software ecosystem to take market share from more established players such as Salesforce and Oracle.
- **Profit Maximization:** Operating leverage boosts overall profitability as Adobe aligns its R&D expenditures with slowing top-line growth, achieving operating margins exceeding 40%.

Risks to Thesis

- **Competition by AI Firms:** Emerging generative AI platforms, such as OpenAI's DALL-E integrated with ChatGPT, potentially threaten Adobe's market share among non-professional users by providing simpler and more affordable alternatives. We anticipate a 200-bps compression in gross margins from FY28 and beyond, though the impact could be greater.
- **R&D and Innovation Costs:** Continued investments in AI could pressure operating margins if revenue growth does not offset these expenses. High R&D costs may challenge Adobe's ability to meet long-term profit margin targets.

Earnings Estimates

Year	2021	2022	2023	2024E	2025E	2026E
EPS	\$10.10	\$10.13	\$11.87	\$16.07	\$18.27	-
HF est.				\$15.31	\$17.25	\$20.42
Growth	-7.7%	0.3%	17.2%	28.9%	12.7%	18.4%

12 Month Performance



Target Price

\$460 - 470

Henry Fund DCF	\$468
Henry Fund DDM	\$294
Relative Multiple	\$495

Price Data

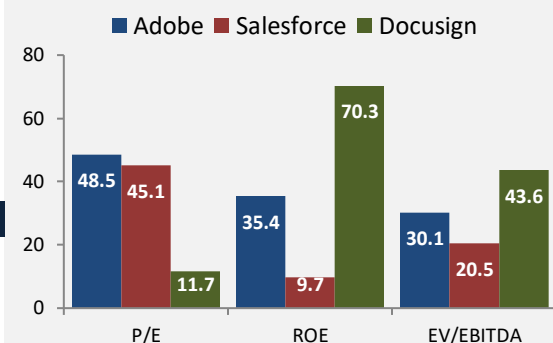
Current Price	\$500
52wk Range	\$434 - 638
Consensus 1yr Target	\$612

Key Statistics

Market Cap (B)	\$219.9
Shares Outstanding (M)	440.2
Institutional Ownership	83.0%
Beta	1.19
Dividend Yield	0.00%
Est. 5yr Growth	14.9%
Price/Earnings (TTM)	48.5
Price/Earnings (FY1)	29.0
Price/Sales (TTM)	12.3
Price/Book (mrq)	17.6

Profitability

Operating Margin	35.9%
Profit Margin	25.6%
Return on Assets (TTM)	18.2%
Return on Equity (TTM)	35.4%



Company Description

Adobe specializes in software solutions for creativity, digital document workflows, and customer relationship (experience) management. Its product portfolio includes Adobe Creative Cloud for content creation, Adobe Document Cloud for productivity, and Adobe Experience Cloud for data-driven marketing and customer insights. These tools serve individuals, businesses, and enterprises worldwide. Adobe has also invested significantly in artificial intelligence, seamlessly integrating AI across its platforms to enhance creativity, boost productivity, and deliver personalized digital experiences.

COMPANY DESCRIPTION

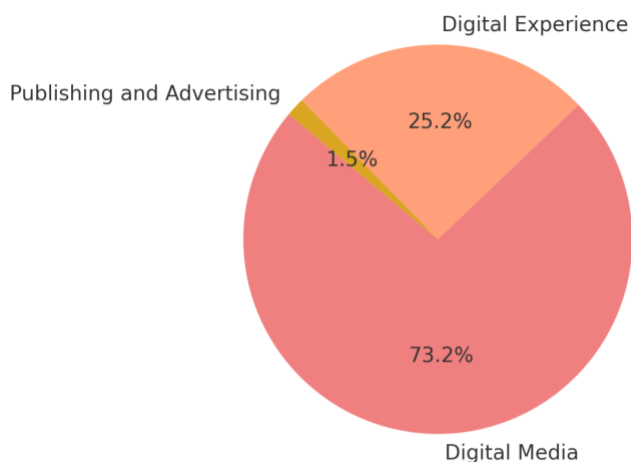
Adobe, Inc. is an American technology firm that builds creative and business software applications. Customers include creative professionals, software developers, marketers, enterprises, and individual consumers. Adobe maintains a global presence with operations in the Americas, Europe, Middle East, Africa (EMEA), and the Asia-Pacific (APAC) region. The Americas region is the largest in terms of sales at 60%.³

In FY23, Adobe grew revenues by 10.2% to \$19.4 billion, with a gross margin of 87.9% (+20 bps YoY).³ Free cash flow totaled \$5.7 billion, yielding a margin of 29.2%. Operating margins fell for the third year to 34.3% (-30 bps YoY).³ Net income totaled \$5.4 billion, rendering a margin of 28.0% (up 100 bps YoY).³ The table below summarizes operational performance over the past two years.

	FY22	FY23	Δ
Gross margin	87.7%	87.9%	+20 bps
Operating margin	34.6%	34.3%	-30 bps
Profit margin	27.0%	28.0%	+100 bps
FCF margin	28.8%	29.2%	+40 bps

Source: [Adobe 10-K \(2023\)](#)

Operating expenses continue to weigh on overall profitability, driven by rising R&D costs. R&D spending increased by 90 basis points YoY to 17.9% of sales, reflecting investments in AI and related workforce expansion.³ This trend is expected to persist as Adobe prioritizes maintaining its competitive position in generative AI and creative workflows. Because of these investments, Adobe is not oriented for profit maximization.



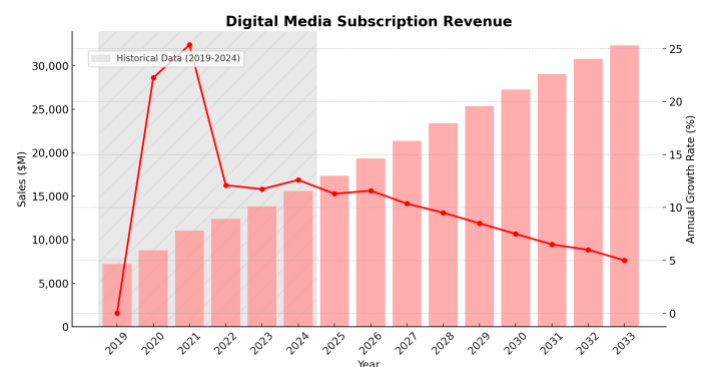
Source: [Adobe 10-K \(2023\)](#)

Adobe's software products are organized into three categories:

1. Digital Media
2. Digital Experience
3. Publishing and Advertising

On the income statement, Adobe organizes revenue into three streams: Subscription sales, Product sales, and Services and support. Subscriptions dominate, accounting for 94.2% of sales in FY23. Our model predicts subscription revenue rising to 98% of total sales by 2033, aligning with Adobe's SaaS-focused strategy.

Digital Media



Source: [Adobe 10-K \(2023\)](#)

The Digital Media segment includes subscriptions to Adobe's Creative Cloud and Document Cloud services. Digital Media subscriptions are the most significant revenue driver, generating \$14.2 billion in FY23 (+11% YoY), or 71.8% of total sales, with a gross profit margin of 95% (down 100 bps YoY).³ The table below shows that Creative Cloud subscriptions represent most of Adobe's annual Digital Media sales.

Digital Media Sales (FY23)			
Product Category	FY23 Sales	YoY Growth (%)	% of Total Sales
Creative Cloud	\$11.5B	10%	59%
Document Cloud	\$2.7B	13%	14%

Source: [Adobe 10-K \(2023\)](#)

Creative Cloud: Adobe's Creative Cloud bundle includes access to software products for professionals and amateurs, including popular tools such as Photoshop, Lightroom, Illustrator, and Premiere Pro. The complete bundle features more than 20 creative apps.¹⁴ Generative AI is prominently featured across the Creative Cloud suite, enabling creatives to automate tasks like object selection, background filling, photo or video generation, and much

more. Adobe's generative AI outputs are generally permitted for commercial use, with a few exceptions.¹³ Adobe's management outlined three strategies for monetizing generative AI: tiered subscriptions, add-ons, and standalone offerings.¹⁵ Adobe also licenses creative content generated using AI models for a fee.

Creative Cloud has an approximately 80% market share in the creative software market, with 33 million subscribers.^{1,2} The chart below outlines the available pricing plans. Users can also subscribe to individual applications a la carte for a premium monthly fee.

Per month	Individuals	Business
Creative Cloud Bundle	\$59.99	\$89.99 (per license)
Single app	\$22.99	\$37.99

Source: [Adobe.com](https://adobe.com)

We expect Creative Cloud to remain a primary driver of top-line growth due to recent advancements in generative AI. At Adobe's MAX conference, the Company announced numerous AI features that generate high-quality digital content without requiring the advanced skillset typically needed for Creative Cloud applications.⁷ Using natural language, users can describe their desired photo, video, generative fill, or generative extension to the Firefly model, which then provides an output within seconds.⁶ Unlike models from OpenAI, Google, xAI, Anthropic, and others, Adobe's models are trained on proprietary data and provide users with a license for distribution, ensuring that creatives do not run afoul of intellectual property rights. Additionally, Adobe includes metadata—a digital trail—to help the public distinguish between actual and AI-generated content.

Document Cloud: Adobe's Document Cloud segment provides solutions that allow users to create, edit, collaborate on, and sign documents digitally. Key products within this segment include Adobe Acrobat, Adobe Sign, and other cloud-based services tailored for document management. Document Cloud contributed \$2.7 billion in sales in FY23, up 13% YoY. Customers gain access to this segment via a subscription to Adobe Acrobat. The pricing plans are below. Document Cloud primarily competes with DocuSign (54% market share) and similar services. Currently, Adobe Sign holds an 11% market share.⁵ Users

can add an AI assistant feature for an additional \$5 per month

Per month	Individuals	Business
Acrobat Standard	\$22.99	\$14.99 (per license)
Acrobat Pro	\$29.99	\$23.99 (per license)

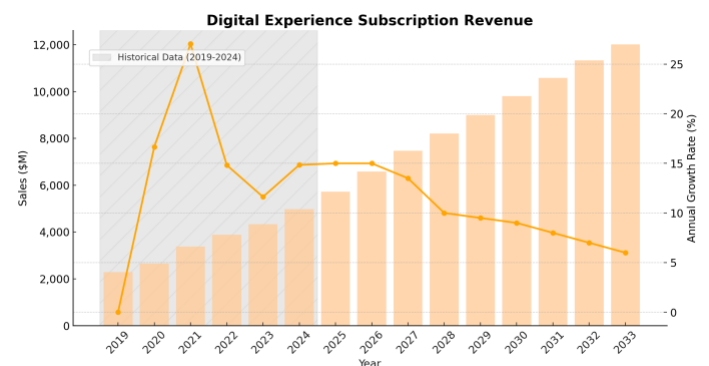
Source: [Adobe.com](https://adobe.com)

Digital Media Forecast: Creative Cloud remains the primary driver of Digital Media sales, and we anticipate strong double-digit growth through FY27. Our outlook is based on the integration and adoption of generative AI features. We believe generative AI is poised to democratize creativity, enabling users to produce high-quality, novel content that previously required advanced skills. This will increase the total addressable market, thereby sustaining our growth estimates. The chart below summarizes our five-year growth estimates. To reflect greater competition from AI firms and other players, we forecast a 93% gross margin, 200 bps less than the three-year average. The FY24 growth estimate includes YTD performance and the Q4 consensus estimate.

Digital Media	2024	2025	2026	2027	2028
Henry Fund	12.6%	11.3%	11.6%	10.4%	9.5%
Consensus	11.3%	11.6%	10.4%	-	-

Source: [FactSet](https://factset.com)

Digital Experience



Source: [Adobe 10-K \(2023\)](https://adobe.com)

The Digital Experience segment accounted for 25% of sales in FY23, the second largest sales driver. Specifically, the segment generated \$4.9 billion in sales, an 11% increase from \$4.4 billion in FY22. This growth was mainly driven by a 12% rise in subscription revenue for Experience Cloud, which increased to \$4.3 billion from \$3.9 billion in FY22.³ Digital Experience sales incur a gross margin of 67% (+100 bps YoY). We forecast this margin to improve to 75% over the projected period as economies of scale take effect, and we expect Digital Experience subscriptions to grow as

Adobe captures market share within this expanding industry.

Experience Cloud: Adobe Experience Cloud offers solutions for business-to-consumer (B2C) and business-to-business (B2B) companies. Experience Cloud allows businesses to manage and enhance customer interactions across digital channels through digital tools and software solutions. By facilitating the creation, delivery, and measurement of personalized interactions at scale, Experience Cloud tailors real-time customer engagements based on individual preferences and behaviors. Experience Cloud also integrates data, insights, and content management to create a cohesive customer experience that drives higher engagement, loyalty, and sales.³ The closest competition to Adobe's Experience Cloud is Salesforce, which generated \$32.5 billion in sales last year.⁸

Adobe utilizes a direct sales force to market and license its Digital Experience solutions while leveraging an extensive ecosystem of partners, including marketing agencies, systems integrators, and independent software vendors that assist in deploying and licensing these solutions to their customers. Customers for Adobe Experience Cloud include chief marketing officers, chief revenue officers, digital marketers, advertisers, campaign managers, publishers, data analysts, content managers, social marketers, marketing executives, and IT executives.³

A key service within the Experience Cloud subscription is Adobe Sensei, which leverages AI and machine learning to analyze large datasets, make intelligent in-app recommendations, automate repetitive tasks, and support real-time decision-making.

Digital Experience Forecast: We expect the Digital Experience segment to be Adobe's fastest-growing segment over the forecasted period. The relatively small base and large market opportunity unpin this investment thesis. Combined with Adobe's ecosystem of software products, we believe Adobe can offer a strong value proposition and steal market share away from Salesforce and other competitors in the customer relationship management market. The chart below summarizes our five-year growth assumptions for this segment. The FY24

growth estimate includes YTD performance and the Q4 consensus estimate.

Digital Experience	2024	2025	2026	2027	2028
Henry Fund	14.8%	15.0%	15.0%	13.5%	10.0%
Consensus	9.3%	10.0%	9.2%	-	-

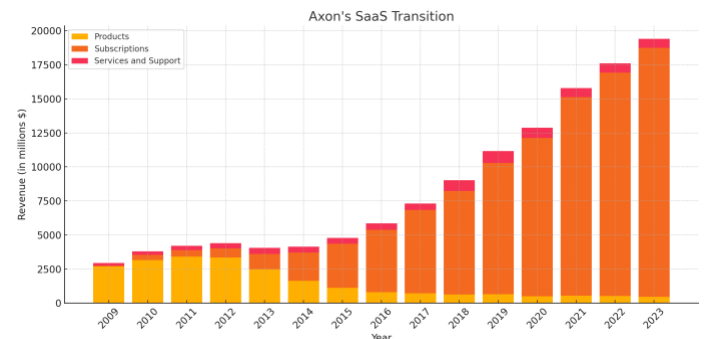
Source: [FactSet](#)

Publishing and Advertising

The Publishing and Advertising (P&A) segment focuses on legacy products and services tailored to diverse markets, including eLearning, technical publishing, web conferencing, document platforms, web app development, high-end printing, and advertising. It primarily serves graphic professionals and publishers needing professional-grade printing, supported by Adobe's PostScript and PDF technologies.

The P&A segment is Adobe's smallest unit, generating \$300 million in FY23, equal to 2% of sales. P&A sales declined 12% compared to the \$342 million generated in FY22. We expect this trend to continue as digitization proliferates and advertising shifts towards the digital realm. Looking ahead, we assume P&A sales will grow in line with the inflation rate. Consequently, P&A sales are immaterial to our model.

Cost Structure Analysis



Source: [FactSet](#)

Adobe's shift from a one-time product sales model to a subscription-based SaaS model fundamentally transformed its revenue strategy. Previously, customers paid steep, one-time costs, often in the thousands, for licenses to software like Photoshop or Illustrator. This pricing model limited Adobe's customer base to professionals and enterprises, creating a high barrier to entry.

By adopting a subscription model with affordable monthly fees, Adobe lowered this barrier, making its software accessible to a wider audience thereby expanding its TAM. As illustrated in the above chart, the transition resulted in an exponential increase in sales. The SaaS model also allows Adobe to monetize customers over a longer period. Instead of relying on a single payment, users now provide steady, recurring revenue, creating predictable cash flows. This approach has stabilized Adobe's revenue streams, supporting a sustainable, high-margin business model. Additionally, customers receive regular updates and access to Adobe's entire creative software portfolio.

COGS: Adobe's subscription gross margin currently stands at 90%, a level expected to remain stable in the near term. However, FY29 and beyond, a 200-bps decline to 88% is forecasted due to increasing competition in the creative media space. While Adobe's services will likely retain creative professionals and power users, individual and entry-level customers will likely shift toward free alternatives, including OpenAI's DALL-E, which is integrated with its ChatGPT service, as well as Figma or Canva.

Operating Expenses: R&D expenses average 17% of total sales. We forecast slightly higher R&D spending in the short to medium term to reflect continued investments in AI. These investments will be necessary to keep a competitive edge in a fast-moving industry and sustain our growth targets. We taper our R&D spending to align with a projected slowdown in top-line growth at the end of the forecast. This is a key factor driving operating margins upwards of 40%.

Sales and marketing expenses remain steady at 27% of total sales over the forecasted period, consistent with the historical five-year average.

Adobe's general and administrative (G&A) expenses will remain 6.5% of sales through FY29. Beyond FY29, G&A expenses are expected to decline to 5.5% of sales and stabilize at that level, reflecting the efficiencies from scaling its SaaS business model.

Profit Margin: Profit margins improve over the forecast period, primarily due to operating leverage and a shift towards profit maximization over top-line growth. In our model, profit margins grow from 31% in FY24 to 39% by FY33.

Debt Maturity Analysis

The most notable upcoming maturities include the 3.25% 2025 Notes and the 1.90% 2025 Notes due in February 2025. These notes account for 27% of Adobe's outstanding long-term debt.³ Adobe's capacity to meet these obligations hinges on its operational cash flow, which remains robust due to its SaaS model. Accordingly, we do not foresee issues with Adobe servicing near-term debt obligations. S&P's A+ credit rating reiterates this view.⁹

Five-Year Debt Maturity Schedule

Fiscal Year	Coupon (%)	Payment (\$mil)
2025 Notes	1.90%	500
2025 Notes	3.25%	1,000
2027 Notes	2.15%	850
2027 Notes	4.85%	500
2029 Notes	4.80%	750
Thereafter		2,050
Total		\$5,650

Source: [Adobe 10-Q \(3Q24\)](#)

ESG Analysis

Adobe received a 14.1 ESG score from Sustainalytics, classifying it as low-risk.¹⁰ Within its industry, Adobe ranks in the 90 percentile, placing 53 out of 962 companies.¹⁰ Sustainability remains a key focus, with a commitment to achieving 100% renewable energy by 2035.¹²

Adobe's management team comprises 20 members, 14 males and six females, while the board has 12 members, including eight males and four females. The CEO and Chairperson roles are both held by Shantanu Narayen, who serves in a dual capacity.¹¹

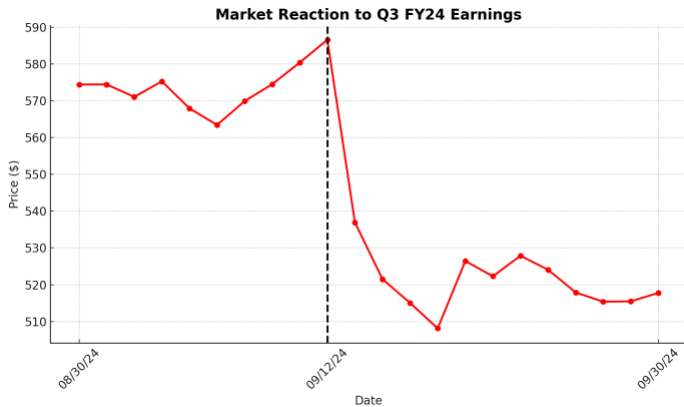
Independent directors comprise 92% of the board. The average age is 55.2 years, with an average tenure of 10.8 years. Insider ownership is 0.146%.¹¹

RECENT DEVELOPMENTS

Q3 2024 Earnings

Adobe announced its Q3 2024 earnings on September 12, reporting GAAP EPS of \$3.78, exceeding its guidance by 2.5%.^{16, 17} As illustrated in the chart below, the stock saw a brief uptick in anticipation of the announcement but dropped more than 10% in after-hours trading following the report.¹⁸ Softer-than-expected guidance is the

principal reason for the drop in share price. Looking ahead to the Q4, Adobe projects revenue between \$5.5 billion and \$5.55 billion, slightly below the anticipated \$5.6 billion.²¹



Source: [FactSet](#)

Relative to Q3, revenue grew 10.6% YoY to \$5.4 billion. The Digital Media segment recorded 11.2% growth, reaching \$4.0 billion, fueled by subscriber gains in Creative Cloud and Document Cloud services. Gross margins in this segment improved to 97%, up 100 bps (YoY). The Digital Experience segment grew by 10.2% to \$1.4 billion, with gross margins rising to 71% (+300 bps YoY). Subscription revenue accounted for 95.8% of total sales, reflecting Adobe's successful transition to a recurring SaaS model. Regionally, EMEA led with 14.3% growth, followed by the Americas at 10.1%. Operating income rose 17.4% to \$2 billion despite a \$1.0 billion investment in R&D to enhance AI capabilities. Net income increased 20% YoY, reaching \$1.7 billion, up from \$1.4 billion.¹⁶

	Q3 FY24	Q3 FY23	Δ
Gross margin	89.7%	88.1%	+160 bps
Operating margin	36.8%	34.7%	-210 bps
Profit margin	31.1%	28.7%	+240 bps

Source: [Adobe 10-Q \(Q3 FY24\)](#)

Adobe MAX Conference

In October 2024, Adobe held its MAX creativity conference, showcasing new generative AI features that will be integrated across its Creative Cloud platform.

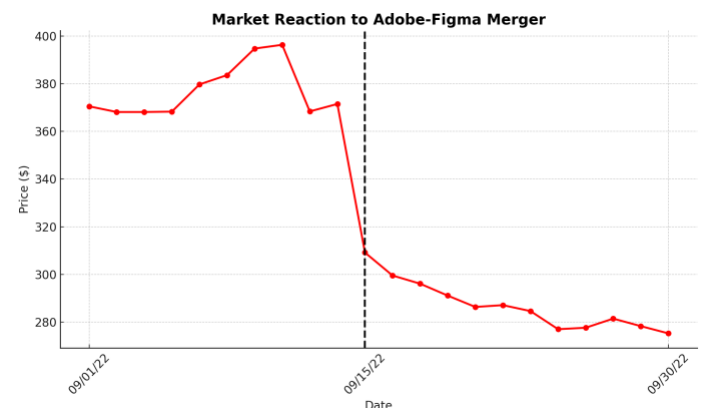
Firefly Video Model: Adobe introduced Firefly, a generative text-to-video model that allows users to create video footage using natural language. Users can generate videos tailored to their needs within seconds, specifying details such as camera angles, styles, subjects, and more.

Firefly is trained on licensed content, including Adobe Stock and public domain materials. Adobe does not use customer content to train or improve its models.¹⁹ Firefly also includes a text-to-photo model for image generation. Adobe plans to integrate the Firefly model across its various applications, including Photoshop, Illustrator, and Premiere Pro.²⁰

Photoshop AI: Adobe introduced new AI features aimed at expediting otherwise time-consuming repetitive tasks such as object detection and selection, distraction removal, generative fill, generative expand, and more. Adobe aims to improve productivity across its creative services.²⁰

Adobe GenStudio: Available through Experience Cloud, Adobe's GenStudio provides enterprises with an AI platform to plan, manage, track, and optimize content for marketing campaigns and personal customer experiences.²² GenStudio is deeply integrated with AI to gain insights into individual customers and create tailored marketing experiences. The platform includes distributable digital assets, including images, logos, and videos plus Firefly integration to ensure unique and rich customer experiences.²² Enterprises can also leverage GenStudio's AI capabilities to modify and remix creative content. Adobe announced expanded partnerships with Google's Campaign Manager 360, Meta, Microsoft Advertising, Snap, and TikTok, enabling its customers to instantly launch campaigns across platforms and make real-time adjustments using insights from GenStudio's AI.²²

Adobe-Figma Merger Abandoned



Source: [FactSet](#)

On September 15, 2022, Adobe announced a \$20 billion acquisition of Figma, a cloud-based tool used to design

digital products and experiences.²³ As a web-first application, Figma represents a competitive threat to Adobe given its ease of use and tiered pricing model, which includes a free option. The acquisition was intended to give Adobe a foothold in the collaborative online creativity software market. Investors disagreed with the stock falling 17% on the news.

The proposed Adobe-Figma merger received scrutiny from regulators, particularly those in the United Kingdom and European Union, fearing anticompetitive effects due to Adobe's existing market share for creative software.²⁴ Recognizing the futility of fighting against regulatory pushback, Adobe abandoned the merger on December 18, 2023, resulting in a \$1 billion termination fee payable to Figma.²⁴ Adobe's stock jumped 2.5% following the abandonment of the deal.

INDUSTRY TRENDS

Generative AI

Creative Cloud applications are powerful tools, often requiring advanced knowledge to navigate their expansive toolsets effectively. While highly capable, this complexity limits the addressable market for Adobe's services. Recent advancements in large language models and generative AI are democratizing access to Adobe's software. Using natural language, users can generate images and edits by describing their desired outcome to an AI model. For example, we imagine an individual using AI to create a logo for their business instead of hiring a creative professional, saving time and money. As models improve, we expect the total addressable market for Adobe's AI services to grow.

While AI presents substantial growth opportunities, it also poses risks to Adobe's competitive position in the creativity software market, especially among non-professional users. Emerging threats include OpenAI's DALL-E and Sora models, which integrate seamlessly with ChatGPT's natural language capabilities. We envision a future where ChatGPT subscribers leverage its embedded photo and video generation tools instead of subscribing to Adobe's services, thereby stealing market share. Although Adobe will likely offer comparable solutions, the simplicity and accessibility of ChatGPT and similar platforms provide

a competitive edge for casual users. The image below shows the existing capabilities of OpenAI's DALL-E model.



Source: ChatGPT

Intellectual Property

Generative AI presents novel and complex issues concerning intellectual property rights and content authenticity. On the IP front, many leading AI models scrape the internet for training data to improve performance, including photos and videos protected under existing IP laws. Consequently, users who publish AI-generated content may unknowingly infringe upon IP rights. Litigation is already underway, with Getty Images suing Stability AI for allegedly misusing over 12 million photographs owned by Getty to develop its Stable Diffusion and DreamStudio models.²⁵

In April 2024, Representative Adam Schiff of California introduced H.R. 7913, the Generative AI Copyright Disclosure Act of 2024, to the U.S. House of Representatives. The bill would require developers of generative AI systems to notify the Register of Copyrights about any copyrighted works used in their training datasets, establish a public database of these disclosures, and impose penalties for noncompliance.²⁶ As of the publication of this report, the bill has yet to pass Congress.

Adobe avoids the issue of IP uncertainty by leveraging its extensive collection of stock images to train its models. This approach reinforces the idea that professionals will continue to use Adobe's services, allowing them to confidently publish AI-generated images and videos without concerns about IP violations.

MARKETS AND COMPETITION

Creative Cloud

Adobe commands an 80% share of the creative software market, but competitors are beginning to emerge, particularly among entry-level users who may not require the advanced features of Adobe's products. We identify the following as competition for Adobe's creative software products. Despite competition from lower-tier users, we expect Adobe to remain atop the market for creative software, given its investments in AI and existing sophisticated tools and would want to own the stock if required to gain exposure to the industry within our portfolio.

Figma: Figma is a privately owned collaborative web-based platform that allows its users to design, develop, and deploy websites, mobile apps, and other digital media.²⁷ Figma's customers include Philips, HP, HelloFresh, Vanguard, Volkswagen, Yeti, Dropbox, Patagonia, and more.²⁸ Adobe sought to acquire Figma for \$20 billion in 2022 but has since walked away from the merger due to antitrust scrutiny from regulations in the UK and EU. The success of Figma's platform has undermined Adobe XD, Adobe's equivalent software program. In 2024, Adobe announced its decision to phase out Adobe XD.²⁹

Canva: Canva is a privately-owned online, cloud-based platform that allows users to collaborate to create digital media. Distinguishable from Adobe's products, Canva's platform is incredibly intuitive and offers a free tier inviting creative novices to experiment. Canva is also used by large enterprises, with 95% of all Fortune 500 companies using the platform.³⁰

Canva can be seen as a hybrid of several Adobe Creative Cloud applications. For photo editing and graphic design, Canva streamlines workflows that might otherwise overwhelm users unfamiliar with Photoshop's advanced features. It also provides user-friendly tools for vector graphics and illustrations, a practical alternative to Adobe Illustrator. Canva's publishing and layout tools compete

with Adobe InDesign, allowing users to create brochures, magazines, and other print materials without the steep learning curve associated with traditional design software.

GIMP: GIMP is a free, open-source alternative to Photoshop. Like Photoshop, GIMP's user interface shares the same steep learning curve, requiring significant technical skills to operate. Additionally, GIMP lacks generative AI features, which limits its capabilities compared to more modern design tools.

Document Cloud

Adobe's Document Cloud faces steep competition from large players, including DocuSign, Dropbox, Google (via Google Workspace), and Microsoft (via Office 365). The market for digital document management is expected to grow at a CAGR of 28% through 2026.³² DocuSign and Dropbox are the purest competitors to Adobe's Document Cloud service. The market as a whole is fairly commoditized making it hard for competition to distinguish themselves beyond price. We believe this will remain true into the future despite growing overall demand. Adobe has the scale to win on price.

DocuSign: DocuSign is a publicly traded firm that generated \$2.8 billion in revenue in FY23.³¹ According to Deloitte, DocuSign holds a 75% market share for e-signing services.³² DocuSign's market capitalization is \$16 billion. DocuSign generated a 78.5% gross margin in FY23.

Dropbox: Dropbox is publicly traded with a market capitalization of \$8.1 billion. In FY23, Dropbox generated a gross margin of 82.6%.

Experience Cloud

Experience Cloud primarily competes against Salesforce and Oracle for consumer relationship management (CRM) services. Unlike Salesforce and Oracle, Adobe can leverage its ecosystem of software tools to help companies create promotional content while also managing the consumer experience. This offers Adobe a strong competitive advantage over its peers, which we believe will result in Adobe amassing market share.

Salesforce: Salesforce generated \$34.9 billion in sales during FY23, with a gross margin of 74.5%. According to internal estimates, Salesforce has a 22% market share for CRM services.³³ Salesforce is publicly traded and has a market capitalization of \$311.4 billion.

Oracle: Oracle generated \$53 billion in revenue in FY24, yielding a gross margin of 66%. The firm is publicly traded with a market capitalization of \$528.6 billion. Oracle taps into the CRM market through its Customer Experience (CX) platform. Unfortunately, Oracle buries its CRM financial performance data within a broader cloud services category, making it difficult to make relevant comparisons.

Peer Comparisons

	Revenue	Gross margin	Operating margin	Profit margin	FCF margin
Adobe	\$19.4B	87.0%	34.1%	28.0%	35.8%
Oracle	\$53.0B	65.7%	30.3%	19.8%	22.3%
Microsoft	\$251.1B	69.8%	44.6%	36.0%	30.2%
DocuSign	\$2.8B	78.9%	2.4%	2.7%	32.1%
Salesforce	\$34.9B	67.4%	17.2%	11.9%	27.3%

Source: FactSet

Adobe leads with the highest gross margin (87.0%) and FCF margin (35.8%), reflecting its strong pricing power and operational efficiency despite heavy investments in AI. These results are likely attributable to its dominant market position for creative software and a successful transition to a SaaS, which ensures steady revenue streams and high FCF.

Microsoft has the largest revenue base (\$251.1 billion) while maintaining strong operating (44.6%) and profit margins (36.0%). Oracle shows moderate performance with a gross margin of 65.7% and an FCF margin of 22.3%. Its ongoing shift to cloud services and significant investments in AI and cloud infrastructure is shaping its financial metrics.³⁴

DocuSign has a high gross margin (78.9%) but faces challenges with low operating (2.4%) and profit margins (2.7%), highlighting cost management and profitability issues. Its expansion from e-signatures into broader agreement management solutions has pressured margins during this growth phase.³⁵

Salesforce offers the most balanced performance, with a moderate gross margin (67.4%) and relatively low operating (17.2%) and profit margins (11.9%). Its strategy of investing heavily in acquisitions and AI-driven innovations strengthens its market position, though at the expense of near-term profitability.³⁶

ECONOMIC OUTLOOK

The election of Donald Trump to the White House in 2024 introduces ample uncertainty to the overall health of the

American and global economy. On the trail, President-elect Trump floated the idea of a sweeping tariff regime on imports from friendly and foe countries alike. Specifically, Mr. Trump has proposed a universal 10-20% tariff on all imported goods and a 60% tariff on those from China.³

Trump's policy proposal would have disastrous effects on both the American and global economies. We look towards the Smoot-Hawley Tariff Act as precedent.³⁸ By imposing indiscriminate tariffs—essentially a tax on foreign goods—the plan would drive up prices and may upend the Fed's efforts to tame inflation. Additionally, foreign trading partners are likely to retaliate with their own tariffs, further exacerbating economic tensions and uncertainty about the global economy.

Relative to Adobe, due to the Company's digital distribution model and concentration of sales in the United States, it is less likely to be directly impacted should the President-elect's economic agenda be implemented. Nevertheless, should inflation ignite again, it would likely cause the Fed to raise interest rates, which would impact Adobe. Higher interest rates will increase Adobe's cost of capital and drag on its stock price. As noted, our model is sensitive to factors underlying the discount rate. Second, inflation erodes a consumer's purchasing power and dilutes their spendable income. Adobe's Creative Cloud, a discretionary subscription service, may be negatively impacted, causing sales to fall and profitability to compress.

VALUATION

We project steady growth over the forecasted period. In the Digital Media segment, which includes flagship products like Adobe Creative Cloud and Document Cloud, we project double-digit growth through 2026 with an 11.3% increase in 2024 and 11.6% in 2025, followed by a tapering trend toward 5.0% by 2033. We believe this is appropriate given the expanded TAM due to generative AI and the estimated 28% CAGR of the digital document management industry through 2026.³² This moderated growth aligns with expectations of a maturing market but reflects the durability of our core products in retaining and expanding our customer base.

For Digital Experience, a segment focused on enterprise solutions like Adobe Experience Cloud, growth remains robust, particularly in the near term, at 15.0% annually through 2025. While we anticipate a deceleration to 6.0%

by 2033, these rates underscore the increasing demand for integrated data-driven marketing and analytics solutions.

Cost of Capital

Adobe's weighted average cost of capital (WACC) is 10.1%. Our WACC estimate incorporates the following assumptions:

- **Risk-Free Rate:** 4.2% - 10Y U.S. Treasury Yield
- **Beta:** 1.2 – Average 1Y, 2Y, 3Y Weekly Beta
- **Equity Risk Premium:** 5.0% - Henry Fund Estimate
- **Cost of Equity:** 10.2% - CAPM
- **Pre-Tax Cost of Debt:** 4.9%
- **Marginal Tax Rate:** 17%
- **After-Tax Cost of Debt:** 4.1%
- **Debt Weight:** 1.8%

DCF/EP Model

Our DCF and EP models yield a share price of \$468. The following assumptions were used:

- **CV Growth of NOPLAT:** 5.0%
- **CV ROIC:** 259.1%

We prefer the DCF/EP model for estimating Adobe's intrinsic value because it effectively accounts for the future value generated by forecasted operating leverage, especially as it takes full effect near the model's terminal year.

Our DCF valuation is highly sensitive to the discount rate, as a significant portion of Adobe's share price is derived from its continuing value. Consequently, small adjustments to key inputs such as beta, ERP, or CV growth of NOPLAT can materially affect the model's price.

At its current market price of \$500 per share, Adobe is trading at a 6.4% premium to our DCF/EP valuation. We recommend no action at this time.

Fundamental P/E Model (DDM)

The DDM estimates Adobe's intrinsic value by discounting the value of future dividends. However, Adobe does not currently pay dividends and has no plans to do so in the foreseeable future. As a result, the DDM estimates Adobe's stock value to be \$294 per share, significantly lower than its current market price of \$500. This lack of dividends skews the DDM valuation, leading to a material

undervaluation of Adobe's equity. Our assumptions include a 5.0% terminal EPS growth rate, a return on equity (ROE) of 19.9% for the FY33 continuing value, and a cost of equity of 10.2%.

Relative Valuation (P/E) Model

The relative valuation model evaluates Adobe by comparing it to a peer group within the software and technology sector, including Autodesk, Oracle, Microsoft, DocuSign, and Salesforce. These companies were chosen for their shared focus on software, cloud computing, and digital transformation.

The peer group's average P/E ratios are 28.7 for 2025 and 25.7 for 2026, while Adobe's P/E ratios for the same periods are 28.9 and 24.4, respectively. This alignment suggests Adobe is fairly valued compared to its peers. Based on Adobe's projected EPS of \$17.25 (2025) and \$20.42 (2026), the model calculates implied relative prices of \$495 and \$524. Adobe's current stock price at \$500 is appropriately valued and may offer an upside relative to projected FY25 earnings.

KEYS TO MONITOR

Investors should monitor several factors influencing Adobe's future performance. Adoption rates of generative AI features, such as Firefly, will be pivotal in determining whether these innovations expand Adobe's total addressable market or primarily sustain existing user engagement. Competitive threats from OpenAI, Canva, and other firms pose risks and could potentially erode Adobe's market share if not effectively addressed.

Adobe's ability to balance innovation, in particular AI investments, with cost efficiency is also critical. Rising R&D expenses to maintain AI leadership may pressure short-term margins, though economies of scale from its SaaS model could offset these costs over time. Macroeconomic conditions, including inflation, interest rates, and tariff policies, may further impact Adobe's cost of capital, consumer spending, and overall valuation.

Finally, tracking revenue mix and subscription growth across key segments such as Digital Media and Digital Experience is essential. Shifts in product demand or signs of market saturation in these areas could challenge Adobe's long-term growth trajectory. Failure to meet any of our previously mentioned expectations could materially

impact our investment thesis and require us to modify the assumptions underpinning our model.

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Adobe Inc.
Revenue Decomposition

\$ in millions

Fiscal Years Ending 12/1	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Subscriptions:													
Digital media	11,048.0	12,385.0	13,838.0	15,581.2	17,341.8	19,350.0	21,354.7	23,383.4	25,371.0	27,273.8	29,046.6	30,789.4	32,328.8
% of Subscription revenue	75.8%	75.6%	75.7%	75.3%	74.7%	74.2%	73.7%	73.6%	73.5%	73.2%	73.0%	72.8%	72.6%
% of sales	70.0%	70.3%	71.3%	71.8%	71.8%	71.7%	71.5%	71.6%	71.6%	71.3%	71.4%	71.3%	71.2%
Growth (%)	25.4%	12.1%	11.7%	12.6%	11.3%	11.6%	10.4%	9.5%	8.5%	7.5%	6.5%	6.0%	5.0%
Digital experience	3,379.0	3,880.0	4,331.0	4,973.7	5,719.8	6,577.7	7,465.7	8,212.3	8,992.5	9,801.8	10,585.9	11,326.9	12,006.6
% of Subscription revenue	23.2%	23.7%	23.7%	24.0%	24.6%	25.2%	25.8%	25.9%	26.0%	26.3%	26.6%	26.8%	27.0%
% of sales	21.4%	22.0%	22.3%	22.9%	23.7%	24.4%	25.0%	25.2%	25.4%	25.6%	26.0%	26.2%	26.4%
Growth (%)	27.0%	14.8%	11.6%	14.8%	15.0%	15.0%	13.5%	10.0%	9.5%	9.0%	8.0%	7.0%	6.0%
Publishing and advertising	146.0	123.0	115.0	141.3	144.6	147.9	151.3	154.8	158.3	162.0	165.7	169.5	173.4
% of Subscription revenue	1.0%	0.8%	0.6%	0.7%	0.6%	0.6%	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%
% of sales	0.9%	0.7%	0.6%	0.7%	0.6%	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%
Growth (%)	-4.6%	-15.8%	-6.5%	22.9%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
Subscriptions	14,573.0	16,388.0	18,284.0	20,696.2	23,206.2	26,075.6	28,971.7	31,750.4	34,521.8	37,237.5	39,798.2	42,285.8	44,508.8
% of sales	92.3%	93.1%	94.2%	95.4%	96.1%	96.0%	97.0%	97.3%	97.5%	97.4%	97.8%	97.9%	98.0%
Growth (%)	25.3%	12.5%	11.6%	13.2%	12.1%	12.4%	11.1%	9.6%	8.7%	7.9%	6.9%	6.3%	5.3%
Products	555.0	532.0	460.0	404.8	323.8	259.0	207.2	165.8	132.6	198.9	49.7	12.4	3.1
% of sales	3.5%	3.0%	2.4%	1.9%	1.3%	1.0%	0.7%	0.5%	0.4%	0.5%	0.1%	0.0%	0.0%
Growth (%)	9.5%	-4.1%	-13.5%	-12.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	50.0%	-75.0%	-75.0%	-75.0%
Services and support	657.0	686.0	665.0	594.9	624.8	656.0	688.8	723.3	759.4	797.4	837.3	879.1	923.1
% of sales	4.2%	3.9%	3.4%	2.7%	2.6%	2.4%	2.3%	2.2%	2.1%	2.1%	2.1%	2.0%	2.0%
Growth (%)	-10.6%	4.4%	-3.1%	-10.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Total revenue	15,785.0	17,606.0	19,409.0	21,695.8	24,154.7	26,990.7	29,867.8	32,639.5	35,413.8	38,233.9	40,685.2	43,177.4	45,435.0
Growth (%)	22.7%	11.5%	10.2%	11.8%	11.3%	11.7%	10.7%	9.3%	8.5%	8.0%	6.4%	6.1%	5.2%

Cost of Revenue Decomposition

\$ in millions

Subscriptions	1,374.0	1,646.0	1,822.0	2,070.5	2,321.7	2,608.7	2,898.5	3,176.5	4,142.6	4,468.5	4,775.8	5,074.3	5,341.1
% of subscription sales (margin)	9.4%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Growth (%)	24.0%	19.8%	10.7%	13.6%	12.1%	12.4%	11.1%	9.6%	30.4%	7.9%	6.9%	6.3%	5.3%
Product	41.0	35.0	29.0	27.2	21.7	17.4	13.9	11.1	8.9	13.3	3.3	0.8	0.2
% of product sales (margin)	7.4%	6.6%	6.3%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%
Growth (%)	13.9%	-14.6%	-17.1%	-6.4%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	50.0%	-75.0%	-75.0%	-75.0%
Services and support	450.0	484.0	503.0	443.6	465.9	489.2	513.7	539.3	566.3	594.6	624.4	655.6	688.4
% of services and other sales (margin)	68.5%	70.6%	75.6%	74.6%	74.6%	74.6%	74.6%	74.6%	74.6%	74.6%	74.6%	74.6%	74.6%
Growth (%)	-22.1%	7.6%	3.9%	-11.8%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Total cost of revenue	1,865.0	2,165.0	2,354.0	2,541.3	2,809.3	3,115.3	3,426.0	3,726.9	4,717.8	5,076.5	5,403.5	5,730.7	6,029.6
% of total revenue (margin)	11.8%	12.3%	12.1%	11.7%	11.6%	11.5%	11.5%	11.4%	13.3%	13.3%	13.3%	13.3%	13.3%
Growth (%)	8.3%	16.1%	8.7%	8.0%	10.5%	10.9%	10.0%	8.8%	26.6%	7.6%	6.4%	6.1%	5.2%

Income Statement

Fiscal Years Ending 12/1	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenue:													
Subscriptions	14,573.0	16,388.0	18,284.0	20,696.2	23,206.2	26,075.6	28,971.7	31,750.4	34,521.8	37,237.5	39,798.2	42,285.8	44,508.8
Products	555.0	532.0	460.0	404.8	323.8	259.0	207.2	165.8	132.6	198.9	49.7	12.4	3.1
Services and support	657.0	686.0	665.0	594.9	624.8	656.0	688.8	723.3	759.4	797.4	837.3	879.1	923.1
Total revenue	15,785.0	17,606.0	19,409.0	21,695.8	24,154.7	26,990.7	29,867.8	32,639.5	35,413.8	38,233.9	40,685.2	43,177.4	45,430.8
Cost of Revenue:													
Subscription	1,374.0	1,646.0	1,822.0	2,070.5	2,321.7	2,608.7	2,898.5	3,176.5	4,142.6	4,468.5	4,775.8	5,074.3	5,341.1
Products	41.0	35.0	29.0	27.2	21.7	17.4	13.9	11.1	8.9	13.3	3.3	0.8	0.2
Services and support	450.0	484.0	503.0	443.6	465.9	489.2	513.7	539.3	566.3	594.6	624.4	655.6	688.4
Total cost of revenue	1,865.0	2,165.0	2,354.0	2,541.3	2,809.3	3,115.3	3,426.0	3,726.9	4,717.8	5,076.5	5,403.5	5,730.7	6,029.6
Gross profit	13,920.0	15,441.0	17,055.0	19,154.5	21,345.5	23,875.4	26,441.7	28,912.6	30,696.0	33,157.4	35,281.7	37,446.7	39,405.4
Operating expenses:													
Research and development	2,540.0	2,987.0	3,473.0	4,018.4	4,210.1	4,704.4	5,205.9	5,222.3	5,489.1	5,735.1	5,899.4	6,152.8	6,360.9
Sales and marketing	4,321.0	4,968.0	5,351.0	5,628.0	6,521.8	7,287.5	8,064.3	8,812.7	9,561.7	10,323.1	10,985.0	11,657.9	12,267.5
General and administrative	1,085.0	1,219.0	1,413.0	1,439.0	1,570.1	1,754.4	1,941.4	2,121.9	1,947.8	2,102.9	2,237.7	2,374.8	2,498.9
Amortization of purchased intangibles	172.0	169.0	168.0	169.0	299.0	146.0	105.0	62.0	122.0	-	-	-	-
Total operating expenses	8,118.5	9,343.4	10,405.4	11,254.7	12,601.3	13,892.7	15,316.6	16,218.7	17,120.7	18,161.3	19,122.2	20,185.6	21,127.4
Operating income	5,801.5	6,097.6	6,649.6	7,899.9	8,744.2	9,982.7	11,124.8	12,693.8	13,575.3	14,996.1	16,159.5	17,261.1	18,278.0
Non-operating income (expense):													
Interest expense	(113.0)	(112.0)	(113.0)	(171.00)	(159.76)	(163.91)	(170.32)	(177.29)	(184.80)	(191.78)	(200.23)	(208.07)	(216.00)
Investment gains (losses), net	16.0	(19.0)	16.0	45.3	27.0	30.2	33.4	36.5	39.7	42.8	45.6	48.3	50.9
Other income (expense), net	-	41.0	246.0	326.0	303.0	447.8	513.0	717.7	910.3	1,441.2	2,092.8	2,693.2	3,408.3
Total non-operating income (expense), net	(97.0)	(90.0)	149.0	200.3	170.3	314.1	376.1	577.0	765.2	1,292.2	1,938.1	2,533.5	3,243.2
Income before income taxes	5,705.0	6,008.0	6,799.0	8,100.2	8,914.5	10,296.8	11,500.9	13,270.8	14,340.5	16,288.3	18,097.6	19,794.6	21,521.2
Provision for income taxes	883.0	1,252.0	1,371.0	1,377.0	1,515.5	1,750.5	1,955.2	2,256.0	2,437.9	2,769.0	3,076.6	3,365.1	3,658.6
Net income / loss	4,822.0	4,756.0	5,428.0	6,723.2	7,399.0	8,546.3	9,545.8	11,014.8	11,902.6	13,519.3	15,021.0	16,429.5	17,862.6
Total shares outstanding	477.4	469.5	457.3	439.3	428.8	418.5	409.2	400.7	400.7	400.7	400.7	400.7	400.7
EPS	\$ 10.10	\$ 10.13	\$ 11.87	\$ 15.31	\$ 17.25	\$ 20.42	\$ 23.33	\$ 27.49	\$ 29.71	\$ 33.74	\$ 37.49	\$ 41.00	\$ 44.58
Dividend per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Adobe Inc.
Balance Sheet

Fiscal Years Ending 12/1	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Current assets:													
Cash and cash equivalents	3,844.0	4,236.0	7,141.0	6,428.5	9,818.7	11,328.2	16,131.7	20,648.5	33,155.1	48,514.1	62,663.2	79,519.3	97,745.1
Short-term investments	1,954.0	1,860.0	701.0	730.7	761.6	793.8	827.4	862.4	898.9	937.0	976.6	1,018.0	1,061.0
Trade receivables, net of allowances for doubtful accounts	1,878.0	2,065.0	2,224.0	2,590.0	2,883.6	3,222.2	3,565.6	3,896.5	4,227.7	4,564.4	4,857.0	5,154.5	5,424.0
Prepaid expenses and other current assets	993.0	835.0	1,018.0	1,265.4	1,408.8	1,574.2	1,742.1	1,903.7	2,065.5	2,230.0	2,373.0	2,518.3	2,650.0
Total current assets	8,669.0	8,996.0	11,084.0	11,014.60	14,872.70	16,918.43	22,266.82	27,311.19	40,347.26	56,245.41	70,869.79	88,210.07	106,880.19
Property and equipment, net	1,673.0	1,908.0	2,030.0	2,228.2	2,453.3	2,709.8	2,994.2	3,300.6	3,626.0	3,968.7	4,318.4	4,674.9	5,032.3
Operating lease right-of-use assets, net	443.0	407.0	358.0	434.7	478.6	528.7	584.2	643.9	707.4	774.3	842.5	912.1	981.8
Goodwill	12,668.0	12,787.0	12,805.0	12,814.0	12,814.0	12,814.0	12,814.0	12,814.0	12,814.0	12,814.0	12,814.0	12,814.0	12,814.0
Other intangibles, net	1,820.0	1,449.0	1,088.0	754.0	455.0	309.0	204.0	142.0	20.0	20.0	20.0	20.0	20.0
Deferred income taxes	1,085.0	777.0	1,191.0	400.5	440.8	509.1	568.7	656.2	709.1	805.4	894.8	978.7	1,064.1
Other assets	883.0	841.0	1,223.0	981.5	1,092.7	1,221.0	1,351.2	1,476.6	1,602.1	1,729.7	1,840.6	1,953.3	2,055.4
Total assets	27,241.0	27,165.0	29,779.0	28,627.57	32,607.13	35,010.00	40,783.08	46,344.51	59,825.80	76,357.43	91,600.04	109,563.09	128,847.79
Current liabilities:													
Trade payables	312.0	379.0	314.0	433.7	482.9	539.6	597.1	652.5	708.0	764.4	813.4	863.2	908.3
Accrued expenses	1,736.0	1,790.0	1,942.0	2,375.5	2,644.7	2,955.2	3,270.2	3,573.7	3,877.4	4,186.2	4,454.6	4,727.5	4,974.6
Debt	-	500.0	-	-	1,500.0	-	850.0	-	-	1,300.0	-	-	-
Deferred revenue	4,733.0	5,297.0	5,837.0	6,447.3	7,178.1	8,020.8	8,875.8	9,699.5	10,523.9	11,362.0	12,090.4	12,831.0	13,501.9
Income taxes payable	54.0	75.0	85.0	84.0	92.5	106.8	119.3	137.7	148.8	169.0	187.7	205.3	223.2
Operating lease liabilities	97.0	87.0	73.0	89.7	98.8	109.1	120.6	132.9	146.0	159.8	173.9	188.3	202.7
Total current liabilities	6,932.0	8,128.0	8,251.0	9,430.29	11,996.92	11,731.55	13,832.99	14,196.25	15,404.12	17,941.31	17,720.02	18,815.28	19,810.79
Long-term liabilities:													
Debt	4,123.0	3,629.0	3,634.0	3,252.4	3,337.0	3,467.5	3,609.3	3,762.2	3,904.4	4,076.3	4,235.9	4,397.4	4,551.2
Deferred revenue	145.0	117.0	113.0	185.6	206.6	230.9	255.5	279.2	302.9	327.0	348.0	369.3	388.6
Income taxes payable	534.0	530.0	514.0	644.0	708.7	818.6	914.4	1,055.1	1,140.1	1,295.0	1,438.8	1,573.7	1,711.0
Operating lease liabilities	453.0	417.0	373.0	447.1	492.2	543.7	600.8	662.2	727.5	796.3	866.4	938.0	1,009.7
Other liabilities	257.0	293.0	376.0	427.1	475.5	531.3	587.9	642.5	697.1	752.6	800.9	849.9	894.4
Long-term liabilities	5,512.0	4,986.0	5,010.0	4,956.1	5,220.0	5,591.9	5,967.8	6,401.2	6,772.0	7,247.1	7,690.0	8,128.3	8,554.9
Total liabilities	12,444.0	13,114.0	13,261.0	14,386.4	17,217.0	17,323.5	19,800.8	20,597.4	22,176.1	25,188.5	25,410.0	26,943.6	28,365.7
Stockholders' equity:													
Common stock plus additional paid-in-capital	8,428.0	9,868.0	11,586.0	11,586.0	11,586.0	11,586.0	11,586.0	11,586.0	11,586.0	11,586.0	11,586.0	11,586.0	11,586.0
Retained earnings	23,905.0	28,319.0	33,346.0	40,069.2	47,468.2	56,014.5	65,560.3	76,575.1	88,477.7	101,997.0	117,018.0	133,447.5	151,310.1
Accumulated other comprehensive income (loss)	(137.0)	(293.0)	(285.0)	(285.0)	(285.0)	(285.0)	(285.0)	(285.0)	(285.0)	(285.0)	(285.0)	(285.0)	(285.0)
Treasury stock, at cost	(17,399.0)	(23,843.0)	(28,129.0)	(37,129.0)	(43,379.0)	(49,629.0)	(55,879.0)	(62,129.0)	(62,129.0)	(62,129.0)	(62,129.0)	(62,129.0)	(62,129.0)
Total stockholders' equity	14,797.0	14,051.0	16,518.0	14,241.2	15,390.2	17,686.5	20,982.3	25,747.1	37,649.7	51,169.0	66,190.0	82,619.5	100,482.1
Total liabilities and stockholders' equity	27,241.0	27,165.0	29,779.0	28,627.6	32,607.1	35,010.0	40,783.1	46,344.5	59,825.8	76,357.4	91,600.0	109,563.1	128,847.8

Adobe Inc.
Historical Cash Flow Statement

Fiscal Years Ending 12/1	2018	2019	2020	2021	2022	2023
Cash flows from operating activities:						
Net income / loss	2,591.0	2,951.0	5,260.0	4,822.0	4,756.0	5,428.0
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation, amortization and accretion	346.0	757.0	757.0	788.0	856.0	872.0
Stock-based compensation expense	610.0	788.0	909.0	1,069.0	1,440.0	1,718.0
Increase / decrease in operating lease right-of-use assets	-	-	87.0	73.0	83.0	72.0
Deferred income taxes	(469.0)	3.0	(1,501.0)	183.0	328.0	(426.0)
Unrealized losses / gains on investments, net	1.0	(48.0)	(11.0)	(4.0)	29.0	(10.0)
Other non-cash items	7.0	14.0	40.0	7.0	10.0	3.0
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:						
Trade receivables, net	(2.0)	(188.0)	106.0	(430.0)	(198.0)	(159.0)
Prepaid expenses and other current assets	(77.0)	(551.0)	(288.0)	(475.0)	(94.0)	(818.0)
Trade payables	55.0	23.0	96.0	(20.0)	66.0	(49.0)
Accrued expenses and other liabilities	44.0	172.0	86.0	162.0	7.0	146.0
Income taxes payable	479.0	4.0	(72.0)	2.0	19.0	(11.0)
Changes in deferred revenue	444.0	497.0	258.0	1,053.0	536.0	536.0
Net cash provided by operating activities	4,029.0	4,422.0	5,727.0	7,230.0	7,838.0	7,302.0
Cash flows from investing activities:						
Purchases of short-term investments	(566.0)	(700.0)	(1,071.0)	(1,533.0)	(909.0)	-
Maturities of short-term investments	766.0	700.0	915.0	877.0	683.0	965.0
Proceeds from sales of short-term investments	1,709.0	86.0	167.0	191.0	270.0	223.0
Acquisitions, net of cash acquired	(6,314.0)	(101.0)	-	(2,682.0)	(126.0)	-
Purchases of property and equipment	(267.0)	(395.0)	(419.0)	(348.0)	(442.0)	(360.0)
Proceeds from sale of long-term investments	5.0	3.0	9.0	-	-	1.0
Net cash used for / provided by investing activities	(4,685.0)	(456.0)	(414.0)	(3,537.0)	(570.0)	776.0
Cash flows from financing activities:						
Purchases of treasury stock	(2,050.0)	(2,750.0)	(3,050.0)	(3,950.0)	(6,550.0)	(4,400.0)
Proceeds from issuance of treasury stock	191.0	233.0	270.0	291.0	278.0	314.0
Cost of issuance of treasury stock	(393.0)	(440.0)	(681.0)	(719.0)	(518.0)	(589.0)
Repayment of acquired debt	-	-	(3,150.0)	-	-	(500.0)
Other financing activities, net	(1.0)	11.0	(21.0)	77.0	(35.0)	(7.0)
Net cash used for financing activities	(2,253.0)	(2,946.0)	(6,632.0)	(4,301.0)	(6,825.0)	(5,182.0)
Effect of foreign currency exchange rates on cash and cash equivalents	(2.0)	(13.0)	3.0	(26.0)	(51.0)	9.0
Net change in cash and cash equivalents	(663.0)	1,007.0	1,828.0	(634.0)	392.0	2,905.0
Cash and cash equivalents at beginning of period	2,306.0	1,643.0	2,650.0	4,478.0	3,844.0	4,236.0
Cash and cash equivalents at end of period	1,643.0	2,650.0	4,478.0	3,844.0	4,236.0	7,141.0

Adobe Inc.

Forecasted Cash Flow Statement

Fiscal Years Ending 12/1	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Cash & cash equivalents at beginning of period	7,141.0	6,428.5	9,818.7	11,328.2	16,131.7	20,648.5	33,155.1	48,514.1	62,663.2	79,519.3
CASH FLOWS FROM OPERATING ACTIVITIES										
Net income	6,723.2	7,399.0	8,546.3	9,545.8	11,014.8	11,902.6	13,519.3	15,021.0	16,429.5	17,862.6
Adjustments to reconcile net income to cash from operating activities:										
Depreciation and amortization	276.9	303.9	334.6	369.6	408.4	450.2	494.6	541.3	589.0	637.7
Adjustments from Operating Activities:										
Trade receivables, net of allowances for doubtful accounts	(366.0)	(293.5)	(338.6)	(343.5)	(330.9)	(331.2)	(336.7)	(292.6)	(297.5)	(269.5)
Prepaid expenses and other current assets	(247.4)	(143.4)	(165.4)	(167.8)	(161.7)	(161.8)	(164.5)	(143.0)	(145.4)	(131.7)
Other intangibles, net	334.0	299.0	146.0	105.0	62.0	122.0	-	-	-	-
Deferred income taxes	790.5	(40.3)	(68.3)	(59.5)	(87.5)	(52.9)	(96.3)	(89.5)	(83.9)	(85.4)
Other assets	241.5	(111.2)	(128.3)	(130.2)	(125.4)	(125.5)	(127.6)	(110.9)	(112.7)	(102.1)
Trade payables	119.7	49.2	56.7	57.5	55.4	55.5	56.4	49.0	49.8	45.1
Accrued expenses	433.5	269.2	310.5	315.0	303.5	303.8	308.8	268.4	272.9	247.2
Deferred revenue	610.3	730.7	842.8	855.0	823.7	824.4	838.0	728.5	740.6	670.9
Income taxes payable	(1.0)	8.4	14.3	12.5	18.4	11.1	20.2	18.8	17.6	17.9
Operating lease liabilities	16.7	9.1	10.3	11.5	12.3	13.1	13.8	14.1	14.4	14.4
Deferred revenue	72.6	21.0	24.3	24.6	23.7	23.7	24.1	21.0	21.3	19.3
Income taxes payable	130.0	64.7	109.9	95.7	140.7	85.0	154.9	143.8	134.9	137.3
Operating lease liabilities	74.1	45.2	51.5	57.1	61.5	65.3	68.8	70.2	71.5	71.7
Other liabilities	51.1	48.4	55.8	56.6	54.6	54.6	55.5	48.3	49.1	44.4
Net cash from operating activities	9,259.6	8,659.4	9,802.4	10,804.9	12,273.4	13,239.9	14,829.3	16,288.3	17,751.1	19,179.8
CASH FLOWS FROM INVESTING ACTIVITIES										
Adjustments from Investment Activities:										
Short-term investments	(29.7)	(30.9)	(32.2)	(33.6)	(35.0)	(36.5)	(38.0)	(39.7)	(41.3)	(43.1)
Property and equipment, net	(475.1)	(529.0)	(591.1)	(654.1)	(714.8)	(775.6)	(837.3)	(891.0)	(945.6)	(995.0)
Operating lease right-of-use assets, net	(76.7)	(43.9)	(50.0)	(55.5)	(59.8)	(63.5)	(66.9)	(68.2)	(69.6)	(69.7)
Goodwill	(9.0)	-	-	-	-	-	-	-	-	-
Net cash from investing activities	(590.5)	(603.8)	(673.4)	(743.2)	(809.6)	(875.5)	(942.2)	(998.9)	(1,056.5)	(1,107.8)
CASH FLOWS FROM FINANCING ACTIVITIES										
Adjustments from Financing Activities:										
Short-term debt	-	1,500.0	(1,500.0)	850.0	(850.0)	-	1,300.0	(1,300.0)	-	-
Debt	(381.6)	84.6	130.5	141.8	153.0	142.1	171.9	159.7	161.4	153.9
Common stock plus additional paid-in-capital	-	-	-	-	-	-	-	-	-	-
Accumulated other comprehensive income (loss)	-	-	-	-	-	-	-	-	-	-
Treasury stock, at cost	(9,000.0)	(6,250.0)	(6,250.0)	(6,250.0)	(6,250.0)	-	-	-	-	-
Net cash from financing activities	(9,381.6)	(4,665.4)	(7,619.5)	(5,258.2)	(6,947.0)	142.1	1,471.9	(1,140.3)	161.4	153.9
Cash and cash equivalents at the end of period	6,428.5	9,818.7	11,328.2	16,131.7	20,648.5	33,155.1	48,514.1	62,663.2	79,519.3	97,745.1

Adobe Inc.

Common Size Income Statement

Fiscal Years Ending 12/1	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenue:													
Subscriptions	92.3%	93.1%	94.2%	95.4%	96.1%	96.6%	97.0%	97.3%	97.5%	97.4%	97.8%	97.9%	98.0%
Products	3.5%	3.0%	2.4%	1.9%	1.3%	1.0%	0.7%	0.5%	0.4%	0.5%	0.1%	0.0%	0.0%
Services and support	4.2%	3.9%	3.4%	2.7%	2.6%	2.4%	2.3%	2.2%	2.1%	2.1%	2.1%	2.0%	2.0%
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Revenue:													
Subscription	8.7%	9.3%	9.4%	9.5%	9.6%	9.7%	9.7%	9.7%	11.7%	11.7%	11.7%	11.8%	11.8%
Products	0.3%	0.2%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Services and support	2.9%	2.7%	2.6%	2.0%	1.9%	1.8%	1.7%	1.7%	1.6%	1.6%	1.5%	1.5%	1.5%
Total cost of revenue	11.8%	12.3%	12.1%	11.7%	11.6%	11.5%	11.5%	11.4%	13.3%	13.3%	13.3%	13.3%	13.3%
Gross profit	88.2%	87.7%	87.9%	88.3%	88.4%	88.5%	88.5%	88.6%	86.7%	86.7%	86.7%	86.7%	86.7%
Operating expenses:													
Research and development	16.1%	17.0%	17.9%	18.5%	17.4%	17.4%	17.4%	16.0%	15.5%	15.0%	14.5%	14.3%	14.0%
Sales and marketing	27.4%	28.2%	27.6%	25.9%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%
General and administrative	6.9%	6.9%	7.3%	6.6%	6.5%	6.5%	6.5%	6.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Amortization of purchased intangibles	1.1%	1.0%	0.9%	0.8%	1.2%	0.5%	0.4%	0.2%	0.3%	0.0%	0.0%	0.0%	0.0%
Total operating expenses	51.4%	53.1%	53.6%	51.9%	52.2%	51.5%	51.3%	49.7%	48.3%	47.5%	47.0%	46.8%	46.5%
Operating income	36.8%	34.6%	34.3%	36.4%	36.2%	37.0%	37.2%	38.9%	38.3%	39.2%	39.7%	40.0%	40.2%
Non-operating income (expense):													
Interest expense	-0.7%	-0.6%	-0.6%	-0.8%	-0.7%	-0.6%	-0.6%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%
Investment gains (losses), net	0.1%	-0.1%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Other income (expense), net	0.0%	0.2%	1.3%	1.5%	1.3%	1.7%	1.7%	2.2%	2.6%	3.8%	5.1%	6.2%	7.5%
Total non-operating income (expense), net	-0.6%	-0.5%	0.8%	0.9%	0.7%	1.2%	1.3%	1.8%	2.2%	3.4%	4.8%	5.9%	7.1%
Income before income taxes	36.1%	34.1%	35.0%	37.3%	36.9%	38.1%	38.5%	40.7%	40.5%	42.6%	44.5%	45.8%	47.4%
Provision for income taxes	5.6%	7.1%	7.1%	6.3%	6.3%	6.5%	6.5%	6.9%	6.9%	7.2%	7.6%	7.8%	8.1%
Net income / loss	30.5%	27.0%	28.0%	31.0%	30.6%	31.7%	32.0%	33.7%	33.6%	35.4%	36.9%	38.1%	39.3%

Adobe Inc.
Common Size Balance Sheet

Fiscal Years Ending 12/1	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Current assets:													
Cash and cash equivalents	24.4%	24.1%	36.8%	29.6%	40.6%	42.0%	54.0%	63.3%	93.6%	126.9%	154.0%	184.2%	215.1%
Short-term investments	12.4%	10.6%	3.6%	3.4%	3.2%	2.9%	2.8%	2.6%	2.5%	2.5%	2.4%	2.4%	2.3%
Trade receivables, net of allowances for doubtful accounts	11.9%	11.7%	11.5%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%
Prepaid expenses and other current assets	6.3%	4.7%	5.2%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%
Total current assets	54.9%	51.1%	57.1%	50.8%	61.6%	62.7%	74.6%	83.7%	113.9%	147.1%	174.2%	204.3%	235.2%
Property and equipment, net	10.6%	10.8%	10.5%	10.3%	10.2%	10.0%	10.0%	10.1%	10.2%	10.4%	10.6%	10.8%	11.1%
Operating lease right-of-use assets, net	2.8%	2.3%	1.8%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.1%	2.1%	2.2%
Goodwill	80.3%	72.6%	66.0%	59.1%	53.0%	47.5%	42.9%	39.3%	36.2%	33.5%	31.5%	29.7%	28.2%
Other intangibles, net	11.5%	8.2%	5.6%	3.5%	1.9%	1.1%	0.7%	0.4%	0.1%	0.1%	0.0%	0.0%	0.0%
Deferred income taxes	6.9%	4.4%	6.1%	1.8%	1.8%	1.9%	1.9%	2.0%	2.0%	2.1%	2.2%	2.3%	2.3%
Other assets	5.6%	4.8%	6.3%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Total assets	172.6%	154.3%	153.4%	131.9%	135.0%	129.7%	136.5%	142.0%	168.9%	199.7%	225.1%	253.8%	283.6%
Current liabilities:													
Trade payables	2.0%	2.2%	1.6%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Accrued expenses	11.0%	10.2%	10.0%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%
Debt and capital lease obligations	0.0%	2.8%	0.0%	0.0%	6.2%	0.0%	2.8%	0.0%	0.0%	3.4%	0.0%	0.0%	0.0%
Deferred revenue	30.0%	30.1%	30.1%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%
Income taxes payable	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%
Operating lease liabilities	0.6%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Total current liabilities	43.9%	46.2%	42.5%	43.5%	49.7%	43.5%	46.3%	43.5%	43.5%	46.9%	43.6%	43.6%	43.6%
Long-term liabilities:													
Debt	26.1%	20.6%	18.7%	15.0%	13.8%	12.8%	12.1%	11.5%	11.0%	10.7%	10.4%	10.2%	10.0%
Deferred revenue	0.9%	0.7%	0.6%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Income taxes payable	3.4%	3.0%	2.6%	3.0%	2.9%	3.0%	3.1%	3.2%	3.2%	3.4%	3.5%	3.6%	3.8%
Operating lease liabilities	2.9%	2.4%	1.9%	2.1%	2.0%	2.0%	2.0%	2.0%	2.1%	2.1%	2.1%	2.2%	2.2%
Other liabilities	1.6%	1.7%	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Long-term liabilities	34.9%	28.3%	0.0%	22.8%	21.6%	20.7%	20.0%	19.6%	19.1%	19.0%	18.9%	18.8%	18.8%
Total liabilities	78.8%	74.5%	68.3%	66.3%	71.3%	64.2%	66.3%	63.1%	62.6%	65.9%	62.5%	62.4%	62.4%
Stockholders' equity:													
Additional paid-in-capital	53.4%	56.0%	59.7%	53.4%	48.0%	42.9%	38.8%	35.5%	32.7%	30.3%	28.5%	26.8%	25.5%
Retained earnings	151.4%	160.8%	171.8%	184.7%	196.5%	207.5%	219.5%	234.6%	249.8%	266.8%	287.6%	309.1%	333.0%
Accumulated other comprehensive income (loss)	-0.9%	-1.7%	-1.5%	-1.3%	-1.2%	-1.1%	-1.0%	-0.9%	-0.8%	-0.7%	-0.7%	-0.7%	-0.6%
Treasury stock, at cost	-110.2%	-135.4%	-144.9%	-171.1%	-179.6%	-183.9%	-187.1%	-190.3%	-175.4%	-162.5%	-152.7%	-143.9%	-136.7%
Total stockholders' equity	93.7%	79.8%	85.1%	65.6%	63.7%	65.5%	70.3%	78.9%	106.3%	133.8%	162.7%	191.3%	221.2%
Total liabilities and stockholders' equity	172.6%	154.3%	153.4%	131.9%	135.0%	129.7%	136.5%	142.0%	168.9%	199.7%	225.1%	253.8%	283.6%

Fiscal Years Ending 12/1	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
NOPLAT:													
EBITA:													
Revenue	15,785.0	17,606.0	19,409.0	21,695.8	24,154.7	26,990.7	29,867.8	32,639.5	35,413.8	38,233.9	40,685.2	43,177.4	45,435.0
(-) Cost of revenue	1,865.0	2,165.0	2,354.0	2,541.3	2,809.3	3,115.3	3,426.0	3,726.9	4,071.8	4,417.8	4,763.5	5,109.2	5,454.6
(-) Research and development	2,540.0	2,987.0	3,473.0	4,018.4	4,210.1	4,704.4	5,205.9	5,722.3	6,249.1	6,786.1	7,333.1	7,890.2	8,457.3
(-) Sales and marketing	4,321.0	4,968.0	5,351.0	5,628.0	6,521.8	7,287.5	8,064.3	8,812.7	9,561.7	10,323.1	11,095.0	11,877.9	12,675.5
(-) General and administrative	1,085.0	1,219.0	1,413.0	1,439.0	1,570.1	1,754.4	1,941.4	2,121.6	2,307.8	2,494.9	2,682.0	2,869.1	3,056.2
(+) Implied interest on operating leases	21.8	20.0	17.6	21.4	23.5	26.0	28.7	31.6	34.7	38.0	41.4	44.8	48.2
EBITA	5,995.8	6,287.0	6,835.6	8,090.4	9,067.0	10,155.1	11,258.8	12,787.6	13,732.1	15,034.3	16,201.1	17,306.1	18,326.3
EBITA margin	38.0%	35.7%	35.2%	37.3%	37.5%	37.6%	37.7%	39.2%	38.8%	39.3%	39.8%	40.1%	40.3%
Marginal tax rate	28.0%	30.3%	29.8%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
Total adjusted taxes:													
Income tax expense	883.0	1,252.0	1,371.0	1,377.0	1,515.5	1,750.5	1,955.2	2,256.0	2,437.9	2,769.0	3,076.6	3,365.1	3,658.6
(+) Interest expense	31.7	34.0	33.6	29.1	27.2	27.9	29.0	30.1	31.4	32.6	34.0	35.4	36.7
(-) Investment gains (losses), net	4.5	(5.8)	4.8	7.7	4.6	5.1	5.7	6.2	6.7	7.3	7.7	8.2	8.6
(-) Other income (expense), net	-	12.4	73.2	55.4	51.5	76.1	87.2	122.0	154.8	245.0	355.8	457.9	579.4
(+) Tax on implied interest on operating assets	6.1	6.1	5.2	3.6	4.0	4.4	4.9	5.4	5.9	6.5	7.0	7.6	8.2
Total adjusted taxes	916.3	1,285.4	1,331.9	1,346.6	1,490.5	1,701.5	1,896.1	2,163.3	2,313.7	2,555.8	2,754.2	2,942.0	3,115.5
Change in deferred taxes	(285.0)	(308.0)	414.0	(790.5)	40.3	68.3	59.5	87.5	52.9	96.3	89.5	83.9	85.4
NOPLAT	4,794.5	4,693.6	5,917.7	5,953.3	7,616.8	8,521.9	9,422.3	10,711.8	11,471.3	12,574.8	13,536.4	14,448.0	15,296.3
Invested Capital (IC):													
Operating working capital:													
Normal cash	4,419.8	4,929.7	5,434.5	6,074.8	6,763.3	7,557.4	8,363.0	9,139.1	9,915.9	10,705.5	11,391.9	12,089.7	12,721.8
(+) Trade receivables	1,878.0	2,065.0	2,224.0	2,590.0	2,883.6	3,222.2	3,565.6	3,896.5	4,227.7	4,564.4	4,857.0	5,154.5	5,424.0
(+) Prepaid expenses and other current assets	993.0	835.0	1,018.0	1,265.4	1,408.8	1,574.2	1,742.1	1,903.7	2,065.5	2,230.0	2,373.0	2,518.3	2,650.0
Operating current assets	7,290.8	7,829.7	8,676.5	9,930.3	11,055.8	12,353.8	13,670.6	14,939.3	16,209.1	17,499.9	18,621.8	19,762.5	20,795.9
Trade payables	312.0	379.0	314.0	433.7	482.9	539.6	597.1	652.5	708.0	764.4	813.4	863.2	908.3
(+) Accrued expenses	1,736.0	1,790.0	1,942.0	2,375.5	2,644.7	2,955.2	3,270.2	3,573.7	3,877.4	4,186.2	4,454.6	4,727.5	4,974.6
(+) Deferred revenue	4,733.0	5,297.0	5,837.0	6,447.3	7,178.1	8,020.8	8,875.8	9,699.5	10,523.9	11,362.0	12,090.4	12,831.0	13,501.9
(+) Income taxes payable	54.0	75.0	85.0	84.0	92.5	106.8	119.3	137.7	148.8	169.0	187.7	205.3	223.2
Non-interest bearing operating current liabilities	6,835.0	7,541.0	8,178.0	9,340.6	10,398.1	11,622.4	12,862.4	14,063.3	15,258.1	16,481.5	17,546.1	18,627.0	19,608.1
Net operating working capital	455.80	288.68	498.52	589.73	657.64	731.37	808.23	875.94	951.00	1,018.37	1,075.73	1,135.52	1,187.72
Property, plant and equipment, net	1,673.0	1,908.0	2,030.0	2,228.2	2,453.3	2,709.8	2,994.2	3,300.6	3,626.0	3,968.7	4,318.4	4,674.9	5,032.3
Other long-term operating assets:													
Other assets	883.0	841.0	1,223.0	981.5	1,092.7	1,221.0	1,351.2	1,476.6	1,602.1	1,729.7	1,840.6	1,953.3	2,055.4
(+) Other intangibles, net	1,820.0	1,449.0	1,088.0	754.0	455.0	309.0	204.0	142.0	20.0	20.0	20.0	20.0	20.0
(+) Operating lease right-of-use assets, net	443.0	407.0	358.0	434.7	478.6	528.7	584.2	643.9	707.4	774.3	842.5	912.1	981.8
Other long-term operating assets	3,146.0	2,697.0	2,669.0	2,170.2	2,026.4	2,058.7	2,139.4	2,262.5	2,329.5	2,523.9	2,703.1	2,885.4	3,057.2
Other Long-Term Operating Liabilities:													
Long-term deferred revenue	145.0	117.0	113.0	185.6	206.6	230.9	255.5	279.2	302.9	327.0	348.0	369.3	388.6
(+) Income taxes payable	534.0	530.0	514.0	644.0	708.7	818.6	914.4	1,055.1	1,140.1	1,295.0	1,438.8	1,573.7	1,711.0
(+) Other liabilities	257.0	293.0	376.0	427.1	475.5	531.3	587.9	642.5	697.1	752.6	800.9	849.9	894.4
Other long-term operating liabilities	936.0	940.0	1,003.0	1,256.6	1,390.8	1,580.8	1,757.8	1,976.7	2,140.1	2,374.6	2,587.7	2,793.0	2,994.0
Invested Capital	4,338.80	3,953.68	4,194.52	3,731.56	3,746.51	3,919.05	4,184.07	4,462.36	4,766.37	5,136.43	5,509.50	5,902.86	6,283.25
Free Cash Flow (FCF):													
NOPLAT	4,794.5	4,693.6	5,917.7	5,953.3	7,616.8	8,521.9	9,422.3	10,711.8	11,471.3	12,574.8	13,536.4	14,448.0	15,296.3
(-) Change in IC	867.8	(385.1)	240.8	(463.0)	14.9	172.5	265.0	278.3	304.0	370.1	373.1	393.4	380.4
FCF	3,926.7	5,078.8	5,676.8	6,416.3	7,601.8	8,349.4	9,157.3	10,433.5	11,167.3	12,204.8	13,163.3	14,054.6	14,915.9
Return on Invested Capital (ROIC):													
NOPLAT	4,794.5	4,693.6	5,917.7	5,953.3	7,616.8	8,521.9	9,422.3	10,711.8	11,471.3	12,574.8	13,536.4	14,448.0	15,296.3
(/) Beginning IC	3,471.0	4,338.8	3,953.7	4,194.5	3,731.6	3,746.5	3,919.0	4,184.1	4,462.4	4,766.4	5,136.4	5,509.5	5,902.86
ROIC	138.1%	108.2%	149.7%	141.9%	204.1%	227.5%	240.4%	256.0%	257.1%	263.8%	263.5%	262.2%	259.1%
Economic Profit (EP):													
Beginning IC	3,471.04	4,338.80	3,953.68	4,194.52	3,731.56	3,746.51	3,919.05	4,184.07	4,462.36	4,766.37	5,136.43	5,509.50	5,902.86
x (ROIC - WACC)	128.0%	98.1%	139.6%	131.8%	194.0%	217.4%	230.3%	245.9%	247.0%	253.7%	253.5%	252.2%	249.0%
EP	4,444.4	4,256.0	5,518.9	5,530.3	7,240.4	8,144.1	9,027.0	10,289.8	11,021.2	12,094.1	13,018.3	13,892.3	14,700.9

Adobe Inc.*Weighted Average Cost of Capital (WACC) Estimation*

Cost of Equity:		<i>ASSUMPTIONS:</i>
Risk-Free Rate	4.23%	<< 10Y U.S. Treasury yield per CNBC (as of 10/23/24)
Beta	1.19	
Equity Risk Premium	5.00%	<< Henry Fund estimate
Cost of Equity	10.20%	
Cost of Debt:		
Risk-Free Rate	4.23%	<< 10Y U.S. Treasury yield per CNBC (as of 10/23/24)
Implied Default Premium	0.68%	
Pre-Tax Cost of Debt	4.91%	
Marginal Tax Rate	17.00%	<i>FactSet consensus estimate</i>
After-Tax Cost of Debt	4.08%	
Market Value of Common Equity:		MV Weights
Total Shares Outstanding	440.20	
Current Stock Price	\$ 499.10	
MV of Equity	219,703.8	98.18%
Market Value of Debt:		
Short-Term Debt	0.00	
Long-Term Debt	3634.00	
PV of Operating Leases	446.00	
MV of Total Debt	4080.00	1.82%
Market Value of the Firm	223,783.82	100.0%
Estimated WACC		10.09%

Adobe Inc.*Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models*

Key Inputs:

CV Growth of NOPLAT	5.00%
CV Year ROIC	259.1%
WACC	10.09%
Cost of Equity	10.20%
CV NOPLAT	15,296.3

Fiscal Years Ending 12/1	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
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DCF Model:

Free Cash Flow (FCF)	6,416.3	7,601.8	8,349.4	9,157.3	10,433.5	11,167.3	12,204.8	13,163.3	14,054.6	14,915.9
Continuing Value (CV)										294,982.7
PV of FCF	5,828.5	6,272.8	6,258.4	6,235.1	6,453.3	6,274.4	6,229.0	6,102.8	5,919.0	124,230.5

Value of Operating Assets:	179,803.8
Non-Operating Adjustments	
(+) Excess cash	1,706.5
(+) Short-term investments	701.0
(-) ESOP	1,211.1
(-) Operating lease liabilities	446.0
(-) Short-term debt	-
(-) Long-term debt	3,634.0
Value of Equity	187,502.4
Shares Outstanding	440.2
Intrinsic Value of Last FYE	\$ 425.95
Implied Price as of Today	\$ 467.89

EP Model:

Economic Profit (EP)	5,530.3	7,240.4	8,144.1	9,027.0	10,289.8	11,021.2	12,094.1	13,018.3	13,892.3	14,700.9
Continuing Value (CV)										289,079.9
PV of EP	5,023.6	5,974.5	6,104.5	6,146.5	6,364.4	6,192.3	6,172.6	6,035.6	5,850.7	121,744.6

Total PV of EP	175609.3
Invested Capital (last FYE)	4,194.5
Value of Operating Assets:	179,803.8
Non-Operating Adjustments	
(+) Excess cash	1,706.5
(+) Short-term investments	701.0
(-) ESOP	1,211.1
(-) Operating lease liabilities	446.0
(-) Short-term debt	-
(-) Long-term debt	3,634.0
Value of Equity	187,502.4
Shares Outstanding	440.2
Intrinsic Value of Last FYE	\$ 425.95
Implied Price as of Today	\$ 467.89

Adobe Inc.*Dividend Discount Model (DDM) or Fundamental P/E Valuation Model*

Fiscal Years Ending	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
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EPS	\$	15.31	\$	17.25	\$	20.42	\$	23.33	\$	27.49	\$	29.71	\$	33.74	\$	37.49	\$	41.00	\$	44.58
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Key Assumptions

CV growth of EPS	5.00%
CV Year ROE	19.89%
Cost of Equity	10.20%

Future Cash Flows

P/E Multiple (CV Year)																				14.40377
EPS (CV Year)																				\$ 44.58
Future Stock Price																				\$ 642.14
Dividends Per Share	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
Discounted Cash Flows	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
																				267.9793

Intrinsic Value as of Last FYE	\$	267.98
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Implied Price as of Today	\$	294.37
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Adobe Inc.*Relative Valuation Models*

Ticker	Company	Price	EPS		P/E 25	P/E 26
			2025E	2026E		
ADSK	Autodesk	\$287.43	\$8.28	\$9.18	34.71	31.31
ORCL	Oracle	\$174.21	\$6.28	\$7.14	27.74	24.40
MSFT	Microsoft	\$424.90	\$13.18	\$15.33	32.24	27.72
DOCU	Docusign	\$71.00	\$3.49	\$3.70	20.34	19.19
CRM	Salesforce	\$287.51	\$10.10	\$11.14	28.47	25.81
Average					28.70	25.68

ADBE	Adobe Inc.	\$499.10	\$ 17.25	\$ 20.42	28.9	24.4
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Adobe Inc.
Key Management Ratios

Fiscal Years Ending 12/1	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Liquidity Ratios:													
Current Ratio <i>Current Assets / Current Liabilities</i>	125.1%	110.7%	134.3%	116.8%	124.0%	144.2%	161.0%	192.4%	261.9%	313.5%	399.9%	468.8%	539.5%
Quick Ratio <i>(Current Assets - Inventory) / Current Liabilities</i>	125.1%	110.7%	134.3%	116.8%	124.0%	144.2%	161.0%	192.4%	261.9%	313.5%	399.9%	468.8%	539.5%
Cash Ratio <i>(Cash + Marketable Securities) / Current Liabilities</i>	55.5%	52.1%	86.5%	68.2%	81.8%	96.6%	116.6%	145.5%	215.2%	270.4%	353.6%	422.6%	493.4%
Asset-Management Ratios:													
Asset Turnover Ratio <i>Sales / Average Total Assets</i>	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.6	0.5	0.5	0.4	0.4
Accounts Recievable Turnover <i>Sales / Average Accounts Recievable</i>	7.9	8.0	8.2	8.1	7.9	7.9	8.0	8.0	8.0	8.1	8.1	8.1	8.2
Financial Leverage Ratios:													
Debt-to-Assets Ratio <i>(Short + Long-Term Debt) / Total Assets</i>	15.1%	15.2%	12.2%	11.4%	14.8%	9.9%	10.9%	8.1%	6.5%	7.0%	4.6%	4.0%	3.5%
Debt-to-Equity Ratio <i>(Short + Long-Term Debt) / Total Shareholder's Equity</i>	27.9%	29.4%	22.0%	22.8%	31.4%	19.6%	21.3%	14.6%	10.4%	10.5%	6.4%	5.3%	4.5%
FCF to Total Debt Ratio <i>FCF / (Short + Long-Term Debt)</i>	95.2%	123.0%	156.2%	197.3%	157.2%	240.8%	205.4%	277.3%	286.0%	227.0%	310.8%	319.6%	327.7%
Profitability Ratios:													
Return on Assets <i>Net Income / Total Assets</i>	17.7%	17.5%	18.2%	23.5%	22.7%	24.4%	23.4%	23.8%	19.9%	17.7%	16.4%	15.0%	13.9%
Return on Equity (NI/Beg TSE) <i>Net Income / Beginning Total Shareholder's Equity</i>	39.7%	32.6%	33.8%	32.9%	47.2%	48.1%	48.3%	45.5%	42.8%	31.6%	26.4%	22.7%	19.9%
Gross Margin <i>Gross Profit / Sales</i>	88.2%	87.7%	87.9%	88.3%	88.4%	88.5%	88.5%	88.6%	86.7%	86.7%	86.7%	86.7%	86.7%
Operating Margin <i>Operatin Profit / Sales</i>	36.8%	34.6%	34.3%	36.4%	36.2%	37.0%	37.2%	38.9%	38.3%	39.2%	39.7%	40.0%	40.2%
Net Margin <i>Net Profit / Sales</i>	30.5%	27.0%	28.0%	31.0%	30.6%	31.7%	32.0%	33.7%	33.6%	35.4%	36.9%	38.1%	39.3%
Free Cash Flow Margin <i>FCF / Sales</i>	24.9%	28.8%	29.2%	29.6%	31.5%	30.9%	30.7%	32.0%	31.5%	31.9%	32.4%	32.6%	32.8%
Payout Policy Ratios:													
Dividend Payout Ratio <i>Dividend / EPS</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Payout Ratio <i>Dividend + Share Repurchases / Net Income</i>	81.92%	137.72%	81.06%	133.87%	84.47%	73.13%	65.47%	56.74%	0.00%	0.00%	0.00%	0.00%	0.00%

Adobe Inc.*Valuation of Options Granted under ESOP*

Current Stock Price	\$499.10
Risk Free Rate	4.23%
Current Dividend Yield	0.00%
Annualized St. Dev. of Stock Returns	41.80% << Per Bloomberg terminal

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
RSUs	7.8	\$ 418.63	1.36	\$ 147.49	\$ 1,150
Performance shares	0.5	\$ 465.71	1.32	\$ 121.44	\$ 61
Total	8.3	\$ 421.47	1.36	\$ 145.82	\$ 1,211