

Adobe Inc.

US CORE HOLDING*

Recommended since 30.09.21

09.04.2024



Country US	Market capitalization (bn) USD 221,61	Perf. since reco. (%)
Sector Services IT	Free float 99,3%	Adobe Inc. -15,9
Factset ADBE-US	Closing price USD 484,28	Sector 36,8
ISIN US00724F1012	ESG Risk score* 14,9 Low risk	



*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

Founded in 1982, Adobe is one of the world's largest and most diversified software companies, generating revenue of over \$19,4bn in FY 2023. Its products are ubiquitous in the internet age: graphic design, photo and video editing, animation, document design, printing, publishing, mobile applications and even e-commerce. The business is structured into three segments: Digital Media, Digital Experience and Publishing & Advertising. The group's flagship products are Photoshop, Acrobat, InDesign and Illustrator.

Market - competition - positions - barriers to entry

Adobe enjoys high levels of brand awareness and a reputation for high-quality creative software. Now a key player among amateurs and professionals alike across all industries, Adobe has succeeded in dominating the market after switching to a subscription and Software as a service (SaaS) model from 2013 onwards. To maintain its leading position, Adobe must adapt as technology increasingly shifts towards virtual reality and artificial intelligence.

Investment case

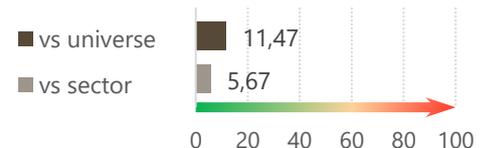
- Adobe is a trailblazer in the adoption of cloud solutions: the launch of Adobe Creative Cloud in 2012 transformed the business, shifting the group to a business model based on monthly subscriptions and offering excellent visibility on revenue that is, by nature, recurring. At the end of fiscal year 2023, 90% of the group's revenue was derived from subscriptions, enabling it to generate a free cash flow margin of 40%.
- To help meet the demands of an increasingly digital economy, Adobe is structured around three segments: Digital Media, Digital Experience and Publishing & Advertising. Digital Media (73% of FY 2022 revenue) consists of Creative Cloud and Acrobat & Document Cloud. Creative Cloud spans a range of software (Photoshop, Lightroom, Illustrator, etc.) in the form of Software as a service (SaaS) via the cloud, serving a very broad customer base ranging from students to marketing and business professionals. Acrobat & Document Cloud (Acrobat, Scan, Sign) is an SaaS for creating documents and digital signatures. Digital Experience (25% of revenue) encompasses a range of solutions focused on analytics for marketing and business. Publishing & Advertising (2% of revenue) is focused on meeting the publishing and advertising needs of technical writing and commercial publishing teams.
- Lastly, Adobe operates in fast-growing markets: estimates put its total addressable market in 2024 at \$128bn, broken down into \$31bn for Creative Cloud, \$13bn for Document Cloud and \$84bn for Experience Cloud. Given the high usage levels of Adobe's products (available for use on all sorts of screens) and the huge quantities of associated data, the business can continue to gain market share and extend its offering into automated learning via Adobe Sensei. Finally, Adobe is prioritising strategic partnerships, in particular with Microsoft for electronic signatures, which have met with great success since the onset of the public health crisis.
- Adobe's strategic integration of AI, illustrated by products such as FireFly or new editing solutions in existing software, holds great promise in terms of revenue. Currently in the adoption phase, Adobe's software is aimed at improving the user experience as well as the operational efficiency of creative and digital solutions.

ESG - risks and key points

- Notable key risks include fierce competition in the group's various markets and technological change: creative apps (Apple, Microsoft, Autodesk and social media), advertising (Google, Facebook) and documents (Google, Microsoft, Dropbox, DocuSign). However, Adobe is managing to keep its customers happy and hold on to its position as market benchmark.
- The acquisition of Figma (\$20 billion) is currently under review by regulators around the world, and could put the brakes on Adobe's ambitions to expand into collaboration software.



ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in USD

Current price	Value Bordier Scenario
484	567

Our scenario assumes US 10-year yields of 3.50%, sales growth averaging 10% a year out to 2033 and growth in the EBIT margin stabilising at around 46% by 2026.

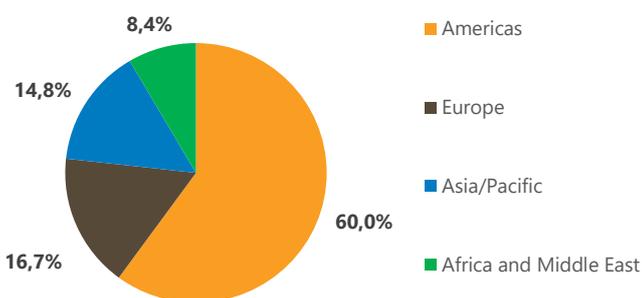
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of USD	2022	2023	2024e	2025e	2026e
Sales revenue	17 606	19 409	21 544	24 086	26 977
Sales growth %	13,0%	10,2%	11,0%	11,8%	12,0%
a/w organic	13,0%	10,2%	11,0%	11,8%	12,0%
EBIT adjusted	7 945	8 918	9 899	11 037	12 472
% of sales	45,1%	45,9%	45,9%	45,8%	46,2%
Net income	6 457	7 377	8 199	9 117	10 282
Adjusted EPS	13,71	16,07	17,86	19,86	22,40
Adjusted EPS growth	9,9%	17,2%	11,1%	11,2%	12,8%
Capex/Sales	2,8%	2,1%	2,1%	2,1%	2,0%
Free cash-flow	7 350	6 889	8 914	9 792	10 934
FCF/Sales	41,7%	35,5%	41,4%	40,7%	40,5%
Dividend per share	0,00	0,00	0,00	0,00	0,00
Dividend yield	0,0%	0,0%	0,0%	0,0%	0,0%
ROCE - WACC	44,1%	36,7%	24,5%	18,0%	14,3%
ROE (%)	46,0%	44,7%	33,2%	26,9%	23,3%
Net debt/Ebitda	-1,2%	-35,8%	-115,3%	-186,3%	-248,2%

Source: Factset, Bordier estimates

Sales breakdown - 11/2023



Ratios

	Adobe Inc.	S&P 500 Sector	S&P 500 Market
PE (x)***	2023	37,1	37,6
	2024e	27,1	32,9
	2025e	24,4	28,5
P/B (x)***	2023	16,2	12,4
	2024e	8,8	10,1
	2025e	6,4	8,1
Beta (2Y, daily) vs market:			1,20

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

Governance and ownership structure

Since 2007, CEO Shantanu Narayan.

Key shareholders (if any):

The Vanguard Group 7.55% / BlackRock Fund Advisors 5.18% / Fidelity Management & Research 4.71%.

Agenda

- 14.03.2024: Earnings Q1-2024 - 13.06.2024: Earnings Q2-2024
- 12.09.2024: Earnings Q3-2024

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements)

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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