

Adobe Inc

Solid start amid the challenging environment

UNITED STATES | SOFTWARE | 1Q22 RESULTS

- 1Q22 results in line with expectations. 1Q22 revenue/PATMI at 24/25% of our FY22e forecasts.
- Document Cloud remains Adobe's fastest growing segment with 17% YoY revenue growth, driven by paper-to-digital transition. Document Cloud segment ARR (annual recurring revenue) was US\$2.0bn, up 29% YoY.
- Adobe revealed its intention to increase prices on its Digital Media offerings, which we expect will strengthen 2H22 ARR growth in Creative Cloud.
- We maintain a BUY recommendation with a reduced DCF target price from US\$658.00 to US\$602.00. Valuations based on DCF with a WACC of 6.4% and terminal growth of 4.0%. We reduced our FY22e PATMI by 2% due to an estimated US\$75mn revenue hit from the business disruption associated with Russia's invasion of Ukraine.

Results at a glance

USD (bn)	1Q22	1Q21	YoY	Comments
Revenue	4.3	3.9	9.1%	Ahead of company guidance of US\$4.23bn
- Digital Media	3.1	2.9	8.8%	Document Cloud revenue rose 17% YoY
- Digital Experience	1.1	0.9	13.2%	
- Publishing and Advertising	0.1	0.1	-15.2%	
Gross profit	3.8	3.5	8.4%	
Operating Income	1.6	1.5	8.7%	Operating margin was flat YoY
PATMI	1.3	1.3	0.4%	
EPS (\$)	2.66	2.61	1.9%	Ahead of company guidance of \$2.63

Source: Company, PSR

The Positives

+ Document Cloud continues to be Adobe's fastest growing segment. Document Cloud revenue grew 17% YoY to US\$562mn and Document Cloud ARR grew 29% YoY to US\$2.0bn. Much of the Document Cloud revenue growth was supported by strong customer demand for Acrobat subscriptions; momentum in AdobeSign, with significant YoY increase in e-sign transactions within Acrobat; and high demand for PDF solutions on mobile devices.

+ Strong operating margins. Strong margins have been an important aspect of our Adobe investment thesis, and 1Q22 was no exception. The company posted operating margin of 37% in 1Q22, which was in line with 1Q21. Margins benefitted from lower travel/facilities costs amid a peak in Omicron cases in December and January.

+ Price increase for Creative Cloud products. Adobe has revealed its intention to increase pricing of its Digital Media products late in the second quarter. This could boost Creative Cloud revenues in 2H22 as price hikes take effect at renewal for existing customers and for new customers. Adobe believes that it has delivered significant value to customers by introducing several platform innovations and products, including mobile and web-based Creative Cloud Express offerings. While no specifics are available, the last price rise was announced in 2017.

The Negatives

- War in Russia and Ukraine impacts Digital Media segment. Adobe has stopped selling products and services in Russia and Belarus due to the ongoing Russia-Ukraine conflict. The company has announced that it is decreasing its Digital Media ARR balance by US\$87mn, consisting of US\$75mn relating to sales in the Russia/Belarus region and an additional US\$12mn pertaining to Ukraine (although the company will continue to provide Digital

29 March 2022

BUY (Maintained)

CLOSING PRICE	USD 450.01
FORECAST DIV	USD 0.00
TARGET PRICE	USD 602.00
TOTAL RETURN	33.8%

COMPANY DATA

Bloomberg CODE:	ADBE US
O/S SHARES (MN):	472
MARKET CAP (SGD bn / USD bn):	289 / 213
52 - WK HI/LO (SGD):	699.54 / 407.94
3M Average Daily T/O (mn):	3.94

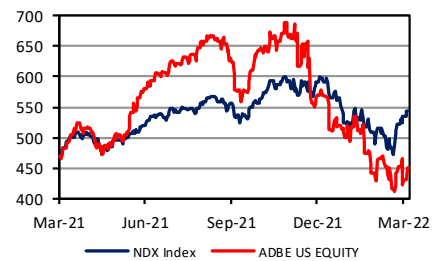
MAJOR SHAREHOLDERS

Vanguard Group Inc/The	8.1%
BlackRock Inc	7.9%
FMR LLC	5.1%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(3.8)	(21.0)	(20.6)
NASDAQ RETURN	5.3	(8.9)	(8.0)

PRICE VS. NASDAQ



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Nov, USD (bn)	FY20	FY21	FY22e	FY23e
Revenue	12.9	15.8	17.9	20.5
EBITDA	5.0	6.6	7.2	8.3
Net Profit	5.3	4.8	5.1	6.0
EPS	10.8	10.0	10.7	12.5
P/E (X)	41.5	44.9	42.2	36.0
ROE	39.7%	32.6%	28.2%	27.5%
ROA	21.7%	17.7%	16.1%	16.3%

Source: Company, PSR

VALUATION METHOD

Discounted Cash-Flow, WACC 6.4%, g 4.0%

Phillip Research Team (+65 6212 1849)
research@phillip.com.sg

Media services to the latter). Further, Adobe's FY22 sales will be reduced by US\$75mn due to these adjustments.

- **Higher tax rate.** In 1Q22, Adobe reported tax rate of 18% compared to the company's guidance of 16%. This was mainly because of the lower-than-expected tax benefits related to stock-based compensation. Further, the tax rate outlook for 2Q22 increased to 20%. Assuming everything else is constant, the increased tax rate reduces EPS by US\$0.06 each quarter.

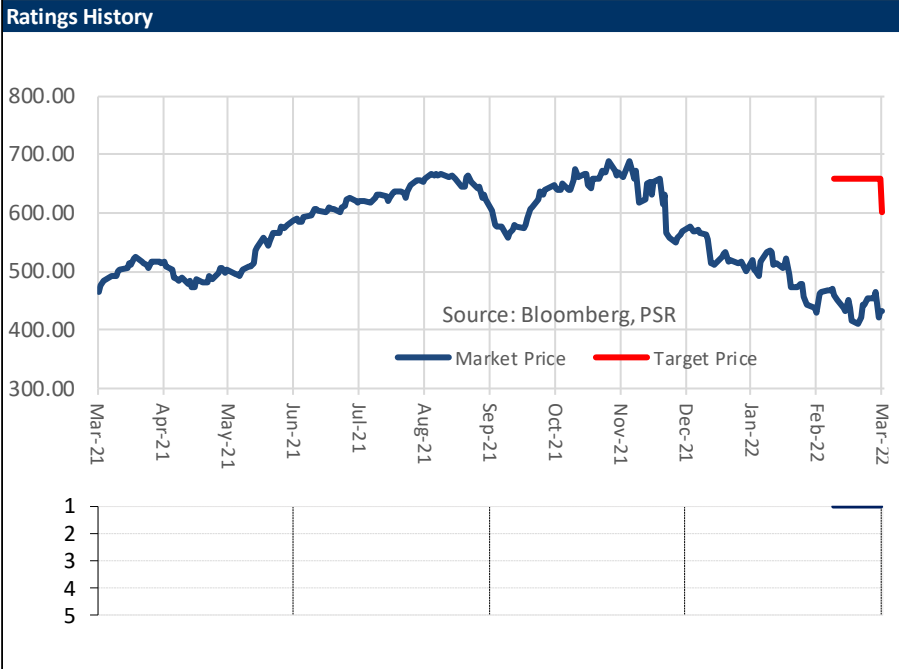
Outlook

Adobe expects 2Q22 revenue of US\$4.34bn and earnings of US\$2.44 per share. The company expects Digital Media net new ARR of US\$440mn. Additionally, Adobe anticipates revenue growth of 13% and 15% for the Digital Media and Digital Experience segments, respectively.

Adobe did not provide an update to its FY22 prior guidance. For FY22, Adobe expects earnings of US\$10.25 per share on total revenue of US\$17.9bn. Among the other guidance metrics are 14% as-reported revenue growth for Digital Media and Digital Experience segments.

Maintain BUY with lower TP of US\$602.00 (prev. US\$658.00)

We lower our FY22e PATMI by 2% to reflect an estimated US\$75mn revenue hit from the business disruption associated with Russia's invasion of Ukraine. Digital media creation tools and cloud document management systems are in high demand globally across several industries. Despite the war-based revenue reductions, we maintain BUY with a lower target price of US\$602.00. Valuations based on DCF with a WACC of 6.4% and terminal growth of 4.0%.



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Financials

Income Statement

Y/E Nov, USD mn	FY19	FY20	FY21	FY22e	FY23e
Revenue	11,171	12,868	15,785	17,875	20,516
Gross Profit	9,499	11,146	13,920	15,748	18,136
EBITDA	4,005	4,994	6,590	7,179	8,321
Depreciation & Amortization	(737)	(757)	(788)	(869)	(936)
EBIT	3,268	4,237	5,802	6,310	7,386
Interest Expense	(157)	(116)	(113)	(113)	(113)
Profit before tax	3,205	4,176	5,705	6,242	7,320
Taxation	(253)	1,084	(883)	(1,136)	(1,354)
PATMI, reported	2,951	5,260	4,822	5,106	5,966

Per share data (USD)

Y/E Nov	FY19	FY20	FY21	FY22e	FY23e
Diluted EPS, reported	6.00	10.85	10.02	10.66	12.51
DPS	-	-	-	-	-
BVPS	21.40	27.35	30.76	37.79	45.52

Cash Flow

Y/E Nov, USD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit after tax (GAAP)	2,951	5,260	4,822	5,106	5,966
Adjustments	1,493	281	2,116	2,332	2,599
WC Changes	(23)	186	292	631	510
Cash Flow from Operations	4,422	5,727	7,230	8,068	9,075
CFI					
CAPEX, net	(394)	(419)	(348)	(420)	(475)
Others	(61)	5	(3,189)	(465)	(465)
Cash Flow from Investing	(456)	(414)	(3,537)	(885)	(940)
CFE					
Purchase of Treasury stock, net of re-issuance	(2,517)	(2,780)	(3,659)	(2,709)	(3,459)
Debt, net of repayments	-	(6)	-	-	-
Others	(429)	(702)	(642)	(300)	(300)
Cash Flow from Financing	(2,946)	(3,488)	(4,301)	(3,009)	(3,759)
Net Change in Cash	1,007	1,828	(634)	4,174	4,377
CCE, end	2,650	4,478	3,844	8,019	12,395

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Nov, USD mn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Cash & Cash Equivalents	2,650	4,478	3,844	8,018	12,395
Others	3,845	3,668	4,807	5,899	7,115
Total current assets	6,495	8,146	8,651	13,918	19,510
PPE & IA	13,705	13,618	16,214	15,765	15,304
Deferred income taxes	-	1,370	1,085	902	719
Others	562	1,150	1,291	1,218	1,145
Total non-current assets	14,267	16,138	18,590	17,885	17,168
Total Assets	20,762	24,284	27,241	31,803	36,679
LIABILITIES					
Account Payables	209	306	312	353	397
Accrued Expenses	1,399	1,422	1,736	1,898	2,060
ST Debt	3,149	-	-	-	-
Others	3,434	3,784	4,884	5,939	6,994
Total current liabilities	8,191	5,512	6,932	8,190	9,451
LT Debt	989	4,117	4,123	4,123	4,123
Income Tax Payable	616	529	534	534	534
Others	436	862	855	855	855
Total non-current liabilities	2,041	5,508	5,512	5,512	5,512
Total liabilities	10,232	11,020	12,444	13,702	14,963
Equity					
Share Capital & APIC	6,504	7,357	8,428	9,339	10,450
Shareholder Equity	10,530	13,264	14,797	18,100	21,715

Valuation Ratios

Y/E Nov	FY19	FY20	FY21	FY22e	FY23e
P/E (X)	75.0	41.5	44.9	42.2	36.0
P/B (X)	21.0	16.5	14.6	11.9	9.9
EV/EBITDA (X)	55.7	43.6	32.9	29.5	24.8
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Growth & Margins					
Growth					
Revenue	23.7%	15.2%	22.7%	13.2%	14.8%
EBITDA	25.7%	24.7%	32.0%	8.9%	15.9%
EBIT	15.1%	29.6%	36.9%	8.8%	17.0%
Net profit, reported	13.9%	78.2%	-8.3%	5.9%	16.8%
Margins					
Gross margin	85.0%	86.6%	88.2%	88.1%	88.4%
EBITDA margin	35.8%	38.8%	41.7%	40.2%	40.6%
EBIT margin	29.3%	32.9%	36.8%	35.3%	36.0%
Net profit margin, reported	26.4%	40.9%	30.5%	28.6%	29.1%
Key Ratios					
ROE	28.0%	39.7%	32.6%	28.2%	27.5%
ROA	14.2%	21.7%	17.7%	16.1%	16.3%
Net Gearing	14.1%	nm	1.9%	nm	nm
Net Debt/EBITDA (X)	0.4	nm	0.0	nm	nm

Contact Information (Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Qystina Azli - qystina@phillip.com.sg

Consumer | Industrial | Conglomerates

Terence Chua – terencechuatl@phillip.com.sg

Property | REITs

Natalie Ong – natalieongpf@phillip.com.sg

Banking & Finance

Glenn Thum – glennthumjc@phillip.com.sg

Small-Mid Cap

Vivian Ye – yeqw@phillip.com.sg

US Technology Analyst (Hardware)

Timothy Ang – timothyang@phillip.com.sg

US Technology Analyst (Internet)

Jonathan Woo – jonathnwookj@phillip.com.sg

Credit Analyst

Shawn Sng - shawnsngkh@phillip.com.sg

US Technology Analyst (Software/Services)

Ambrish Shah – amshah@phillipcapital.in

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre,#61-64,
Norodom Blvd Corner Street 306,Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGEX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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