



Adobe Inc

Big Figma acquisition

UNITED STATES | SOFTWARE | 3Q22 RESULTS

21 September 2022

- 3Q22 results were in line with expectations. 9M22 revenue/PATMI was at 74%/75% of our FY22e forecasts. Total revenue grew 13% YoY to US\$4.4bn, driven by 13%/14% YoY increases in Digital Media and Digital Experience revenues.
- Adobe agreed to acquire collaborative design software firm Figma in a cash-and-stock deal worth US\$20bn. The company is acquiring Figma for 50x its FY22e annual recurring revenue (ARR) of US\$400mn. The transaction is expected to close in FY23e and aims to expand tools for creative professionals. We believe that the deal would take out an emerging competitor as Figma poses a potential threat standalone.
- We nudge lower our FY22e revenue/PATMI by 1% due to macroeconomic uncertainty and FX headwinds. On a standalone basis, we maintain a BUY recommendation on ADBE with a lowered DCF target price of US\$420.00 (prev. US\$549.00), with an increased WACC of 7.1% and unchanged terminal growth rate of 4.0%. Overall, we believe that Adobe's long-term secular tailwinds remain intact, including paperless workflows, explosion in digital content creation and continued shift to the cloud. Completion of the Figma transaction will cause a 7% downgrade to our target price due to operating margin dilution and additional shares in the diluted share count.

BUY (Maintained)

CLOSING PRICE	USD 291.06
FORECAST DIV	USD 0.00
TARGET PRICE	USD 420.00
TOTAL RETURN	44.3%

COMPANY DATA

Bloomberg CODE:	ADBE US
O/S SHARES (MN):	467
MARKET CAP (SGD bn / USD bn):	192 / 136
52 - WK HI/LO (USD):	699.54 / 287.81
3M Average Daily T/O (mn):	3.18

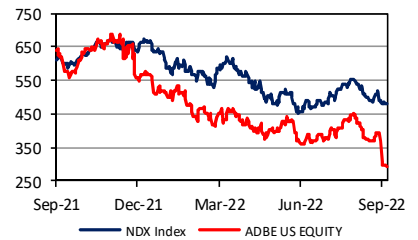
MAJOR SHAREHOLDERS

Vanguard Group Inc/The	8.3%
BlackRock Inc	7.9%
FMR LLC	5.2%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(31.5)	(19.3)	(48.7)
NASDAQ RETURN	(10.5)	5.4	(26.9)

PRICE VS. NASDAQ



KEY FINANCIALS

Y/E Nov, USD (bn)	FY20	FY21	FY22e	FY23e
Revenue	12.9	15.8	17.6	20.1
EBITDA	5.0	6.6	7.0	8.0
PATMI	5.3	4.8	4.8	5.6
PATMI, Adjusted	4.9	6.0	6.4	7.2
EPS	10.8	10.0	10.1	12.0
P/E (X) - Adjusted	29.6	24.0	22.0	19.3
ROE	39.7%	32.6%	31.2%	29.5%
ROA	21.7%	17.7%	16.7%	16.8%

Source: Company, PSR

VALUATION METHOD

Discounted Cash-Flow, WACC 7.1%, g 4.0%

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Results at a glance

USD (bn)	3Q22	3Q21	YoY	Comments
Revenue	4.4	3.9	12.7%	15% YoY in constant currency
- Digital Media	3.2	2.9	12.8%	Driven by Creative Cloud (11% YoY) and Document Cloud (23%)
- Digital Experience	1.1	1.0	13.7%	
- Publishing and Advertising	0.1	0.1	-4.7%	
Gross profit	3.9	3.5	12.1%	Gross margin of 88%
Operating Income	1.5	1.4	3.0%	Operating margin of 34%
PATMI	1.1	1.2	-6.3%	
EPS (\$)	2.42	2.52	-4.0%	Ahead of company guidance of \$2.35
PATMI, Adjusted*	1.6	1.5	6.6%	
Adjusted EPS (\$)	3.40	3.11	9.3%	Ahead of company guidance of \$3.33

Source: Company, PSR *Note: Excludes stock based compensation expense and amortization of intangibles

The Positives

+ Document Cloud strength continues. Document Cloud revenue grew 23% YoY to US\$607mn and Document Cloud annual recurring revenue (ARR) grew 26% YoY to US\$2.2bn. The main growth drivers include strong demand for PDF solutions across computing devices and momentum in AdobeSign. Key customer wins in 3Q22 include Amazon, Boeing, and ServiceNow. Document Cloud is accelerating document productivity and workflows with over 300bn PDFs opened and nearly 8bn e-signatures processed each year. Adobe also announced enhancements to Acrobat web experience such as High Contrast and Read Out Loud.

+ Demand for Creative Cloud remains robust. Creative Cloud revenue was US\$2.6bn, up 11% YoY. Adobe added US\$330mn of net new Creative Cloud ARR in 3Q22. Much of the Creative Cloud revenue growth was supported by significant growth in new users (particularly in Creative Cloud Express) and continued momentum in growth initiatives such as Frame.io and Substance. The demand for its photography, imaging and video applications was strong due to the surge in digital content creation.

+ Resilient Digital Experience. Digital Experience revenue grew 14% YoY to US\$1.1bn driven by strength in the enterprise segment with large deal wins and continued momentum for Adobe Experience Platform applications. Workfront remained strong as well with revenue growing above 35% YoY. Key customer wins include T-Mobile, Morgan Stanley, and Qualcomm.

The Negatives

- Acquisition of Figma is expensive and dilutive. Adobe has signed a definitive merger agreement to acquire collaborative design software firm Figma for US\$20bn. The deal values Figma at almost 50x its FY22e ARR of US\$400mn. Adobe noted it could lower margins by 100-200 bps over the next two years. Management also expects the deal to be accretive to adjusted EPS only at the end of year three (FY26). The transaction will be funded by 50% cash and 50% stock, and is expected to close in FY23, subject to regulatory and shareholder approval.

Outlook

For 4Q22e, Adobe expects GAAP EPS of US\$2.44 (adj. EPS of US\$3.50) on total revenue of US\$4.52bn. Adobe also expects Digital Media net new ARR of US\$550mn for 4Q22e driven by price increases at renewals in both Creative and Document Cloud segments. Additionally, the company expects revenue growth of 10%/13% YoY in the Digital Media and Digital Experience segments. While acquiring fast-growing Figma may boost Adobe's growth rate and give it a competitive advantage, the huge acquisition price is expected to have an impact on profitability.

Figure 1: Adobe guidance summary

USD	Adobe 4Q22e	Adobe FY22e (Implied)	PSR FY22e
Revenue	4.52bn	17.6bn	17.6bn
- Digital Media growth YoY	10.0%	12.0%	12.2%
- Digital Experience growth YoY	13.0%	14.0%	13.5%
Digital Media net new ARR	550mn	13.9bn	N/A
GAAP EPS (\$)	2.44	10.01	10.10
Adj. EPS (\$)	3.50	13.62	13.59

Source: Company, PSR

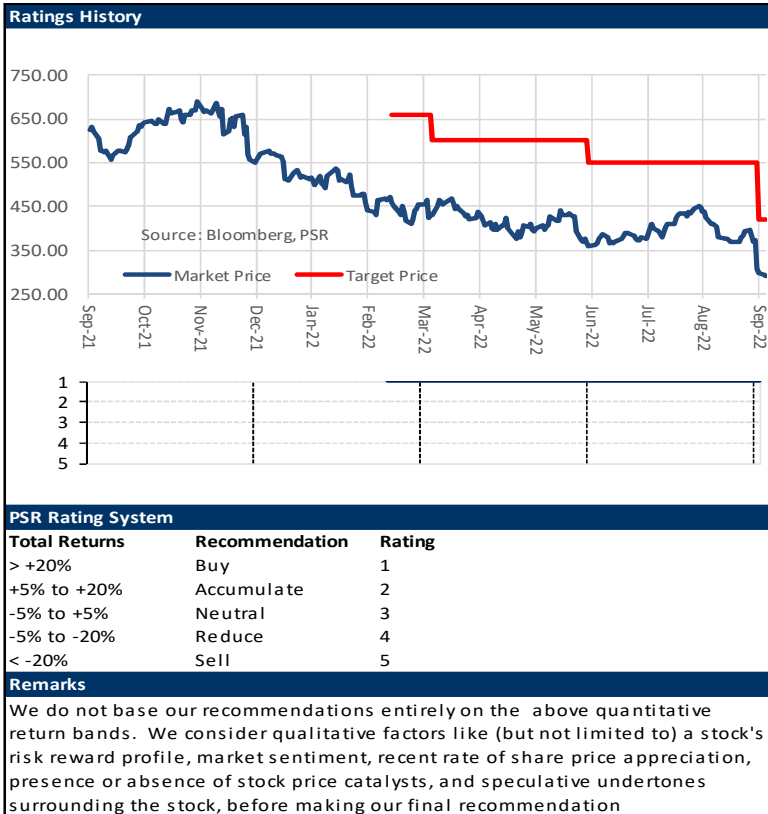
Note - Adj. EPS excludes stock based compensation expense and amortization of intangibles

Maintain BUY with lower TP of US\$420.00 (prev. US\$549.00)

On a standalone basis, we maintain a BUY recommendation on ADBE with a lowered DCF target price of US\$420.00 (prev. US\$549.00), with an increased WACC of 7.1% and unchanged terminal growth rate of 4.0%. We nudge lower our FY22e revenue/PATMI by 1% due to macroeconomic uncertainty and FX headwinds. Overall, we believe that Adobe's long-term secular tailwinds remain intact, including paperless workflows, explosion in digital content creation and continued shift to the cloud.

Figma acquisition scenario

Our target price on ADBE is US\$389.00 (WACC 7.1%, g 4.0%) based on our estimates of the Figma impact, including 150 bps of operating margin dilution in FY23e and about 30mn additional shares in the diluted share count for EPS. We also assume Figma generating US\$600mn in revenue in FY23e. We hold interest/other income (expense) constant with a 20% tax rate resulting in FY23e GAAP EPS growth of 9% YoY (8% below standalone ADBE).



Financials

Income Statement

Y/E Nov, USD mn	FY19	FY20	FY21	FY22e	FY23e
Revenue	11,171	12,868	15,785	17,632	20,055
Gross Profit	9,499	11,146	13,920	15,481	17,648
EBITDA	4,005	4,994	6,590	7,006	7,999
Depreciation & Amortization	(737)	(757)	(788)	(875)	(948)
EBIT	3,268	4,237	5,802	6,131	7,051
Interest Expense	(157)	(116)	(113)	(113)	(113)
Profit before tax	3,205	4,176	5,705	6,038	6,959
Taxation	(253)	1,084	(883)	(1,274)	(1,392)
PATMI	2,951	5,260	4,822	4,764	5,567
PATMI, Adjusted	3,868	4,903	6,003	6,414	7,217

Per share data (USD)

Y/E Nov	FY19	FY20	FY21	FY22e	FY23e
Diluted EPS	6.00	10.85	10.02	10.10	11.97
Diluted EPS, Adjusted	7.86	10.11	12.48	13.59	15.51
DPS	-	-	-	-	-
BVPS	21.40	27.35	30.76	32.31	40.61

Cash Flow

Y/E Nov, USD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit after tax (GAAP)	2,951	5,260	4,822	4,764	5,567
Adjustments	1,493	281	2,116	2,322	2,580
WC Changes	(23)	186	292	290	219
Cash Flow from Operations	4,422	5,727	7,230	7,376	8,366
CFI					
CAPEX, net	(394)	(419)	(348)	(466)	(515)
Others	(61)	5	(3,189)	(465)	(465)
Cash Flow from Investing	(456)	(414)	(3,537)	(931)	(980)
CFF					
Purchase of Treasury stock, net of re-issuance	(2,517)	(2,780)	(3,659)	(5,205)	(2,997)
Debt, net of repayments	-	(6)	-	-	-
Others	(429)	(702)	(642)	(300)	(300)
Cash Flow from Financing	(2,946)	(3,488)	(4,301)	(5,505)	(3,297)
Net Change in Cash	1,007	1,828	(634)	941	4,089
CCE, end	2,650	4,478	3,844	4,785	8,873

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	4,785	8,873
Others	3,845	3,668	4,807	5,792	6,980
Total current assets	6,495	8,146	8,651	10,577	15,853
PPE & IA	13,705	13,618	16,214	15,804	15,372
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	17,924	17,236
Total Assets	20,762	24,284	27,241	28,501	33,089
LIABILITIES					
Account Payables	209	306	312	357	402
Accrued Expenses	1,399	1,422	1,736	1,898	2,060
ST Debt	3,149	-	-	-	-
Others	3,434	3,784	4,884	5,488	6,222
Total current liabilities	8,191	5,512	6,932	7,743	8,684
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	13,255	14,196
Equity					
Share Capital & APIC	6,504	7,357	8,428	9,322	10,402
Shareholder Equity	10,530	13,264	14,797	15,246	18,893

Valuation Ratios

Y/E Nov	FY19	FY20	FY21	FY22e	FY23e
P/E (X) - Adjusted	38.1	29.6	24.0	22.0	19.3
P/B (X)	14.0	11.0	9.7	9.3	7.4
EV/EBITDA (X)	37.2	29.0	21.9	20.1	16.8
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Growth & Margins					
Growth					
Revenue	23.7%	15.2%	22.7%	11.7%	13.7%
EBITDA	25.7%	24.7%	32.0%	6.3%	14.2%
EBIT	15.1%	29.6%	36.9%	5.7%	15.0%
Net profit, reported	13.9%	78.2%	-8.3%	-1.2%	16.9%
Margins					
Gross margin	85.0%	86.6%	88.2%	87.8%	88.0%
EBITDA margin	35.8%	38.8%	41.7%	39.7%	39.9%
EBIT margin	29.3%	32.9%	36.8%	34.8%	35.2%
Net profit margin, reported	26.4%	40.9%	30.5%	27.0%	27.8%
Key Ratios					
ROE	28.0%	39.7%	32.6%	31.2%	29.5%
ROA	14.2%	21.7%	17.7%	16.7%	16.8%
Net Gearing	14.1%	nm	1.9%	nm	nm
Net Debt/EBITDA (X)	0.4	nm	0.0	nm	nm

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