

Will Adobe continue to disappoint expectations?



Valuation Master Class



**What's interesting
about Adobe is that
>90% of the world's
creative professionals
use its software**



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Revenue by segment

Provider of various professional software products such as Photoshop, Illustrator, Dreamwaver, etc.



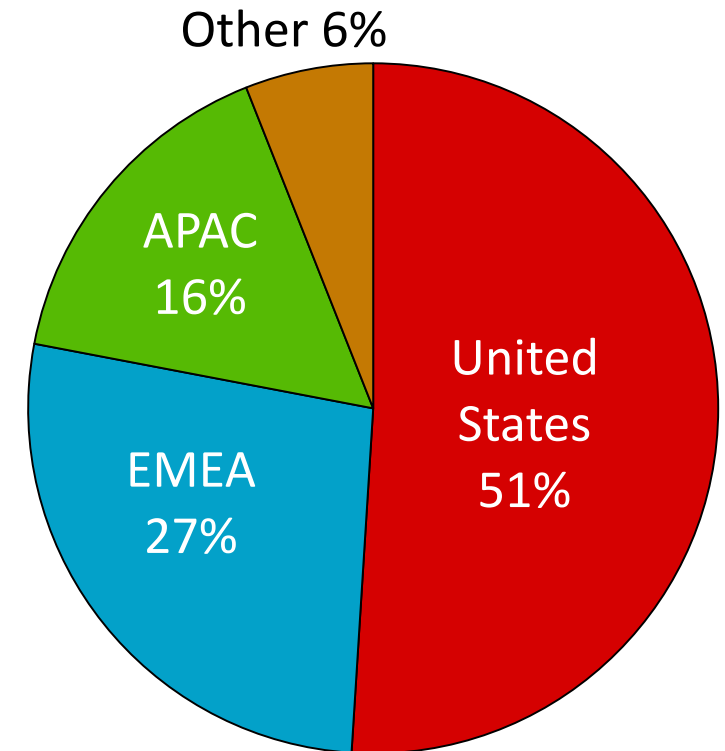
Subscription

(digital media, digital experience and publishing and advertisement)
92%

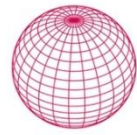
Product, services and other

(software purchase, consulting and maintenance)
8%

Revenue breakdown by region

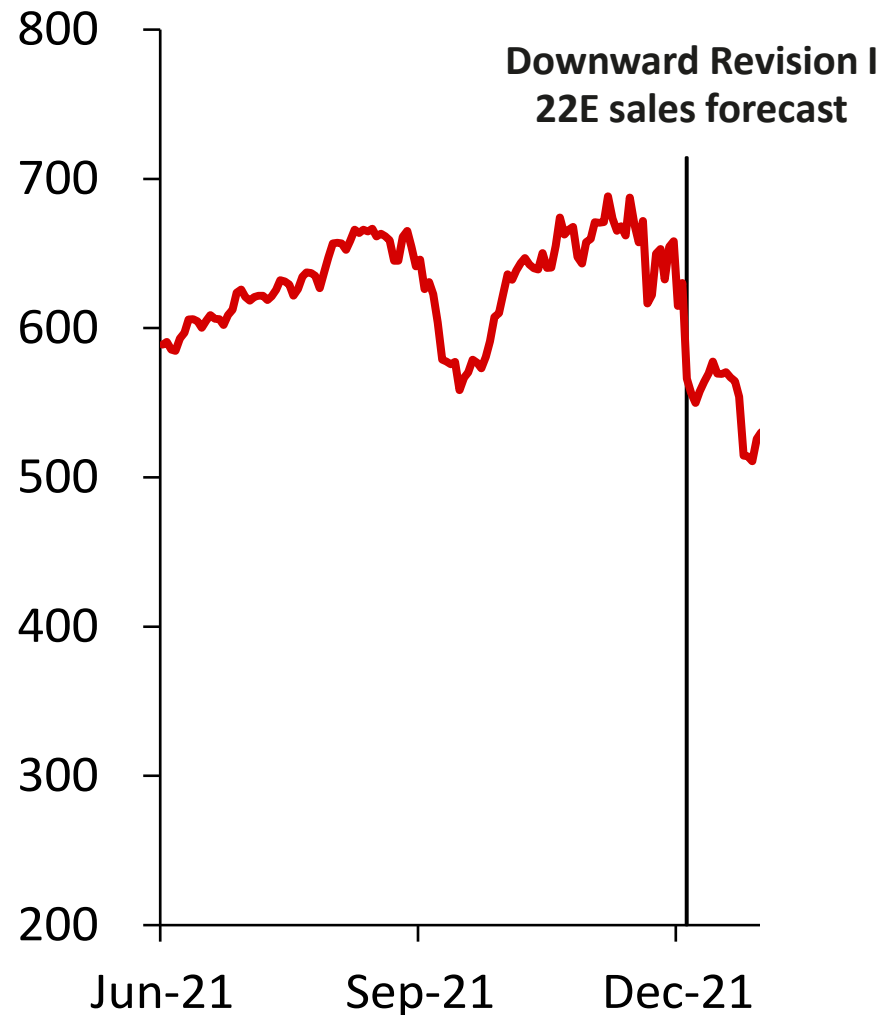


A series of downward revision led to a share price collapse



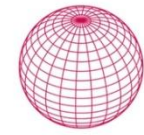
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Adobe's share price (US\$)



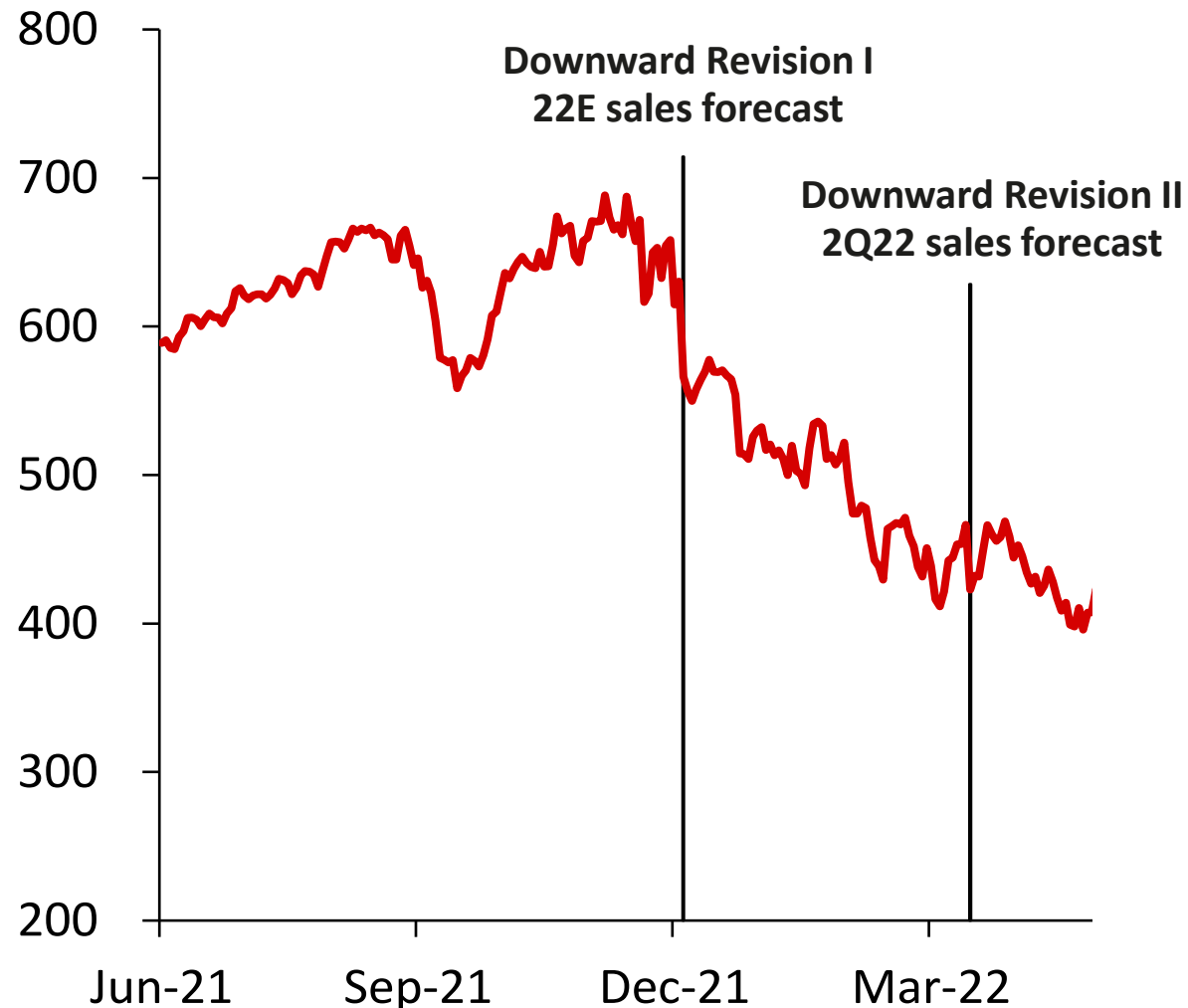
- ★ In December 2021, Adobe revised down its sales forecast for 22E
 - The management admitted that it expects a slowing spending environment for 2022
 - The forecast was 1.5% less than analyst expectations
- ★ Although the downward revision appears small, the share price plummeted by more than 10% the day following the announcement

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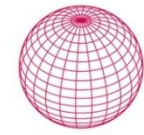
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Adobe's share price (US\$)



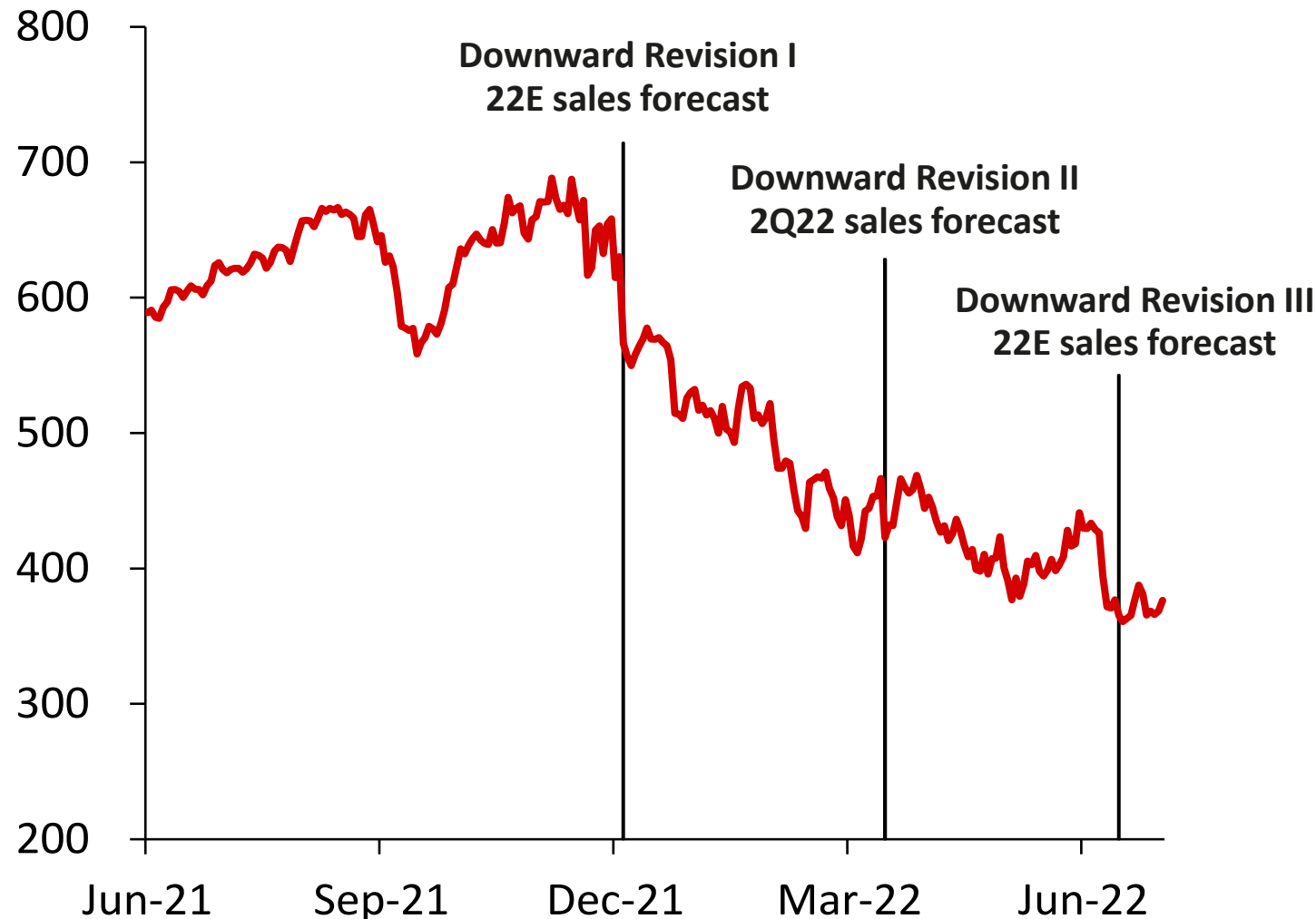
- ★ In March 2022, Adobe released its forecast for 2Q22
 - **Again, Adobe expected weaker revenue, falling short of analysts' forecast by 1.3%**
- ★ Adobe mentioned the growing competition and the halt in sales to Russia and Belarus as the main reasons for slightly weaker performance

A series of downward revision led to a share price collapse



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Adobe's share price (US\$)

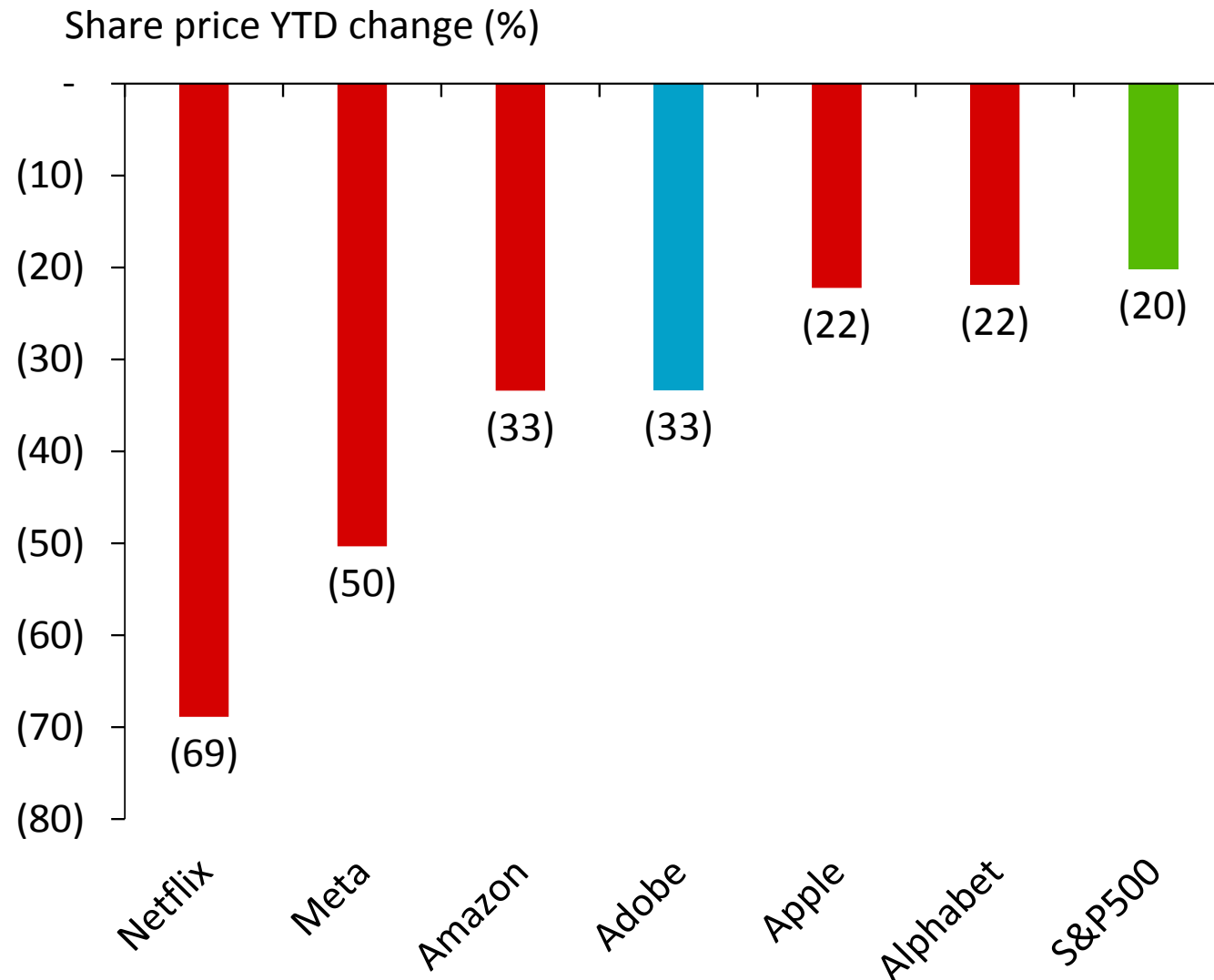


- ★ The latest earnings announcement was not great news for the investors as well
 - While Adobe delivered a strong 2Q22, the company revised down its full-year forecast by another 1%
- ★ Overall, Adobe's share price has collapsed close to 50% since its highest point in November 2021

Tech stocks had a bad start to 2022

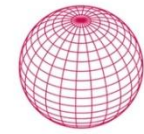


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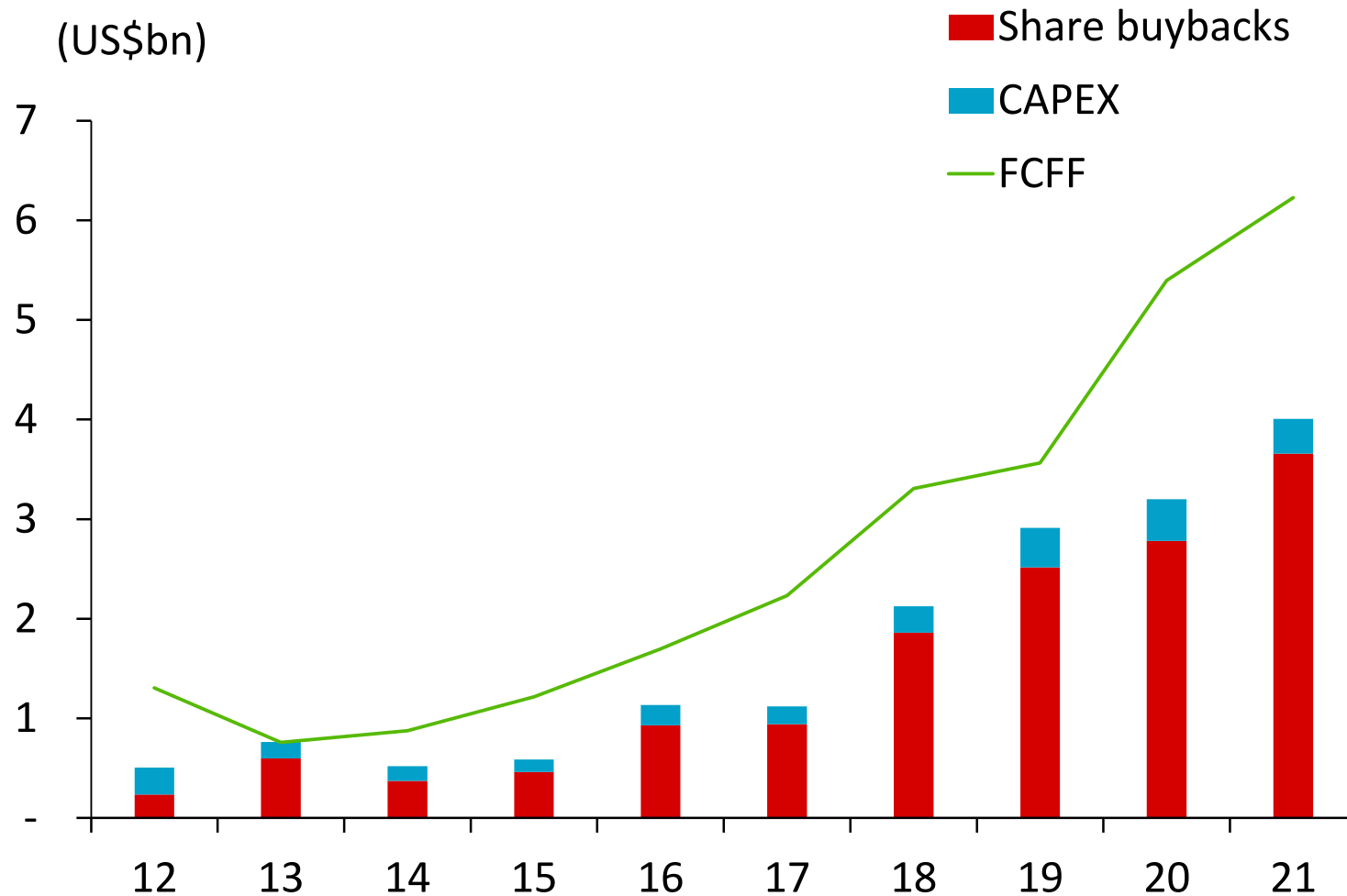


- ★ It's not just Adobe that is struggling in 2022
 - Most tech stocks saw a similar or even worse decline YTD
 - Techs stocks underperformed the already weak S&P500

Adobe is a cash machine



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- ★ Adobe's business is not capital intensive
 - Its operations is not dependent on huge amounts of fixed assets or intangibles
- ★ Given the low CAPEX requirements, Adobe can undertake a massive share repurchase program
 - The company uses buybacks as an alternative to paying out dividends

How does consensus access Adobe?



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Recommendation	Mar-22	Apr-22	May-22	Current
Strong buy	12	11	11	11
Buy	14	15	15	15
Hold	6	6	6	5
Sell	-	-	-	-
Strong sell	-	-	-	-
Average score	1.8	1.8	1.8	1.8

Price target	Mar-22	Apr-22	May-22	Current
Median	625	570	560	484
Mean	618	564	561	488

- ★ Most analysts are bullish on Adobe, issuing a BUY or STRONG BUY recommendation
- ★ Though, over recent months, analysts consistently revised down their price targets
 - Still, the current price target implies an upside of 35%