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Adobe is a leader in the creative software industry, especially following a successful transformation to its business model in 2013. Historically, Adobe had a perpetual licensing model, but it shifted to a subscription-based SaaS model and discontinued sales of perpetual licenses (Hardman, 2019). Now, at the core of Adobe's business model are its subscription services, the Creative Cloud, Experience Cloud, and Document Cloud. These subscriptions allow users access to over 20 software applications, all of which are continuously updated in real-time. Adobe uses cloud infrastructure to deliver its services, allowing accessibility from any device, automatic updates, and improved collaboration capabilities. They are committed to innovation and make large investments in research and development, integrating new technologies such as artificial intelligence into its products (Worktheater, 2023).

Adobe's product portfolio sets it apart from other creative software companies. Adobe addresses all professional needs within the creative industry, while most competitors focus on one service. Their Creative Cloud includes tools for graphic designers and photographers (Photoshop, Illustrator, and Lightroom), web designers (Dreamweaver and XD), videographers (After Effects and Premiere Pro), and more (*Adobe Products*). However, the competitive landscape of creative software is vast and there are many alternatives to Adobe's individual services. A notable one, the Affinity suite by Serif, offers services for graphic designers, photographers, and web designers, through a perpetual licensing agreement. Open-source software like GIMP, Krita, and Blender offers free services for graphic design, but lack Adobe's advanced features in Photoshop such as generative AI. Figma, a popular application design platform, is a strong competitor. Adobe's \$20 billion planned acquisition of Figma was stopped by the UK's Competition and Markets Authority and the European Commission, due to concerns that it would reduce competition in the creative software market and hinder Figma's potential as a significant competitor to Adobe (Merced, 2023). This decision underscores the competitive nature of the industry and highlights Adobe's dominant position.

Adobe's position within the creative software industry is strengthened by several competitive advantages. One key advantage is the integration of Adobe's applications, allowing for the sharing of photos, colors, files, and more. This enhances efficiency and collaboration across applications, and locks in users, due to high switching costs. Additionally, approximately one-third of Adobe's operating expenses in 2023 were for research and development, highlighting their commitment to innovation (*SEC Filings and Fiscal Documents*). Specifically, they have incorporated artificial intelligence technologies through Adobe Sensei, ensuring they will remain at the forefront of industry trends (*Adobe Sensei: Machine Learning and Artificial Intelligence*). Furthermore, Adobe has well-established brand recognition, which acts as a barrier to entry against new entrants. However, Adobe also has disadvantages. Despite Adobe's subscription model's success, there exist cost barriers for individual users and smaller businesses. Another challenge is how complex Adobe's software is. Its countless features can be overwhelming for users who have simpler needs, which may limit its customer scope and leads to limited customer support. Basic support comes with subscriptions, while premium support costs extra, which has frustrated some users. (*Adobe Photoshop Reviews 2024*).

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Adobe's addressable market spans multiple segments and has a combined addressable market of \$205 billion. Adobe believes the addressable market of their Creative Cloud is \$63 billion, their Document Cloud is \$32 billion, and their Experience Cloud is \$110 billion (Jørgensen, 2023). To understand the vast opportunities in this industry, it's important to track several crucial metrics and KPIs. Subscription revenue growth is an important metric that measures Adobe's recurring income and future growth potential. By analyzing its year-over-year growth and comparing it to standard values for the industry, the company's ability to attract and retain subscribers can be determined. Another critical metric is the customer acquisition cost alongside average revenue per user in order to determine the sustainability and profitability of their subscriber base expansion strategy. Finally, the EV/EBITDA ratio is important to assess Adobe's overall financial health and operational efficiency. By tracking its trend over the years and comparing it to peers, it reveals Adobe's ability to generate profit from its operations.

In order to value Adobe, there are many aspects that need to be considered. Its market capitalization of \$249.67 billion as of March 11th, 2024 and enterprise value of \$245.90 billion displays Adobe has far more cash than debt (*PitchBook*). This is further displayed by information in their latest financial statements from Q4 2023. Adobe has no short-term debt, approximately \$3.634 billion of long-term debt, and a cash reserve of \$7.141 billion. Adobe's Free Cash Flow (FCF) of \$6.942 billion and R&D expenses of \$3.473 billion highlight their operational efficiency and continuous innovation (*SEC Filings and Fiscal Documents*). Due to Adobe's high FCF I believe a Discounted Cash Flow valuation would be appropriate, with assumptions supported by an analysis of EV/EBITDA and P/E ratios through public corporation comparisons. I believe using metrics in the 75th percentile and above of these public comps is justified, but that should be more accurately determined by examining the KPIs mentioned above with industry benchmarks. I believe that due to Adobe's large FCF and strategic investments in R&D it is well-positioned for future innovations that can further solidify its market dominance. Thus, I believe that Adobe is a long at current valuations.

This positive stance still has its risks. One significant risk is the intense competition within the creative software industry. Despite Adobe's focus on artificial intelligence, the dynamic nature of the technology industry could allow competitors to narrow the gap. These advancements may not only cause them to catch up with the quality of Adobe's services but also provide cheaper alternatives. Another serious risk is that their significant investment in R&D has the potential to produce failed projects. Additionally, the regulatory challenges Adobe faced with Figma can limit Adobe's expansion strategies. To refine my investment thesis on Adobe, access to more detailed information on the internal operations of Adobe would help. Specifically, data on subscriber growth, average revenue per user, and customer acquisition costs would reveal the sustainability of their subscription model. Furthermore, insights into Adobe's R&D progress would reveal if their focus on innovation is truly giving them a competitive advantage. This information would be very helpful for creating my investment thesis on Adobe. They would offer a comprehensive view of Adobe's market leadership and growth prospects.

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