

June 30, 2021

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### Return on Investment

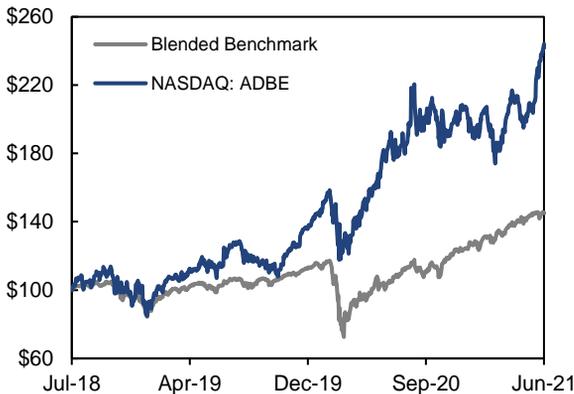
Current Share Price	\$585.64
Target Price	\$639.00
Dividend Yield	0.00%
Implied Return	9%
Conviction Rating	2

### Market Profile

52-Week Range	\$421.20 - \$590.75
Market Capitalization (US\$m)	\$279,000
Net Debt (US\$m)	(\$1,075)
Enterprise Value (US\$m)	\$277,925
Beta (5-Year Monthly)	0.95

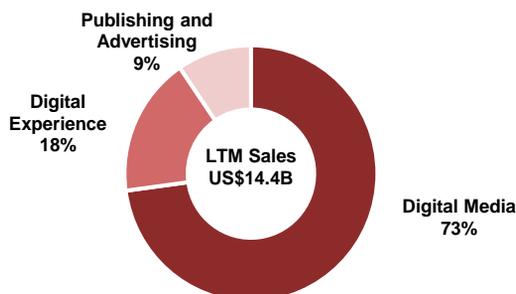
Metrics	2021E	2022E	2023E
Revenue (\$USmm)	\$15,263	\$17,945	\$20,752
Unlevered FCF (\$USmm)	\$7,100	\$8,191	\$9,271
P/E	44.8x	38.9x	32.7x
EPS	\$12.10	\$13.94	\$16.10

### Historical Trading Performance (Indexed to \$100)



Source: S&P Capital IQ

### Figure 1: Revenue Segmentation (LTM)



Source: Company Filings

### Business Description

Adobe Inc. (NASDAQ: ADBE) is a diversified software company, offering an extensive portfolio of products catering to content creators, creative professionals, students, businesses, and knowledge workers around the globe. ADBE was founded in 1982 and is headquartered in San Jose, California. The Company has been a global leader in software packaging for more than 35 years, expanding organically and through numerous acquisitions. ADBE operates under three business segments: (1) Digital Media; (2) Digital Experience; and (3) Publishing and Advertising. ADBE's primary products include Acrobat, Photoshop, Lightroom, and Premiere Pro. The product suite is primarily sold through app stores, cloud-based platforms like Software-as-a-Service (SaaS), system integrators, and value-added resellers.

### Original Investment Thesis

The CPMT entered a position in ADBE in April 2021. The original investment thesis was based on the Company's integrated-software packaging platform, which generated growing cash flows by serving millions of individuals and professionals globally. Furthermore, management possessed a strong track record of integrating major acquisitions to enhance the product mix available to its customers. Since the purchase, ADBE has continued to fit our mandate due to its scalable business model, world-class brand recognition, and disciplined approach to capital and debt maintenance.

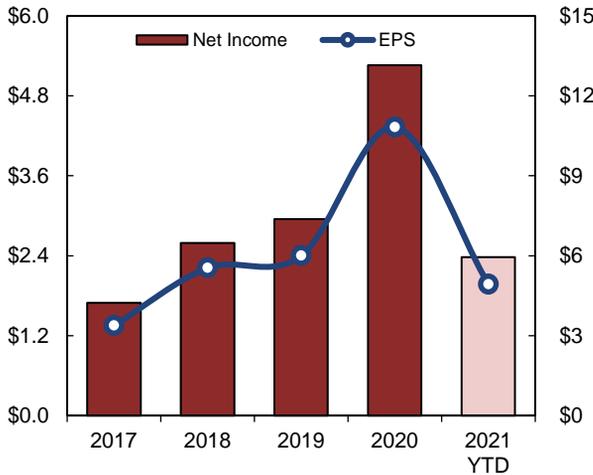
### Industry Overview and Competitive Landscape

The software packaging industry focuses on combining various software used for publication, documentation, and content creation across the globe. The industry is dominated by few large players, such as Microsoft (NASDAQ: MSFT), Salesforce.com (NYSE: CRM), and Oracle (NYSE: ORCL), coupled with numerous small-scale companies. These companies provide individuals and businesses with an extensive set of applications and programs through subscription-based cloud platforms. The three largest segments covered by the industry include Software Publishing, Business Analytics & Enterprise Software, and Design, Editing & Rendering Software.

The ongoing COVID-19 pandemic has bolstered the need for digitalization of businesses. The industry is expected to benefit from increased demand as businesses continue to boost their IT spending to modernize their technological infrastructure and adapt to an increasingly mobile office environment. While the industry players consistently face the challenge of technological disruption, large companies like ADBE, MSFT, and CRM benefit from acquiring their smaller competitors to reduce competition and continuously advance their product offerings.

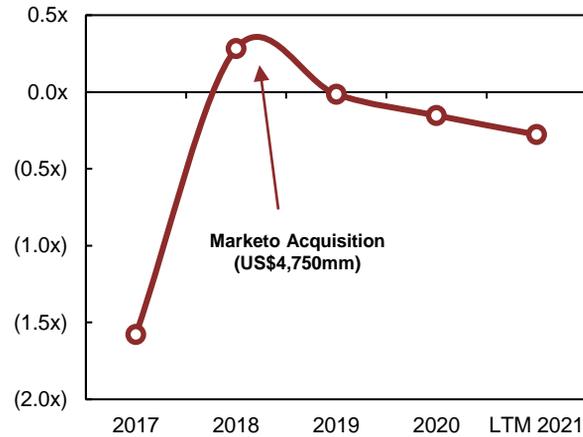
The rise of subscription-based business models has led to significant technological developments in the cloud-computing space. The companies are expected to further gain momentum from the rise of artificial intelligence (AI), predictive analytics, increasing private investments in computers and software, falling hardware prices, and mobility becoming a top-priority for customers.

**Figure 2: LHS Net Income (US\$B) & RHS EPS (US\$)**



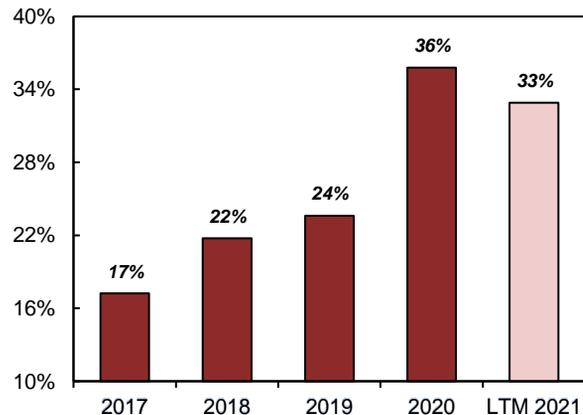
Source: Company Filings, S&P Capital IQ

**Figure 3: Net Debt / LTM EBITDA**



Source: Company Filings, FactSet

**Figure 4: LTM Return on Invested Capital**



Source: Company Filings, FactSet

**Mandate Fit**

**Quality Management:** ADBE’s management focuses on disciplined growth, prioritizing enhancements through acquisitions, integration of product suite, and return to shareholders through buybacks. Shantanu Narayan, ADBE’s CEO, joined the Company in 1998 as VP and GM of the Engineering Technology group, and pioneered the cloud-based subscription model for ADBE’s creative suite. The Company has achieved record revenue and industry recognition under his leadership, and the Fund continues to maintain strong conviction in his ability to execute ADBE’s business strategy.

**Competitive Advantage:** ADBE’s strength lies in its global brand reputation with more than 35 years of quality products and service offerings, demonstrated scalability and profitability, and exponential growth trajectory in the software packaging industry. The Company is the biggest pure-play company offering integrated products to provide multi-functionality, ease of use, product reliability, value and performance characteristics.

ADBE focuses on customer engagement through delivering personalized experiences. There is an increasing emphasis on web-based and mobile products for users to create, edit, publish, and share documents globally. The Company also has a live platform that allows creative professionals to see how others are using the tools and receive training on new tools or enhancements.

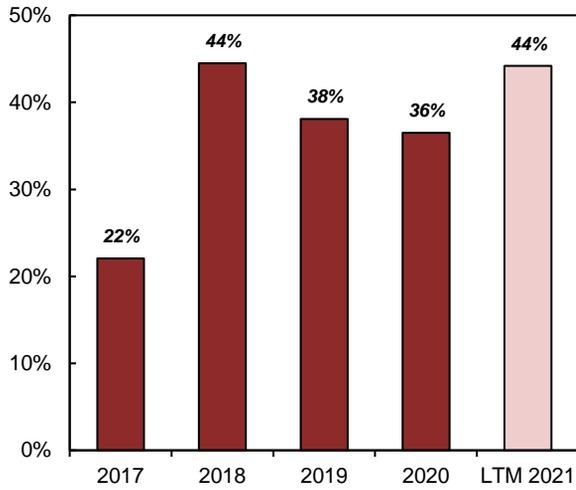
**Strong Balance Sheet:** ADBE has demonstrated a strong commitment to retaining financial strength, maintaining an investment-grade credit rating (S&P rating of A+). Its LTM net debt/ebitda is (0.3x), well below the peer group average of 1.1x. Furthermore, the Company has US\$1B of available liquidity, current cash reserves of US\$4.25B, and long-term debt outstanding of US\$4.12B, as of June 2021.

**Growing Free Cash Flow:** ADBE’s cloud platform and the product offerings through its Software-as-a-Service (SaaS) model have immensely enhanced its ability to generate a steady stream of cash flow. The Company has experienced a growth of ~16% in its FCF margin over the last six years, resulting in ~45.7% margin in LTM May 2021. Meanwhile, ADBE’s FCF per share has experienced a CAGR of ~27.3% over the same period. ADBE has historically utilized its cash reserves to either buy back shares, reinvest in research & development to launch new product offerings, or acquire other firms in the industry to strengthen its position, grow market share, and gain an advantage in sectors like business analytics and enterprise management.

**Revised Valuation**

The CPMT originally valued ADBE using a 10-year Discounted Cash Flow analysis with a WACC of 6.32%. The target price of US\$575.39 was based on a 50/50 blend of (1) the Gordon Growth method, assuming a terminal growth rate of 1.0% and (2) applying a terminal EV/EBITDA exit multiple of 36.6x. The revised valuation, with a target price of US\$639.00, projects that ADBE will experience increased top line growth, improved annually recurring revenue, and enhanced margins from the Workfront acquisition in the short-term. ADBE has historically traded at a premium to peers, which we believe is warranted given ADBE’s track record of execution, impressive FCF growth, and continuously improving product suite through the integrated cloud platform.

Figure 5: FCF Yield



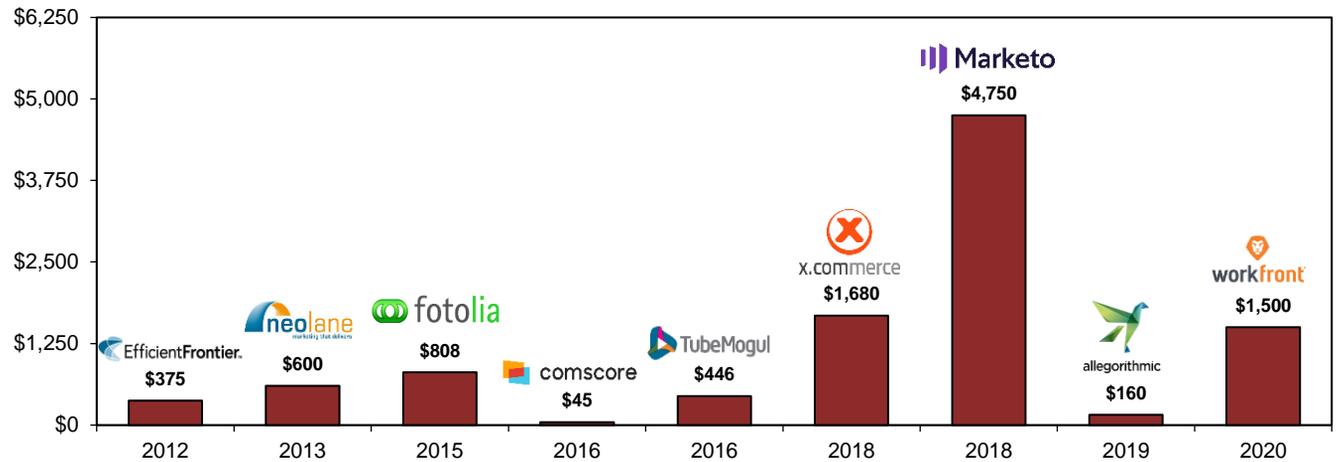
Source: Company Filings, S&P Capital IQ

Revised Investment Thesis

The CPMT remains convicted on ADBE as a leader in the software packaging industry. The CPMT's original thesis for investing in ADBE has played out to date. Since initiating a position in ADBE in April 2021, the Company has demonstrated superior margins, top line growth, and increased annual recurring revenue. The Company's balanced approach to increase customer lifetime value, subscriptions, and TAM, while returning value to shareholders in the form of buybacks speaks to the quality of its management team.

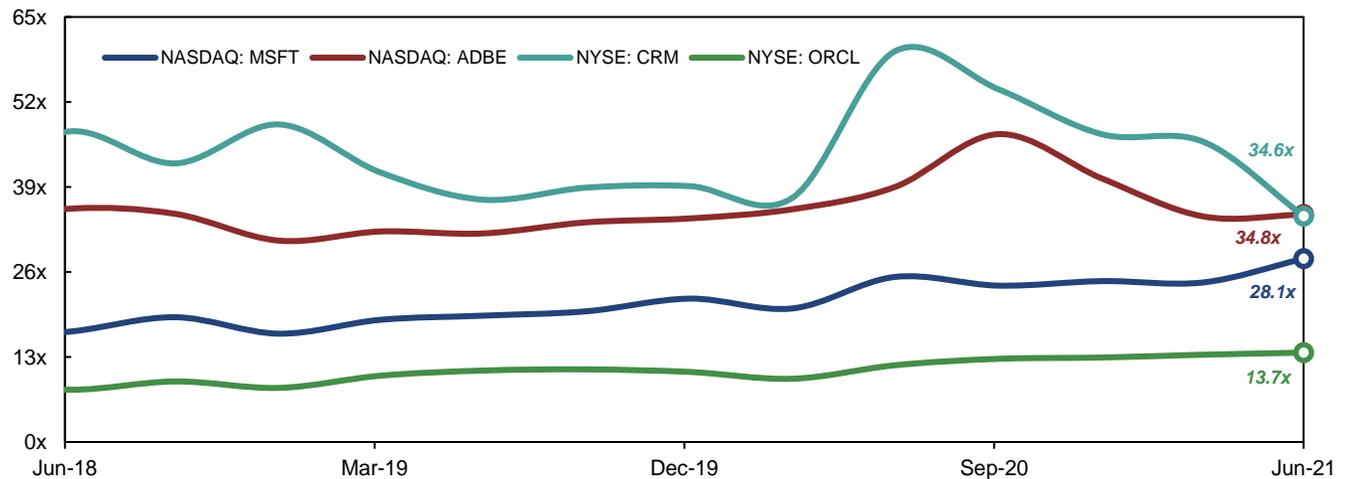
The Fund is confident in ADBE's outperformance against its peers and the ability to shine as global economies reopen and corporations prioritize better enterprise engagement and digitalization of their work stream. The Company's product suite is an ideal match for increasing focus on content creation, ad cloud business, analytics, and customer engagement around the world. Moving forward, the Fund will continue to monitor the Q3 2021 guidance provided by management regarding the reopening of global economies, integration and performance of Workfront, and the advancement in research & development as employees return to the office.

Figure 6: 9 Largest Acquisitions (US\$mm)



Source: Company Filings, FactSet

Figure 7: ADBE P/CF vs Peers



Source: FactSet, S&P Capital IQ