

Adobe Systems Incorporated. (NASDAQ: ADBE)

Adobe, an American multinational software company, is a leading force in the software-as-a-service (SaaS) industry. In 2012, Adobe successfully transitioned from a traditional licensing model to subscription licensing with its launch of Creative Cloud, now the industry standard for creative projects due to its powerful and innovative tools. Since then, Adobe has launched Document Cloud and Experience Cloud, the latter of which expanded Adobe's personalization to businesses through added analytics and data functionalities. With the introduction of Experience Cloud, Adobe now faces fierce competition from other cloud computing companies focused on customer experience, including Salesforce and Oracle.

As of 11/6, Adobe is priced at \$496.47 with a P/E ratio of 62.53 and a market cap of \$238.166B. In Q3 of 2020, Adobe reported non-GAAP EPS of \$2.57, beating Wall Street's expectations of \$2.41 by 6.6%. Although revenues from Experience Cloud have slowed as businesses restrict new spending due to the global pandemic, this was offset by strong growth in Creative Cloud and Document Cloud revenues. In Q3 of 2020, Creative Cloud Annual Recurring Revenue (ARR) was reported to be \$8.294B, while Digital Media ARR was \$9.63B. Additionally, Adobe reported overall 3Q20 revenue of \$3.225B, beating Wall Street's expectations of \$3.16B by 2%, and operating margins of 43.5%, exceeding expectations of 41.7% by 4.3%.

Although Experience Cloud was negatively impacted by the COVID pandemic, Adobe's other services have actually benefited since Adobe's subscription-based and consumer-oriented cloud model attracts independent content creators, who are rising in number as traditional media declines. Consequently, Adobe will likely experience steady long-term growth in revenue, which is further evident through

Recommendation: **Buy**

ADBE, ADBE.US

Price: **\$496.47**

MSCI ESG Ranking: **AA**

Sustainalytics' ESG Risk Ratings:
Low Risk

Software & IT Services

Analyst: Neha Basu

Adobe's business model and high cash flow. Due to its SaaS subscription-based model, Adobe has guaranteed revenues since consumers must continue to make monthly or annual payments. Additionally, as a large-cap company, Adobe has experienced relatively steady growth in free cash flow and currently has a TTM free cash flow of \$4.91B.

Adobe's net cash position, currently over \$1 billion, is expected to increase to over \$3 billion by the end of FY2020, while its debt/equity ratio, currently 0.4, has remained low. Because of this, Adobe is primed to make an acquisition, especially as small businesses struggle with the COVID pandemic. The combination of strong revenue growth, high cash flow, low debt, and potential to expand through acquisitions makes Adobe an attractive investment mitigating risk and volatility while also likely providing high returns.

In addition to its strong business model and financials, Adobe is a leader in overall ESG ratings compared to others in the SaaS industry, according to MSCI ESG Research. MSCI assigned Adobe an ESG ranking of AA, placing Adobe within the top 17%. Adobe has also ranked high on social metrics due to its high diversity among employees, annual gender pay audits, and onsite health and wellness services. Moreover, Adobe provides opportunities for human capital development and is shifting towards clean tech.

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