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| **0.0 CURRENT INFORMATION** | | | |
| DATE: 04/09/22 | COMPANY: Adobe | | TICKER: ADBE |
| PRICE: $437.34 | P/E: | QUARTER/FY: 1/22 | DIV YIELD: N |

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| **1.0 SALES GROWTH** | | | | | | | | | | | | |
| **1.1 HISTORICAL SALES GROWTH (FROM SSG)** | | | | | | | | | | | | |
| **History** | | **Most Recent Quarter** | | **1-year** | | **3-year** | | | **5-year** | **9-year** | | **Other:**  **­­­\_\_\_\_\_\_\_\_\_\_** |
| **Historical sales** | |  | |  | |  | | |  |  | |  |
| **1.2 HISTORICAL TRENDS AND GROWTH STRATEGY** | | | | | | | | | | | | |
| **Historical Trends** (Life cycle growth observations; Recessionary growth observations) | | | | | | | | | | | | |
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| **Growth Strategy** (references: Annual Report/MD&A comments; Analysts’ evaluation of growth strategies (i.e. CFRA Business Summary, Morningstar Analyst Report)) | | | | | | | | | | | | |
| MStar: extending from content creation to marketing services through the expansion of its “digital experience segment” (largely built through acquisition, e.g. Magento and Marketo) | | | | | | | | | | | | |
| **Your evaluation of sales growth trend is …**  **Select one: (mixed, increasing, stable, or declining)** | | | | | | | | Stable | | | | |
| **Summary:** | | | | | | | | | | | | |
| **1.3 SALES GROWTH ESTIMATES (FROM RESEARCH)** | | | | | | | | | | | | |
|  | | | **Current Year** | | | | **Next Year** | | | | **3-5 Year** | |
| **Analyst Sales Estimates** | | |  | | | |  | | | |  | |
| **1.4 COMMENTS ABOUT FUTURE SALES GROWTH** | | | | | | | | | | | | |
| **Future Sales Growth** (Geographic and Product-line growth vs. market share; Analysts’ comments regarding future growth potential and rates) | | | | | | | | | | | | |
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| **Set Range:**  **Sales growth rate forecast** | | | | | **Low% to High% Range** | | | | | | | |
| **1.5 YOUR SALES GROWTH FORECAST** | | | | | | | | | | | | |
| **Forecast and reason** |  |  | | | | | | | | | | |

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| **2.0 EARNINGS PER SHARE (EPS) GROWTH** | | | | | | | | | | | | |
| **2.1 HISTORICAL EPS GROWTH (FROM SSG)** | | | | | | | | | | | | |
| **History** | | **Most Recent Quarter** | | **1-year** | | | **3-year** | **5-year** | | **9-year** | | **Other:**  **\_\_\_\_\_\_\_\_\_\_** |
| **Historical EPS ADBE** | | 1.9 % | | -7.5% | | | 29.2% | 36.7% | | 38.5% | |  |
| **2.2 HISTORICAL TRENDS AND PROFITABILITY COMMENTS** | | | | | | | | | | | | |
| **Historical Trends** (Life cycle growth observations; Recessionary growth observations) | | | | | | | | | | | | |
| EPS are more erratic than Sales. Switched to Software as a Service (SaaS) in 2013—initial decline, but rapid recovery. Positive effect from Covid-19 in 2020. | | | | | | | | | | | | |
| **Notable Trends** of Profit margins; shares outstanding (items that affect EPS growth rates) | | | | | | | | | | | | |
| Shares outstanding – declining. Profit margin (from % Pre-Tax Profit on Sales on front of SSG) **Up.** 2021 36.1% is higher than 5-year average (31.5%). 2022 Q1 = 36.2%. Shares outstanding have been declining since 2018 with strategy to continue. Increase in the Pre-tax Profit Margin and the decrease in the number of shares outstanding have contributed to ADBE’s ability to grow EPS faster than sales. | | | | | | | | | | | | |
| **Your evaluation of EPS growth trend is …**  Select one: (same as, faster than, slower than) sales growth rate. | | | | | | | | Slightly faster. | | | | |
| **Summary:** Growth rate is steady, but average is declining. ADBE benefited from Covid-19 with above average EPS growth in 2020. Some downward trend related to acquisitions, corporate realignments, stronger US dollar and accounting strategies. VL expects higher tax rate. Document Cloud and Acrobat should remain dominate in massive marketplace. Expects increased R&D and further acquisitions | | | | | | | | | | | | |
| **2.3 EPS GROWTH ESTIMATES (FROM RESEARCH)** | | | | | | | | | | | | |
|  | | **Currrent Year** | | | | **Next Year** | | | **3-5 Year** | | | |
| **Analyst EPS Estimates** | | 9.2% (Yahoo)  8.81% (MStar) | | | | 17.9% (Yahoo)  17.23% (Zacks)  17.20% (MStar) | | | 14.25% (Yahoo)  17.4% (Zacks)  17.5% (MStar)  15.0% (CFRA)  15.5% (Value Line) | | | |
| **Analyst Consensus Estimates are (trending upward, trending downward, stable)** | | | | | | | | | | | Up & Stable | |
| **2.4 COMMENTS ABOUT FUTURE EPS GROWTH** | | | | | | | | | | | | |
| **Future EPS Growth** (Margin expansion/contraction, shares issued/bought back; change to more/less profitable product mix) Value Line estimates profit margins will revert to historical range, down from highs of 2020-21. | | | | | | | | | | | | |
| 4/12/21: Ending sales in Russia and Belarus prompted ADBE to lower its estimate for digital media segment’s annual recurring revenue by $75 Million; reduced estimate for Ukraine by $12 Million for total reduction of $87 million ARR for the quarter. Pre Russian Invasion of Ukraine: CFRA noted Margin expansion and Revenue Growth. 1) dominant position in content creation apps protected by formidable and enduring competitive advantages, 2) increasing contribution from Document Cloud, +33% Y/Y in H1 ‘21 to ~13% of revenue, with gross margin in the 90’s vs. slower growing Experience with gross margin in the mid-60’s; 3) an outstanding management team, 4) substantial inherent operating leverage, likely expanding operating margin well into the mid-50’s even after ‘23, in our view. | | | | | | | | | | | | |
| **Set Range:**  **EPS growth rate forecast** | | | | | **Low% to High% Range**  13.7% (My PPC) to 17.5% (MStar Analysts) | | | | | | | |
| **2.5 YOUR EPS GROWTH FORECAST** | | | | | | | | | | | | |
| **Forecast and reason** |  | | Maintained Projected 5-year Sales Growth Rate (14.7%), Increased Pre-Tax Profit Margin, Increased Taxes to 16%, Reduced Shares Outstanding. | | | | | | | | | |

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| **3.0 P/E VALUES, LOW PRICE, % PAYOUT** |

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| **3.1 P/E HISTORY (FROM SSG)** | | | **High** | **Low** | **Average** |
| **Highest P/E and Lowest P/E** | | |  |  |  |
| **Excluded years (Outliers)** | | |  |  |  |
| **5 Year High/Low ranges** | | |  |  |  |
| **5 Year Average** | | |  |  |  |
| **Current P/E** | | |  |  |  |
| **3.2 P/E COMMENTARY AND FORECASTS** | | | | | |
| **Notable Trends** of P/E values (mixed, increasing, stable or decreasing) and other observations | | | | | |
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| **Average P/E estimate from Value Line** | | |  | | |
| **Set Range: Average high P/E forecast** | | |  | | |
| **Set Range: Average low P/E forecast** | | |  | | |
| **3.3 YOUR AVERAGE HIGH AND AVERAGE LOW P/E FORECASTS** | | | | | |
| **Average High P/E** |  |  | | | |
| **Average Low P/E** |  |  | | | |

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| **3.4 LOW PRICE DATA (FROM SSG)** | | | | | |
| **Low EPS (TTM rec.)** | |  | | **4B(a) Low P/E x Low EPS** |  |
| **Current Price** | |  | | **80% of current price** |  |
| **Is 4B(a) < 80% of current price? (yes/no)** | | | |  | |
| **3.5 YOUR LOW PRICE FORECAST** | | | | | |
| **Forecast and reason** |  | |  | | |

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| **3.6 % PAYOUT (PAYOUT RATIO)** | | | |
| **Historical 5-year average % Payout** from SSG | | |  |
| **All Div’ds to Net Prof** estimate from Value Line | | |  |
| **3.7 % PAYOUT COMMENTS AND FORECAST** | | | |
| **Notable Trends** of historical % payout (mixed, increasing, stable or decreasing) | | | |
|  | | | |
| **Other commentary regarding dividend policy** (annual report, Morningstar, etc.) | | | |
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| **Set Range: Average % Payout forecast** | | |  |
| **3.8 YOUR AVERAGE % PAYOUT FORECAST** | | | |
| **Forecast and reason** |  |  | |

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| **4.0 CONCLUDING DIALOGUE (STOCK SELECTION REPORT)** |

*To complete, make selections from choices presented in each statement below.*

1. The company is *(well-established) (new)* and operates *(internationally) (nationally) (regionally)*.
2. The product line or service is *(diversified) (limited)* and sold to *(consumers) (manufacturers) (other companies) (government(s)).*
3. Business cycles affect sales and earnings *(minimally) (moderately) (severely).*
4. Interest rates for T-bills are historically *(low) (average) (high)* and seem to be *(trending upward) (steady) (trending downward).*
5. Current inflation rates are *(low) (average) (high)* and seem to be *(trending upward) (steady) (trending downward).*
6. In its industry the company is the *(largest player) (in the top tier) (an average or smaller size company)*.
7. The company has a *(continuous dividend record for \_\_\_\_\_\_\_\_ years) (an inconsistent dividend record) (no dividend record).*
8. The business cycle seems to be *(trending upward) (steady) (trending downward).*
9. The current stage of the business cycle tends to *(help) (not effect) (hurt)* the profits of the company which suggests *(no concern) (caution) (optimism)* for the company under review.

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| **4.1 YOUR FORECASTS ON THE SSG (SUMMARY)** | | |
|  | **Forecast** | **Rationale** |
| **Sales Growth Rate (%)** |  |  |
| **EPS Growth Rate (%)** |  |  |
| **Average  High P/E** |  |  |
| **Average  Low P/E** |  |  |
| **Low Price** |  |  |
| **% Payout** |  |  |
| **4.2 YOUR FINAL RECOMMENDATION (BUY, SELL, HOLD)** | | |
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