

(r)evolution

Adobe
Systems
Incorporated | an IAG feature

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(r)evolution

the Opportunity

1985
Desktop Publishing
Desktop PCs, Laser Printers

1995
Web Publishing
World Wide Web, Interactivity, Bandwidth

Network Publishing

2001

Streaming high-speed connections,
Rich Media,
E-Commerce,
Wireless Devices

 Adobe

network Publishing

Video, audio, and Internet technologies are used by hundreds of millions of people and generate **billions** of dollars in advertising and commercial revenues.

Significantly adds to user **experience**; a "killer" app

online advertising,
Web marketing,
sales,
customer interaction centers,
channel/partner management,
collaboration,
training

The internet has allowed anyone to access information. Network Publishing will enable anyone to **create** information.

 Adobe

rich Media

\$34 billion industry by the year 2004, spurred by e-commerce growth

184 million abandoned online transactions in 1999, amounted to a **\$1.6 billion** loss in sales,

Content Creation:

“Forget hard-core programming. The tools for creating inspired digital content are now within reach of anyone who wants to communicate better.”

 Adobe

the Company

the Company

Highly Profitable Company

Adobe is a provider of graphics design, publishing, and imaging **software**

Offers integrated software **solutions** of businesses of **all sizes**

Pioneer and **Leader** in Network Publishing



the Products

WEB PUBLISHING

create digital Images, Graphics, Motion, Animation, and Design for High Impact Web Sites

PRINT PUBLISHING

solutions for professional page layout, illustration, business publishing, and printing visually rich information

ePAPER SOLUTIONS

transition from paper to digital based workflows

OEM Postscript and OTHERS

high quality output, cross-platform compatibility, for graphically-rich printing output from corporate desktop printers to high-end publishing printers



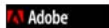
the Products

THE SOFTWARE

Reader
Acrobat
Photoshop
Illustrator
ImageReady
GoLive!
Premier
FrameMaker
Business Basics

THE VALUE

Productivity Gains
Brand Differentiation
Satisfying Web Experience
Platform Independent
Seamless Collaboration of Media
Easy Management



the Competition

the Competition

Macromedia (MACR)

High Impact Web design software

Explosive growth in 2000

15%-30% overlap in business

40%-60% overlap in targeted customers

Core Product Line

Macromedia Dreamweaver, Fireworks, Flash

Others

Corel

Avid

Microsoft

Hewlett Packard

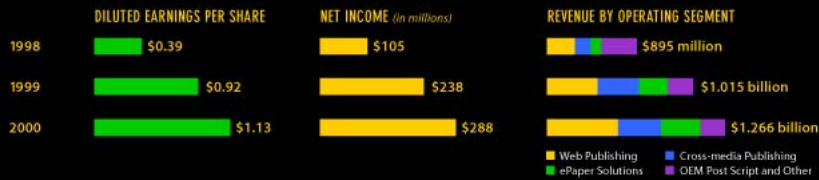
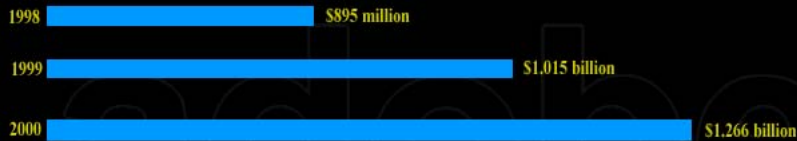
Pulse Digital

 Adobe

the Financials

the Financials

TOTAL REVENUE



Consolidated Statements of Income (In thousands, except per share data)

YEARS ENDED	DECEMBER 1 2000	DECEMBER 3 1999
Revenue	\$ 1,266,378	\$ 1,015,434
Direct costs	87,255	94,540
Gross profit	1,179,123	920,894
Operating expenses:		
Research and development	240,212	197,476
Sales and marketing	401,188	328,505
General and administrative	116,528	103,622
Restructuring and other charges	5,629	23,028
Amortization of goodwill and purchased intangibles	7,013	4,830
Acquired in-process research and development	470	3,580
Total operating expenses	771,040	661,041
Operating income	408,083	259,853
Nonoperating income, net:		
Investment gain, net	14,345	88,891
Interest and other income	21,311	25,683
Total nonoperating income, net	35,656	114,574
Income before income taxes	443,739	374,427
Income tax provision	155,931	136,676
Net income	\$ 287,808	\$ 237,751
Basic net income per share	\$ 1.21	\$ 0.98
Shares used in computing basic net income per share	238,292	241,572
Diluted net income per share	\$ 1.13	\$ 0.92
Shares used in computing diluted net income per share	255,774	258,410

the Financials

Financial Highlights (In thousands, except per share amounts and employee data)

YEARS ENDED	DECEMBER 1 2000	DECEMBER 3 1999
Operations:		
Revenue	\$ 1,266,378	\$ 1,015,434
Income before income taxes	443,739	374,427
Net income ⁽¹⁾	287,808	237,751
Net income per share ⁽¹⁾		
Basic	1.21	0.98
Diluted	1.13	0.92
Cash dividends declared per common share	0.05	0.05
Financial position:		
Cash and short-term investments	679,853	498,716
Working capital	563,307	355,386
Total assets	1,069,416	803,859
Stockholders' equity	752,544	512,209
Additional data:		
Worldwide employees	2,947	2,745

Relative Analysis

	ADBE	MACR
Price/Earnings	25	25.14
Price/Sales	5.58	2.62
Price/Cash Flow	21.62	21.40
EPS	1.15	0.72
Return on Equity	42.97	14.36
Return on Assets	28.72	5.30
Return on Investment	42.28	6.48
Gross Margin (%)	93.41	89.09
Operating Margin (%)	33.09	6.79
Profit Margin (%)	22.31	4.92



the Financials

Sales	\$1.26 billion
Return on Equity	42.97
Return on Assets	28.72
Return on Investment	42.28
Gross Margin (%)	93.41
Operating Margin (%)	33.09
Profit Margin (%)	22.31



the **A**nalysis

the Concerns

Slowing PC Sales

Market Uncertainty

Strong Competition [Macromedia]

Slowdown of Sales for existing product line

2001
ADBE **-48%**

the Prospects

High Margins and Growth

Strong Product Line

Industry Innovator

Sales will explode in 2Q

Long term EPS growth of 23%

Valuation

2 Stage FCFE: ~ \$52

2001 EPS: ~ \$48

Recent Price: ~ \$35

 Adobe

the Recommendation

Long Term Buy Price Target **30**
Aggressive Growth
Strong Buy

Short Term Buy Price Target **Now**
Upward Momentum
High Volatility
External Risks

 Adobe