

# (ADBE) Adobe Inc.

## Software

Adobe Inc.: EJR affirms at A+

Current Senior Rating	A+
Projected Senior Rating	A+
Commercial Paper Rating	A1
Three Year Default Probability	1.3%
Three Year Recovery Rate	95.0%



Adobe Inc. (ADBE) is in the software sector and its revenues were \$3.8B for the quarter ending May 2021 vs. \$3.1B for the prior year. Net income for the May 2021 quarter was \$1.1B vs. the prior year's \$1.1B income.

More cash than debt - Founded in 1982 and headquartered in San Jose, CA, Adobe Inc. develops, markets, and supports computer software products and technologies. It offers a line of application software products, type products, and content for creating, distributing, and managing information. For the May'21 quarter, total revenues surged 22.8% YoY to \$3.84B with subscription and product revenues both improving to \$3.52B (+24.3%) and \$153.0M (+19.5%), respectively. Likewise, operating income soared to \$1.41B (+39.1%) reflecting the impact of revenue growth. OPM grew 430 bps and remained double-digit at 36.7%. Meanwhile, an investment gain of \$8.0M was reported during the current quarter as compared to nil last year. All these adequately covered widened interest expense to \$28.0M (+3.7%), non-recurring other income of \$8.0M, and an income tax expense of \$270.0M (vs. \$100.0M benefit). In result, YoY net income advanced to \$1.12B (vs. \$1.10B). Regarding leverage, total debt was almost flat at \$4.7B for the FQE May'21 while total shareholder's equity rose from \$10.9B to \$13.9B. As a result, leverage (i.e. total debt/capital, including debt) was 25.3%. Market Cap is \$276.41B as of 06/25/2021, while Cash of \$5.77B exceeds Debt of \$4.69B. Affirming.

(Note: We are using May'21 preliminary data in this report.)

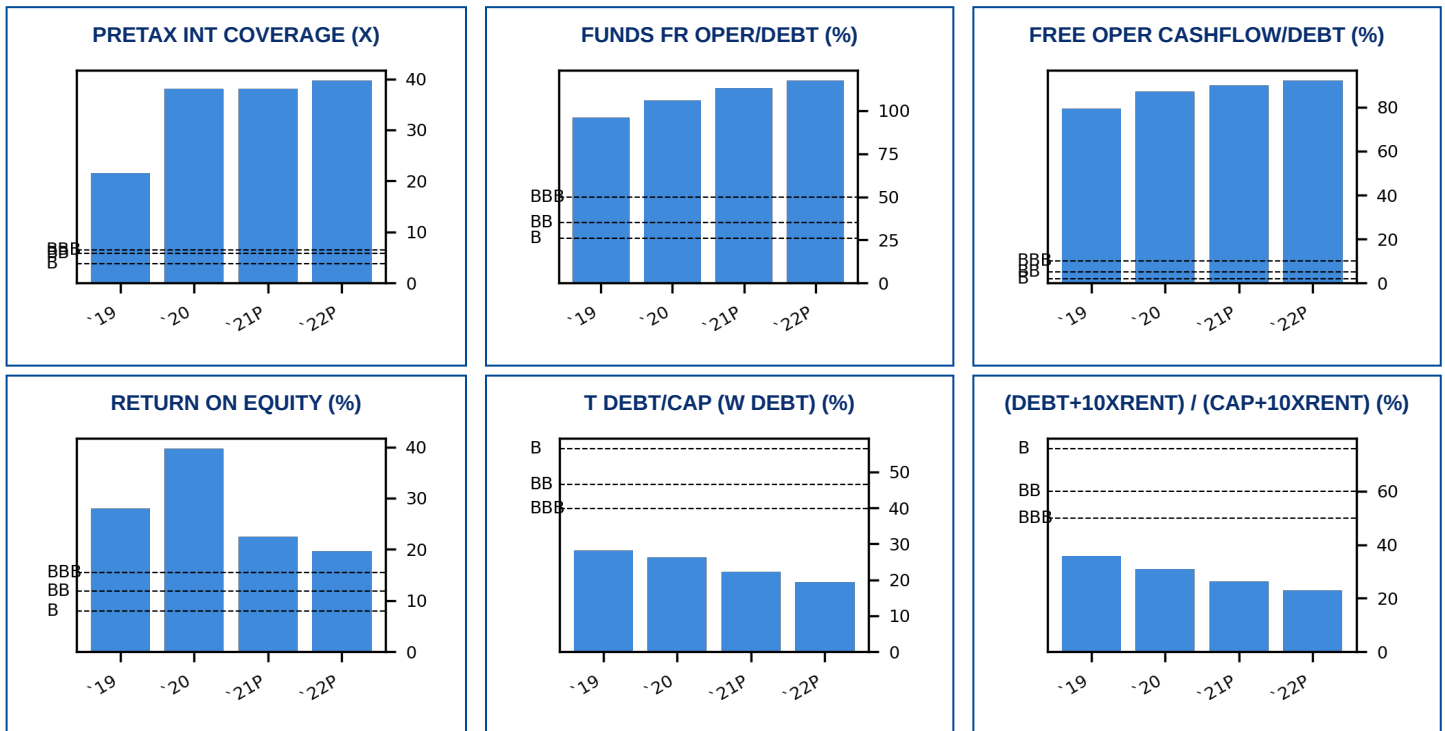
CREDIT POSITION	Annual Ratios				Ratios For 4 Rolling Quarters				
	Nov 19	Nov 20	PNov 21	PNov 22	May 20	Aug 20	Nov 20	Feb 21	May 21
Pretax Int Coverage (X)	21.5	38.0	38.0	39.7	28.3	32.9	37.3	42.9	45.9
Funds fr Oper/Debt (%)	95.8	106.0	113.2	117.5	94.8	99.9	106.0	117.6	126.5
Free Oper Cashflow/Debt (%)	79.2	87.0	89.8	92.2	79.8	85.1	102.1	109.8	125.4
Return on Equity (%)	28.0	39.7	22.5	19.6	34.0	33.0	39.7	41.1	40.3
T Debt/Cap (w Debt) (%)	28.2	26.2	22.3	19.3	30.2	28.7	26.2	25.8	25.3
(Debt+10xRent) / (Cap+10xRent) (%)	35.7	30.8	26.3	22.9	36.1	34.1	30.8	30.4	29.8
<b>Implied Senior Rating</b>	<b>AA-</b>	<b>AA-</b>	<b>AA-</b>	<b>AA-</b>	<b>AA-</b>	<b>AA-</b>	<b>AA-</b>	<b>AA-</b>	<b>AA-</b>

PEER RATIOS	Other	Pretax Int	Funds	F.O.C./	ROE(%)	T Debt/	(Debt+10	Ratio-
	NRSRO		from Opr/				Debt(%)	
	Sen.	Cov(x)	Dbt(%)	Debt(%)		Cap(%)	(Cap+10	Rating
							xRent)(%)	
Intuit Inc.	A-	158.0	67.5	59.5	35.8	41.6	46.6	A+
Cadence Design Systems, Inc.	BBB+	31.5	162.3	125.1	23.7	16.6	26.4	A+
Autodesk, Inc.	BBB	11.9	36.3	49.9	125.1	68.6	77.0	BBB
Nuance Communications, Inc.	BB-	1.1	14.9	5.2	2.5	59.4	63.6	CCC+

Notes:

Annual and quarterly implied sen. ratings are smoothed using EJR's prior rating if any. Peers' implied ratings are also smoothed. Latest quarterly financial data is preliminary. Quarterly rental expenses are estimated using the annual amounts. Rating Change Anticipator (1 is best, 100 worst): 19.4, Last EJR Sen: A+ , Other NRSROs: A

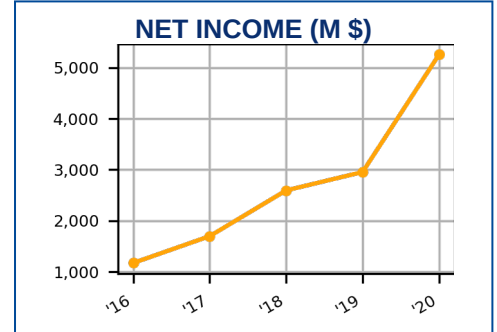
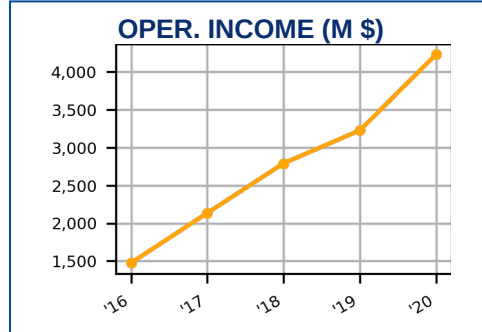
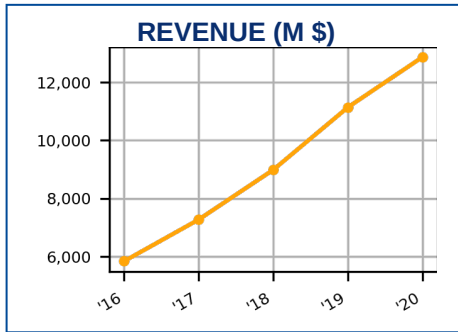
INDUSTRY RATIOS	AA	A	BBB	BB	B	CCC
Pretax Int Coverage (X)	12.0	9.0	6.5	5.8	3.8	1.9
Funds fr Oper/Debt (%)	80.0	70.0	50.0	35.0	25.9	15.5
Free Oper Cashflow/Debt (%)	20.0	15.0	10.0	5.0	2.0	1.0
Return on Equity (%)	25.0	20.0	15.5	11.8	7.9	2.5
T Debt/Cap (w Debt) (%)	20.0	30.0	39.9	46.5	56.5	68.0
(Debt+10xRent) / (Cap+10xRent) (%)	26.0	38.8	50.0	60.0	76.0	86.0



## ANNUAL INCOME STATEMENTS (MILLIONS \$)

Below are Adobe Inc.'s annual income statements with the projected years based on our assumptions.

	Nov 16	Nov 17	Nov 18	Nov 19	Nov 20	PNov 21	PNov 22
Revenue	5,836	7,269	8,981	11,131	12,865	13,436	14,033
Cost of Revenue	898	1,087	1,286	1,848	1,884	1,967	2,054
<b>Gross Profit</b>	<b>4,937</b>	<b>6,182</b>	<b>7,695</b>	<b>9,283</b>	<b>10,981</b>	<b>11,469</b>	<b>11,978</b>
Selling, General, & Admin Expense	3,462	4,046	4,904	6,055	6,747	6,905	7,211
Operating Income	1,475	2,135	2,792	3,228	4,234	4,564	4,767
Interest Expense	70	74	89	156	113	121	121
Net Non-Operating Loss	(61)	(96)	(134)	(153)	(46)	(46)	(46)
Unusual Expense	30	19	43	21	(9)	(9)	(9)
Pretax Income	1,435	2,138	2,794	3,205	4,176	4,498	4,700
Income Tax Expense	266	444	203	253	(1,084)	810	846
Income Before XO Items	1,169	1,694	2,591	2,951	5,260	3,688	3,854
Extraordinary Items	0	0	0	0	0	0	0
Minority Interests	0	0	0	0	0	0	0
Consolidated Net Income	1,169	1,694	2,591	2,951	5,260	3,688	3,854
Total Cash Preferred Dividends & Other Gain/Loss	0	0	0	0	0	0	0
<b>Net Income</b>	<b>1,169</b>	<b>1,694</b>	<b>2,591</b>	<b>2,951</b>	<b>5,260</b>	<b>3,688</b>	<b>3,854</b>
Common Dividends/Distribution	0	0	0	0	0	0	0
Comprehensive Income	1,169	1,694	2,591	2,951	5,260	3,688	3,854
Comprehensive Income Per Share	2.3	3.4	5.2	6.0	10.8	0.0	0.0
Basic EPS Before Abnormal Items	2.3	3.4	5.2	6.0	10.8	0.0	0.0
Basic EPS Before XO Items	2.4	3.4	5.3	6.0	10.8	7.7	8.1
Basic EPS	2.4	3.4	5.3	6.1	10.9	7.7	8.1
EBITDA	1,806	2,461	3,138	3,965	4,991	5,327	5,532



## REVENUE & PROFITABILITY

The Company's revenues rose at an average rate of 24.09% over the last five years while Operating Margin rose to 32.91% for the fiscal year ending November 2020, above the 28.68% average over the prior four years. Return on Assets rose to 21.66%, above the 12.43% average for the prior years.

	Nov 16	Nov 17	Nov 18	Nov 19	Nov 20	PNov 21	PNov 22
Revenue (Millions \$)	5,836	7,269	8,981	11,131	12,865	13,436	14,033
Growth Rate (%)	23.1	24.6	23.6	23.9	15.6	4.4	4.4
Cost of Revenue (%)	15.4	15.0	14.3	16.6	14.6	14.6	14.6
Gross Margin (%)	84.6	85.0	85.7	83.4	85.4	85.4	85.4
Selling, General, & Admin Expense (%)	59.3	55.7	54.6	54.4	52.4	51.4	51.4
Depreciation (%)	5.7	4.5	3.9	6.6	5.9	5.7	5.5
Operating Profit Margin (%)	25.3	29.4	31.1	29.0	32.9	34.0	34.0
Return on Revenue (%)	20.0	23.3	28.8	26.5	40.9	27.4	27.5
Return on Equity (%)	15.7	20.0	27.7	28.0	39.7	22.5	19.6
Return on Assets (%)	9.0	11.4	13.4	13.9	21.7	13.3	12.3

## LEVERAGE & ACTIVITY

Coverage has become stronger recently, rising to 38.0:1 for the FYE November 2020, and leverage has declined.

	Nov 16	Nov 17	Nov 18	Nov 19	Nov 20	PNov 21	PNov 22
Pretax Int Coverage (x)	21.4	29.7	32.3	21.5	38.0	38.0	39.7
Debt/Equity (x)	0.3	0.2	0.4	0.4	0.4	0.3	0.2
Inventory Turnover (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Avg Coll Period (days)	52.1	61.2	53.5	50.3	39.7	39.7	39.7
F. Asset Turns (x)	7.1	7.8	8.4	8.6	6.4	5.5	4.7
T. Asset Turns (x)	0.4	0.5	0.5	0.5	0.5	0.5	0.4
Debt/EBITDA (x)	1.0	0.8	1.3	1.0	0.9	0.9	0.9

## LIQUIDITY & OTHER

The Current Ratio is a reasonably strong 1.4:1 while cash and marketable securities to indebtedness has risen to 95.1%.

	Nov 16	Nov 17	Nov 18	Nov 19	Nov 20	PNov 21	PNov 22
Current Ratio (x)	2.1	2.1	1.1	0.8	1.4	1.9	2.2
Quick Ratio (x)	2.1	2.1	1.1	0.8	1.4	1.9	2.2
Working Capital Inv. (% revs)	4.9	-8.3	-27.8	-2.4	-4.5	-0.8	-0.8
Capital Expenditures (% revs)	4.5	2.9	3.2	4.0	3.4	5.7	6.6
Cash & Mkt Sec./Debt (%)	53.4	122.6	39.8	64.0	95.1	151.0	208.4
EBITD/Net Int (x)	25.6	33.1	35.2	25.4	44.2	43.9	45.5
(EBITD - Cap Exp)/Net Int	20.5	27.1	29.7	19.3	31.2	33.9	34.8
(EBITD + Rent)/(Net Int + Rent)	11.6	13.6	14.5	12.7	22.0	23.1	24.0
Oper Funds/(Cap Exp + Divs) (x)	5.0	5.5	6.5	4.2	3.4	4.4	4.2
Oper CashFlow/Current LTD (x)	N/A	N/A	N/A	1.0	44.5	46.0	47.2

## ASSUMPTIONS FOR FINANCIALS

### VALUATION DRIVER: Revenue Growth

Adobe Inc. (ADBE) has grown its revenue at 15.6% per annum in the last fiscal year. We expect the Company's revenues will grow approximately 4.4% per annum over the next couple of years and 4.1% per annum for the next couple of years thereafter.

### VALUATION DRIVER: Operating Income Margin

The Company's operating income margin has been more than its peers and we assumed a 34.0% operating income margin over the next two years.

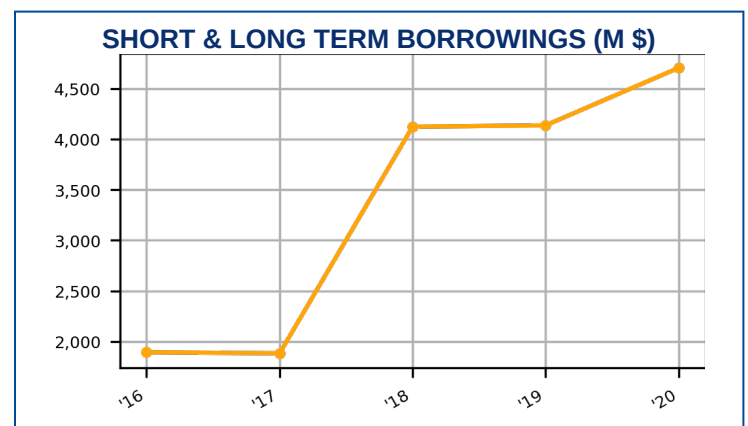
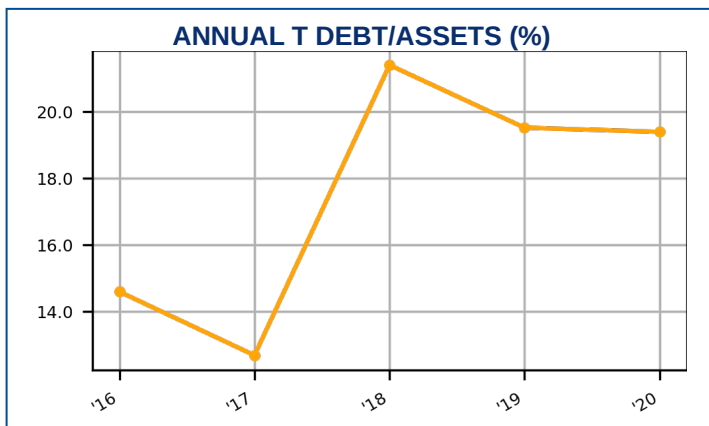
			ASSUMPTIONS	
	Peer Median	Company Average	Years 1 & 2	Years 3, 4, 5
Revenue Growth (%)	14.0	15.6	4.4	4.1
Cost of Revenue (% of Revs.)	15.0	14.6	14.6	14.2
Gross Profit (% of Revs.)	85.0	85.4	85.4	85.8
Selling General Admin Expense (% of Revs.)	58.5	52.4	51.4	51.1
Operating Income (% of Revs.)	20.7	32.9	34.0	34.7
Interest Expense (Rate %)	3.3	2.4	2.6	2.4
Net Non Operating Loss Growth (%)	0.1	(0.4)	(0.4)	(0.4)
Unusual Expense Growth (%)	0.4	(0.1)	0.0	(90.0)
Income Tax Rate (%)	(57.2)	(26.0)	18.0	16.2
Income Before Extraordinary Items Growth (%)	157.2	126.0	NMF	NMF
Special Items (Millions \$)	0.0	0.0	0.0	0.0
Cash Near Cash Growth (%)	40.7	34.8	6.0	6.0
Short Term Investment Growth (%)	(13.5)	(0.8)	7.8	7.8
Accounts Notes Receivable (% of Revs.)	14.9	10.9	10.9	10.9
Inventories (% of Revs.)	0.0	0.0	0.0	2.0
Other Current Assets (% of Revs.)	5.1	4.5	4.5	4.5
Total Current Assets Growth (%)	14.0	25.8	NMF	NMF
Long Term Investments Growth (%)	(2.2)	0.0	0.0	0.0
Gross Fixed Assets Growth (%)	8.4	21.0	22.0	19.8
Accumulated Depreciation (% of Gr. Fixed Assets)	54.3	42.1	42.1	37.9
Net Fixed Assets Growth (%)	20.6	55.0	NMF	NMF
Intangible Assets Growth (%)	4.0	(2.5)	1.0	1.0
Accounts Payable (% of Revs.)	3.6	2.4	2.4	2.4
Short Term Borrowings Growth (%)	(13.5)	(97.1)	NMF	NMF
Other ST Liabilities Growth (%)	14.0	5.8	5.8	5.8
Long Term Borrowings Growth (%)	29.8	366.8	NMF	NMF
Deferred Tax Liability Growth (%)	(43.1)	(98.3)	3.0	3.0
Other LT Liabilities Growth (%)	14.0	(3.3)	(3.3)	(3.3)
Shares Sold (% of shares out.)	(0.1)	(0.7)	(0.5)	(0.5)
Additional ST Debt (Millions \$)	0.0	0.0	0.0	0.0

## ANNUAL BALANCE SHEETS (MILLIONS \$)

Below are Adobe Inc.'s balance sheets with the projected years based on our assumptions. As of November 2022, the Company's total cash is assumed to increase from \$4.5B as of November 2020 to \$9.8B while its total debt is assumed to remain near \$4.7B.

ASSETS	Nov 16	Nov 17	Nov 18	Nov 19	Nov 20	PNov 21	PNov 22
Cash & Near Cash	1,011	2,306	1,643	2,650	4,478	7,111	9,813
Short-Term Investments	3,750	3,514	1,586	1,527	1,514	1,632	1,759
Accounts & Notes Receivables	833	1,218	1,316	1,535	1,398	1,461	1,525
Inventories	0	0	0	0	0	0	0
Other Current Assets	245	210	312	624	578	603	630
<b>Total Current Assets</b>	<b>5,840</b>	<b>7,248</b>	<b>4,857</b>	<b>6,336</b>	<b>7,968</b>	<b>10,807</b>	<b>13,728</b>
Long-Term Investments	0	0	0	0	0	0	0
Gross Fixed Assets	1,926	2,203	2,481	2,862	3,462	4,223	5,151
Accumulated Depreciation	1,110	1,267	1,406	1,569	1,458	1,778	2,169
<b>Net Fixed Assets</b>	<b>816</b>	<b>937</b>	<b>1,075</b>	<b>1,293</b>	<b>2,004</b>	<b>2,445</b>	<b>2,982</b>
Intangible Assets	5,821	6,207	12,650	12,412	12,101	14,455	14,600
Additional Assets	495	448	699	1,169	2,211	0	0
<b>Total Assets</b>	<b>12,972</b>	<b>14,840</b>	<b>19,281</b>	<b>21,210</b>	<b>24,284</b>	<b>27,707</b>	<b>31,310</b>

LIABILITIES	Nov 16	Nov 17	Nov 18	Nov 19	Nov 20	PNov 21	PNov 22
Accounts Payable	88	114	186	209	306	320	334
Short-Term Borrowings	0	0	0	3,149	92	92	92
Other Short-Term Liabilities	2,724	3,414	4,115	4,832	5,114	5,412	5,728
<b>Total Current Liabilities</b>	<b>2,812</b>	<b>3,527</b>	<b>4,301</b>	<b>8,191</b>	<b>5,512</b>	<b>5,824</b>	<b>6,154</b>
Long-Term Borrowings	1,892	1,881	4,125	989	4,616	4,616	4,616
Deferred Tax Liability	492	584	559	588	10	10	11
Other Long-Term Liabilities	351	387	934	912	882	853	825
Other Liabilities	0	0	0	0	0	0	0
<b>Total Liabilities</b>	<b>5,547</b>	<b>6,380</b>	<b>9,919</b>	<b>10,680</b>	<b>11,020</b>	<b>11,303</b>	<b>11,605</b>
Total Preferred Equity	0	0	0	0	0	0	0
Minority Interest	0	0	0	0	0	0	0
Share Capital & APIC	4,616	5,082	5,685	6,505	7,357	6,809	6,256
Retained Earnings & Other Equity	2,808	3,378	3,677	4,025	5,907	9,595	13,448
Total Shareholders & Equity	7,425	8,460	9,362	10,530	13,264	16,403	19,704
<b>Total Liabilities &amp; Equity</b>	<b>12,972</b>	<b>14,840</b>	<b>19,281</b>	<b>21,210</b>	<b>24,284</b>	<b>27,707</b>	<b>31,310</b>
Shares Outstanding	494	491	488	482	479	478	477





## QUARTERLY INCOME STATEMENTS (MILLIONS \$)

	Feb 20	May 20	Aug 20	Nov 20	Feb 21	May 21
Revenue	3,084	3,123	3,226	3,432	3,916	3,835
Cost of Revenue	494	455	468	467	492	488
<b>Gross Profit</b>	<b>2,590</b>	<b>2,668</b>	<b>2,758</b>	<b>2,965</b>	<b>3,424</b>	<b>3,347</b>
Selling, General, & Admin Expense	1,660	1,657	1,688	1,742	1,959	1,941
Operating Income	930	1,011	1,070	1,223	1,465	1,406
Interest Expense	33	27	27	28	30	28
Net Non-Operating Loss	(27)	(15)	(8)	0	2	(8)
Unusual Expense	5	(1)	(9)	(5)	0	0
Pretax Income	919	1,000	1,060	1,197	1,433	1,386
Income Tax Expense	(36)	(100)	105	(1,053)	172	270
Income Before XO Items	955	1,100	955	2,250	1,261	1,116
Extraordinary Items	0	0	0	0	0	0
Extraordinary Tax	0	0	0	0	0	0
Minority Interests	0	0	0	0	0	0
Consolidated Net Income	955	1,100	955	2,250	1,261	1,116
Total Cash Preferred Dividends & Other Gain/Loss	0	0	0	0	0	0
<b>Net Income</b>	<b>955</b>	<b>1,100</b>	<b>955</b>	<b>2,250</b>	<b>1,261</b>	<b>1,116</b>
Common Dividends/Distribution	0	0	0	0	0	0
Comprehensive Income	955	1,100	955	2,250	1,261	1,116
Comprehensive Income Per Share	2.0	2.3	2.0	4.6	2.6	2.3
Basic EPS Before Abnormal Items	2.0	2.3	2.0	4.6	2.6	0
Basic EPS Before XO Items	2.0	2.3	2.0	4.6	2.6	0
Basic EPS	2.0	2.3	2.0	4.7	2.6	2.3
EBITDA	1,118	1,199	1,261	1,413	1,661	1,600

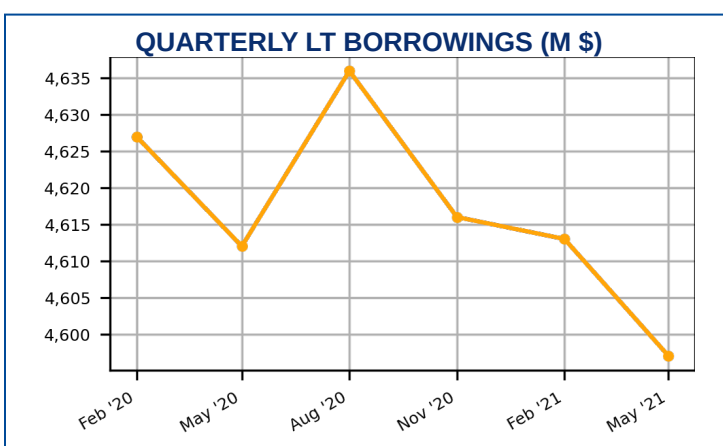
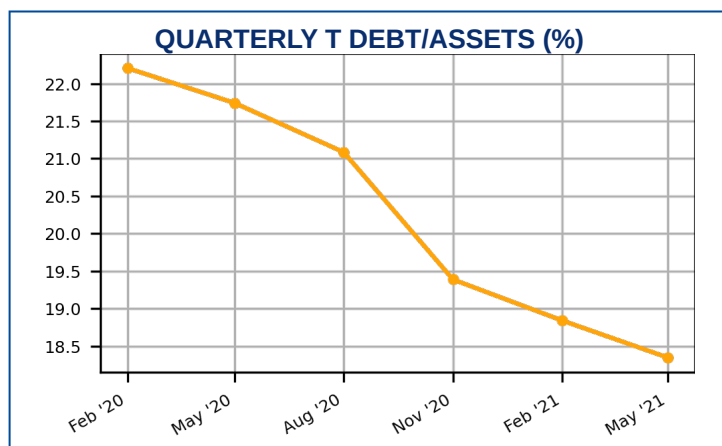
## QUARTERLY CASH FLOW STATEMENTS (MILLIONS \$)

	Feb 20	May 20	Aug 20	Nov 20	Feb 21	May 21
Net Income	955	1,100	955	2,250	1,261	1,116
Depreciation & Amortization	188	188	191	190	196	194
Other Non-Cash Adjustments	153	89	248	(966)	398	(1,310)
Changes in Non-Cash Capital	29	(193)	42	308	(83)	0
Cash from Operating Activities	1,325	1,184	1,436	1,782	1,772	0
Disposal of Fixed Assets	0	0	0	0	0	0
Capital Expenditures	(96)	(100)	(128)	(110)	(84)	0
Increase in Investments	(213)	(50)	(501)	(307)	(289)	0
Decrease in Investments	261	226	310	285	285	0
Other Investing Activities	0	4	4	1	(1,470)	0
Cash from Investing Activities	(48)	80	(315)	(131)	(1,558)	0
Dividends Paid	0	0	0	0	0	0
Change in Short-Term Borrowings	0	0	0	0	0	0
Increase in Long-Term Borrowings	3,146	(2)	0	0	0	0
Decrease in Long-Term Borrowings	(3,150)	0	0	0	0	0
Increase in Capital Stock	88	1	181	0	87	0
Decrease in Capital Stock	(850)	(850)	(500)	(850)	(950)	0
Other Financing Activities	(467)	(50)	(95)	(90)	(401)	0
Cash from Financing Activities	(1,233)	(901)	(414)	(940)	(1,264)	0
Foreign Rate Effect	(6)	(7)	16	0	4	0

## QUARTERLY BALANCE SHEETS (MILLIONS \$)

ASSETS	Feb 20	May 20	Aug 20	Nov 20	Feb 21	May 21
Cash & Near Cash	2,688	3,044	3,767	4,478	3,452	4,250
Short-Term Investments	1,483	1,307	1,497	1,514	1,511	1,518
Accounts & Notes Receivables	1,389	1,366	1,318	1,398	1,520	1,477
Inventories	0	0	0	0	0	0
Other Current Assets	895	932	805	578	901	833
<b>Total Current Assets</b>	<b>6,455</b>	<b>6,649</b>	<b>7,387</b>	<b>7,968</b>	<b>7,384</b>	<b>8,078</b>
Long-Term Investments	0	0	0	0	0	0
Gross Fixed Assets	N/A	N/A	N/A	3,462	N/A	N/A
Accumulated Depreciation	N/A	N/A	N/A	1,458	N/A	N/A
Net Fixed Assets	1,844	1,876	1,974	2,004	2,007	2,031
Intangible Assets	12,317	12,230	12,184	12,101	13,574	13,500
Additional Assets	598	848	869	2,211	2,020	1,973
<b>Total Assets</b>	<b>21,214</b>	<b>21,603</b>	<b>22,414</b>	<b>24,284</b>	<b>24,985</b>	<b>25,582</b>

LIABILITIES	Feb 20	May 20	Aug 20	Nov 20	Feb 21	May 21
Accounts Payable	265	289	229	306	254	312
Short-Term Borrowings	84	85	90	92	94	96
Other Short-Term Liabilities	4,879	4,790	4,811	5,114	5,458	5,737
<b>Total Current Liabilities</b>	<b>5,228</b>	<b>5,164</b>	<b>5,130</b>	<b>5,512</b>	<b>5,806</b>	<b>6,145</b>
Long-Term Borrowings	4,627	4,612	4,636	4,616	4,613	4,597
Deferred Tax Liability	48	107	76	10	81	80
Other Long-Term Liabilities	846	839	859	882	939	908
<b>Total Liabilities</b>	<b>10,749</b>	<b>10,722</b>	<b>10,701</b>	<b>11,020</b>	<b>11,439</b>	<b>11,730</b>
Total Preferred Equity	0	0	0	0	0	0
Minority Interest	0	0	0	0	0	0
Share Capital & APIC	6,665	6,892	7,195	7,357	7,617	7,877
Retained Earnings & Other Equity	3,800	3,989	4,518	5,907	5,929	5,975
<b>Total Shareholders &amp; Equity</b>	<b>10,465</b>	<b>10,881</b>	<b>11,713</b>	<b>13,264</b>	<b>13,546</b>	<b>13,852</b>
<b>Total Liabilities &amp; Equity</b>	<b>21,214</b>	<b>21,603</b>	<b>22,414</b>	<b>24,284</b>	<b>24,985</b>	<b>25,582</b>
Shares Outstanding	483	480	480	479	479	0
Treasury Shares	11,401	12,244	12,712	13,546	14,451	15,442
Deferred Tax Assets	0	231	219	1,370	1,262	1,168





## QUARTERLY RATIO REPORT

	Feb 20	May 20	Aug 20	Nov 20	Feb 21	May 21
Current Ratio (%)	1.2	1.3	1.4	1.4	1.3	1.3
Quick Ratio (%)	1.2	1.3	1.4	1.4	1.3	0
Change in Working Capital	29.0	-193.0	42.0	308.0	-83.0	0
Cash Flow Per Share	2.5	2.2	2.7	3.5	3.5	0

### ACTIVITY

Inventory Turnover	0	0	0	0	0	0
Receivables Turnover	8.5	9.1	9.2	8.8	9.4	10.1
Inventory Days	0	0	0	0	0	0
Inventory to Cash Days	42.9	40.1	39.5	41.6	38.8	36.0
Asset Turnover	0.6	0.6	0.6	0.6	0.6	0.6

### PERFORMANCE

Revenues/Net Property, Plant & Equip	1.7	1.7	1.6	1.7	2.0	1.9
Revenues/Stockholders Equity	0.3	0.3	0.3	0.3	0.3	0.3

### PROFITABILITY

Operating Margin (%)	30.2	32.4	33.2	35.6	37.4	36.7
Operating Margin (%) (Trailing 12 months)	29.9	31.2	32.0	32.9	34.8	35.8
Pretax Profit Margin (%)	29.8	32.0	32.9	34.9	36.6	36.1
Net Profit Margin (%)	31.0	35.2	29.6	65.6	32.2	29.1
Return on Assets (%)	15.9	17.9	18.2	23.1	24.1	23.7
Return on Equity (%)	31.8	35.6	35.2	44.2	46.4	45.1
Return on Capital (%)	23.8	25.2	25.8	25.9	28.5	30.3
Return on Avg Assets (3 yrs) (%)	14.9	15.5	15.8	16.4	17.3	17.8
Return on Avg Equity (3 yrs) (%)	27.6	29.0	29.6	30.8	32.7	33.7
Return on Avg Capital (3 yrs) (%)	23.7	24.0	24.2	24.3	24.7	25.2

### LEVERAGE

Long-term Debt/Common Equity (%)	44.2	42.4	39.6	34.8	34.1	33.2
Long-term Debt/Shareholder Equity (%)	44.2	42.4	39.6	34.8	34.1	33.2
Total Debt/Invested Capital (%)	22.2	21.7	21.1	19.4	18.8	18.3
Total Debt/Total Assets (%)	22.2	21.7	21.1	19.4	18.8	18.3
Total Assets/Common Equity	2.0	2.0	1.9	1.8	1.8	1.8
Interest Coverage	28.2	37.4	39.6	43.7	48.8	50.2

### DIVIDENDS

Dividend Payout (%)	0	0	0	0	0	0
Dividend Yield (%)	0	0	0	0	0	0

## LIQUIDATION ANALYSIS

Liquidation analysis is based on a sale of assets (\$ Millions) - Horizon years: 3

	Book Value	Base Case		Optimistic Case		Pessimistic Case	
		MV %	Market Value	MV %	Market Value	MV %	Market Value
Cash and Near Cash	12,737	100	12,737	100	12,737	100	12,737
Short Term Investments	1,896	93	1,767	98	1,862	88	1,672
Accounts Notes Receivable	1,588	88	1,402	93	1,481	83	1,322
Inventories	0	74	0	79	0	69	0
Other Current Assets	656	74	483	79	515	69	450
<b>Total Current Assets</b>	<b>16,876</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Long Term Investments	0	78	0	83	0	73	0
Gross Fixed Assets	6,170	0	0	0	0	0	0
Accumulated Depreciation	2,338	0	0	0	0	0	0
Net Fixed Assets	3,832	78	3,007	83	3,198	73	2,815
Intangible Assets	14,746	64	9,402	69	10,139	59	8,665
<b>Total Assets</b>	<b>35,454</b>		<b>28,797</b>		<b>29,933</b>		<b>27,661</b>
Check	35,454						
MV/ Adjusted Book Value of Total Assets			81.2%		84.4%		78.0%
<b>Priority Claims:</b>							
Deferred Tax Liability	11	100	11	100	11	100	11
ST and LT Debt	4,708	100	4,708	100	4,708	100	4,708
Admin. and Liq. Costs at 3% of Assets	1,064	100	1,064	100	1,064	100	1,064
Sum Priority Claims	5,783		5,783		5,783		5,783
Remaining Corpus			<b>23,015</b>		<b>24,150</b>		<b>21,879</b>
Accounts Payable	348		348		348		348
Other Liabilities	6,062		6,062		6,062		6,062
Other LT Liabilities	798		798		798		798
Off-balance Sheet Liab.			0		0		0
Sum Senior, Unsecured Claims			<b>7,207</b>		<b>7,207</b>		<b>7,207</b>
<b>Recovery (Corpus/ Sum Sen. Claims)</b>			<b>100.0%</b>		<b>100.0%</b>		<b>100.0%</b>
<b>PV at 1.5 years</b>			<b>95.0%</b>		<b>95.0%</b>		<b>95.0%</b>

## COMPARATIVE BOOK VALUE ANALYSIS (BASED ON FYE FINANCIALS)

	ADBE	INTU	CDNS	ADSK	NUAN
Share Price	477.0	306.4	136.4	277.4	33.2
Shares Outstanding	479.0	261.7	278.9	219.6	283.0
Com. Stock MV in local currency	228,497	80,189	38,056	60,924	9,391
Total Preferred Equity	0	0	0	0	0
ST and LT Debt	4,708	3,636	495	2,105	1,673
less excess FYE cash	5,992	7,050	928	1,857	372
Adj. Enterprise Cost	227,213	76,775	37,622	61,171	10,691
Total Assets	24,284	10,931	3,951	7,280	3,593
Enterprise Value/Total Assets	935.6%	702.4%	952.3%	840.3%	297.5%

**Notes:** The Estimated Market Value of Assets divided by Total Assets.

**LIQUIDATION ANALYSIS USING GOING CONCERN VALUE (\$ Millions except per share amt.)(as of PNov 23)**

	Nov 19	Nov 20	PNov 21	PNov 22	PNov 23	PNov 24	PNov 25
EBITDA at FYE	3,965	4,991	5,327	5,532	5,838	6,046	6,261
Net Inc from Oper excl EOI	3,228	4,234	4,564	4,767	5,073	5,280	5,496
Revenue	11,131	12,865	13,436	14,033	14,607	15,204	15,826
Debt	4,138	4,708	4,708	4,708	4,708	4,708	4,708
Preferred Stock	0	0	0	0	0	0	0
Shares (millions)	482	479	478	477	476	475	474
Share Valuation		477.03					
Current Market Cap Est		<b>228,497</b>			<b>267,275</b>		
<b>EBITDA Multiple (see below)</b>		<b>45.78</b>			<b>45.78</b>		

	Base Case	Best Case	Worst Case
Assumed Value of common stock as of PNov 23	267,275	294,003	240,548
Adjusted Assumed Value of stock at 95%	253,912	279,303	228,520
Plus 80% of net debt, pfd. shares, and excess cash as of November 2023	19,380	19,380	19,380
Enterprise value	273,292	298,683	247,900
<b>Priority Claims:</b>			
Deferred Tax Liability			11
ST and LT Debt			4,708
Admin. and Liq. Costs at 3% of Assets			1,064
Sum Priority Claims		5,783	5,783
Remaining Corpus	<b>267,509</b>	<b>292,900</b>	<b>242,118</b>
Accounts Payable	348	348	348
Other Liabilities			6,062
Other LT Liabilities			798
Off-balance Sheet Liab.			
Sum Senior, Unsecured Claims	<b>7,207</b>	<b>7,207</b>	<b>7,207</b>
<b>Recovery (Remaining corpus/ Sen. Claims)</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>PV at 1.5 years</b>	<b>95.0%</b>	<b>95.0%</b>	<b>95.0%</b>
Check: Sum Claims less Liquidation Costs			0
Liabilities			0

**COMPARATIVE GOING CONCERN ANALYSIS (BASED ON FYE FINANCIALS)(1)**

	ADBE	INTU	CDNS	ADSK	NUAN	Median
Share Price in Local Currency	477.0	306.4	136.4	277.4	33.2	
Shares Outstanding	479.0	261.7	278.9	219.6	283.0	
Com. Stock MV in local currency (M)	228,497	80,189	38,056	60,924	9,391	
Preferred Stock Book Value (M)	0	0	0	0	0	
Total Debt in local currency (M)	4,708	3,636	495	2,105	1,673	
less excess FYE cash (M)	5,992	7,050	928	1,857	372	
Adjusted Enterprise Value (M)	227,213	76,775	37,622	61,171	10,691	
EBITDA at FYE (M)	4,991	2,454	803	763	250	
Market Cap/EBITDA	45.8	32.7	47.4	79.8	37.6	<b>45.8</b>
Net Inc from Oper excl EOI (M)	4,234	2,176	657	639	133	
Adj. Enterprise Cost/Net Inc from Oper excel EOI	53.7	35.3	57.2	95.7	80.3	<b>57.25</b>
Revenues (M)	12,865	7,679	2,683	3,791	1,479	
Adj. Enterprise Cost/Revenues	17.7	10.0	14.0	16.1	7.2	<b>14.02</b>

### GOING CONCERN VALUE ANALYSIS (\$Millions except per share amt.)

Below is a calculation of the Going Concern Value using EBITDA, EBIT and Revenues multiples. As can be seen below, EBITDA at FYE has improved recently. (We use the median as the basis of the above Valuation Range.)

	Nov 19	Nov 20	PNov 21	PNov 22	PNov 23	PNov 24
EBITDA at FYE	3,965	4,991	5,327	5,532	5,838	6,046
Net Inc from Oper excl EOI	3,228	4,234	4,564	4,767	5,073	5,280
Revenue	11,131	12,865	13,436	14,033	14,607	15,204
Debt less excess cash	-39	-1,284	-4,035	-6,865	-9,925	-13,263
Preferred Stock	0	0	0	0	0	0
Shares (millions)	482	479	478	477	476	475

### CALCULATION OF SHARE VALUE

Using the average multiples for comparable firms, we assessed the valuation.

Multiples of EBITDA at FYE (M) (less debt)	Multiplier	Nov 20	PNov 21	PNov 22	3 Yr. Avg.
Base	<b>45.5</b>	228,497	261,630	299,789	
	Equity MV Per Share	<b>477.03</b>	<b>547.53</b>	<b>628.91</b>	<b>551</b>
Optimistic	<b>59.2</b>	296,661	338,882	387,474	
		619.33	709.20	812.86	
Pessimistic	<b>31.9</b>	160,333	184,377	212,103	
		334.72	385.86	444.96	
Multiples of Net Inc from Oper excl EOI (less debt)					
Base	<b>57.2</b>	243,675	284,261	331,272	
	Equity MV Per Share	<b>509</b>	<b>595</b>	<b>695</b>	<b>600</b>
Optimistic	<b>74.4</b>	316,392	368,303	428,402	
		661	771	899	
Pessimistic	<b>40.1</b>	170,958	200,219	234,141	
		357	419	491	
Multiples of Revenues (less debt)					
Base	<b>14.0</b>	181,689	212,621	248,475	
	Equity MV Per Share	<b>379</b>	<b>445</b>	<b>521</b>	<b>449</b>
Optimistic	<b>18.2</b>	235,810	275,171	320,766	
		492	576	673	
Pessimistic	<b>9.8</b>	127,567	150,071	176,183	
		266	314	370	
<b>Buyout Viability (see Buyout Feasibility Analysis)</b>					<b>Possible</b>

### COMPARATIVE GOING CONCERN VALUE ANALYSIS (in local currency)

Below is an analysis of comparable firms and their total enterprise values (i.e., common and preferred values). The Enterprise Values are divided by EBITDA, EBIT and Revenues multiples to obtain the averages used above.

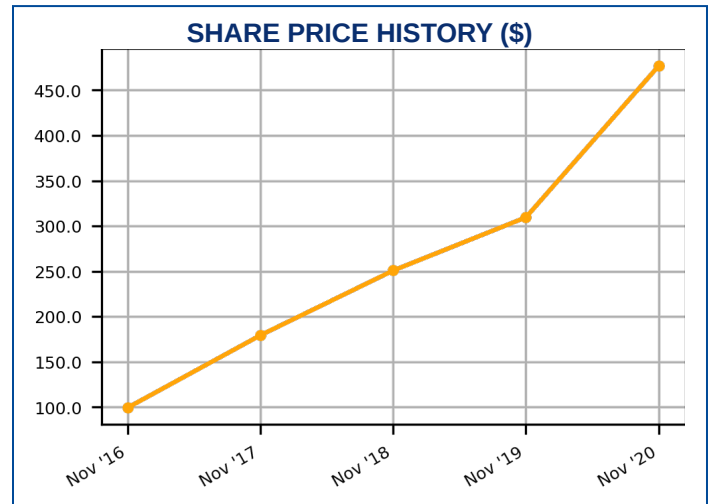
	ADBE	INTU	CDNS	ADSK	NUAN	Median
Share Price in Local Currency	477.03	306.37	136.43	277.43	33.19	
Shares Outstanding	479.00	261.74	278.94	219.60	282.95	
Com. Stock MV in local currency	228,497	80,189	38,056	60,924	9,391	
Preferred Stock Book Value	0	0	0	0	0	
Total Debt in local currency	4,708	3,636	495	2,105	1,673	
less excess FYE cash	5,992	7,050	928	1,857	372	
Adjusted Enterprise Value	<b>227,213</b>	76,775	37,622	61,171	10,691	
Adj. Enterprise Cost less Debt	222,505	73,139	37,127	59,066	9,019	
EBITDA at FYE	4,991	2,454	803	763	250	
Adj. Enterprise Cost/EBITDA	45.5	31.3	46.9	80.2	42.8	<b>45.52</b>
Net Inc from Oper excl EOI	4,234	2,176	657	639	133	
Adj. Enterprise Cost/Net Inc from Oper excel EOI	53.7	35.3	57.2	95.7	80.3	<b>57.25</b>
Revenues	12,865	7,679	2,683	3,791	1,479	
Adj. Enterprise Cost/Revenues	17.7	10.0	14.0	16.1	7.2	<b>14.02</b>

## BUYOUT FEASIBILITY ANALYSIS

**Conclusion: a deal is difficult because returns to the buyout equity sources are low.**

Buyout Amount and Capitalization in \$ (Millions except per share amounts)

Share Price (USD)	477.03
Shares Outstanding (millions)	479
Common Stock Market Value	228,497
plus 15% purchase premium	34,275
plus Preferred Stock Book Value (M)	0
less Excess Cash	5,191
<b>Adjusted Market Cap Value</b>	<b>257,580</b>
Buyout debt (12.0% of Adj. Mrkt. Cap.)	<b>31,007</b>
<b>Buyout Equity (at 88.0%)</b>	<b>226,573</b>



## CASHFLOW & RETURNS

	Nov '18	Nov '19	Nov '20	PNov '21	PNov '22	PNov '23
EBITDA + Other Income	3,138	3,965	4,991	5,327	5,532	5,838
Depreciation	346	737	757	763	765	765
EBIT	2,792	3,228	4,234	4,564	4,767	5,073
Existing Debt	4,125	4,138	4,708	4,708	4,708	4,708
EBITDA + Other Income	3,138	3,965	4,991	5,327	5,532	5,838
less Capital Expenditures	485	955	1,468	1,204	1,302	1,615
<b>Free Oper Cash Flow</b>	<b>2,654</b>	<b>3,010</b>	<b>3,523</b>	<b>4,124</b>	<b>4,230</b>	<b>4,223</b>

## PROJECTED CASHFLOW

Existing Interest	121	121	113
Interest on Buyout at 6.5%	2,015	2,015	2,015
Total Interest	2,137	2,137	2,129
Debt Increase (+), Decrease (-)	0	0	0
Interest and Principal Payments	2,137	2,137	2,129
<b>Free Oper Cash Flow less interest</b>	<b>1,987</b>	<b>2,093</b>	<b>2,094</b>
Third year sale of enterprise at higher of 57.2x EBIT or 45.5x EBITDA			290,418
Less Existing Debt			4,708
Less buyout debt			31,007
Less other			0
Cash to Equityholders from Sale			254,702
Cashflow to Equity	1,987	2,093	256,797
Buyout Equity	226,573		
Net Cashflow to Equity	(224,587)	2,093	256,797
Projected Return to Buyout Equity Holders	7%		
Interest Coverage	1.93:1	1.98:1	1.98:1

## U.S. SECURITIES AND EXCHANGE COMMISSION RULE 17g-7(a) DISCLOSURE

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

**1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:**

For the issue Adobe Inc. with the ticker of ADBE we have assigned the senior unsecured rating of A+. There are three notches in our rating categories (e.g., A- A, and A+) except for AAA and those deep into speculative grade, i.e., CC, C, and D do not have notches.

**2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:**

We are using the methodology version #15a available via [egan-jones.com](http://egan-jones.com) under the tab at the bottom of the page "Methodologies".

**3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:**

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to page 3 of this Rating Analysis Report.

**4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:**

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer. EJR ratings

- Are not intended to address the value, price, price stability, liquidity, suitability, or merit of an investment;
- Do not address investment merit, whether a particular rated security is suitable for a particular investor or suitable for an investor's risk tolerance;
- Do not address whether the expected return of a particular investment is adequate for the inherent risk;
- Do not address whether the market value of the security will remain stable over time; and
- Are not exact measures of the probability of default but are instead expressions of the relative credit risk of issuers and debt instruments.

**5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:**

Our rating is dependent on numerous factors including the reliability, accuracy, and quality of the data relied upon in determining the credit rating. The data/ information (collectively "Information") is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the Information is limited because of issues such as short operating histories, lack of reported data, delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent.

**6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:**

EJR does not utilize third-party due diligence.

**7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:**

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

**8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:**

EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources for ratings on publicly-traded issuers.

**9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7:**

The information is generally high quality and readily available.

**10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:**

EJR is not paid to determine this credit rating.

**11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:**

**Revenue Levels** - A material decline in revenue levels (other than that relating to an M&A event whereby a majority of the proceeds are used to reduce leverage) could prompt us to lower our rating up to several notches.

**Margins** - A material decline in margin (i.e., profitability) levels is likely to prompt us to reduce our rating up to several notches. Generally, modest reductions in margins do not alter the rating by more than one notch. However, multiple-notch rating changes can occur depending upon the significance of the change.

**Funding Costs and Availability** - A material change in cost and availability of funds (i.e., liquidity) for the issuer, its customers and suppliers is likely to impact credit quality and result in rating changes of up to several notches.



**Leverage** - A material change in leverage/ debt levels (particularly net of cash) could prompt us to lower or raise the rating. Generally, modest changes in debt levels do not alter the rating by more than one notch. However, multi- notch rating changes can occur depending upon the significance of the debt level change relative to the amount of cash flow the company generates. A potential offset to an increased debt level might be the market capitalization; a high market capitalization relative to the level of debt normally provides financial flexibility.

**Asset Values** - A material change in asset values could prompt us to adjust our the ratings up to several notches, as it typically signals a stronger or weaker economy and affects revenues, profitability, credit lines, and liquidity.

**Regulatory/ Licensing Issues** - A material change in the issuer's regulatory posture is likely to impact credit quality and resulting rating by up to several notches.

**Cyber/System Disruptions** - Material and prolonged disruptions in the issuer's and/or customers' and/or suppliers' systems is likely to cause us to reduce our rating up to several notches or in extreme cases, withdraw our rating.

**Corporate Events** - A material corporate event (such as a major acquisition, sale, or share buyback) is likely to cause us to change our rating up to several notches depending on various factors such as the counter party, the method of financing, the timing, and a variety of other related factors.

**12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:**

EJR credit rating is an opinion about the relative creditworthiness of an entity or an instrument. Exhibit 1 of Form NRSRO provides information on credit rating definitions and observed default rates in credit ratings performance measurement statistics. ([https://www.egan-jones.com/public/annual\\_certifications.aspx](https://www.egan-jones.com/public/annual_certifications.aspx))

Historical performance of credit ratings is disclosed on the Firm's web site. (<https://egan-jones.com/client/rar.aspx?&Tickers=ADBE>)

**13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:**

Below is a summary of the import of the assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Revenue Growth%	4.4	8.4	0.4	AA-	AA-	AA-
Cost of Revenue (% of Revs.)	14.6	11.6	17.6	AA-	AA-	AA-
Selling, General & Admin Expense (% of Revs.)	51.4	48.4	54.4	AA-	AA-	AA-
Interest Expense (Rate %)	2.6	0.6	4.6	AA-	AA	AA-
Gross Fixed Assets Growth %	22.0	20.0	24.0	AA-	AA-	AA-

**14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:**

This credit rating is not assigned to an asset-backed security.

**Comments on the Difference between the Model and Assigned Rating**

We have assigned a rating of A+ whereas the ratio-implied rating for the most recent historic period is AA-. We consider a one notch difference to be immaterial.

**Comments on Industry Ratios**

We have not made any adjustments in the industry ratios at this time.

**CUSIPs and EJR ratings**

00724PAA7 rated A+; 00724PAC3 rated A+; 00724PAD1 rated A+; 00724PAB5 rated A+; 00724FAC5 rated A+; 00724FAA9 rated NR; 00724FAB7 rated NR

**Attestation Form**

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

1. No Part of the credit rating was influenced by any other business activities,
2. The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
3. The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

**Prepared By****Date Prepared**

06/25/21

Rochelle Realin  
Credit Rating Analyst

**Reviewed By****Date Reviewed**

06/28/21

Lily Chen  
Manager, Credit Rating Analyst

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