

Initiated 2026-10-21 · Price \$255.13 (close 2026-10-21, stockanalysis.com) · Mkt cap \$99.3bn (389.2mm shares) · Information technology / application software · Model: verified

Rating: Hold — Conviction: Low

Adobe is cheap on every trailing measure: about 10x this year's non-GAAP EPS guide and a ~10% free-cash-flow yield, with revenue still growing ~12% and ARR ~10%. But that price already assumes the business keeps compounding roughly as guided, and the model's Base case returns only about a tenth. The debate is whether generative AI shrinks the paid creative seat; the Bear case is a long way below the price and the filings can't yet settle it, so the asymmetry doesn't justify a Buy.

Conviction tests (3a-v-c): T1 fail (Base +1.3% at +1pp, Hold; +18.4% at -1pp, read as Buy, so Hold → Buy at -1pp) · T2 pass (Gordon alone +7.0%, exit-multiple alone +11.2%; Hold on both) · T3 pass (every FY0 fact and historical series from EDGAR XBRL, the Q3 FY2026 10-Q and release; no est. inputs) · T4 pass (the FTC subscription case settled for \$150mm in April 2026; the 1 December CEO handover is not a >25% binary)

The T1 fail is a judgment: +18.4% sits between the house's Hold and Buy readings. If a reviewer reads it as Hold, the rule gives High.

MODEL VALUE RANGE VS PRICE



Business overview

Adobe sells subscription software for creating and managing content. In FY2025 (year to 28 November), Digital Media (Creative Cloud, Document Cloud, Firefly, Express) was \$17.65bn, about 74% of \$23.8bn revenue, and Digital Experience (marketing, analytics and customer-journey software for enterprises) was \$5.86bn, about 25%. From FY2026 Adobe reports by customer group: Creative & Marketing Professionals subscription revenue was \$4.65bn in Q3 (+13%), and Business Professionals & Consumers \$1.91bn (+16%). About 41% of revenue is from EMEA and APAC. Three variables drive earnings:

- paid seats and price per seat across Creative Cloud and Acrobat, which generative AI tools can either raise (AI credits, higher tiers) or erode;
- conversion of AI usage into ARR (AI-first ARR more than doubled year on year, dollar figure not disclosed);
- the ~45% non-GAAP operating margin, now carrying AI inference costs and ~\$1.9bn of stock compensation.

Competition

The pressure comes from two directions. Canva, private, reached about \$4bn of ARR at the end of 2025, growing ~35% with 31 million paid subscribers (February 2026 report), and is the main rival for the non-professional users that Express and Acrobat target. Figma, listed, has ~\$1.28bn of TTM revenue and owns collaborative interface design. Foundation-model vendors now offer image and video generation

directly. In Digital Experience, Salesforce is the closest competitor. So far the pressure shows in the multiple, not the numbers: Adobe's Business Professionals & Consumers group grew 16% in Q3 FY2026, faster than the company. Where it would show first is seat counts in Express and Acrobat, then pricing on renewals. Salesforce, the closest listed comparable by scale and model, trades at 17.8x aggregator EV/EBITDA and 16.5x forward P/E, against Adobe's 10.2x and 9.5x (stockanalysis.com, 2026-10-21 close).

Bull case

- AI expands the franchise.** Firefly credits, AI tiers and the AI-first products add revenue per user faster than cheaper tools take seats, and growth holds at 9–10% through FY2029. Plays out if the FY2027 ending-ARR growth target is 10% or more and Business Professionals & Consumers keeps growing mid-teens. *Model: rev_growth*
- Margin returns above 40%.** Semrush integration costs roll off and AI usage is priced above its compute cost, so model-basis EBITDA margin goes from ~38% in FY2026 to 41%. Plays out if the FY2027 GAAP operating margin target is above 36%. *Model: ebitda_margin*
- The multiple recovers part of the gap.** The stock exits at 14x model-basis EBITDA against 10.5x today, still below Salesforce and Autodesk. *Model: exit_ev_ebitda*

Bear case

- Generative AI shrinks the paid seat.** Canva, Figma and model vendors make good-enough creative work cheap; seat counts and renewal pricing fall and growth stalls to 0–1% by FY2028–29. Plays out if ending-ARR growth drops below 6% or Business Professionals & Consumers growth falls into single digits. *Model: rev_growth*
- Price cuts and compute costs compress margin.** Adobe defends seats with cheaper plans while inference costs rise, taking model-basis margin to 33%, below every year since FY2021. Plays out if the GAAP operating margin falls below 32%. *Model: ebitda_margin*
- Permanent de-rating.** The market values Adobe as a declining franchise: a 7x exit and a 1pp higher discount rate. *Model: exit_ev_ebitda, wacc*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV/EBITDA, model basis (EV \$100.0bn = mkt cap \$99.3bn – cash and ST investments \$5.64bn + senior notes \$6.36bn; EBITDA = GAAP operating income + D&A; leases excluded)	10.5x FY2025	n/a (unverified)	aggregator TTM: ADSK 22.01x · CRM 17.80x · FIG n/m (negative EBITDA) (ADBE 10.17x on that basis)	model-inputs.json ; stockanalysis.com 2026-10-21 close
P/E	10.4x the \$24.45–24.50 FY2026 non-GAAP EPS guide; 14.1x the \$18.12–18.17 GAAP guide	n/a (unverified)	forward: FIG 83.83x · ADSK 18.81x · CRM 16.49x (ADBE 9.50x)	stockanalysis.com 2026-10-21; Q3 FY2026 release
FCF yield (FY2025 OCF \$10,031mm – capex \$179mm, over mkt cap)	9.9% (aggregator TTM 10.62%)	n/a (unverified)	CRM 7.63% · ADSK 5.57% · FIG 1.88%	EDGAR XBRL; stockanalysis.com 2026-10-21

Model-implied value range (from model-summary.json ; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$157.85 · Base \$278.31 · Bull \$404.35 per share, i.e. implied returns of –38.1% / +9.1% / +58.5% vs \$255.13. *These ranges show how the bull and bear drivers translate into value; they are not price targets.*

- What's priced in.** The price sits 81% of the way from Bear to Base: despite the low multiple, the market is pricing most of the Base case, not the AI-disruption bear case.
- No re-rating.** Base's 10.0x exit is a 4.8% de-rating from today's 10.5x model-basis multiple, and the two methods agree within 4% (Gordon \$272.98, exit \$283.65). The low Base return comes from the 11.7% WACC (beta 1.42), not a conservative exit.

- **Tail.** Digital Media is ~74% of revenue, so a failure sensitivity was run on a scratch copy: revenue flat in FY2027 then -3% / -3% / -2%, margin to 30%, NWC -15% of revenue, 6x exit, 13.7% WACC, 1% terminal growth. Bear midpoint falls to \$113.55 (-55.5%).
- **Buybacks.** \$11.3bn of repurchases in FY2025 and \$24.55bn left on the authorization move EPS, not value here.

Balance sheet: net leverage 0.08x FY2025 EBITDA (gross 0.67x); interest coverage 34.0x. Nearest material maturity: \$1,597mm of notes due in 2027 (2.15% and 4.85% tranches), covered by \$5.64bn of cash and short-term investments. The rest, \$4,766mm, runs 2028–2035. Ratings: n/a (unverified).

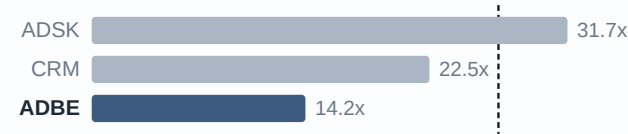
Model note: tier `full` , status `built` , verification `verified` (3,207 formula cells matched in LibreOffice). No unverified inputs and no assumptions without a basis. Scenario consistency is `OK` on all 14 rows.

- **Sourcing.** Revenue, operating income, D&A, receivables, payables, current deferred revenue, capex, SBC, buybacks and OCF come from EDGAR XBRL 10-K annual values for FY2021–25. Cash, debt and shares come from the Q3 FY2026 release and 10-Q.
- **EBITDA basis.** GAAP, so stock compensation stays in as a cost. FY2024 includes the \$1.0bn Figma termination fee.
- **Growth.** FY2026 uses guidance, which includes Semrush (\$1.87bn, closed 2026-04-28, already out of cash). FY2027+ is organic.
- **EPS vs guidance.** Base Y1 EPS \$19.03 is 4.9% above the \$18.145 GAAP guide midpoint, because the model uses 389mm shares against a ~400mm full-year average.
- **Placeholders.** Note coupons and the long-term maturity (2032) are display-only estimates; the tranche split wasn't retrieved.

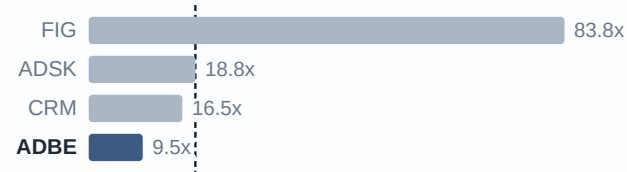
RELATIVE VALUE VS PEERS

Metric	ADBE	CRM	ADSK	FIG	Peer median	vs median
P/E (TTM)	14.2x	22.5x	31.7x	n/a	27.1x	-47%
P/E (forward)	9.5x	16.5x	18.8x	83.8x	18.8x	-49%
PEG	0.7x	0.9x	1.2x	5.8x	1.2x	-41%
EV/EBITDA (TTM)	10.2x	17.8x	22.0x	n/a	19.9x	-49%
EV/Sales (TTM)	3.9x	5.2x	6.5x	8.4x	6.5x	-40%
P/B	8.5x	5.2x	15.2x	8.2x	8.2x	+5%
FCF yield	10.6%	7.6%	5.6%	1.9%	5.6%	+5.0pp

P/E (TTM)



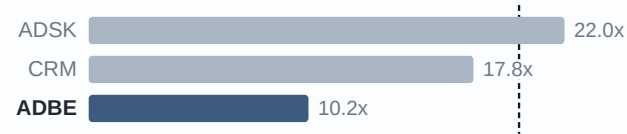
P/E (forward)



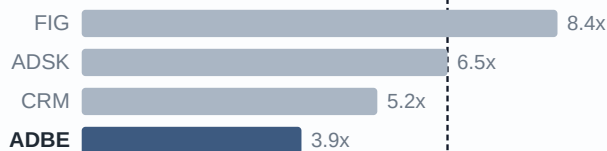
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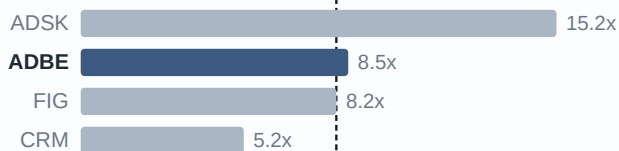
EV/EBITDA (TTM)



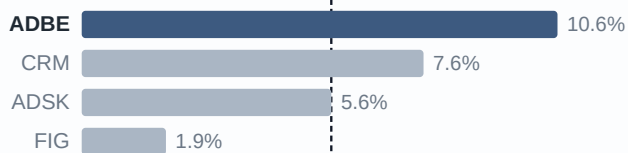
EV/Sales (TTM)



P/B



FCF yield



As of 2026-10-21. One source and one definition for every company: aggregator TTM and consensus-forward multiples, EV netting reported cash and including lease liabilities in debt. Not the model's own EV basis (see the report's valuation table). Pages fetched 2026-10-21 after the close; quotes are the 2026-10-21 close (4:00pm ET). Dashed line = peer median. Source: stockanalysis.com/stocks/<ticker>/statistics/, fetched 2026-10-21.

Notes. PEG as given by the source, resting on its consensus growth estimates. Figma is loss-making on a TTM basis, so its P/E is null. Figma's TTM EBITDA is negative (null). ADBE's 10.17x uses the source's \$9.92bn TTM EBITDA; on the model's basis (FY2025 GAAP operating income + D&A, leases excluded) it is 10.5x.

Scenario stress test

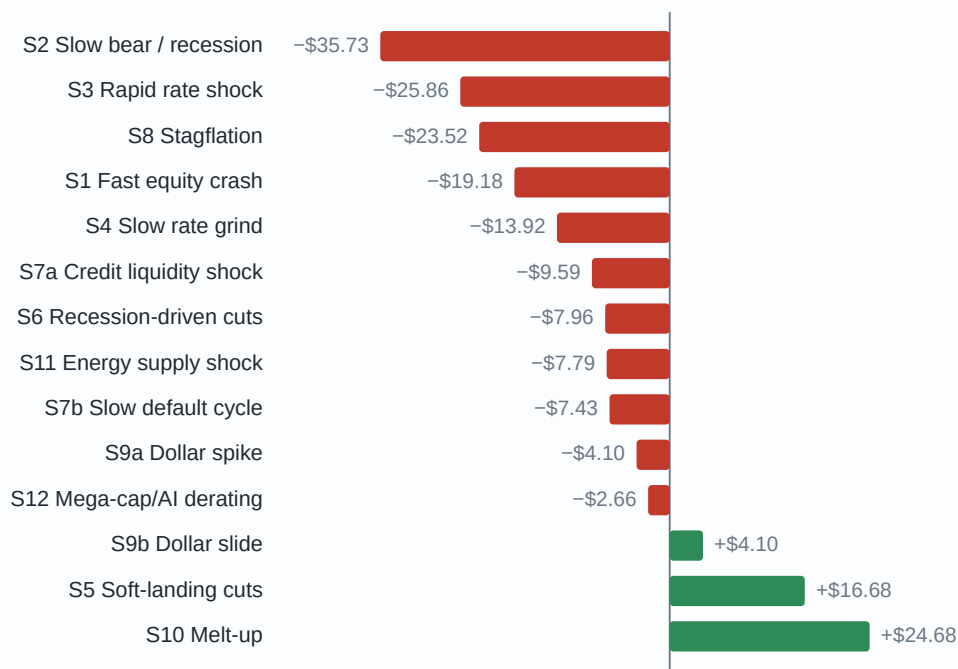
Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	-	Liquidity de-rating of a 1.42-beta large cap; tiny net debt, no funding channel	Med	-\$19.18
S2 Slow bear / recession	-	Enterprise seat cuts, SMB and consumer churn, marketing budgets cut in Digital Experience; subscriptions cushion it. Milder than Base – Bear (\$120) because it is a two-year cycle, not a permanent loss of seats	High	-\$35.73
S3 Rapid rate shock	-	Higher discount rate compresses a long-duration software multiple; debt is fixed-rate	High	-\$25.86
S4 Slow rate grind	-	Rates weigh on the multiple and marginally on SMB demand	Med	-\$13.92
S5 Soft-landing cuts	+	Lower discount rate, firmer seat and marketing spend	Med	+\$16.68
S6 Recession-driven cuts	-	Seat and marketing cuts, mostly offset in value by lower rates	Low	-\$7.96
S7a Credit liquidity shock	-	De-rating only; net debt ~0.1x EBITDA	Low	-\$9.59
S7b Slow default cycle	-	SMB and agency failures lift churn modestly	Low	-\$7.43
S8 Stagflation	-	Wage and compute inflation, weaker real spend, higher rates	High	-\$23.52
S9a Dollar spike	-	~41% of revenue outside the Americas with mostly dollar costs: translation loss falls to profit	Low	-\$4.10
S9b Dollar slide	+	Mirror image: translation gain	Low	+\$4.10
S10 Melt-up	+	A de-rated, high-beta large cap re-rates in a risk-on tape	High	+\$24.68

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S11 Energy supply shock	-	Indirect only: marketing budgets and rates; no direct energy exposure	Low	-\$7.79
S12 Mega-cap/AI derating	±	Software multiples de-rate with AI leaders, offset by less VC-funded AI competition on creative tools	Low	-\$2.66

Currently active/on watch per the playbook: S3 partially active (price-level leg only); S8, S10 and S11 on watch.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades to Buy if: the FY2027 targets (due with Q4 results) guide ending-ARR growth at 9% or more with GAAP operating margin at or above 35%, while the price stays near today's; or the price falls toward the midpoint of Bear and Base with the numbers intact.

Downgrades to Sell if: ending-ARR growth is guided below 6%, Business Professionals & Consumers growth drops into single digits, or Adobe cuts list prices to hold seats.

Watch items

- **W1:** Q4 FY2026 revenue — within \$6.80–6.85bn — Q4 FY2026 release — mid-Dec 2026 (date not verified) — *Model: rev_growth*
- **W2:** FY2027 targets — ending-ARR growth $\geq$ 8% (Base) vs <6% (Bear) — Q4 FY2026 release — mid-Dec 2026 — *Model: rev_growth*
- **W3:** FY2027 GAAP operating margin target — $\geq$ 35% (Base) vs <32% (Bear) — Q4 FY2026 release — mid-Dec 2026 — *Model: ebitda_margin*
- **W4:** Leadership — Anil Chakravarthy takes over as CEO on 1 December 2026; a permanent CFO named (Steve Day is interim) — 8-K / Q4 release — Dec 2026 — *Model: none*

Sources

- Adobe (ADBE) statistics — <https://stockanalysis.com/stocks/adbe/statistics/> — accessed 2026-10-21
- Salesforce, Autodesk, Figma statistics — <https://stockanalysis.com/stocks/crm/statistics/> · [/adsk/](#) · [/fig/](#) — accessed 2026-10-21
- EDGAR XBRL companyfacts, CIK 0000796343 — <https://data.sec.gov/api/xbrl/companyfacts/CIK0000796343.json> — accessed 2026-10-21
- Adobe Reports Record Q3 Results (8-K Ex. 99.1) — <https://www.sec.gov/Archives/edgar/data/0000796343/000079634326000147/adbeex991q326.htm> — accessed 2026-10-21
- Adobe Form 10-Q, quarter ended 2026-08-28 — <https://www.sec.gov/Archives/edgar/data/0000796343/000079634326000156/adbe-20260828.htm> — accessed 2026-10-21
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- Adobe names Anil Chakravarthy CEO from December 1 — <https://app.sentisense.ai/stories/adobe-appoints-anil-chakravarthy-as-ceo-as-shantanu-narayan-shifts-to-executive-09032026> — accessed 2026-10-21
- Canva crosses \$4bn ARR (TechCrunch, via SaaSr) — <https://www.saastr.com/canva-crosses-a-stunning-4b-arr-but-what-would-it-be-worth-today> — accessed 2026-10-21
- Adobe \$150mm FTC settlement approved (MLex) — <https://www.mlex.com/mlex/articles/2464188> — accessed 2026-10-21
- Macro log, 10Y 5.12% and fed funds on 2026-10-20 — [logs/macro-2026-10.md](#) — accessed 2026-10-21

Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.