AZ STOCKS
Acciones de la A a la Z

Adobe

Obsolete company or historic opportunity?

EQUITY RESEARCH

November 2026

azstocks.net

COMPANY PROFILE

Adobe

THESIS

Adobe is the invisible infrastructure of the creative and document economy, with a subscription model that generates gross margins close to 89%. In this report I assess whether generative AI is eroding its competitive advantage, or whether the market is over-punishing a business that keeps growing and generating cash.

PRICE TARGET
USD 311

UPSIDE
+24.0%

SECTOR
Software

EXCHANGE
NASDAQ

CURRENCY
USD

LAST UPDATE
November 2026

THE COMPANY

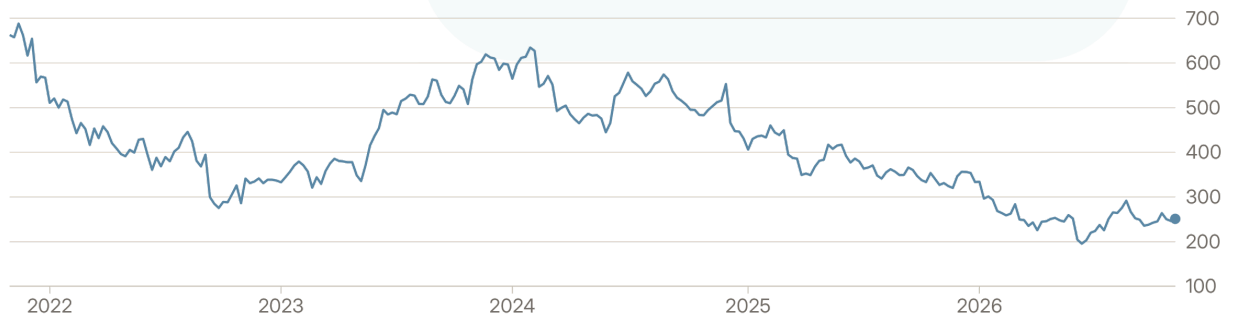
Adobe develops software for content creation, documents and digital marketing. It operates in three main areas: Creative Cloud (Photoshop, Illustrator, Premiere Pro, Lightroom), Document Cloud (Acrobat and the PDF format) and Digital Experience, its marketing and analytics platform for enterprises.

Since 2013 it has sold its products by subscription instead of perpetual licenses, and today 96% of its revenue is recurring. In fiscal 2025 it generated about USD 23.8 billion in revenue, and for fiscal 2026 it expects around USD 26.6 billion.

MARKET DATA AS OF NOV 4, 2026

PRICE	52-WEEK RANGE	5-YEAR CHANGE	BETA (5 YEARS)
USD 250.84	190.12 – 362.71	-62%	1.44

WEEKLY SHARE PRICE, LAST 5 YEARS



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SECTION 01

Introduction

If you have ever opened a PDF, spent hours editing a photo, or designed something on a computer, you have very likely crossed paths with Adobe. Whether you knew it or not, the red “A” logo has been part of the invisible infrastructure of the global digital economy for more than four decades.

Almost everyone knows Adobe for Photoshop. But Photoshop is only one piece of something much bigger. The company runs a complete ecosystem of creative tools (graphic design, video editing, animation, layout, photography), plus a document management platform (they invented the PDF) and a marketing analytics suite for enterprises. Once you look at the full portfolio, you realize it is not simply “the Photoshop company”: it is the operating system of the world’s creatives and marketers.

What makes Adobe an especially interesting case study right now is not the business itself, which is extraordinary and well established, but the tension between that historical quality and the challenge posed by generative artificial intelligence. The market has been punishing the stock hard for more than a year, on the thesis that tools like Midjourney or DALL-E will erode the moat Adobe built over decades. And on top of that, this year the CEO who led the company for almost two decades announced he is stepping down. And yet the company keeps reporting double-digit growth (13% in the latest quarter), 89% gross margins, and $10 billion of operating cash flow a year.

That contradiction between fundamentals and market price is exactly what makes it worth analyzing right now.

SECTION 02

Business model

Adobe operates in three large areas that, while distinct, feed each other and share the same foundation: software as a cloud subscription service.

Until 2013, Adobe sold its products as **perpetual licenses**: you bought Photoshop CS6 for $700 and it was yours forever. It was Shantanu Narayen who made the decision, very controversial at the time, to end that model and move everything to a monthly **subscription** under the **Creative Cloud** brand. Users protested and the stock fell. Today, that decision has completely transformed the company.

Digital Media: the core

It is the largest segment, with **74% of total revenue** in FY2025 ($17.65B). It splits into two subsegments:

Creative Cloud is the bundle of creative tools: Photoshop, Illustrator, InDesign, Premiere Pro, After Effects, Lightroom and a dozen more. Everything integrated, everything synced in the cloud, everything under a monthly fee. It is what graphic designers, photographers, videographers, art directors and marketing teams use all over the world. Subscription revenue for this group was $16.3B in FY2025, growing 11% year over year.

Document Cloud is the world of PDF and Acrobat. A quieter but equally powerful business: Adobe invented the PDF in 1993 and released it as an open standard (ISO 32000), but kept the premium tools to work with it. Signing documents, annotating contracts, converting files, merging PDFs: Acrobat Pro is the universal reference for all of that. And the segment grows 17% a year, the fastest in the company. Acrobat AI Assistant, a chatbot that lets you "talk" to PDF documents, is one of the AI products in the portfolio with real traction.

Digital Experience: the enterprise segment

About 25% of revenue ($5.86B in FY2025). It is the marketing platform for large companies, known as **Experience Cloud**. It includes analytics (Adobe Analytics), marketing automation (Marketo), web content management (AEM) and GenStudio, its AI platform to create marketing content at scale. It competes directly with Salesforce Marketing Cloud and HubSpot in the enterprise segment. Subscription revenue here grows 11% a year.

Publishing & Advertising: what's left

Less than 1% of revenue. Legacy products like FrameMaker and Captivate. No strategic relevance. It is in managed decline and will probably disappear from the portfolio at some point.

How it makes money

96% of revenue is recurring: monthly or annual subscriptions. That makes the business **highly predictable** and resilient to short-term shocks. The metric Adobe uses to take the pulse of the business is ARR (Annual Recurring Revenue): the annualized value of all active subscription contracts. At the end

of FY2025, total ARR was $25.20B, growing 11.5% year over year. In the third quarter of FY2026 it reached $27.50B, up 11.2%, a figure that already includes Semrush.

Starting in FY2026, Adobe changed its reporting to present the business by **customer type** instead of by segment: Creative & Marketing Professionals (designers, agencies, photographers, marketing teams and the enterprise platform) and Business Professionals & Consumers (users of Acrobat, Adobe Express, Firefly). The change makes strategic sense, since that is how the business is managed internally, but it breaks the historical series. It is worth keeping an eye on.

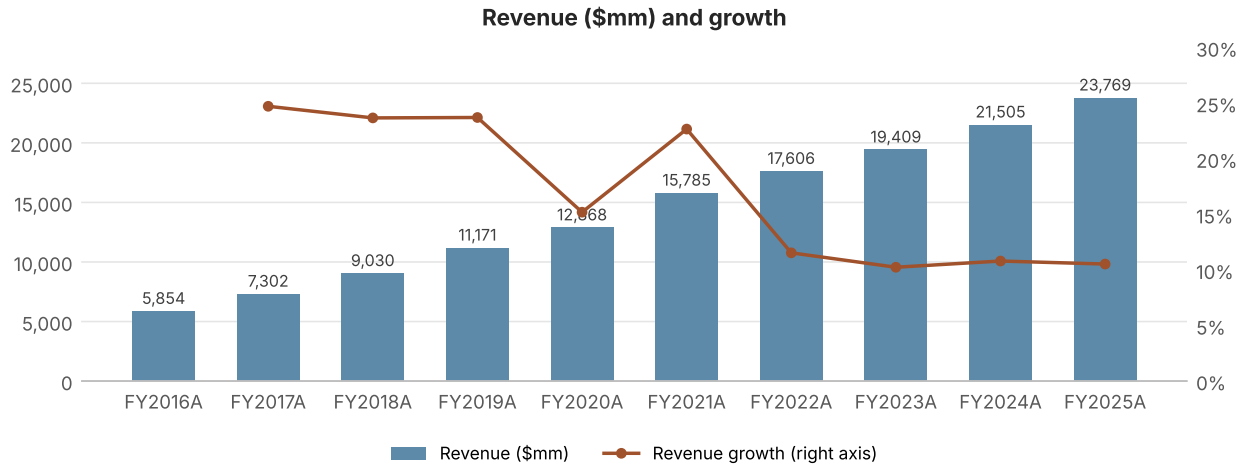
For FY2026, official guidance puts Creative & Marketing Professionals at $18.24-18.27B (about 69% of the total) and Business Professionals & Consumers at $7.47-7.49B (28%). This split is the foundation of my valuation: as I explain in section 07, I don’t think AI will hit both groups equally.

SECTION 03

Business quality

Revenue

The evolution of Adobe's revenue in recent years shows a consistency that, for a business of this scale, is remarkable. It went from $5.9B in FY2016 to $23.8B in FY2025: over the last five years it grew at an average of 13.2% a year, and over the last three, 10.5%. For a company with more than $23B in annual revenue, sustaining double-digit growth is not something you achieve without a real moat.



Revenue and annual growth, FY2016-FY2025. AZ Stocks DCF model, Ratios sheet.

What stands out is the **regularity**: since FY2022 growth has moved within a very narrow range, between 10% and 11.5%. There was no 2021 boom like other software companies had, nor the sharp drop many suffered in 2022. Adobe simply kept growing at its usual pace. That speaks to the non-discretionary nature of part of its demand: creatives and companies don't cancel their Photoshop or Acrobat subscriptions when markets get tough.

The fastest-growing group is **Business Professionals & Consumers** (+15% in FY2025), which includes Acrobat, Adobe Express and the new AI tools. The trend continued in the third quarter of FY2026: this group grew 16% and Creative & Marketing Professionals 13% (the latter including Semrush). That is where the long-term growth bet sits today, but also, as I explain later, the most exposed part of the business.

By region, Adobe operates globally with a mature presence in all developed markets. In FY2025, about 45% of revenue came from outside the United States, with Europe and Asia-Pacific as the most relevant regions.

Common-size analysis

Income Statement

Fiscal year Income Statement — % of revenue	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold	(14.0%)	(13.8%)	(13.2%)	(15.0%)	(13.4%)	(11.8%)	(12.3%)	(12.1%)	(11.0%)	(10.7%)	**(11.3%)**	**(11.6%)**
Gross Profit	**86.0%**	**86.2%**	**86.8%**	**85.0%**	**86.6%**	**88.2%**	**87.7%**	**87.9%**	**89.0%**	**89.3%**	**88.7%**	**88.4%**
Selling General & Admin Expenses	(42.5%)	(38.7%)	(37.3%)	(36.9%)	(35.4%)	(34.2%)	(35.1%)	(34.8%)	(33.6%)	(33.9%)	**(34.1%)**	**(34.3%)**
R&D Expenses	(16.7%)	(16.8%)	(17.0%)	(17.3%)	(17.0%)	(16.1%)	(17.0%)	(17.9%)	(18.3%)	(18.1%)	**(18.1%)**	**(17.5%)**
Amortization of Goodwill and Intangible Assets	(1.3%)	(1.0%)	(1.0%)	(1.6%)	(1.3%)	(1.1%)	(1.0%)	(0.9%)	(0.8%)	(0.7%)	**(0.8%)**	**(0.9%)**
Total Operating Expenses	**(60.5%)**	**(56.5%)**	**(55.3%)**	**(55.8%)**	**(53.7%)**	**(51.4%)**	**(53.1%)**	**(53.6%)**	**(52.7%)**	**(52.6%)**	**(53.0%)**	**(52.7%)**
Operating Income	**25.5%**	**29.7%**	**31.5%**	**29.3%**	**32.9%**	**36.8%**	**34.6%**	**34.3%**	**36.4%**	**36.6%**	**35.7%**	**35.7%**
Interest Expense	(1.2%)	(1.0%)	(1.0%)	(1.4%)	(0.9%)	(0.7%)	(0.6%)	(0.6%)	(0.8%)	(1.1%)	**(0.8%)**	**(0.8%)**
Interest And Investment Income	0.8%	0.9%	1.0%	0.6%	0.3%	0.1%	0.3%	1.4%	1.6%	1.1%	**1.4%**	**0.9%**
Currency Exchange Gains (Loss)	(0.6%)	(0.4%)	(0.5%)	(0.2%)	(0.0%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	**(0.1%)**	**(0.1%)**
EBT Excl. Unusual Items	24.5%	29.2%	31.0%	28.2%	32.4%	36.0%	34.2%	35.0%	37.0%	36.6%	**36.2%**	**35.8%**
Merger & Restructuring Charges	–	–	–	–	–	–	–	–	(4.7%)	–	**(1.6%)**	**(0.9%)**
Gain (Loss) On Sale Of Investments	0.0%	0.1%	(0.1%)	0.5%	0.1%	0.1%	(0.1%)	0.0%	0.2%	0.2%	**0.1%**	**0.1%**
EBT Incl. Unusual Items	**24.5%**	**29.3%**	**30.9%**	**28.7%**	**32.5%**	**36.1%**	**34.1%**	**35.0%**	**32.2%**	**36.7%**	**34.7%**	**34.9%**
Income Tax Expense	(4.5%)	(6.1%)	(2.2%)	(2.3%)	8.4%	(5.6%)	(7.1%)	(7.1%)	(6.4%)	(6.7%)	**(6.7%)**	**(6.6%)**
Earnings From Continuing Operations	20.0%	23.2%	28.7%	26.4%	40.9%	30.5%	27.0%	28.0%	25.9%	30.0%	**27.9%**	**28.3%**
Net Income	**20.0%**	**23.2%**	**28.7%**	**26.4%**	**40.9%**	**30.5%**	**27.0%**	**28.0%**	**25.9%**	**30.0%**	27.9%	28.3%

Income statement as % of revenue. AZ Stocks DCF model, Ratios sheet.

When you look at Adobe's Income Statement over time (in this case from 2016 to 2025), the first thing that strikes you is not any particular number. It is the *direction*. Everything moves in the same direction, year after year, like a well-calibrated machine.

Let's start at the top: **gross margin**. In 2016 it was 86.0%. In 2025 it is 89.3%. Nine years later, the company is *more* efficient at generating gross profit than before. For a company that went from selling boxed software to running its entire infrastructure in the cloud, that is not trivial. That expansion of more than three percentage points reflects real economies of scale in the subscription model: each new user entering the ecosystem costs proportionally less than the previous one.

But the number I care most about is further down: **operating margin**. In 2016 it was 25.5%. Today it is 36.6%. That is eleven points of expansion in nine years, and most of it came from selling, general and administrative expenses, which fell from 42.5% to 33.9% of revenue. The path was not linear: there were a couple of years when it stalled, particularly around 2022-2023, when the attempted Figma acquisition and its related costs weighed on results. But the long-term trend is unmistakably upward.

There is something worth unpacking here. If you add cost of revenue (10.7%), SG&A (33.9%), R&D (18.1%) and amortization of intangibles (0.7%), you get to 63.4% of revenue. What remains (36.6%) is the GAAP operating margin. Now, within SG&A and R&D there is a significant portion of stock-based compensation: shares Adobe grants its employees as part of their pay. That cost exists and is real, even though Adobe (like almost every tech company) excludes it from its non-GAAP presentation. In the Cash Flow you will see that SBC has been around 8-9% of revenue in recent years. It is a number to keep in mind.

Net margin tells a similar story: it started at 20% in 2016 and closed FY2025 at 30%. Thirty cents of net profit for every dollar of revenue. For context, the S&P 500 average is around 10-12%. The only anomaly in the series is FY2024, when the $1B termination fee for the failed Figma deal shows up in Merger & Restructuring Charges (-4.7% of revenue) and pulls net margin down to 25.9%.

What this table doesn't tell you, and it matters, is how much of that net income is real cash versus an accounting number. For that you need the Cash Flow Statement. Spoiler: the story there is even better.

Balance Sheet

Fiscal year Balance Sheet — % of total assets	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Cash And Equivalents	8.0%	15.9%	8.8%	12.8%	18.4%	14.1%	15.6%	24.0%	25.2%	18.4%	**22.5%**	**19.5%**
Short Term Investments	29.5%	24.2%	8.5%	7.4%	6.2%	7.2%	6.8%	2.4%	0.9%	3.9%	**2.4%**	**4.2%**
Total Cash And Short Term Investments	**37.5%**	**40.0%**	**17.2%**	**20.1%**	**24.7%**	**21.3%**	**22.4%**	**26.3%**	**26.1%**	**22.4%**	**24.9%**	**23.7%**
Accounts Receivable	6.6%	8.4%	7.0%	7.4%	5.8%	6.9%	7.6%	7.5%	6.9%	7.9%	**7.4%**	**7.4%**
Prepaid Expenses	1.6%	1.3%	1.4%	2.9%	2.3%	2.5%	2.1%	2.5%	3.0%	3.1%	**2.8%**	**2.6%**
Other Current Assets	0.3%	0.1%	0.2%	0.9%	0.8%	1.1%	1.0%	1.0%	1.2%	1.1%	**1.1%**	**1.1%**
Total Current Assets	**46.0%**	**49.9%**	**25.9%**	**31.3%**	**33.5%**	**31.8%**	**33.1%**	**37.2%**	**37.2%**	**34.5%**	**36.3%**	**34.8%**
Gross Property Plant And Equipment	15.2%	15.2%	13.2%	13.8%	14.3%	13.1%	14.3%	13.8%	12.8%	13.3%	**13.3%**	**13.5%**
Accumulated Depreciation	(8.7%)	(8.7%)	(7.5%)	(7.6%)	(6.0%)	(5.3%)	(5.8%)	(5.8%)	(5.5%)	(5.9%)	**(5.7%)**	**(5.6%)**
Net Property Plant And Equipment	6.4%	6.4%	5.7%	6.2%	8.3%	7.8%	8.5%	8.0%	7.3%	7.4%	**7.6%**	**7.8%**
Long-term Investments	0.1%	–	–	–	–	–	–	–	–	0.3%	**0.1%**	**0.1%**
Goodwill	42.6%	40.1%	56.4%	51.5%	44.2%	46.5%	47.1%	43.0%	42.3%	43.6%	**43.0%**	**44.5%**
Other Intangibles	3.3%	2.7%	11.0%	8.3%	5.6%	6.7%	5.3%	3.7%	2.6%	1.7%	**2.6%**	**4.0%**
Deferred Tax Assets Long-Term	–	–	–	–	5.6%	4.0%	2.9%	4.0%	5.5%	7.4%	**5.6%**	**4.7%**
Deferred Charges Long-Term	–	–	–	1.5%	1.4%	1.5%	1.5%	1.4%	1.5%	1.6%	**1.5%**	**1.5%**
Other Long-Term Assets	1.0%	1.0%	1.0%	1.2%	1.3%	1.8%	1.6%	2.7%	3.6%	3.6%	**3.3%**	**2.6%**
Total Assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Accounts Payable	0.7%	0.8%	1.0%	1.0%	1.3%	1.1%	1.4%	1.1%	1.2%	1.4%	**1.2%**	**1.2%**
Accrued Expenses	5.8%	6.8%	6.2%	6.0%	5.3%	5.9%	6.1%	6.0%	5.3%	6.1%	**5.8%**	**5.9%**
Current Portion of Long-Term Debt	–	–	–	15.2%	–	–	1.8%	–	5.0%	0.0%	**1.7%**	**1.4%**
Current Portion of Capital Lease Obligations	–	–	–	–	0.4%	0.4%	0.3%	0.2%	0.2%	0.3%	**0.3%**	**0.3%**
Current Income Taxes Payable	0.3%	0.1%	0.2%	0.3%	0.3%	0.2%	0.3%	0.3%	0.4%	0.5%	**0.4%**	**0.3%**
Unearned Revenue Current	15.3%	16.6%	15.5%	16.3%	14.9%	17.4%	19.5%	19.6%	20.3%	23.4%	**21.1%**	**20.0%**
Other Current Liabilities	0.0%	0.0%	0.0%	0.8%	0.5%	0.5%	0.4%	0.5%	2.5%	2.9%	**2.0%**	**1.4%**
Total Current Liabilities	**22.1%**	**24.3%**	**22.9%**	**39.5%**	**22.7%**	**25.4%**	**29.9%**	**27.7%**	**34.8%**	**34.6%**	**32.4%**	**30.5%**
Long-Term Debt	14.9%	13.0%	22.0%	4.8%	17.0%	15.1%	13.4%	12.2%	13.7%	21.1%	**15.6%**	**15.1%**
Capital Leases	–	–	–	–	2.1%	1.7%	1.5%	1.3%	1.2%	1.2%	**1.2%**	**1.4%**
Unearned Revenue Non Current	0.5%	0.6%	0.7%	0.6%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	**0.4%**	**0.4%**
Other Non Current Liabilities	2.2%	2.0%	4.2%	3.8%	3.1%	2.9%	3.0%	3.0%	3.3%	3.3%	**3.2%**	**3.1%**
Total Liabilities	**41.5%**	**41.8%**	**50.1%**	**49.3%**	**45.4%**	**45.7%**	**48.3%**	**44.5%**	**53.3%**	**60.6%**	**52.8%**	**50.5%**
Additional Paid In Capital	36.4%	35.0%	30.3%	31.3%	30.3%	30.9%	36.3%	38.9%	44.4%	52.1%	**45.1%**	**40.5%**
Retained Earnings	63.9%	65.9%	63.0%	71.4%	80.8%	87.8%	104.2%	112.0%	127.3%	153.8%	**131.0%**	**117.0%**
Treasury Stock	(40.4%)	(41.9%)	(42.6%)	(51.1%)	(55.8%)	(63.9%)	(87.8%)	(94.5%)	(124.3%)	(165.6%)	**(128.1%)**	**(107.2%)**
Total Common Equity	**58.5%**	**58.2%**	**49.9%**	**50.7%**	**54.6%**	**54.3%**	**51.7%**	**55.5%**	**46.7%**	**39.4%**	**47.2%**	**49.5%**
Total Liabilities And Equity	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Balance sheet as % of total assets. AZ Stocks DCF model, Ratios sheet.

Looking at Adobe's balance sheet over time can feel a bit counterintuitive at first. The headline numbers don't look as clean as those of other software companies of the same caliber. Equity as a percentage of total assets *fell* from 58.5% in 2016 to 39.4% in 2025. Long-term debt *rose* from 14.9% to 21.1%. At first glance, it would seem the balance sheet deteriorated. But once you understand what is behind that move, the story changes completely.

The explanation is simple: Adobe is buying back its own shares aggressively. Treasury Stock, the line that represents repurchased shares, went from 40% of assets in 2016 to 166% in 2025. That is not a mistake: Adobe has bought back so many shares cumulatively that their value far exceeds the original capital shareholders put in. Mathematically, that compresses equity as a share of the total. But from the point of view of the investor who still owns shares, it is good news: there are fewer shares outstanding competing for the same future earnings.

Now, what really interests me on the asset side is the composition of non-current assets. Goodwill represents 43.6% of total assets in 2025. Other intangibles, another 1.7%. In total, almost 45% of Adobe's balance sheet is intangible assets: essentially the premium paid over book value in past acquisitions, plus brands, patents and customer relationships. That is not bad in itself: it reflects a business built on brands and software, not on factories and machinery. But it does mean that a significant part of the balance sheet is inherently hard to value independently.

On the liabilities side, the most striking item is the growth of current Unearned Revenue: it went from 15.3% to 23.4% of total assets between 2016 and 2025. Unearned revenue is customer prepayments that have not yet been recognized as revenue: in an annual subscription model, when someone pays $600

for a year of Creative Cloud in January, Adobe recognizes that revenue at $50 a month. Growth in that line is a positive sign: it means more customers paying in advance, more committed to the ecosystem, more ARR locked in.

In short: Adobe's balance sheet is that of a company so confident in its own ability to generate cash that it prefers to return capital to shareholders through buybacks, even if that compresses book equity, rather than pile up unnecessary cash. It is a stance that makes all the sense in the world when ROIC is above 50%.

Cash Flow Statement

Fiscal year Cash Flow — % of revenue	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Net Income	**20.0%**	**23.2%**	**28.7%**	**26.4%**	**40.9%**	**30.5%**	**27.0%**	**28.0%**	**25.9%**	**30.0%**	**27.9%**	**28.3%**
Depreciation & Amortization	3.1%	2.4%	1.8%	3.2%	1.6%	1.4%	1.2%	1.3%	1.2%	1.0%	**1.1%**	**1.2%**
Amortization of Goodwill and Intangible Assets	2.6%	2.1%	2.0%	3.6%	2.9%	2.2%	2.3%	1.9%	1.6%	1.3%	**1.6%**	**1.9%**
Total Depreciation & Amortization	**5.7%**	**4.5%**	**3.8%**	**6.8%**	**4.4%**	**3.6%**	**3.5%**	**3.2%**	**2.7%**	**2.3%**	**2.7%**	**3.1%**
Amortization of Deferred Charges	–	–	–	–	1.4%	1.3%	1.4%	1.3%	1.3%	1.2%	**1.3%**	**1.3%**
Stock-Based Compensation	6.0%	6.2%	6.8%	7.1%	7.1%	6.8%	8.2%	8.9%	8.5%	8.2%	**8.5%**	**8.1%**
Other Operating Activities	0.4%	0.8%	(5.1%)	0.2%	(10.7%)	1.7%	2.4%	(1.9%)	(1.9%)	(2.0%)	**(1.9%)**	**(0.3%)**
Change In Accounts Receivable	(2.7%)	(2.6%)	(0.0%)	(1.7%)	0.8%	(2.7%)	(1.1%)	(0.8%)	0.7%	(1.2%)	**(0.4%)**	**(1.0%)**
Change In Accounts Payable	(0.1%)	(0.6%)	0.6%	0.2%	0.7%	(0.1%)	0.4%	(0.3%)	0.2%	0.3%	**0.1%**	**0.1%**
Change in Unearned Revenues	9.0%	6.5%	4.9%	4.4%	2.0%	6.7%	3.0%	2.8%	1.4%	3.2%	**2.5%**	**3.4%**
Change In Income Taxes	0.7%	(0.5%)	5.3%	0.0%	(0.6%)	0.0%	0.1%	(0.1%)	0.3%	(0.2%)	**0.0%**	**0.0%**
Change in Other Net Operating Assets	(0.1%)	2.5%	(0.4%)	(3.4%)	(1.6%)	(2.0%)	(0.5%)	(3.5%)	(2.0%)	0.4%	**(1.7%)**	**(1.5%)**
Cash from Operations	**37.6%**	**39.9%**	**44.6%**	**39.6%**	**44.5%**	**45.8%**	**44.5%**	**37.6%**	**37.5%**	**42.2%**	**39.1%**	**41.5%**
Memo: Change in Net Working Capital	6.8%	5.3%	10.4%	(0.4%)	1.4%	1.8%	1.9%	(1.8%)	0.7%	2.5%	**0.5%**	**1.0%**
Capital Expenditure	(3.5%)	(2.4%)	(3.0%)	(3.5%)	(3.3%)	(2.2%)	(2.5%)	(1.9%)	(0.9%)	(0.8%)	**(1.2%)**	**(1.6%)**
Cash Acquisitions	(0.8%)	(6.3%)	(69.9%)	(0.9%)	–	(17.0%)	(0.7%)	–	–	(0.1%)	**(0.0%)**	**(3.6%)**
Investment in Marketable and Equity Securities	(12.1%)	2.7%	21.0%	0.4%	0.0%	(3.2%)	(0.0%)	5.8%	1.5%	(4.2%)	**1.1%**	**(0.0%)**
Cash from Investing	**(16.4%)**	**(6.1%)**	**(51.9%)**	**(4.1%)**	**(3.2%)**	**(22.4%)**	**(3.2%)**	**4.0%**	**0.7%**	**(5.0%)**	**(0.1%)**	**(5.2%)**
Total Debt Issued	**–**	**–**	**24.9%**	**–**	**24.4%**	**–**	**–**	**–**	**9.3%**	**8.4%**	**5.9%**	**3.5%**
Total Debt Repaid	**(0.0%)**	**–**	**–**	**–**	**(24.5%)**	**–**	**–**	**(2.6%)**	**–**	**(6.3%)**	**(3.0%)**	**(1.8%)**
Issuance of Common Stock	2.5%	2.2%	2.1%	2.1%	2.1%	1.8%	1.6%	1.6%	1.7%	1.5%	**1.6%**	**1.6%**
Repurchase of Common Stock	(22.4%)	(18.4%)	(27.1%)	(28.6%)	(29.0%)	(29.6%)	(40.1%)	(25.7%)	(47.3%)	(49.5%)	**(40.8%)**	**(38.4%)**
Cash from Financing	**(18.6%)**	**(16.2%)**	**(0.1%)**	**(26.4%)**	**(27.1%)**	**(27.2%)**	**(38.8%)**	**(26.7%)**	**(35.9%)**	**(46.5%)**	**(36.4%)**	**(35.0%)**
Foreign Exchange Rate Adjustments	(0.2%)	0.1%	(0.0%)	(0.1%)	0.0%	(0.2%)	(0.3%)	0.0%	(0.0%)	0.1%	**0.0%**	**(0.1%)**
Net Change in Cash	**2.3%**	**17.7%**	**(7.3%)**	**9.0%**	**14.2%**	**(4.0%)**	**2.2%**	**15.0%**	**2.2%**	**(9.2%)**	**2.7%**	**1.2%**

Cash flow as % of revenue. AZ Stocks DCF model, Ratios sheet.

If I had to pick a single financial statement to understand Adobe, I would pick the Cash Flow Statement. No doubt. The Income Statement can be affected by accounting choices and the balance sheet can be distorted by buybacks, but cash flow is hard to dress up: either the money comes in or it doesn't.

And in Adobe's case, it comes in in remarkable amounts.

Cash from Operations as a percentage of revenue started at 37.6% in 2016. In 2025 it reached 42.2%. In absolute terms, that is more than $10B of operating cash flow in a single year. For a business with $23.8B in revenue, converting more than 42% into operating cash is exceptional.

Capex is practically irrelevant: historically it has ranged between 0.8% and 3.5% of revenue, and lately it sits at the low end. That is the nature of pure software: once the code is written, the marginal cost of delivering it to a new user is almost zero.

One line stands out in this table: **Stock-Based Compensation**. It represents between 6% and 8.9% of revenue every year in the series, with an upward trend: in FY2025 it was 8.2%. SBC is added back to net income to get to cash from operations, because it is an expense with no cash outflow. But, and this is the key point, it does mean real dilution for shareholders: Adobe is paying its employees with its own shares, which means more shares outstanding competing for value. Adobe's aggressive buybacks are partly meant to offset that effect. If you look at Cash from Financing, share repurchases consumed between 18% and 50% of revenue every year. In FY2025 it was 49.5%. That is huge.

Cash from Investing in FY2018 is the most dramatic in the series: -51.9% of revenue. That was the year of the $4.75B Marketo acquisition. It shows clearly in the "Cash Acquisitions" line: -69.9% of revenue in that period. It is one of the best examples of how a large M&A deal can eat a full year of cash flow but, well executed, builds value over time. Marketo is today the heart of Experience Cloud.

At the opposite end is FY2024: Cash from Investing of just +0.7% of revenue. That was the year Adobe made no significant acquisitions, basically because the regulatory process around the Figma deal kept it frozen until it collapsed in December 2023. All the cash that didn't go to acquisitions that year went to buybacks.

The conclusion from the Cash Flow is simple: Adobe is a **cash-generating machine**. It doesn't need debt to grow, it doesn't need dilutive equity to fund operations, and it generates enough cash to return capital to shareholders *and* keep investing in growth at the same time. That is not something you improvise; it is the result of decades building a business model with real structural advantages.

Ratios

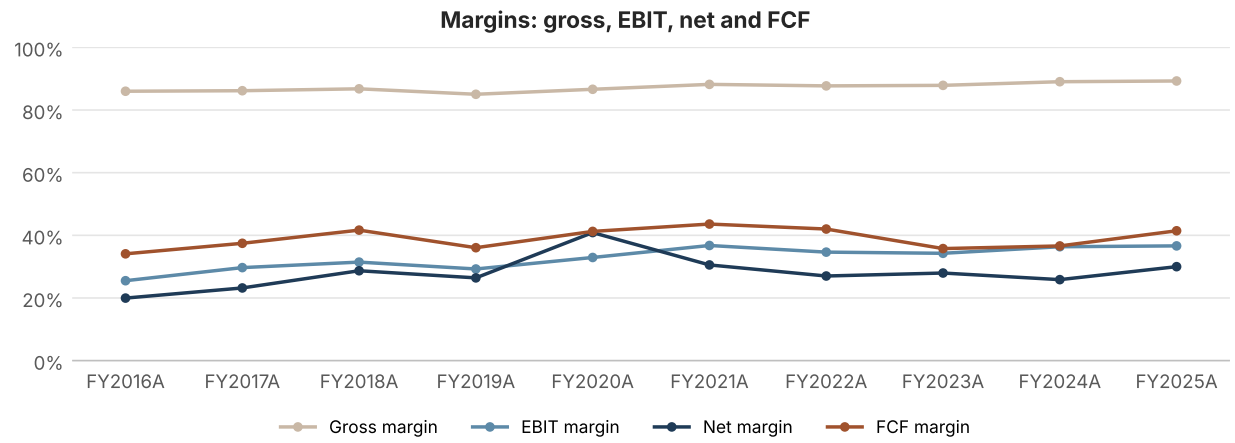
Ratios are where financial analysis moves from describing what happened to understanding *why* it happened. And in Adobe's case, there are several interesting stories.

Growth and profitability

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Growth												
Revenue growth		24.7%	23.7%	23.7%	15.2%	22.7%	11.5%	10.2%	10.8%	10.5%	**10.5%**	**13.2%**
EBIT growth		45.2%	31.0%	15.1%	29.7%	36.9%	5.1%	9.1%	17.6%	11.3%	**12.7%**	**16.0%**
Diluted EPS growth		45.7%	53.8%	15.4%	80.5%	(7.5%)	0.8%	17.0%	4.6%	35.1%	**18.9%**	**10.0%**
Change in diluted shares (dilution / buybacks)		(0.6%)	(0.7%)	(1.2%)	(1.2%)	(0.9%)	(2.1%)	(2.5%)	(2.0%)	(5.0%)	**(3.2%)**	**(2.5%)**
Profitability												
Gross margin	86.0%	86.2%	86.8%	85.0%	86.6%	88.2%	87.7%	87.9%	89.0%	89.3%	**88.7%**	**88.4%**
SG&A % revenue	42.5%	38.7%	37.3%	36.9%	35.4%	34.2%	35.1%	34.8%	33.6%	33.9%	**34.1%**	**34.3%**
R&D % revenue	16.7%	16.8%	17.0%	17.3%	17.0%	16.1%	17.0%	17.9%	18.3%	18.1%	**18.1%**	**17.5%**
EBIT margin	25.5%	29.7%	31.5%	29.3%	32.9%	36.8%	34.6%	34.3%	36.4%	36.6%	**35.7%**	**35.7%**
EBITDA margin (EBIT + D&A)	31.2%	34.2%	35.3%	36.0%	37.4%	40.4%	38.1%	37.4%	39.1%	38.9%	**38.5%**	**38.8%**
Net margin	20.0%	23.2%	28.7%	26.4%	40.9%	30.5%	27.0%	28.0%	25.9%	30.0%	**27.9%**	**28.3%**
Stock-based compensation % revenue	6.0%	6.2%	6.8%	7.1%	7.1%	6.8%	8.2%	8.9%	8.5%	8.2%	**8.5%**	**8.1%**
Effective tax rate	18.6%	20.8%	7.3%	7.9%	(26.0%)	15.5%	20.8%	20.2%	19.8%	18.4%	**19.4%**	**18.9%**

Growth and profitability, FY2016-FY2025 with 3- and 5-year averages. AZ Stocks DCF model, Ratios sheet.

What strikes me most in this table is the gap between how fast the business grows and how fast earnings per share grow. Over the last three years revenue grew at an average of 10.5% a year, but diluted EPS grew 18.9%. Two things explain the difference: operating margin expansion and, above all, buybacks, which reduced the share count by 3.2% a year on average (5% in FY2025 alone).



Gross, EBIT, net and free cash flow margins, FY2016-FY2025. AZ Stocks DCF model, Ratios sheet.

Margins, for their part, show what we already saw in the common-size analysis: gross margin stable near 89%, operating margin consolidated above 35%, and free cash flow margin above 40% in FY2025. The effective tax rate has stabilized at 18-21% over the last four years. Before that there were unusual years, like FY2020, when a one-off tax benefit pushed it into negative territory and inflated that year's net margin to 40.9%.

Cash, reinvestment and working capital

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Cash flow & reinvestment												
Cash from operations % revenue	37.6%	39.9%	44.6%	39.6%	44.5%	45.8%	44.5%	37.6%	37.5%	42.2%	**39.1%**	**41.5%**
FCF margin (TIKR FCF / revenue)	34.1%	37.5%	41.7%	36.0%	41.2%	43.6%	42.0%	35.8%	36.6%	41.4%	**37.9%**	**39.9%**
FCF conversion (FCF / net income)	170.8%	161.4%	145.2%	136.5%	100.9%	142.7%	155.5%	127.9%	141.6%	138.2%	**135.9%**	**141.2%**
Capex % revenue	3.5%	2.4%	3.0%	3.5%	3.3%	2.2%	2.5%	1.9%	0.9%	0.8%	**1.2%**	**1.6%**
D&A % revenue	5.7%	4.5%	3.8%	6.8%	4.4%	3.6%	3.5%	3.2%	2.7%	2.3%	**2.7%**	**3.1%**
Capex / D&A	0.6x	0.5x	0.8x	0.5x	0.7x	0.6x	0.7x	0.6x	0.3x	0.3x	**0.4x**	**0.5x**
D&A % beginning net PP&E		39.9%	36.9%	70.4%	44.2%	28.7%	29.2%	26.7%	24.5%	24.2%	**25.1%**	**26.7%**
Acquisitions % revenue	0.8%	6.3%	69.9%	0.9%	–	17.0%	0.7%	–	–	0.1%	**0.0%**	**3.6%**
Working capital												
Receivables days (DSO)	51.9	60.9	53.2	50.2	39.7	43.4	42.8	41.8	35.2	36.0	**37.7**	**39.8**
Inventory days (DIO)	–	–	–	–	–	–	–	–	–	–	–	–
Payables days (DPO)	39.2	41.0	56.9	45.6	64.9	61.1	63.9	48.7	55.9	59.7	**54.7**	**57.8**
Cash conversion cycle (DSO + DIO − DPO)	12.8	19.9	(3.7)	4.6	(25.2)	(17.6)	(21.1)	(6.9)	(20.7)	(23.7)	**(17.1)**	**(18.0)**
Deferred revenue % revenue	34.4%	34.2%	33.8%	31.3%	29.2%	30.9%	30.8%	30.7%	29.1%	29.6%	**29.8%**	**30.2%**
Operating NWC % revenue	(30.1%)	(29.8%)	(30.7%)	(25.0%)	(25.9%)	(25.7%)	(26.6%)	(25.6%)	(26.1%)	(27.4%)	**(26.4%)**	**(26.3%)**

Cash generation, reinvestment and working capital. AZ Stocks DCF model, Ratios sheet.

Free cash flow went from 34.1% of revenue in 2016 to 41.4% in 2025, and in FY2025 it equaled 138% of net income. Conversion above 100% is normal for Adobe and has two explanations: SBC, which is a non-cash expense, and working capital.

This is one of the nicest features of the subscription model. The **cash conversion cycle is negative**: -23.7 days in FY2025. Adobe collects its sales in about 36 days but pays its suppliers in about 60, and it also collects a good part of its subscriptions upfront (deferred revenue equals 30% of annual sales). The result: operating working capital is negative, around -27% of revenue. In practice, customers finance the company's growth.

Physical reinvestment is minimal: capex was just 0.8% of revenue in FY2025, a third of depreciation and amortization.

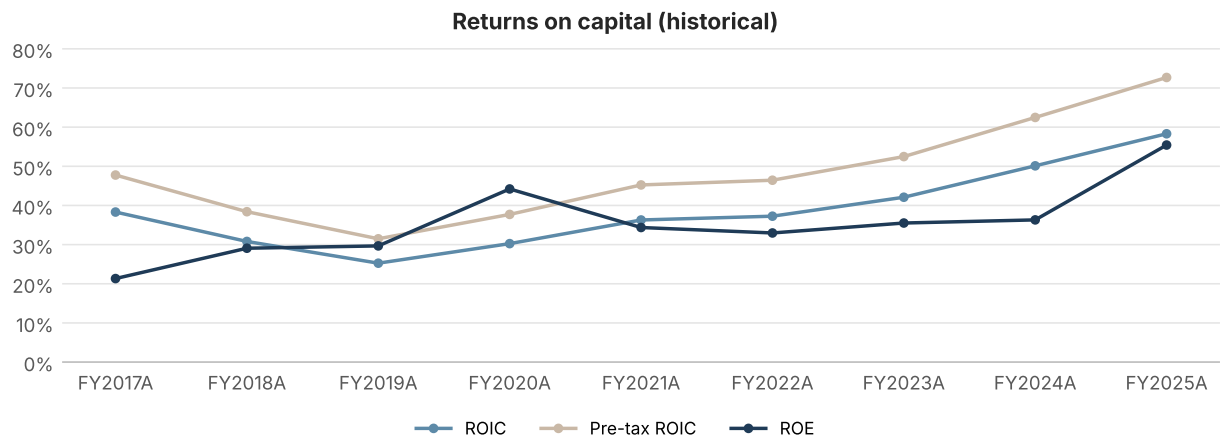
Returns on capital, leverage and liquidity

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Returns on capital												
NOPAT = EBIT × (1 − normalized tax rate)	1,198	1,739	2,278	2,622	3,399	4,654	4,892	5,335	6,272	6,984	**6,197**	**5,627**
Invested capital = debt + equity − cash & ST inv.	4,556	4,523	10,268	10,491	11,980	13,672	12,588	12,756	12,275	11,682	**12,238**	**12,595**
ROIC = NOPAT / average invested capital		38.3%	30.8%	25.3%	30.3%	36.3%	37.3%	42.1%	50.1%	58.3%	**50.2%**	**44.8%**
Pre-tax ROIC = EBIT / average invested capital (reference)		47.8%	38.4%	31.5%	37.7%	45.2%	46.4%	52.5%	62.5%	72.7%	**62.5%**	**55.9%**
ROE = net income / average equity		21.3%	29.1%	29.7%	44.2%	34.4%	33.0%	35.5%	36.3%	55.4%	**42.4%**	**38.9%**
ROA = net income / average total assets		12.4%	15.6%	14.9%	23.4%	18.7%	17.5%	19.1%	18.5%	23.9%	**20.5%**	**19.5%**
Leverage & liquidity												
Net debt (debt − cash & ST inv.)	(2,869)	(3,937)	906	(39)	(1,284)	(1,125)	(1,463)	(3,762)	(1,830)	59	**(1,844)**	**(1,624)**
Net debt / EBITDA	(1.6x)	(1.6x)	0.3x	(0.0x)	(0.3x)	(0.2x)	(0.2x)	(0.5x)	(0.2x)	0.0x	**(0.2x)**	**(0.2x)**
Interest coverage (EBIT / interest expense)	21.2x	29.1x	31.9x	20.8x	36.5x	51.3x	54.4x	58.8x	46.3x	33.1x	**46.1x**	**48.8x**
Debt / (debt + equity), book	20.3%	18.2%	30.6%	28.2%	26.2%	24.0%	24.8%	19.8%	30.0%	36.4%	**28.8%**	**27.0%**
Current ratio	2.08	2.05	1.13	0.79	1.48	1.25	1.11	1.34	1.07	1.00	**1.14**	**1.15**

Returns on capital, leverage and liquidity. AZ Stocks DCF model, Ratios sheet.

These are the numbers I care about most when judging whether a business is genuinely good or simply big.

Adobe's **ROIC** (Return on Invested Capital) reached 58.3% in FY2025, with an average of 50.2% over the last three years. Pre-tax, the return is 72.7%. To put that in perspective: a 15-20% ROIC is already considered good in almost any industry. Adobe generates more than 50 cents of after-tax operating profit for every dollar invested in the business. That is what compounds value over time, and it is why, despite all the AI debate, the underlying business remains remarkably solid.



ROIC, pre-tax ROIC and ROE, FY2017-FY2025. AZ Stocks DCF model, Ratios sheet.

One nuance worth keeping in mind: part of the rise in ROIC since 2019 comes from the denominator. Buybacks shrink equity and, with it, book invested capital. The business is better than five years ago, but not as much as the slope of the curve suggests. The same goes for **ROE**, which reached 55.4% in FY2025. **ROA**, which is not affected by capital structure, reached 23.9%, the highest in the series (it was 12.4% in 2017).

On the balance sheet side, the **Current Ratio** hit 1.0x in FY2025, the lowest in a series that starts in 2016 at 2.08x. At first glance it looks like a warning sign. But it has to be read in context: the subscription model generates Unearned Revenue (deferred revenue) that sits in current liabilities, because technically the company "owes" the service it has already been paid for, but in practice it will never mean a cash outflow. If you adjust the Current Ratio to exclude that component, real liquidity is more comfortable than the raw ratio shows.

Debt to total capital (at book values) went from 20% in 2016 to 36% in 2025. But here we have to remember what we saw in the balance sheet: book equity has been compressed by massive buybacks. The metric that really matters to assess whether debt is manageable is **net debt to EBITDA**, and it is practically zero: at the end of FY2025 debt and cash were almost even (net debt of $59M). What did change is that Adobe no longer has net cash: in FY2024 and FY2025 it returned more than 100% of its free cash flow to shareholders (129% and 119%), and funded the difference with cash and debt. It is not a problem today, but it is a shift in stance worth watching.

Interest Coverage of 33x in FY2025 confirms there is no risk of debt stress here: the company generates 33 times its interest expense in operating income.

The conclusion from the ratios is the same as from the rest of the financial analysis: Adobe is a business that consistently improves its profitability, efficiency and cash generation year after year. The liquidity and solvency ratios show some numbers that look tight at first glance, but in context they are completely manageable for a company with this level of cash generation.

SECTION 04

Management

On March 12, 2026, Adobe announced that **Shantanu Narayen** would step down as CEO once a successor was appointed. The search ended on September 2: the board named **Anil Chakravarthy** CEO effective December 1, 2026, and Narayen becomes Executive Chair of the board. It is the most important news for the company in years.

Narayen's legacy

Objectively, Narayen's **track record** is extraordinary. He took over the company in 2007 with a market cap of ~$15B and took it to a peak of $250B in 2024. The most important decision of his tenure was the subscription pivot in 2013: controversial at the time, brilliant in hindsight. He also built Experience Cloud from scratch, turning Adobe into a top-tier enterprise player on top of its historical position in Creative.

Under his leadership, the stock rose more than six-fold while the S&P 500 did roughly 3.5x over the same period. That is no small thing.

The timing problem

The problem is not that he is leaving. The problem is the timing. The transition happens at the moment of greatest strategic uncertainty for the company: the market is debating whether Adobe can navigate the AI transition.

The CEO change adds questions about **strategic continuity**, capital allocation priorities and the pace of innovation. It is an extra layer of uncertainty on top of a context that already had plenty.

The search ended with an internal candidate. Chakravarthy comes from running Digital Experience, Adobe's enterprise business (Experience Cloud, GenStudio), precisely the part that, according to my thesis, will suffer least from AI. It is a continuity choice, but it leaves an open question: how he will defend the base of consumers and individual professionals, which is where the risk lies. On top of that, **David Wadhwani**, who ran the Creativity & Productivity business, stepped down at the end of September 2026.

Capital allocation

Adobe's capital allocation policy has a clear logic: invest in R&D to grow the business organically, and return excess cash to shareholders through buybacks. It pays no dividends.

Capex

Capex is minimal for a company this size: just **$190M** in FY2025, less than 1% of revenue. That is the nature of pure software: once the product is built, the cost of replicating it is almost zero.

R&D

Adobe invests heavily in R&D, with spending around **$3.5-4B** a year (included in opex, not capex). This is where the bet on Firefly, GenStudio and AI integration across the suite lives.

Share buybacks

The main capital return mechanism. In FY2025, Adobe repurchased ~**30.8 million shares**, 7.2 million of them in Q4 FY2025 alone. At the scale it operates, that means returning billions of dollars to shareholders by reducing the share count (which increases value per share for the remaining ones). The pace continued in FY2026: in the first nine months it spent $6.8B on buybacks, and in September 2026 shares outstanding were 389.2 million, versus 410.5 million a year earlier.

M&A

The $20B Figma acquisition attempt was blocked by the European Commission in December 2023 on antitrust grounds. Adobe had to pay Figma a $1B termination fee. More recently, Adobe completed the acquisition of Semrush Holdings (an SEO and digital marketing platform) for $1.9B in April 2026, adding brand visibility and AI search optimization tools to Experience Cloud.

As if that weren't enough, the CFO also changed. Daniel Durn left the role in June 2026 and Steven Day is serving as interim CFO.

SECTION 05

Industry and competitive advantages

The market it operates in

Adobe competes in what could be called the creative software and digital experience market. There is no single category that captures everything: the company is simultaneously in design tools, document management and marketing technology (known in the industry as martech).

Structural demand is genuine. The digital content economy (the need to produce images, videos, graphics, documents and experiences for a growing number of digital platforms) keeps growing. There are more graphic designers, more content creators, more digital marketing teams and more professionals working with documents today than at any point in history. That structural tailwind benefits Adobe directly.

What makes it hard to compete with them

Adobe's moat is a combination of mutually reinforcing factors. It is not a single barrier: it is a set.

The most important is **switching costs**. Moving from Adobe Creative Cloud to another suite is not just about paying $50 less a month. It means relearning workflows that took years to master, reopening files in proprietary formats (.PSD, .AI, .INDD) that don't open well in other applications, losing the plugins and paid resources you built on the Adobe ecosystem, and convincing your clients to change the formats they ask you for. A design agency that built its processes on Photoshop and Illustrator for ten years won't switch for a competitor that is 20% cheaper. That switching cost is a real, invisible asset.

The second is the **industry-standard effect**. Photoshop became a verb: people everywhere say an image has been "photoshopped". The PDF is the global standard for shareable documents, and Adobe invented it and keeps the premium tools. When you are the standard, you have market power that goes beyond product features.

The third is the **depth of the ecosystem**. No competitor has the breadth of Adobe's suite. Everything integrates: Photoshop shares libraries with Illustrator, which exports straight to InDesign, which syncs with Premiere Pro. Building that network of integrations took decades and billions of dollars in R&D. It can't be replicated in two years.

The AI factor: driver or disruptor?

This is the central question of the thesis. Generative artificial intelligence is the first real structural threat Adobe has faced in decades, and also its biggest opportunity.

The threat: tools like Midjourney, DALL-E and generative video models make it possible to create professional-quality visual content from text prompts, without having to master Photoshop. If a marketer can generate an image in 30 seconds with AI, Creative Cloud's switching-cost argument erodes for certain use cases. The democratization of design that AI is enabling is real, and Canva and Figma are taking advantage of it.

The opportunity: Adobe has the richest training dataset in the world for professional creative content, direct distribution to millions of professionals, and the ability to embed AI inside the workflows where users already live. Firefly, its generative AI model trained on licensed content (which makes it commercially safe, unlike Midjourney or Stable Diffusion), is integrated into Photoshop, Illustrator, Premiere and Express. Adobe's AI-influenced ARR exceeded $5B in FY2025, AI-first ARR tripled year over year in Q1 FY2026, and by Q3 FY2026 it was above $650M, growing more than 150%. AI monetization is happening, but the market still isn't giving it credit.

Competitive positioning

Adobe's competitive map is unusual because there is no single competitor that matches its full breadth. It has several attackers in specific segments, each with a different logic.

Canva

The most remarkable growth story in the sector. With more than 230 million monthly active users and estimated ARR close to $3.1B, Canva democratized design for non-designers with a brilliantly executed freemium model. It is the most direct competitor among casual users and small businesses. The value proposition is simple: make visual design accessible to anyone, with no learning curve. It doesn't replace Photoshop for professionals, but it captures the market Adobe never served well: the marketer with no design training who needs an Instagram banner.

The risk Canva poses to Adobe is real but contained. It won't displace Adobe among professional designers and agencies. But it can erode the periphery (and that periphery is worth something).

Figma

Perhaps the competitor Adobe should worry about most, and the one with the most dramatic storyline. Adobe tried to buy Figma for $20B in 2022 (the largest acquisition ever attempted in design software). European regulators blocked it in December 2023. Adobe had to pay a $1B termination fee.

Figma is the de facto standard for UI/UX design, with an estimated 80-90% share of that market. But what happened in 2025 makes it even more relevant: Figma launched Sites, Make, Buzz and Draw, products that put it in direct competition with Illustrator, WordPress and Canva at the same time. It went from a niche interface competitor to a full-ecosystem one. It also went public on the NYSE in July 2025, which gave it fresh capital to accelerate that expansion.

Microsoft / OpenAI

The most indirect competitor, but potentially the most dangerous over a 5-10 year horizon. DALL-E image generation via ChatGPT, Office tools with Copilot built in, and Microsoft Designer all target corporate and casual users. Adobe has integrated its apps with ChatGPT, and Acrobat and Photoshop are already available as extensions on that platform, but how much of the enterprise creativity market Microsoft can capture in the long run is an open question.

Midjourney, Sora and pure AI models

They are not design suites, but they are the most debated disruption vector. Midjourney for images, Sora for video, Stable Diffusion as open-source infrastructure. All of them create visual content from text prompts. Adobe's most vulnerable point of attack is the mid-range designer who today uses

Photoshop for tasks AI can do faster. How much of that usage can be substituted without eroding the professional core is the question the market still can't answer.

Risks

A thesis that doesn't take risks seriously is worthless. Adobe's risks are real and deserve an unfiltered analysis.

Generative AI disruption

It is the central risk and the one the market is pricing in hardest. Pure AI models (Midjourney, DALL-E, Sora) make it possible to create professional-quality visual content without Photoshop. If that materially erodes demand for Creative Cloud, Adobe's core business is in trouble.

The important point: as of this report, that scenario is not yet visible in the operating numbers. ARR keeps growing 11-12% and margins are holding. But the market, rightly, isn't waiting for deterioration before pricing in the risk.

Figma, the open flank

The failure to acquire Figma left Adobe without a position in interface design and, on top of that, handed $1B to a competitor that is now expanding aggressively. Figma owns the UI/UX standard and is on its way to becoming a full suite. Adobe has no clear response to that move, beyond betting that the professional market will keep needing Photoshop and Illustrator for high-complexity work.

Pricing power under pressure

Adobe has a recent history of abrupt price increases that triggered user backlash. The so-called 'Price Rebellion' of 2025, after a 40% increase in the Photography plan, drove migrations to Affinity and Canva. In March 2026, Adobe agreed to pay $75M to the U.S. Department of Justice over subscription cancellation practices deemed deceptive to consumers, plus another $75M in free services for affected customers. It is not an amount that puts the business at risk, but it is a reputational and regulatory signal worth monitoring.

CEO and CFO transition

Already covered in the management section, but worth repeating as an explicit risk: Chakravarthy takes over on December 1, 2026 with an interim CFO and without the executive who ran the creative business. The uncertainty is no longer about who will lead, but about how he will execute, and that is a real source of pressure on sentiment and potentially on execution.

Slowing growth

The **updated FY2026 guidance** points to revenue of $26.58-26.63B (about 12% growth) and ARR growth of 10.2%, but both figures include Semrush. Without the acquisition, ARR would grow around 8%, according to third-party estimates. For the market to re-rate the stock upward, it needs to see organic acceleration, not stability. Until that happens, a multiple re-rating is unlikely.

SWOT

Strengths

Adobe's hardest-to-replicate strength is not any specific product: it is the depth of the ecosystem it built over four decades. Photoshop, Illustrator, InDesign, Premiere Pro, After Effects: all integrated, all synced, all speaking the same file language. When a designer has spent ten years working in that environment, the cost of leaving is not just learning another tool. It is redoing workflows, converting files, re-educating clients. That invisible switching cost is the most valuable asset in the business.

Add to that the subscription model Narayen built since 2013. 96% of revenue is recurring. ARR closed FY2025 at $25.2B and was already $27.5B in Q3 FY2026. That is not just a financial data point, it is structural predictability. Adobe knows how much it will bill next year. Very few businesses of that size can say the same.

The margins speak for themselves: 89% gross, 41% free cash flow to revenue. With ROIC above 50% and $10B of annual operating cash flow, Adobe has the resources to invest in R&D, make acquisitions and return capital to shareholders at the same time, without needing debt for any of the three.

And then there is the PDF. Adobe invented the de facto standard for digital documents, released it as an open standard, and kept the premium tools to work with it. Acrobat Pro is the universal reference in millions of organizations. That quiet monopoly over the digital document is behind Document Cloud's 17% annual growth, the least glamorous but increasingly strategic segment of the portfolio.

Opportunities

The most immediate is generative AI monetization. Adobe has something no pure AI competitor has: direct distribution to millions of professionals who already live inside its tools. Firefly is not a separate product you have to go looking for; it sits inside the Photoshop the designer already has open. If they manage to turn that integration into pricing power, growth can accelerate without needing new customers.

Business Professionals & Consumers grew 15% in FY2025, the fastest pace in the business. That is where Acrobat, Adobe Express and the new AI tools for non-creative users live (the marketer, the lawyer, the accountant who works with PDFs all day). It is a massive market Adobe historically didn't serve well, and where competition is weaker than in the professional segment.

Emerging markets are another vector. Today the business is concentrated in North America (45%) and EMEA (37%). Asia-Pacific and Latin America have low penetration and structurally favorable growth in the digital middle class. As more creatives and professionals in those regions formalize their digital work, demand for the reference tools (that is, Adobe's) grows naturally.

GenStudio and enterprise marketing also have runway. Large companies need to produce personalized content at scale for dozens of markets and channels at the same time. That is exactly what GenStudio is designed for. If Adobe manages to position itself as the infrastructure for enterprise content production, Experience Cloud's TAM is considerably larger than current numbers reflect.

Weaknesses

The most obvious is the open flank in interface design. Adobe tried to buy Figma for $20B, European regulators blocked it, it paid a $1B termination fee, and it was left without a position in UI/UX, the fastest-growing segment of digital design. Adobe XD, its own answer, was discontinued. Today Figma has 80-90% of the digital product design market and is expanding aggressively into vector design, marketing content creation and web development. Adobe has no clear answer to that move.

The recent history of aggressive pricing has also left scars. The 40% increase in the Photography plan triggered the exodus known as the "Price Rebellion" to Affinity and Canva. The $75M DOJ settlement over deceptive cancellation practices reinforces the narrative that Adobe, at times, prioritizes value extraction over user experience. In a market where competitors offer increasingly competitive alternatives, that reputational cost is not a luxury Adobe can afford.

And now, on top of all that, a CEO transition at the worst moment for market sentiment. Narayen was the architect of the most important transformation in the company's history. His departure, however orderly and even with an internal successor, creates leadership uncertainty that the market will take time to digest.

Threats

Generative AI is the central threat and is covered in detail throughout the report. But it is worth summarizing here: if image and video generation models become good enough to cover the mid-range designer's use cases without Photoshop, Adobe loses its main switching-cost argument. It hasn't happened yet, since the operating numbers don't show it, but the market has been pricing it in for more than a year.

Figma post-IPO is the second concrete threat. Since going public in July 2025 it has access to fresh capital and public visibility that intensify its expansion. The combination of Figma (interface design and collaboration), Canva (simple design for non-designers) and native AI tools from OpenAI and Microsoft covers an increasingly broad share of what users who are not high-end design professionals need Adobe for today.

Regulatory pressure is a threat that tends to be underestimated. The blocked Figma acquisition set a clear precedent: any large Adobe deal in creative software will face antitrust scrutiny. That limits M&A as a growth lever in exactly the markets where it is needed most.

Porter's Five Forces

1. Bargaining power of suppliers = LOW

Adobe's most relevant suppliers are cloud infrastructure providers (mainly AWS and Azure) and the engineering talent that builds and maintains the software. In both cases, Adobe's bargaining power is high relative to the supplier.

In cloud infrastructure, Adobe has enough scale to negotiate favorable contracts, and its multi-cloud architecture gives it the flexibility not to depend on a single provider. It is not a company that can be held hostage by AWS the way a startup could.

In talent, the market for software engineers is competitive and salaries are high, which does create cost pressure. The generous SBC we criticized as dilutive for shareholders serves a real purpose here: it is the mechanism that lets Adobe retain senior engineers who would otherwise go to Google or to a startup with options.

In short: suppliers have no significant power over Adobe. In my view, this force is favorable for the company.

2. Bargaining power of buyers = MEDIUM

Here the answer depends a lot on the customer segment you look at.

For the individual customer (the freelancer, the photographer, the designer), bargaining power is low. Adobe sets the price; the customer accepts it or leaves. And as we saw in the switching-cost analysis, "leaving" has a real cost most professionals are not willing to pay. That gives Adobe considerable pricing power over this segment, as it showed with the price increases of recent years.

For the enterprise customer (a multinational negotiating Creative Cloud or Experience Cloud licenses for thousands of employees), bargaining power is higher. These customers can credibly threaten partial migrations to competitors. Adobe has to work harder to retain and expand those contracts.

The growth of Business Professionals & Consumers (Acrobat and Express users who may be less dependent on the full creative ecosystem) brings in buyers with more options and lower switching costs. That can gradually increase bargaining power in that segment as Canva and AI tools become more competitive.

3. Threat of new entrants = LOW to MEDIUM

Competing with Adobe at its core (the complete suite of creative tools for professionals) is practically impossible for a new entrant. The barriers are formidable: decades of product development, a plugin and integration ecosystem built by third parties, proprietary file formats adopted as industry standards, a culturally embedded brand, and millions of users who learned to work with those tools. No venture capitalist in the world will fund "the new Photoshop", because the odds of replicating that ecosystem are minimal.

Where the threat of new entrants is more real is at the edges of the business: pure AI tools. Midjourney was founded in 2021 and within three years had a product that generates photorealistic images from text. OpenAI's Sora dates from 2024. Runway ML from 2018. They are all new entrants that don't try to be Adobe, but attack specific use cases that used to take hours in Photoshop or Premiere and can now be done in minutes with a prompt. That is disruptive, even if it is not head-on.

The conclusion is that the threat of full replacement is low, but the threat of partial substitution, that is, erosion of specific use cases, is medium and rising.

4. Threat of substitutes = HIGH

This is the most active force in Adobe's analysis right now, and the one that worries the market most.

Adobe's substitutes are not cheaper versions of the same thing; they are different categories that satisfy the same underlying need. That underlying need is creating quality visual content. Adobe solves it with powerful professional tools with a steep learning curve. Substitutes are solving it with generative

AI, simplified interfaces and freemium models.

Canva is the most established substitute for anything that doesn't require complex professional work: the marketer who needs a banner, the entrepreneur designing a logo, the small business running its social media. It doesn't replace Photoshop for a professional retoucher. But it does replace Creative Cloud for 80% of the use cases of the 80% of users who are not career designers.

Midjourney and DALL-E substitute Photoshop for text-to-image generation. Sora and Runway partially substitute Premiere Pro for video. Figma has already fully replaced Adobe XD in interface design. And large language models can substitute parts of Acrobat for summarizing and analyzing documents.

Adobe's paradox is that it is responding to this threat with its own AI arsenal: Firefly, Acrobat AI Assistant, GenStudio. And it has real advantages to compete. But the pace at which new specific substitutes appear is high, and not all of them can be blocked by integration within its own ecosystem.

This is the least favorable force for Adobe at this point in history.

5. Rivalry among existing competitors = MEDIUM to HIGH

For decades, Adobe operated in a market where rivalry was manageable. Corel, Quark, Macromedia: all were absorbed or became marginal. Its dominant position was so solid that real competition was almost anecdotal.

That changed. Today Adobe faces rivalry on multiple fronts at once, something without precedent in its recent history.

Figma has been winning the UI/UX market for years and is now expanding. Canva grew from a simple design tool into a suite that competes with Express, Illustrator and potentially more. Salesforce Marketing Cloud and HubSpot compete with Experience Cloud. Microsoft, with Copilot built into Office and with Designer, is stepping into the same corporate territory. And the pure AI tools mentioned earlier compete for usage time and, eventually, for budget.

What mitigates this rivalry is that none of those competitors covers Adobe's whole spectrum at once. Fragmentation on the competitor side is an advantage for Adobe: no single substitute covers everything Creative Cloud + Document Cloud + Experience Cloud offer together. The risk is that users choose a combination of specialized tools instead of the integrated ecosystem.

The rivalry is not existential today. But it is more intense than at any point in the last twenty years, and the trend is toward more competition, not less.

SECTION 06

Bulls vs. bears

Few stocks in the S&P 500 generate as much debate right now as Adobe. Each side's thesis is internally coherent, which makes the investment decision genuinely difficult.

What do the bulls say?

Those who defend the stock always start with the same argument: the **operating numbers don't show the disruption** the market is pricing in. Revenue growing 13% in the latest quarter, ARR up 11.2%, non-GAAP operating margins of 44-45%. If there were real demand erosion, it would show up in renewal and expansion numbers and, for now, it doesn't.

The second bullish argument is valuation. Adobe trades at **~14x expected FY2026 GAAP earnings** and **~9x the adjusted earnings** consensus expects for FY2027. For a business growing 11-12% with an 89% **gross margin** and $10B of annual FCF, those multiples are anomalously low. For historical perspective: between FY2016 and FY2024, the year-end P/E never fell below 33x and EV/EBITDA ranged between 23x and 47x. At the end of FY2025 the stock already traded at 18.8x earnings and 14.6x EBITDA, with a 7.4% free cash flow yield, and it has kept falling since. Even applying a substantial discount for AI uncertainty, the gap versus historical value looks excessive.

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Shareholder returns & market valuation (TIKR, at fiscal year end)												
Dividends + buybacks % FCF	65.7%	49.0%	64.9%	79.2%	70.3%	67.8%	95.6%	71.9%	129.3%	119.3%	**106.8%**	**96.8%**
EV / EBITDA	25.8x	34.1x	37.5x	37.3x	47.5x	45.8x	23.5x	37.9x	26.9x	14.6x	**26.4x**	**29.7x**
EV / revenue	8.0x	11.6x	13.2x	13.5x	17.7x	18.5x	9.0x	14.2x	10.5x	5.7x	**10.1x**	**11.6x**
P/E	42.4x	52.2x	47.3x	50.8x	43.5x	60.8x	33.4x	51.4x	40.8x	18.8x	**37.0x**	**41.0x**
FCF yield (FCF / market cap)	4.0%	3.1%	3.1%	2.7%	2.3%	2.3%	4.7%	2.5%	3.5%	7.4%	**4.4%**	**4.1%**

Shareholder returns and valuation multiples at each fiscal year-end. AZ Stocks DCF model, Ratios sheet.

Third: AI monetization is happening. **AI-first ARR** tripled year over year in Q1 FY2026 and exceeded $650M in Q3. Acrobat AI Assistant has real commercial traction. GenStudio is starting to close enterprise deals. The bulls argue the market is pricing in an erosion scenario that hasn't happened, and that there is early evidence it may not happen.

What do the bears say?

The bears start with the structure of the risk: AI is **harmful** for Adobe. No matter how good Firefly is, the value of a designer's hour of work drops when using AI, which should erode willingness to pay for expensive licenses. Canva and Figma offer cheaper alternatives with native AI. Pricing pressure will be inevitable.

Second bearish argument: growth isn't accelerating. For a business that needs a **multiple re-rating**, stabilizing at 10-11% is not enough. And excluding Semrush, ARR grows around 8%. No acceleration, no re-rating.

Third: the market no longer trusts management. The **failed** Figma deal, the price increases that triggered **backlash**, the DOJ settlement, and now the turnover of the CEO, the CFO and the head of the creative business... that is a lot of signs that management is not in control of the narrative. And the new CEO still has to present his plan.

Fourth: Figma, listed since July 2025, is a competitor with fresh capital and public visibility that intensifies pressure on Creative Cloud in product design and collaborative tools.

SECTION 07

Valuation

Before getting into the model's numbers, it is worth clarifying what I think is a common mistake.

When a stock falls sharply, it is common to hear that "it's cheap because it trades at the lowest multiple in its history" or that "it's an opportunity" because the company has been doing well and next year will be good (which is more or less Adobe's case). The problem with that reasoning is that a short-term multiple, or even a good year ahead, doesn't capture where most of a business's value lives.

In the DCF I built, roughly half of the valuation comes from the terminal value, that is, from what the company is assumed to generate after the explicit forecast period (in this case, after 2035). The other half comes from the cash flows of the ten forecast years.

In other words: if Adobe is going to be affected by generative AI, it doesn't matter much that next year is good. What matters is what happens in 2030, 2035, 2040. And that is exactly what the model tries to capture with the three scenarios: different views of what Adobe looks like in the long run, not next quarter.

That is why the Best Case is not "Adobe grows strongly for the next two years". It is simply "Adobe doesn't deteriorate". And the question that separates the scenarios is not whether AI hits Adobe, but *which part of the business* it hits.

Model inputs and assumptions

The assumptions behind the number

A valuation model is nothing more than a way of making explicit the assumptions you already have in your head. Before looking at the final result, it helps to understand where everything comes from.

The model I built is a **DCF** with two valuation methods: constant-growth perpetuity and an exit multiple on EBITDA. The explicit forecast covers ten years (FY2026 to FY2035) and starts from official FY2026 guidance and analyst consensus for FY2027. The three main inputs are revenue growth, margins and cost of capital. Each has three versions (Best Case, Base Case and Worst Case).

WACC is 10.2%: a 4.9% risk-free rate (the 10-year Treasury), a beta of 1.38 and a 4.2% equity risk premium, which gives a 10.7% cost of equity. Debt is only 6% of the capital structure, so it barely moves the number. I use the 389.2 million shares outstanding as of September 2026 and net debt of $1.0B from the latest balance sheet (August 2026). The tax rate is 22.5% in FY2026, per guidance, and 21% in the long run.

The thesis in numbers: enterprise vs. consumer

Since FY2026 Adobe reports revenue by customer type, which lets me model exactly what I think. My thesis is that AI will not hit both groups equally.

On the **Creative & Marketing Professionals** side (agencies, marketing teams, creative professionals and large companies with Creative Cloud, Experience Cloud and GenStudio contracts), switching costs remain intact: workflows, files, integrations and corporate contracts don't migrate because of a prompt. On the **Business Professionals & Consumers** side, the story is different: it is exactly the audi-

ence Canva, ChatGPT, Midjourney and Copilot are speaking to, with cheaper or free products, and where Adobe has less to hold on to them. That is why I forecast each group separately, starting from FY2026 guidance: $18.26B for the first, $7.48B for the second and $0.86B for products and services.

Line	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
Creative & Marketing Professionals — growth (enterprise, agencies, creative pros)										
Best case		10.0%	9.5%	9.0%	8.0%	7.0%	6.0%	5.0%	4.5%	4.0%
Base case		9.5%	9.0%	8.5%	7.5%	6.5%	5.5%	5.0%	4.5%	4.0%
Worst case		8.0%	7.0%	6.0%	5.5%	5.0%	4.5%	4.0%	3.5%	3.0%
Business Professionals & Consumers — growth (Acrobat, Express, Firefly, consumers)										
Best case		14.0%	12.0%	10.5%	9.0%	8.0%	7.0%	6.0%	5.0%	4.5%
Base case		9.0%	5.0%	3.0%	2.0%	1.5%	1.5%	1.5%	1.5%	1.5%
Worst case		3.0%	(3.0%)	(5.0%)	(4.0%)	(3.0%)	(2.0%)	(1.0%)	–	–
Product, services & other — growth										
Best case		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Base case		–	–	–	–	–	–	–	–	–
Worst case		(3.0%)	(3.0%)	(3.0%)	(3.0%)	(3.0%)	(3.0%)	(3.0%)	(3.0%)	(3.0%)

Revenue growth by customer group and scenario. AZ Stocks DCF model, Segments sheet.

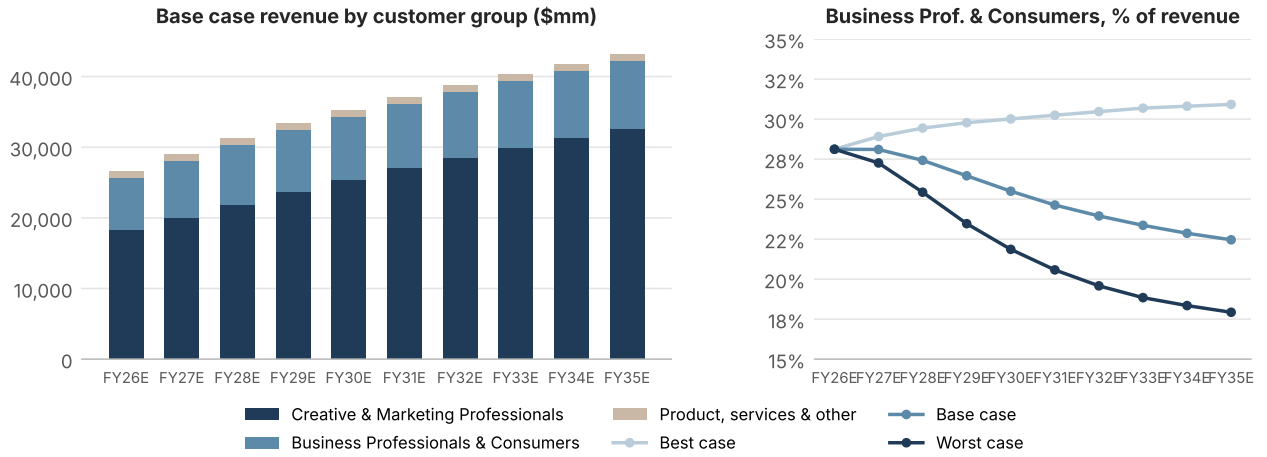
In Creative & Marketing Professionals, the Base Case is almost identical to the Best Case: growth of 9.5% in FY2027, converging to 4% by FY2035. I don't see deterioration there. Even in the Worst Case this group keeps growing (from 8% to 3%), with some pressure from agencies needing fewer licenses.

Business Professionals & Consumers is where the difference lies. In the Best Case it continues as today, growing at double digits and slowing naturally. In the Base Case it slows sharply: 9% in FY2027, 5% in FY2028 and just 1.5% a year from FY2030. In the Worst Case it actually shrinks between FY2028 and FY2032.

Line	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
Best case — revenue by customer group ($ mm)										
Creative & Marketing Professionals	18,257	20,083	21,991	23,970	25,887	27,699	29,361	30,829	32,217	33,505
Business Professionals & Consumers	7,480	8,527	9,550	10,553	11,503	12,423	13,293	14,091	14,795	15,461
Product, services & other	864	881	899	917	935	954	973	992	1,012	1,033
Total revenue	**26,601**	**29,491**	**32,440**	**35,440**	**38,326**	**41,077**	**43,627**	**45,912**	**48,024**	**49,999**
Total revenue growth	**11.9%**	**10.9%**	**10.0%**	**9.2%**	**8.1%**	**7.2%**	**6.2%**	**5.2%**	**4.6%**	**4.1%**
Business Professionals & Consumers, % of revenue	28.1%	28.9%	29.4%	29.8%	30.0%	30.2%	30.5%	30.7%	30.8%	30.9%
Base case — revenue by customer group ($ mm)										
Creative & Marketing Professionals	18,257	19,991	21,791	23,643	25,416	27,068	28,557	29,985	31,334	32,587
Business Professionals & Consumers	7,480	8,153	8,561	8,818	8,994	9,129	9,266	9,405	9,546	9,689
Product, services & other	864	864	864	864	864	864	864	864	864	864
Total revenue	**26,601**	**29,009**	**31,216**	**33,325**	**35,274**	**37,061**	**38,687**	**40,254**	**41,744**	**43,140**
Total revenue growth	**11.9%**	**9.1%**	**7.6%**	**6.8%**	**5.9%**	**5.1%**	**4.4%**	**4.1%**	**3.7%**	**3.3%**
Business Professionals & Consumers, % of revenue	28.1%	28.1%	27.4%	26.5%	25.5%	24.6%	24.0%	23.4%	22.9%	22.5%
Worst case — revenue by customer group ($ mm)										
Creative & Marketing Professionals	18,257	19,718	21,098	22,364	23,594	24,773	25,888	26,924	27,866	28,702
Business Professionals & Consumers	7,480	7,704	7,473	7,100	6,816	6,611	6,479	6,414	6,414	6,414
Product, services & other	864	838	813	789	765	742	720	698	677	657
Total revenue	**26,601**	**28,260**	**29,384**	**30,252**	**31,174**	**32,126**	**33,087**	**34,036**	**34,957**	**35,773**
Total revenue growth	**11.9%**	**6.2%**	**4.0%**	**3.0%**	**3.0%**	**3.1%**	**3.0%**	**2.9%**	**2.7%**	**2.3%**
Business Professionals & Consumers, % of revenue	28.1%	27.3%	25.4%	23.5%	21.9%	20.6%	19.6%	18.8%	18.3%	17.9%

Revenue by customer group and consumer weight, in USD millions. AZ Stocks DCF model, Segments sheet.

The result shows up in the consumer weight within Adobe: in the Best Case it rises from 28% to 31% of revenue; in the Base Case it falls to 22.5%, and in the Worst Case to 18%. Total Base Case revenue grows 9.1% in FY2027, in line with consensus, but diverges from there: in FY2035 Adobe bills about $43.1B, versus $50.0B in the Best Case.



Base Case revenue by customer group and weight of Business Professionals & Consumers in each scenario. AZ Stocks DCF model, Segments sheet.

The three scenarios and their logic

The scenario structure follows a different logic than usual. **The Best Case is the status quo scenario**: Adobe is not materially affected by generative AI, both customer groups keep growing as they do today, total revenue growth slows naturally from 10.9% to 4.1%, gross margin stays around 89-90%, and GAAP operating margin rises from 36% to almost 37%. It is the scenario current numbers don't yet contradict, and the one defended by those who argue the AI threat is overstated.

The Base Case is my scenario: enterprise holds up, consumer erodes. Total growth falls from 9.1% in FY2027 to 3.3% in FY2035. Gross margin compresses from 89.6% to 88.2%, due to higher AI infrastructure costs and pricing pressure on entry-level plans, and operating margin dips slightly from 35.5% to 35%: Adobe has to spend more on marketing and free tiers to defend its consumer base. It is not a collapse: it is a company that loses the periphery but keeps the core.

The Worst Case is the same story, faster and deeper. Consumer shrinks and the deterioration also reaches, to a lesser extent, the professional segment. Total growth falls to 2-3% a year from FY2029, gross margin drops to 86.7% and operating margin to 31.5%. It is not a catastrophe in absolute terms either (Adobe still generates billions of dollars of free cash flow), but it implies an erosion of the moat that translates into a significantly lower exit multiple.

Driver	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
Revenue growth										
Best case	11.9%	10.9%	10.0%	9.2%	8.1%	7.2%	6.2%	5.2%	4.6%	4.1%
Base case	11.9%	9.1%	7.6%	6.8%	5.9%	5.1%	4.4%	4.1%	3.7%	3.3%
Worst case	11.9%	6.2%	4.0%	3.0%	3.0%	3.1%	3.0%	2.9%	2.7%	2.3%
Gross margin										
Best case	89.6%	89.9%	89.7%	89.5%	89.3%	89.3%	89.0%	89.0%	89.0%	88.7%
Base case	89.6%	89.4%	89.2%	89.0%	88.8%	88.8%	88.5%	88.5%	88.5%	88.2%
Worst case	89.6%	87.9%	87.7%	87.5%	87.3%	87.3%	87.0%	87.0%	87.0%	86.7%
EBIT margin (GAAP)										
Best case	35.7%	36.0%	36.3%	36.5%	36.5%	36.5%	36.7%	36.7%	36.8%	37.0%
Base case	35.7%	35.5%	35.5%	35.4%	35.3%	35.2%	35.2%	35.2%	35.1%	35.0%
Worst case	35.7%	34.0%	32.5%	32.1%	32.0%	32.0%	31.9%	31.8%	31.7%	31.5%
Capex % of revenue										
Best case	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Base case	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Worst case	0.9%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%

Operating drivers by scenario (growth, gross margin, GAAP EBIT margin and capex). AZ Stocks DCF model, Inputs sheet.

This structure reflects my personal view. I don't think Photoshop is going to disappear, or that companies will stop paying Adobe. But I do think the broadest user base, the people who used Adobe for everyday tasks without being design professionals, is the most exposed to substitution. The Base Case and the Worst Case are my way of expressing that skepticism in concrete numbers.

What is Adobe worth? The two methods and what they say

I used two methods to calculate terminal value: constant-growth perpetuity and an exit multiple on EBITDA.

Method 1: Perpetuity

Discounting the projected cash flows at a **10.2% WACC** with a **2.5% terminal growth rate** (3% in the Best Case and 2% in the Worst Case), the values per share by scenario are summarized in the model's dashboard.

Adobe Inc.

ADBE · Discounted Cash Flow · Perpetuity Growth Method

Valuation date 4 Nov 2026 · USD mm · Scenario: Base Case

AZ STOCKS Acciones de la A a la Z

INTRINSIC VALUE PER SHARE

$313.95

Current share price	$250.84
Upside / (downside)	**+25.2%**

VALUATION SUMMARY

Enterprise value	123,220
Equity value	122,189
PV of forecast cash flows	63,230
PV of terminal value	59,991
Terminal value % of EV	48.7%
Implied exit EV / EBITDA	9.4x

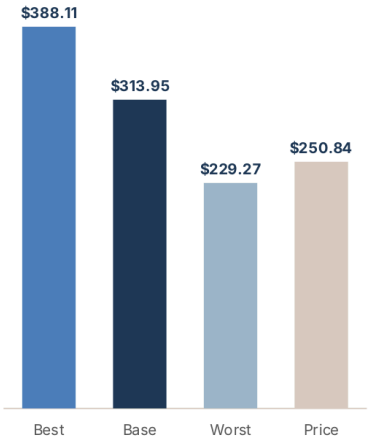
KEY ASSUMPTIONS

WACC (year 1)	10.2%
Terminal WACC	10.2%
Terminal growth (g)	2.5%
RONIC (terminal)	30.0%
Net debt & other claims	1,031
Diluted shares (mm)	389.2

SCENARIOS

Scenario	Terminal growth	Enterprise value	Equity value	Value per share	Upside
Best case	3.0%	152,083	151,052	**$388.11**	**+54.7%**
Base case	2.5%	123,220	122,189	**$313.95**	**+25.2%**
Worst case	2.0%	90,263	89,232	**$229.27**	**(8.6%)**
Current share price				*$250.84*	

VALUE PER SHARE VS. CURRENT PRICE



SENSITIVITY · VALUE PER SHARE

	Terminal growth rate (g)				
WACC / g	**1.5%**	**2.0%**	**2.5%**	**3.0%**	**3.5%**
9.2%	$337.91	$347.46	$358.40	$371.05	$385.88
9.7%	$317.73	$325.65	$334.64	$344.93	$356.84
10.2%	$299.87	$306.50	**$313.95**	$322.41	$332.09
10.7%	$283.96	$289.53	$295.76	$302.77	$310.72
11.2%	$269.68	$274.40	$279.65	$285.50	$292.09

Perpetuity method, Base Case. AZ Stocks DCF model, DCF - Perpetuity sheet.

In the **base** scenario, the value per share is **$314**; in the **best**, **$388**; and in the **worst**, **$229**.

Method 2: Terminal EBITDA multiple

The Best Case uses 12x. If Adobe doesn't suffer the AI impact, it remains a very high-quality SaaS business with moderate growth and 89% gross margins, and a 12x multiple is reasonable for that profile. The Base Case uses 9x, just below the ~10x EBITDA it trades at today. What that scenario says is that I

assume no re-rating: it is the no-improvement-in-sentiment scenario, with an enterprise core that remains highly profitable. The Worst Case uses 6x. If the deterioration is more severe and the market prices in a deeper erosion of the moat, a multiple well below the current level makes sense.

Adobe Inc.

ADBE · Discounted Cash Flow · Exit Multiple Method

Valuation date 4 Nov 2026 · USD mm · Scenario: Base Case

INTRINSIC VALUE PER SHARE

$307.99

Current share price	$250.84
Upside / (downside)	**+22.8%**

VALUATION SUMMARY

Enterprise value	120,899
Equity value	119,868
PV of forecast cash flows	63,230
PV of terminal value	57,670
Terminal value % of EV	47.7%
Implied perpetual growth	1.3%

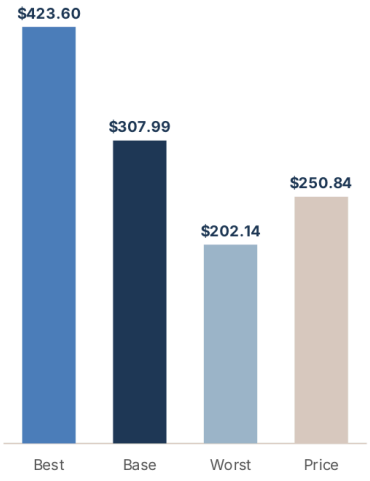
KEY ASSUMPTIONS

WACC (year 1)	10.2%
Terminal WACC	10.2%
Exit EV / EBITDA	9.0x
EBITDA, final forecast year	15,491
Net debt & other claims	1,031
Diluted shares (mm)	389.2

SCENARIOS

Scenario	Exit multiple	Enterprise value	Equity value	Value per share	Upside
Best case	12.0x	165,895	164,864	**$423.60**	**+68.9%**
Base case	9.0x	120,899	119,868	**$307.99**	**+22.8%**
Worst case	6.0x	79,705	78,674	**$202.14**	**(19.4%)**
Current share price				*$250.84*	

VALUE PER SHARE VS. CURRENT PRICE



SENSITIVITY · VALUE PER SHARE

Exit EV / EBITDA multiple

WACC / multiple	7.0x	8.0x	9.0x	10.0x	11.0x
9.2%	$291.27	$309.15	$327.04	$344.92	$362.80
9.7%	$283.00	$300.16	$317.32	$334.47	$351.63
10.2%	$275.06	$291.52	**$307.99**	$324.45	$340.91
10.7%	$267.42	$283.23	$299.03	$314.83	$330.63
11.2%	$260.08	$275.25	$290.42	$305.59	$320.76

Exit multiple method, Base Case. AZ Stocks DCF model, DCF - Exit Multiple sheet.

In the **base** scenario, the value per share is **$308**; in the **best**, **$424**; and in the **worst**, **$202**.

Reading both methods together

In the Base Case both methods tell the same story: $314 by perpetuity and $308 by multiple. The fact that they match gives me more confidence that the result doesn't depend on a forced terminal value. My **price target** is the average of both: **USD 311 per share**, 24% upside from the current price of USD 250.84.

What the model tells me is interesting. Even assuming consumer slows sharply, the current price leaves room, because the enterprise core supports most of the value. But the Worst Case shows the risk clearly: if the deterioration also reaches the professional segment, the stock is worth between $202 and $229, 9% to 19% below the current price.

A note on buybacks: the model uses the 389.2 million shares outstanding as of September 2026, but it doesn't project future repurchases, because predicting their pace and price requires an assumption I prefer not to make. That makes the analysis conservative: if buybacks continue at a pace similar to the historical one, value per share would be higher in every scenario, without changing any operating assumption.

SECTION 08

Conclusions

I owned Adobe for a while, years before all this happened. I bought in when the market still hadn't given it full credit and sold when I felt it had become expensive. Fortunately, the return was good. Selling wasn't an easy decision at the time, because the business was still excellent, but the valuation was demanding.

Today the situation is different. The stock has fallen more than 60% from its highs, and the multiples that once looked demanding to me now look cheap, depending on the lens you use. The problem is that the lens matters much more than in other situations, because Adobe's future doesn't depend only on its ability to execute, but on something nobody knows how it will end: the impact of artificial intelligence on its business.

My base case is not that of a bank analyst projecting consensus. It is that of someone who believes Adobe will be affected, to some degree, by what is happening with AI. Every week something new surprises us. Things that two years ago took hours of professional work can now be done in minutes with a prompt. Many entrepreneurs and small companies will stop hiring certain profiles because they won't need them in the same way. That doesn't kill Adobe, but it hurts.

Adobe's ecosystem will remain relevant, probably more so in the institutional segment and for more complex projects. But the broadest user base, the people who used Creative Cloud for everyday tasks without being career designers, is exactly the one most exposed to substitution. And that base is part of the growth the subscription model needs to keep expanding. That is what I modeled: an enterprise business that keeps growing and a consumer business that slows down.

What the model left me with is that, even with that consumer deterioration, the base case shows 24% upside. The enterprise core supports most of the value. What holds me back is the Worst Case: if the erosion also reaches professionals, the stock is not cheap today.

And on top of all that, **a complete leadership overhaul**. Narayen was one of my favorite CEOs. It is not a minor detail that someone who took a $15B market-cap company to a $250B peak decided this is the moment to step aside. There could be a thousand personal reasons behind it, and perhaps none has to do with the strategic vision for the business. But the reality is that the company is changing its CEO, its CFO and the head of its creative business at its moment of greatest uncertainty, in the middle of a technological transition that will define its future. Chakravarthy takes over on December 1 with an interim CFO beside him. That is a lot of uncertainty at once.

There are too many **open questions** for me to feel comfortable taking a position. If someone is convinced AI won't affect Adobe, or already holds a position and wants to keep or add to it, the only thing I'd tell them is to be careful with how much weight they give it in the portfolio and to be patient. The uncertainty here is not the kind that resolves in a quarter. It is **structural** and may take time to clear up.

For my part, I prefer to stay out and keep watching from the sidelines. The stock looks increasingly attractive on price, but the uncertainty keeps growing. I don't think it makes sense to take this risk when there are companies with a much clearer outlook offering attractive returns.

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