

ADOBE

- Buy
- \$235.72 (4/14/2026)
- ~90% upside



Member**E-Mail**

Alvaro Pellegrini

ho8617@wayne.edu

Joseph Schummer

hr2920@wayne.edu

Shayna Terry

hu8740@wayne.edu

Anthony Vinson

hk4947@wayne.edu



Thesis Point 1

Adobe is benefiting from increased use of AI.

Thesis Point 2

Recurring Revenue, Strong Profitability, and Robust FCF Generation.

Thesis Point 3

Adobe has an attractive valuation, with low downside and high upside potential.



Business

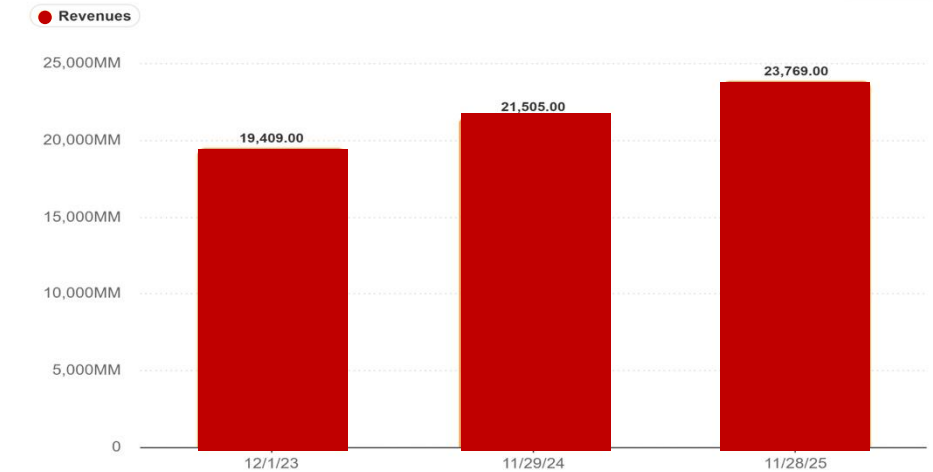
- 96% of 2025 revenue from high margin, recurring subscription.
 - (+12% annually 2023 - 2025)
- Adobe controls 66% of the creative software market, according to IDC. Its software is central to the workflows of creative professionals' content creation, design, digital experience ,and marketing campaigns.
- High retention and switching costs support stable revenue, with moderate pricing power.
- Industry leader in content creation, design, and digital experience platforms for creative, marketing , and business professionals.

Segments

- Creative Cloud (70% of rev) – Photoshop, Illustrator, Premier Pro.
- Document Cloud (20-25%) – Acrobat, PDF, e-signatures.
- Experience Cloud (10%) – digital marketing, analytics, AI tools.

ADBE (Adobe Inc.) Revenues

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TIKR.com



Financial Information (FY2025)

Share Price	\$235.72
Market Cap	\$98,535 M
Revenue	\$23.8 B
EPS	\$20.94



Industry Trend 1: Growth In Digital Content Creation

- Increasing demand for content across social media, marketing, and streaming.
- Expansion of creator economy and digital media

Industry Trend 2: Generative AI in Content Creation

- AI is transforming how content is created (image, video, design).
- Increasing Demand for AI powered productivity tools.

Industry Trend 3: Intellectual Property & Content Creation

- Increasing need to protect digital content and ownership.
- Rising concerns around AI training data and content scraping.

Investment Thesis Point # 1

Adobe is benefiting from increased use of AI.



AI-influenced revenues compose 1/3 of the company's revenue and are growing.

Adobe leverages generative AI as a top-of-funnel engine, capturing millions of new users to fuel conversion.

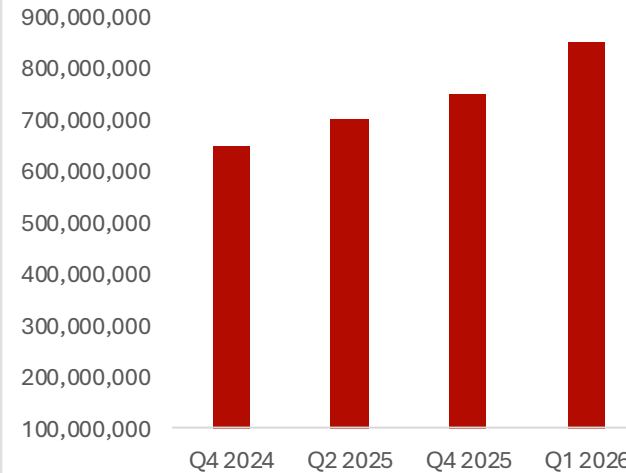
Nvidia partnership integrates elite AI computing to deliver breakthrough, secure, automation workflows.

Firefly is being used by 75% of Fortune 500 companies.

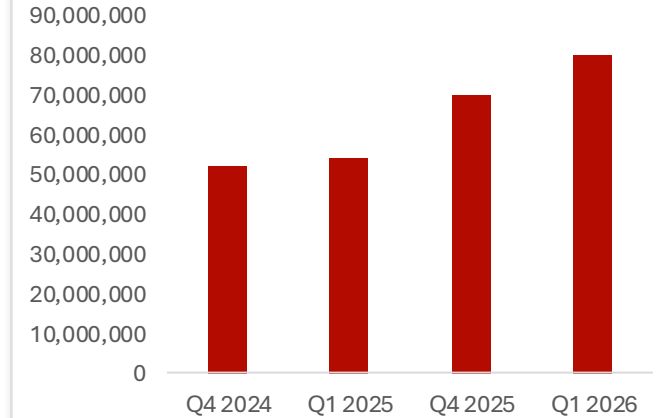
Cross-selling opportunities between Digital Media and Digital Experience.

Large organizations are moving away from fragmented, standalone software tools.

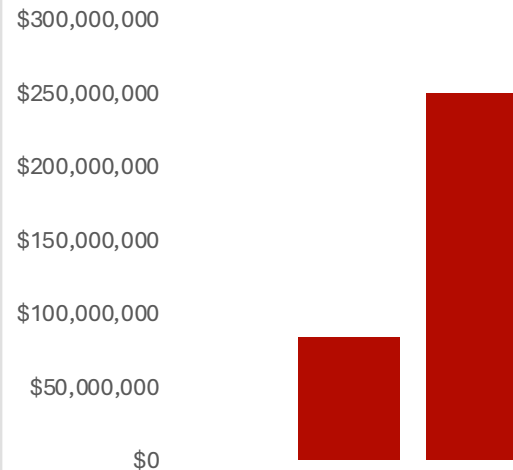
Complete User Base



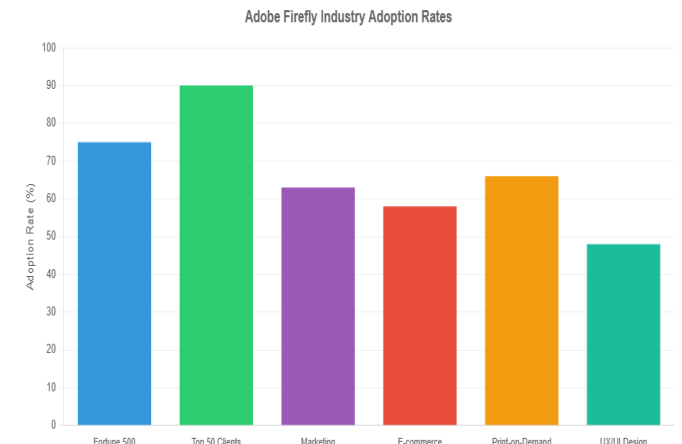
Freemium User Pipeline/Adoption



Firefly Growth



Velocity of AI Adoption



Investment Thesis Point # 2

Recurring Revenue, Strong Profitability, and Robust FCF Generation.



CREATIVE CLOUD SUBSCRIPTION: RECURRING GROWTH

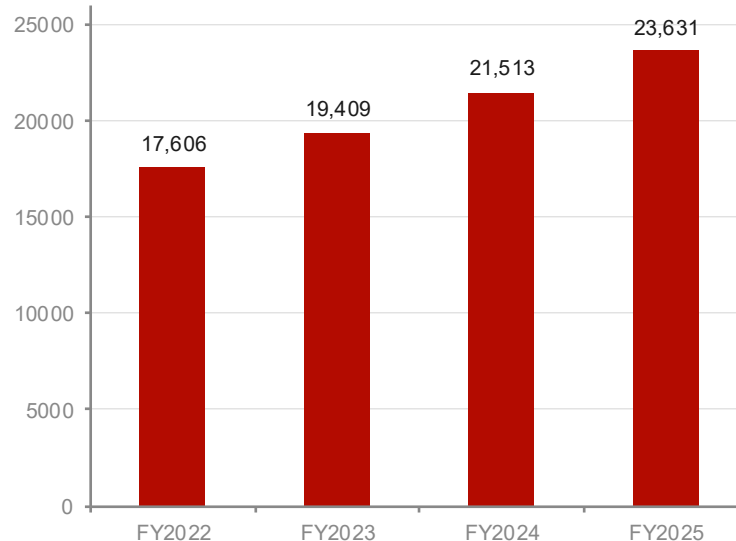
Why This Matters

- ADBE has 34.3% operating margins.
- Poised to grow EPS at a ~15% CAGR.
- Creative Cloud drives ~72% of revenue through predictable annual recurring revenue.
- Firefly AI, now exceeding \$1B in annualized ARR, is accelerating ARPU expansion through cross-selling and premium tier upgrades.

Three compounding earnings drivers:

- Recurring ARR base with growing Firefly AI contribution
- Gross margins >89% with expanding operating leverage
- Share buybacks (~73.6M shares repurchased FY21-FY25 for ~\$31.9B, reducing share count ~15%)

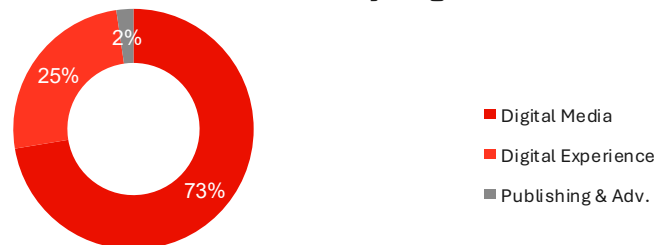
Annual Revenue (\$M)



Adjusted EPS (\$)



FY2025 Revenue Mix by Segment



Forward Outlook

FY2026E Revenue: ~\$25.7B

FY2026E Adj. EPS: ~\$23.30

Gross Margin: ~89.8%

AI Firefly + Gen Studio pricing uplift : The next catalyst for ARPU expansion



ADOBE'S VALUATION USING MULTIPLES METHOD

Valuation Method	5- year Historical Average	Current Figures
P/E	40.29 x	13.67x
EV / EBITDA	29.54 x	9.76x

What This Means

- Adobe is undervalued relative to its historical averages. With limited downside risk and significant upside potential.
- 15 x Forward EV/EBITDA = \$478 (~100% Upside)
- 7x Forward EV/EBITDA = \$210 (~10% Downside)

Company Name	Ticker	FY26 EPS Growth Projections	P/E	EV/EBITDA
Adobe	ADBE	41%	13.67x	9.76x
Microsoft	MSFT	23%	24.85x	14.65x
Autodesk	ADSK	17%	38.15x	27.52x
Salesforce	CRM	21%	21.11x	14.36



ADOBE'S EPS GROWTH RATES 25 vs 24 / 26 vs 25

	2024	2025	2026 Estimate
EPS	\$14.20	\$16.62	\$23.52
% Growth	-	17%	41%

- EPS Growth shows a strong profitability trend
- Growth between 2025 and 2026 shows a breakout
- Eps is driven by revenue growth, EBITDA, share buybacks.

Investment Thesis Point # 3

Attractive Multiples and Intrinsic Value; high upside and low downside



ADOBE'S VALUATION USING INTRINSIC VALUATION METHOD

DCF Estimated Value Per Share

400.73

Current Price

\$235.72

Upside

70%

EBITDA Multiple Method

Current Price (USD)	235.72
Consensus Price Target	324.39
DCF Estimated Value per Share (USD)	400.73
DCF Estimated Upside	70%

Terminal EBITDA Multiple

		9.0x	10.5x	12.0x	13.5x	15.0x
Discount Rate (WACC)	9.7%	341.36	378.95	416.55	454.14	491.74
	10.2%	335.04	371.79	408.54	445.29	482.04
	10.7%	328.87	364.80	400.73	436.66	472.58
	11.2%	322.86	357.99	393.12	428.25	463.37
	11.7%	317.01	351.36	385.70	420.05	454.40
		9.0x	10.5x	12.0x	13.5x	15.0x
	9.7%	45%	61%	77%	93%	109%
	10.2%	42%	58%	73%	89%	104%
	10.7%	40%	55%	70%	85%	100%
	11.2%	37%	52%	67%	82%	97%
	11.7%	34%	49%	64%	78%	93%



ADOBE DCF with bear and bull cases

EBITDA Multiple Method						
Current Price (USD)			235.72			
Consensus Price Target			324.39			
DCF Estimated Value per Share (USD)			352.82			
DCF Estimated Upside			50%			
Terminal EBITDA Multiple						
		7.0x	8.5x	10.0x	11.5x	13.0x
Discount Rate (WACC)	9.7%	291.23	328.83	366.42	404.02	441.61
	10.2%	286.04	322.79	359.54	396.29	433.04
	10.7%	280.97	316.90	352.82	388.75	424.68
	11.2%	276.03	311.16	346.28	381.41	416.54
	11.7%	271.21	305.56	339.91	374.25	408.60
		7.0x	8.5x	10.0x	11.5x	13.0x
	9.7%	24%	39%	55%	71%	87%
	10.2%	21%	37%	53%	68%	84%
	10.7%	19%	34%	50%	65%	80%
	11.2%	17%	32%	47%	62%	77%
	11.7%	15%	30%	44%	59%	73%

Bearish Case

EV / EBITDA -10x

WACC – 11%

EBITDA Multiple Method						
Current Price (USD)		235.72				
Consensus Price Target		324.39				
DCF Estimated Value per Share (USD)		448.63				
DCF Estimated Upside		90%				
Terminal EBITDA Multiple						
		11.0x	12.5x	14.0x	15.5x	17.0x
Discount Rate (WACC)	9.7%	391.49	429.08	466.68	504.27	541.87
	10.2%	384.04	420.79	457.54	494.29	531.04
	10.7%	376.78	412.70	448.63	484.56	520.49
	11.2%	369.70	404.83	439.96	475.08	510.21
	11.7%	362.81	397.15	431.50	465.85	500.20
		11.0x	12.5x	14.0x	15.5x	17.0x
	9.7%	66%	82%	98%	114%	130%
	10.2%	63%	79%	94%	110%	125%
	10.7%	60%	75%	90%	106%	121%
	11.2%	57%	72%	87%	102%	116%
	11.7%	54%	68%	83%	98%	112%

Bullish Case

EV / EBITDA -14x

WACC – 11%



Shantanu Narayen

OUTGOING CEO

Chairman, President & CEO | Tenure: Dec 2007 – 2026

Foundation Built: Architected the 2013 SaaS pivot, one of the most successful business model transformations in software history. Revenue grew from ~\$1B to over \$24B over 18 years; 18 consecutive years of revenue growth.

Staying as Chair: Remains Executive Chair to support the incoming CEO with direct knowledge transfer.

Compensation (FY2025): ~97% equity-linked. Performance shares vest on revenue + EPS targets

Dan Durn

CFO & EVP, Finance, Tech, Security & Operations | Joined: Oct 2021

Background: Goldman Sachs (M&A VP) → CFO roles at GlobalFoundries, NXP Semiconductors, and Applied Materials. Bay Area CFO of the Year (2024).

Continuity Anchor: Durn stays in place regardless of a CEO change, providing consistent capital allocation through the transition. Architect of the buyback program and FCF engine.

Compensation (FY2025): 89% equity-linked. Cash bonus tied to revenue + EPS threshold achievement.



WHY THE MARKET IS WRONG TO DISCOUNT ADOBE:

The Discount: CEO transition anxiety is a key driver of the current compression, but the uncertainty is temporary, and the business is unchanged.

The Catalyst: Narayan stays as CEO until a successor is named. Firefly monetization, FCF generation, and buybacks continue uninterrupted. Any successor announcement removes the overhang. Either outcome is likely positive for the stock.

Paid to Wait: At current prices, investors own one of the highest-quality software franchises in the world at a generational valuation discount while the company continues repurchasing billions in stock annually.

Our View: The market is pricing in permanent impairment. We see a resolvable discount. The CEO search is the headline risk, not the business.



- AI-driven growth is accelerating revenue, with AI representing a meaningful and rapidly growing portion of the business
- High-margin, recurring subscription model (~96% of revenue) supports strong cash flow and profitability
- Attractive valuation with asymmetric risk/reward, trading below intrinsic value and historical multiples
- **Final Recommendation**
 - Buy Adobe (ADBE)
 - Limited downside (~10%) vs. significant upside (60%+)
 - Strong fundamentals + AI growth + market leadership

APPENDIX

Supporting Financial Data • Valuation Detail • Competitor Analysis


CONSOLIDATED INCOME STATEMENT (\$M) Appendix: Income Statement (FY2022-Q1 FY2026)

	FY2022	FY2023	FY2024	FY2025	Q1 FY2026
Revenue	17,606	19,409	21,513	23,770	6,404
Subscription	16,481	18,285	20,346	22,456	6,100
Product / Other	1,125	1,124	1,167	1,314	304
Cost of Revenue	2,085	2,172	2,287	2,546	668
Gross Profit	15,521	17,237	19,226	21,224	5,736
Gross Margin %	88.2%	88.8%	89.4%	89.3%	89.6%
R&D	2,987	3,303	3,561	3,825	1,029
Sales & Marketing	4,375	4,654	5,107	5,428	1,364
G&A	791	824	988	1,013	260
Total OpEx	8,153	8,781	9,656	10,266	2,653
GAAP Operating Income	6,100	6,617	6,742	8,710	2,424
Operating Margin %	34.6%	34.1%	31.3%	36.6%	37.8%
GAAP Net Income	4,756	5,565	5,560	7,130	1,968
Net Margin %	27.0%	28.7%	25.8%	30.0%	30.7%
Diluted EPS (GAAP)	\$11.09	\$13.01	\$12.36	\$16.70	\$4.60
Adj. EPS (Non-GAAP)	\$13.71	\$15.32	\$18.42	\$20.94	\$6.06
Diluted Shares (M)	459	457	450	427	428

Source: Adobe SEC filings (10-K, 8-K earnings releases). FY ends late November. Non-GAAP figures exclude SBC, amortization of intangibles, and acquisition-related costs.

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Appendix: Balance Sheet (FY2022 - FY2025)



ASSETS (\$M)

	FY2022	FY2023	FY2024	FY2025
Cash & Short-Term Investments	3,878	5,771	7,039	6,890
Accounts Receivable	1,874	2,139	2,454	2,703
Other Current Assets	636	598	617	740
Total Current Assets	6,388	8,508	10,110	10,333
Goodwill	12,655	12,655	12,685	12,707
Intangibles & Other Long-Term	8,204	8,616	7,558	6,667
Total Assets	27,241	29,779	30,007	29,707

LIABILITIES & EQUITY (\$M)

	FY2022	FY2023	FY2024	FY2025
Deferred Revenue (Current)	4,733	5,375	5,558	5,875
Other Current Liabilities	2,199	2,876	3,916	2,750
Total Current Liabilities	6,932	8,251	9,474	8,625
Long-Term Debt	4,123	3,634	4,127	6,200
Other Long-Term Liabilities	2,059	1,459	1,450	1,475
Total Liabilities	13,114	13,344	14,451	18,300
Total Stockholders' Equity	14,127	16,435	15,556	11,407
Total Liabilities & Equity	27,241	29,779	30,007	29,707

KEY BALANCE SHEET RATIOS

Metric	FY2024	FY2025
Cash & S-T Investments	\$7.0B	\$6.9B
Total Debt	\$5.6B	\$6.2B
Net Cash / (Debt)	\$1.4B	\$0.7B
D/E Ratio	0.37x	0.54x
Current Ratio	1.07x	1.00x
ROIC	37.1%	49.0%
ROE	35.7%	59.0%
Book Value / Share	~\$35	~\$27

Note: Equity declined primarily due to \$7B+ in share buybacks over FY2025. Reflects capital return, not balance sheet deterioration. Net debt position remains conservative.

Source: Adobe SEC filings (10-K). FY ends late November. Some figures rounded.

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Appendix: Cash Flow Statement (FY2022 - FY2025)



CASH FLOW STATEMENT (\$M)

	FY2022	FY2023	FY2024	FY2025
GAAP Net Income	4,756	5,565	5,560	7,130
D&A + Amortization	1,224	1,296	1,369	1,268
Stock-Based Compensation	1,254	1,404	1,677	1,802
Changes in Working Capital	520	456	(561)	204
Other Non-Cash Adjustments	86	81	15	(371)
Cash Flow from Operations	7,838	7,300	8,060	10,030
Capital Expenditures	(536)	(414)	(453)	(116)
Free Cash Flow	7,302	6,886	7,607	9,914
FCF Margin %	41.5%	35.5%	35.4%	41.7%
Investing Activities (ex-CapEx)	(393)	(1,700)	(1,289)	(1,900)
Share Repurchases	(4,513)	(2,690)	(6,949)	(7,708)
Debt Issuance / (Repayment)	(500)	—	498	2,470
Cash Flow from Financing Activities	(5,270)	(3,016)	(7,230)	(5,420)
Net Change in Cash	2,175	2,584	(459)	2,710

FCF HIGHLIGHTS

\$9.9B

FY2025 Free Cash Flow

41.7%

FY2025 FCF Margin

\$7.7B

FY2025 Share Buybacks

30.8M

Shares Repurchased FY2025

~\$3B+

Annual Buyback Run-Rate

Source: Adobe SEC filings (10-K). CapEx reported separately from investing activities. FCF = Operating Cash Flow minus CapEx.



KEY COMPETITORS & COMPETITIVE POSITIONING

Canva

HIGH (Low-End)

Freemium / Prosumer

Overview: 230M+ monthly users; \$4B annualized revenue. Targets non-professionals and SMBs with AI-powered templates. Acquired Affinity suite (2024) to move upmarket.

Adobe Advantage: Adobe moat: Enterprise compliance, IP indemnity, workflow depth. Canva lacks professional-grade color, video, and print production tools.

Figma

MEDIUM (Design Niche)

UI/UX Design & Collaboration

Overview: Dominated UX/UI space; IPO'd July 2025 at \$68B valuation. Adobe XD discontinued 2024. Figma Make (AI) launched Jul 2025. 29% AI design tool market share.

Adobe Advantage: Adobe moat: Creative Cloud suite breadth, Firefly integration, enterprise sales. Adobe discontinued XD rather than compete at a loss.

OpenAI / Sora

MEDIUM (Enterprise Video)

AI-Native (Video / Images)

Overview: Sora will be widely deployed for enterprise video by early 2026. Threatens Premiere Pro's video market. Adobe responded by integrating Runway, Pika, and Luma into Firefly.

Adobe Advantage: Adobe moat: Commercially safe / IP-indemnified AI models. Fortune 100 clients require brand-safe content generation. Raw OpenAI models do not provide this.

Microsoft

LOW-MEDIUM

Enterprise Creative (Designer)

Overview: Microsoft Designer bundled in M365 (400M+ seats). Copilot generates images in Word/PowerPoint. Competes at casual/SMB level with Adobe Express.

Adobe Advantage: Adobe moat: Professional depth, enterprise-grade DRM, print-ready output, video production. Microsoft Designer is a feature, not a platform.

ADOBE'S COMPETITIVE ADVANTAGES (MOAT SUMMARY)

IP Indemnification

Only major vendor offering full commercial IP indemnity on AI-generated content. Critical for Fortune 500 legal/compliance teams. Competitors cannot match without deep content licensing agreements.

Workflow Integration

Creative Cloud is embedded across the entire professional workflow, from ideation (Firefly) to editing (Photoshop/Premiere) to delivery (GenStudio). Competitors serve isolated steps; Adobe owns the chain.

Enterprise Switching Costs

Adobe's installed base spans 100% of Fortune 100. Multi-year ARR contracts, deep IT integrations, and trained workforces create structural lock-in. Churn consistently below 5%.

Firefly Data Flywheel

Firefly trained on licensed content (Adobe Stock + owned assets). More users → more usage data → better models → stronger products. Network effect compounding against open-source rivals.

Sources: Company filings, press releases, Bloomberg Intelligence, Morningstar, FactSet. Market share estimates as of April 2026.



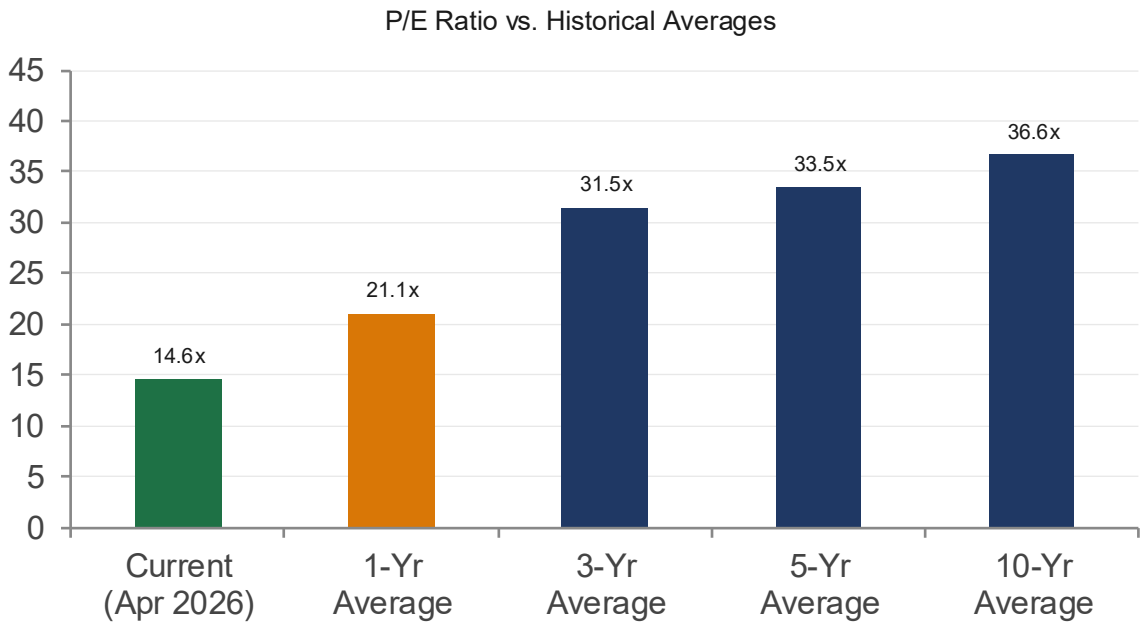
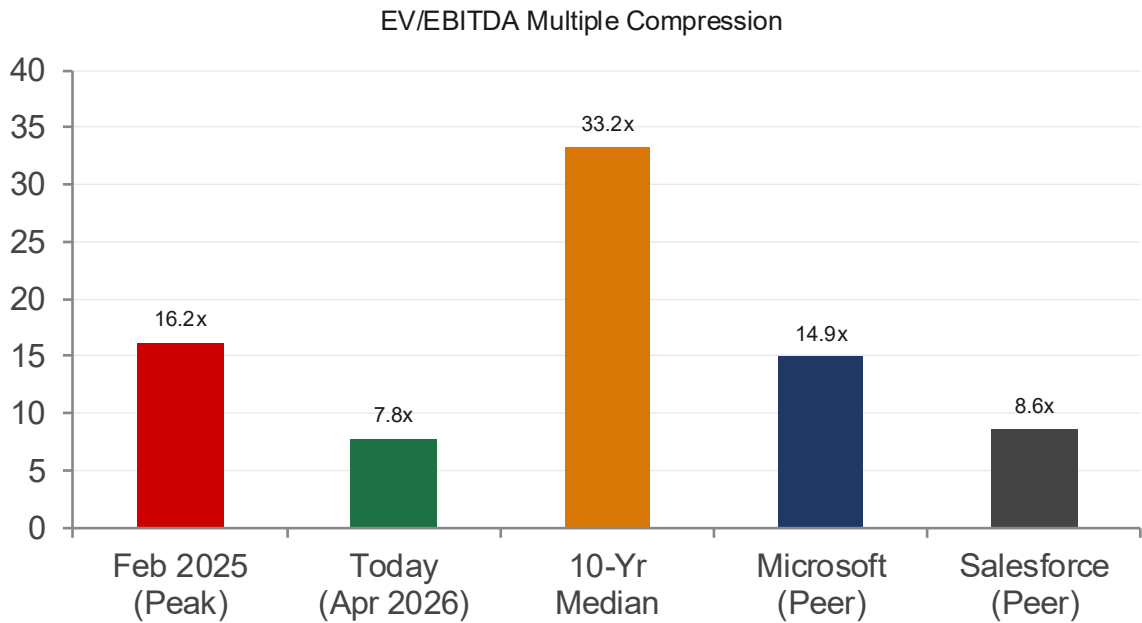
COMPENSATION STRUCTURE & SHAREHOLDER ALIGNMENT

Executive	Base Salary	Total Comp (FY25)	Equity %	Bonus Trigger
Narayan (Outgoing CEO)	\$1.5M	\$51.2M	~97%	Revenue + EPS ≥95% of target
Wadhwani (Incoming CEO)	\$800K	\$17.8M	~89%	rTSR vs. NASDAQ-100 + ARR
Durn (CFO)	\$900K	\$16.3M	~89%	Revenue + EPS ≥95% of target

Key: ~89–97% of all executive compensation is equity-linked. Management wealth creation is directly tied to share price appreciation. Performance shares vest 2026–2029 based on rTSR vs. NASDAQ-100 and ARR growth, ensuring strong alignment with long-term shareholder value.

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Appendix: ADBE Valuation vs. Fundamentals



The valuation multiple dropped 52% in 14 months, from 16.18x to 7.82x. Adobe's EBITDA grew to \$9.3B over the same period. The stock got cheaper. The business got bigger.

Adobe's current P/E of 14.56x is 60% below its 10-year average of 36.62x. Earnings are still growing. This is a sentiment-driven selloff, not a fundamentals-driven one.

\$6.4B

Q1 FY2026 Revenue

Up 12% year over year, beat analyst estimates

41.4%

FCF Margin (FY2025)

One of the highest in the software sector

\$22.5B

RPO Backlog

Contracted future revenue that does not change with the CEO

6%

Shares Reduced (1yr)

Buybacks picked up as the stock got cheaper



Company Filings & IR

- Adobe Inc. Form 10-K, FY2025 (filed Jan. 2026)
- Adobe Inc. Form 10-K, FY2024 (filed Jan. 2025)
- Adobe Inc. Form 10-K, FY2023 (filed Jan. 2024)
- Adobe Inc. Form 10-K, FY2022 (filed Jan. 2023)
- Adobe 8-K Earnings Releases: Q1-Q4 FY2022 through Q1 FY2026
- Adobe Proxy Statement (DEF 14A), FY2026
- Adobe Investor Relations: adobe.com/investor-relations
- Adobe Q1 FY2026 Earnings Release, Mar. 12, 2026
- Adobe FY2025 Earnings Release, Dec. 10, 2025

News & Industry Research

- CNBC: 'Adobe CEO Shantanu Narayan to Step Down' (Mar. 12, 2026)
- Bloomberg: 'Adobe CEO Narayan to Step Down' (Mar. 12, 2026)
- Fortune: 'Adobe CEO Narayan Stepping Down' (Mar. 12, 2026)
- Financial Content / MarketMinute: Adobe Deep Dive (Mar. 2026)
- Greylock Partners: David Wadhwani Partner Profile (2019)
- Morningstar: Adobe Equity Research, Mar. 2026
- Wikipedia: Shantanu Narayan biography
- Adobe.com: Executive Leadership Profiles
- J.P. Morgan Equity Research: Adobe Initiation (Jan. 2026)

Market & Financial Data

- BloombergTerminal: ADBE - pricing, multiples, consensus
- FactSet: Peer comparables, EV/EBITDA, forward estimates
- StockTitan.net: Adobe FY2025 financial summary
- Simply Wall St: ADBE balance sheet ratios
- Bullfincher.io: Adobe executive compensation FY2025
- SEC EDGAR: All cited Form 8-K and 10-K filings
- Investing.com: Adobe 2026 executive compensation plans
- San Francisco Business Times: Bay Area CFO of the Year (2024)
- All data as of April 1, 2026 unless otherwise noted