



Eaglewing Research

See what markets miss

EAGLEWING INVESTMENT THESIS

Adobe Inc

ADBE | Fundamental Dislocations

Report date: 15 September 2026

Evidence cutoff: 14 September 2026 at 23:55 UTC

Our investment thesis over 12-24 months. An Official Eaglewing Pick exists only when published in our public track record following human approval of this exact report. Outperformance is not guaranteed.

Why we selected this company

We selected Adobe Inc. for in-depth evaluation because the company presents a pronounced market expectation mismatch following a 31.99% share price decline from its 52-week peak of \$370.86 down to \$252.23 on September 11, 2026. This drawdown occurred against a backdrop of severe multiple compression driven by market apprehension surrounding generative AI disruption, simultaneous executive transitions, and subscription cancellation regulatory scrutiny. Our screening confirms that Adobe possesses top-tier balance sheet strength, pristine cash conversion, and an entrenched enterprise software moat that remains highly resilient.

Despite external headwinds, Adobe demonstrated continued fundamental expansion in its third quarter of fiscal 2026 ended August 28, 2026, delivering record quarterly revenue of \$6.76 billion (up 13% year over year, or 12% in constant currency), raising full-year targets, and surpassing 1 billion monthly active users across its creativity and productivity offerings. Operating cash flows reached a record \$2.523 billion for the quarter, supporting robust shareholder returns via aggressive share repurchases. These factors establish Adobe as a prime candidate for fundamental analysis over a 12-to-24 month investment horizon.

EWRS assessment

87.1 / 100

Eligible for Official Pick review



Scores reflect our evidence-based assessment, not a probability of profit. Each bar shows points earned out of that dimension's maximum. Displayed values are rounded to one decimal place; totals use the unrounded scores. Separate evidence, risk and return gates still apply; a high score is not approval of an Official Pick.

Our investment thesis

Our investment thesis rests on the premise that Adobe is successfully transitioning from a defensive incumbent threatened by generative AI point tools into an essential, end-to-end AI orchestration platform for global enterprises. Rather than cannibalizing core demand, Adobe Firefly, Adobe GenStudio, and Acrobat Studio are expanding enterprise customer commitments, evidenced by AI-first ARR growth exceeding 150% year over year in Q3 FY2026 and total annualized recurring revenue exiting the quarter at \$27.50 billion. Adobe's enterprise advantages-proprietary standard file formats (.psd, .ai, .pdf), intellectual property indemnification for AI generation, and deep cross-surface integrations-create formidable switching costs that protect seat retention.

Furthermore, Adobe's capital compounding engine translates top-line subscription growth directly into owner value. Operating cash flow conversion consistently exceeds 130% of GAAP net income, generating more than \$9.5 billion in trailing twelve-month free cash flow. Management utilizes this liquidity to aggressively repurchase stock under an active \$24.55 billion remaining authorization, retiring 9.5 million shares (\$2.232 billion) in Q3 FY2026 alone and driving a 6.84% year-over-year reduction in diluted shares outstanding. Over a 12-to-24 month horizon, we expect this share count reduction, combined with double-digit revenue growth and stabilizing cloud compute margins, to drive substantial per-share intrinsic compounding.

What market expectations may be missing

The market currently prices Adobe at approximately 10.3x guided fiscal 2026 non-GAAP EPS (\$24.45 to \$24.50) and 13.9x GAAP EPS (\$18.12 to \$18.17) at the assessment price of \$252.23, implying a trailing free cash flow yield of 9.57%. A reverse discounted cash flow analysis using a 9.0% discount rate demonstrates that prevailing market valuations price in a perpetual cash flow contraction of approximately -0.70%. This valuation reflects widespread investor fears that autonomous agentic AI models (such as those from Anthropic) and collaborative platforms like Figma will commoditize digital design tools and lead to structural seat contraction across marketing departments.

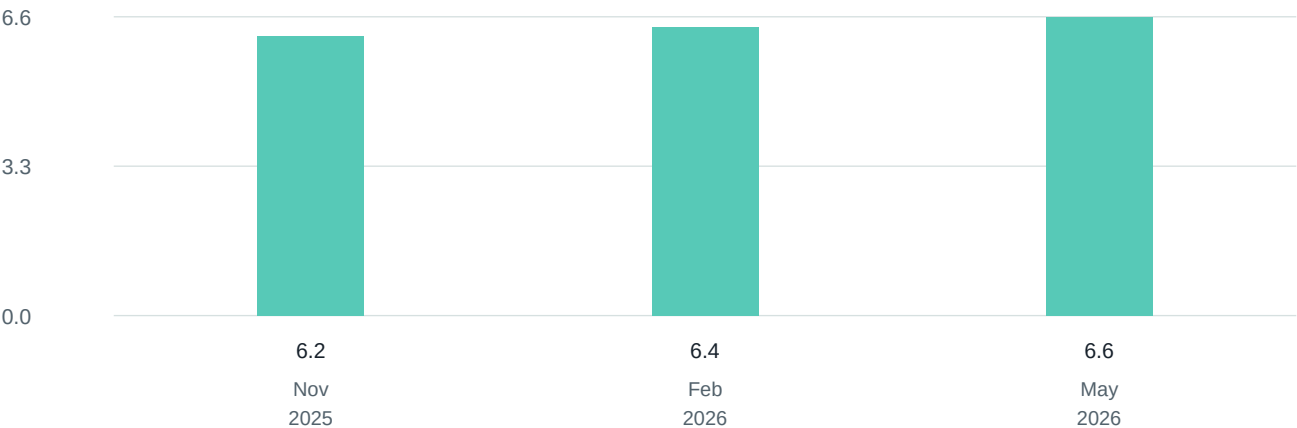
We believe market expectations overlook the resilience of Adobe's enterprise contracted backlog and revenue visibility. Remaining performance obligations (RPO) exited Q3 FY2026 at \$22.16 billion, with 67% (approximately \$14.85 billion) expected to be recognized over the next 12 months. Rather than contracting, total revenue grew 13% year over year in Q3 FY2026, beating the \$6.70 billion consensus reported by LSEG. Adobe's ability to cross-sell conversational AI tools inside Acrobat (driving 16% year-over-year growth in the Business Professionals & Consumers group) and automate enterprise content supply chains demonstrates that AI is expanding total addressable workloads rather than cannibalizing revenue.

Business quality and financial condition

Adobe's business quality is highlighted by premier software unit economics, generating an overall gross margin of 88.71% (\$5.997 billion gross profit on \$6.760 billion revenue) and a GAAP operating margin of 34.82% (\$2.354 billion operating income) in Q3 FY2026. Non-GAAP operating margin reached 43.99% (\$2.974 billion). Subscriptions represent 97.37% of total revenue (\$6.582 billion), providing highly predictable and ratable recurring revenues across its Creative & Marketing Professionals (\$4.65 billion, +13% YoY) and Business Professionals & Consumers (\$1.91 billion, +16% YoY) customer groups.

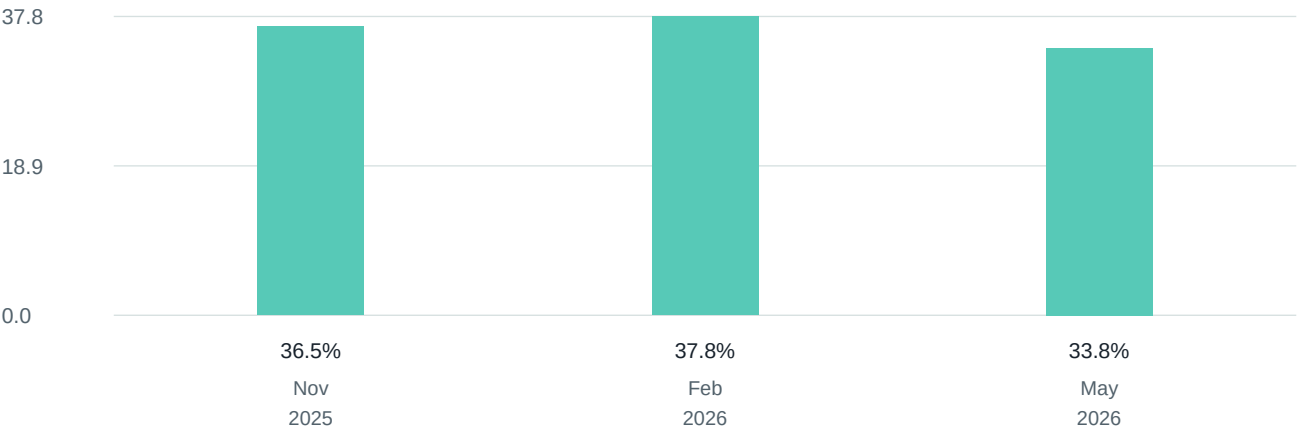
Adobe's balance sheet and liquidity profile are in an exceptionally strong position. As of August 28, 2026, the company held \$4.359 billion in cash and cash equivalents and \$1.280 billion in short-term investments (\$5.639 billion total liquid resources), against total debt of \$6.363 billion (\$1.597 billion current, \$4.766 billion long-term), yielding net debt of just \$724 million. Adobe also maintains an entirely undrawn \$1.5 billion senior unsecured revolving credit facility through June 2027. Organic operating cash flow of \$2.523 billion in Q3 alone easily covers all current debt maturities and low capital expenditure requirements (\$85 million in Q3).

Revenue | Quarterly | USD billions



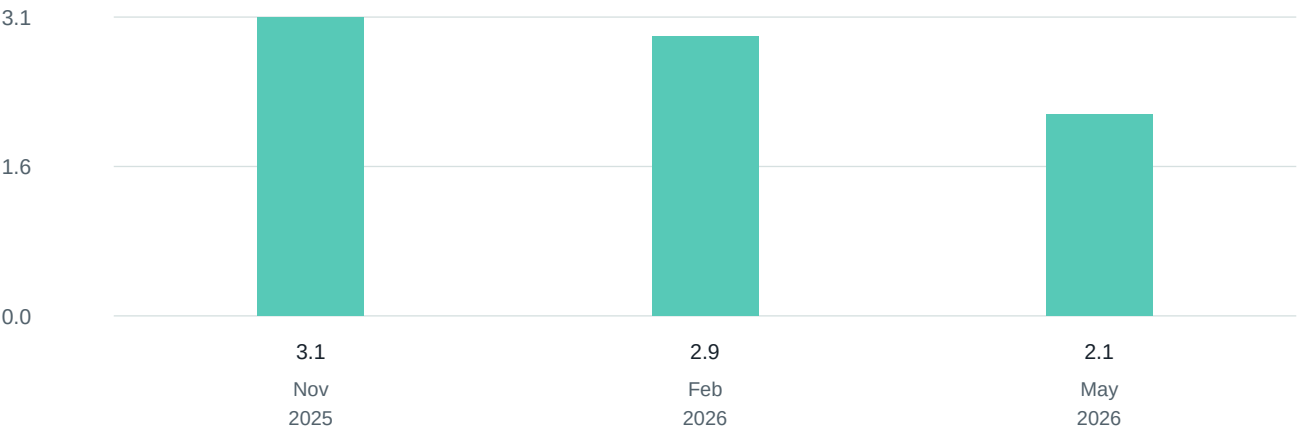
Showing 3 available quarterly periods, up to the latest 15. Period ends are shown below each value. Normalized reported values, not forecasts. Latest retained filing at the evidence cutoff; unavailable or conflicting values remain gaps.

Operating margin | Quarterly | %



Showing 3 available quarterly periods, up to the latest 15. Period ends are shown below each value. Operating income / revenue. Zero or unavailable revenue has no margin. Latest retained filing at the evidence cutoff; gaps are not zero.

Free cash flow | Quarterly | USD billions



Showing 3 available quarterly periods, up to the latest 15. Period ends are shown below each value. Normalized reported values, not forecasts. Latest retained filing at the evidence cutoff; unavailable or conflicting values remain gaps.

Valuation and downside, base and upside scenarios

Our valuation framework models three scenarios over a 24-month horizon from our assessment date. In our Base Case (55% probability), Adobe maintains a 10.5% revenue CAGR, achieves a 36.5% maintainable GAAP operating margin, and repurchases \$8.0 billion in shares annually, reducing the share count to 368 million by FY2028. Applying an 18.0x GAAP P/E exit multiple (14.0x Non-GAAP P/E; 14.5x EV/FCF) yields a target fair value of \$352.50 per share, representing a two-year annualized return of 18.22% (total return +39.75%).

In our Bull Case (25% probability), accelerated enterprise adoption of GenStudio and agentic marketing tools lifts revenue CAGR to 13.5%, expanding GAAP operating margin to 38.0% and annual FCF to \$12.4 billion. At a 22.0x GAAP exit multiple (17.0x Non-GAAP P/E), fair value reaches \$445.00 (+32.83% annualized return; +76.43% total return). In our Bear Case (20% probability), competitive seat erosion and elevated AI inferencing compute costs slow revenue growth to a 4.5% CAGR, compressing GAAP operating margin to 30.5% and derating the exit multiple to 12.0x GAAP P/E, resulting in a fair value of \$205.00 (-9.85% annualized return; -18.72% total return).

Synthesizing across these scenarios produces a probability-weighted fair value of \$346.13 per share, translating to an expected two-year total return of 37.23% and an annualized return of 17.14%. Comparing the Base Case upside potential of +\$100.27 per share (+39.75%) against the Bear Case downside risk of -\$47.23 per share (-18.72%) establishes an attractive upside-to-downside asymmetry ratio of 2.12x.

A complete source-backed scenario chart was not available. See the valuation discussion and its assumptions.

The case for potential S&P 500 outperformance

We believe Adobe is well-positioned to deliver potential outperformance relative to the broader market, as proxied by the S&P 500 price-index comparison, over a 12-to-24 month horizon. While the broader market index trades at elevated historical valuation multiples, Adobe's severe multiple compression to ~10.3x forward non-GAAP earnings and ~13.9x GAAP earnings offers an asymmetric margin of safety. Adobe's trailing free cash flow yield of 9.57% substantially exceeds the S&P 500 average, providing high cash-flow support.

The outperformance case is further anchored by Adobe's mechanical capital return. With \$24.55 billion remaining in authorized repurchases and over \$9.5 billion in annual free cash flow, Adobe has demonstrated the ability to retire 6% to 7% of its share count annually during periods of market undervaluation. Even in an environment where multiple expansion is modest, double-digit organic subscription growth combined with aggressive share count reduction creates a durable fundamental driver for potential benchmark outperformance, though returns can never be guaranteed.

Catalysts over the next 12-24 months

Several identifiable corporate and operational milestones over the next 12 to 24 months could trigger fundamental re-evaluations by the market. Chief among them is the formal announcement of a permanent Chief Financial Officer to succeed interim CFO Steve Day, which would resolve transitional governance uncertainty following Dan Durn's departure in June 2026. In addition, the seamless operational transition to incoming CEO Anil Chakravarthy and delivery of fiscal 2026 full-year targets (\$26.576B to \$26.626B revenue) in December 2026 will serve as key execution checkpoints.

On the product front, key commercial catalysts include the full integration and commercial rollout of Semrush's search and generative engine optimization (GEO) capabilities within Adobe Experience Platform and GenStudio at Adobe Summit in March 2027. Demonstrating sustained double-digit ARR expansion and stable subscription gross margins in upcoming fiscal 2027 quarterly filings will provide empirical proof that AI inferencing costs are stabilizing and that enterprise adoption remains robust.

No sufficiently dated event series was available for a timeline. See the catalysts and risks discussed in the report.

Risks and contrary evidence

The strongest counter-argument to our thesis is that generative and agentic AI models represent a structural, rather than temporary, deflationary force on creative software seats. Point solutions and foundation models (e.g., Anthropic, Midjourney) allow corporate design teams to produce equivalent collateral with fewer graphic design seats. Furthermore, collaborative competitor Figma-whose abandoned \$20 billion merger with Adobe in December 2023 was scrutinized by the UK Competition and Markets Authority-disclosed in its 2025 Form 10-K that two-thirds of its active users are non-designers, demonstrating deep cross-functional workflow adoption, while actively rolling out seat-wide AI credits.

Material contrary evidence is also visible in Adobe's cost structure and leadership turnover. In Q3 FY2026, subscription cost of revenue grew 24.1% year over year to \$633 million (driven by third-party cloud hosting, data center, and AI inferencing expenses), outpacing subscription revenue growth of 13.7% and reducing subscription gross margin from 91.2% to 90.4%. Simultaneously, Adobe has experienced rapid C-suite turnover, with CFO Dan Durn departing in June 2026, Creative head David Wadhvani scheduled to step down on September 27, 2026, and longtime CEO Shantanu Narayen transitioning to Executive Chair on September 3, 2026.

Regulatory and legal risks also pose potential headwinds. On March 12-13, 2026, Adobe entered into a \$150 million settlement (\$75 million civil penalty and \$75 million in free services) and permanent injunction with the DOJ and FTC to resolve allegations concerning subscription disclosure and cancellation practices under ROSCA. Mandated 1-click cancellations could increase gross churn among amateur users. Concurrently, Adobe faces a pending shareholder derivative action filed June 16, 2026 (Hirschberger et al v. Narayen et al) in Northern California, as well as class litigation.

What remains uncertain

Significant uncertainty centers on the long-term unit economics of generative AI workloads. While Adobe currently absorbs AI compute costs within its standard tiers and generative credit allotments, the ongoing expense of running high-performance GPU clusters for video generation and multi-modal inferencing could continue to pressure gross margins if premium consumption credit monetization fails to gain traction among enterprise users.

Additional uncertainty involves subscriber retention following the implementation of court-mandated frictionless cancellation workflows under the DOJ ROSCA settlement. Because Adobe does not disclose gross churn rates disaggregated by customer tier, the precise impact of simplified cancellations on customer lifetime value in the Business Professionals & Consumers group remains an empirical variable that will unfold over the next four quarters.

What would invalidate our thesis

Our investment thesis would be invalidated by any of the following pre-established operational breaches: First, if Creative & Marketing Professionals subscription revenue growth decelerates below 8.0% year over year in two consecutive quarters, or if total quarterly net ARR additions fall below \$500 million, indicating structural seat cannibalization and loss of creative market dominance. Second, if subscription gross margin falls below 88.0%, signaling that AI inferencing compute costs are permanently eroding software unit profitability.

Third, our thesis would be falsified if diluted share count experiences a net expansion over any rolling 6-month period, which would demonstrate that management has curtailed cash repurchases and allowed stock-based compensation (\$544 million in Q3 FY26) to dilute owners. Finally, failure to appoint a qualified permanent Chief Financial Officer by February 28, 2027, or further unplanned executive departures across core engineering divisions, would indicate deep organizational instability requiring immediate thesis reconsideration.

Methodology note

We use the Eaglewing Research System (EWRS) to assess evidence, valuation, risks and contrary views. We develop the investment thesis and accompanying research report, then recheck both before publishing an Official Pick.

Important disclaimer

Research and informational purposes only, not investment advice. Valuation scenarios are assumptions, not promises. Outperformance is not guaranteed; an investment may lose value. The S&P 500 comparison uses price returns and excludes dividends, fees and taxes.

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