



# Adobe Inc.

ADBE

EQUITY RESEARCH REPORT

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May 19, 2026

## ADBE — Adobe Inc.

**Report Date:** May 19, 2026

**Analyst:** Moschovakis Capital Research

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### EXECUTIVE SUMMARY

Metric	Value
Recommendation	**HOLD / WATCHLIST**
Current Price	\$253.77
Fair Value (Base Case)	\$285.00
Margin of Safety	12.3%
Target Entry (if HOLD)	\$215.00

Return Profile	Value
Dividend Yield	0.0%
Expected Dividend Growth	n/a
Expected Price Appreciation	7.5%
Total Expected Return (Base)	7.5% CAGR
Bear Case Total Return	-1.5% CAGR
Bull Case Total Return	13.0% CAGR
Probability-Weighted Return	6.6% CAGR

Risk Assessment	Value
Wealth Preservation Score	58 / 100
Downside Protection Score	55 / 100
Quality Score	65 / 100
Risk Level	MODERATE
Probability of >50% Loss	6%
Recession Profile	SENSITIVE

#### One-Line Thesis:

Adobe owns industry-standard creative software with fortress economics, but the absence of a dividend, AI disruption risk to its core moat, and a price near fair value mean you wait for \$215 before committing capital.

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## INVESTMENT THESIS

Adobe is a high-quality software franchise that has compounded shareholder capital for two decades through a subscription model built on Photoshop, Illustrator, Acrobat, and the Experience Cloud stack. The business throws off \$7.9 billion in free cash flow on \$21 billion of revenue, sustains ~88% gross margins, and converts net income to cash at 155%+. These are the financial characteristics of a fortress. The balance sheet is investment-grade, interest coverage runs above 25x, and management is using a fresh \$25 billion buyback authorization to return capital aggressively.

The complication is twofold. First, Adobe pays no dividend, which strips out the income cushion that anchors wealth preservation theses. Every dollar of return you earn must come from price appreciation, which depends on multiple stability and earnings growth that AI competition now threatens. Second, generative AI is a double-edged sword for Adobe — Firefly extends the moat in some workflows but commoditizes core creative tasks in others. Canva, Figma, Midjourney, and Runway target Adobe's pricing power from below, and the FTC subscription lawsuit plus the failed Figma deal show the company faces real regulatory friction.

At \$253.77, you pay roughly 23x forward earnings for a business growing 10-11% annually with margin pressure on the horizon. The bear case is not catastrophic — Adobe's enterprise relationships and 90% Fortune 500 Acrobat penetration provide a floor — but it is not zero either. A 15-20% drawdown in a recession-plus-AI-cannibalization scenario is plausible. The base case 7.5% return barely clears our 7% hurdle, and without a dividend cushion, the probability-weighted return of 6.6% fails to justify a full position. Wait for \$215, where the margin of safety widens to 25%+ and the bear case turns positive.

**Exit triggers:** Price reaches \$215 (upgrade to BUY); ARR growth decelerates below 8%; FTC settlement materially impairs subscription economics; operating margin compresses below 40%; any large acquisition above \$5 billion that triggers antitrust review.

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## STAGE 1: SECTOR & THEME

**Sector:** Application Software — Creative and Marketing SaaS

**Sector Verdict:** CONTINUE

The application software sector is understandable, not in secular decline, and moderately cyclical (tied to enterprise IT and marketing budgets). Sector valuation is elevated relative to 10-year averages, with software trading at premium multiples driven by AI enthusiasm. Tailwinds include digital content proliferation and AI feature monetization. Headwinds include AI-native challengers compressing pricing power and antitrust scrutiny on incumbents. Adobe sits in the more defensive end of software given its standard-status products.

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## STAGE 2: FUNDAMENTAL GATEKEEPING

### 2.1 Solvency Check

Metric	Adobe	Threshold	Pass/Fail
Debt/Equity	~0.5x	<1.0x	Pass
Interest Coverage	>25x	>5x	Pass (Fortress)
Current Ratio	~1.0x	>1.5x	Marginal
FCF Positive (5Y)	5 of 5	4 of 5	Pass
Debt Maturity Concentration	No cliff	No cliff	Pass

The current ratio sitting at ~1.0x is the only notable issue, but Adobe's deferred revenue balance inflates current liabilities while cash generation is so reliable that working capital risk is minimal. In a 30% revenue stress scenario, Adobe still generates \$4-5 billion in free cash flow.

### Solvency Assessment: FORTRESS

### 2.2 Earnings Quality

Operating cash flow consistently exceeds net income (155-160% conversion), receivables grow in line with revenue, no restatements, no unusual one-time gains inflating GAAP results. Stock-based compensation is real and material, which reduces the quality somewhat, but Adobe discloses it cleanly and offsets it with buybacks.

### Earnings Quality: HIGH

### 2.3 Dilution Check

Adobe issues equity aggressively for compensation (12 million additional shares authorized in 2026) but offsets through buybacks. Net share count has declined modestly over 5 years. The \$25 billion buyback authorization (roughly 10% of market cap) signals continued aggressive offset. Stock-based comp runs ~7-8% of revenue, which is high but typical for large-cap software.

**Dilution Assessment: ACCEPTABLE** (net dilution near zero, but gross SBC is elevated)

### 2.4 Dividend Sustainability

Adobe pays no dividend. This is a material gap for a wealth preservation mandate because it eliminates the income return component and forces full reliance on price appreciation and buyback-driven EPS growth.

**Dividend Sustainability: N/A — NO DIVIDEND**

### 2.5 Capital Efficiency

ROIC runs in the 25-30% range, well above WACC of ~9-10%. The trend has been stable to slightly declining as the company scales and acquisition goodwill weighs on the denominator. This remains an exceptional value-creating business.

**ROIC: ~27% | vs. WACC: ~10% | Trend: Stable | Verdict: Value Creating**

### 2.6 Valuation Screening

Metric	Current	5Y Avg	vs. History	Assessment
P/E (forward)	~23x	~32x	Discount	Attractive vs. own history

Metric	Current	5Y Avg	vs. History	Assessment
P/S	~12x	~14x	Discount	Below average
EV/EBITDA	~21x	~26x	Discount	Below average
P/FCF	~32x	~32x	In-line	Fair
FCF Yield	~3.1%	~3.1%	In-line	Fair

Adobe trades at a meaningful discount to its 5-year average multiples, reflecting AI competition concerns and regulatory overhang. On absolute terms it is not cheap, but on relative terms it is reasonable.

**Valuation: FAIR | Margin of Safety: ~12%**

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## STAGE 3: PEER COMPARISON & QUALITY RANKING

**Competitive Cohort: ADBE vs. Microsoft (MSFT), Salesforce (CRM), Intuit (INTU), Autodesk (ADSK)**

Dimension	ADBE	MSFT	CRM	INTU	ADSK	Best
Debt/Equity	0.5x	0.4x	0.3x	0.6x	0.9x	CRM
Interest Coverage	25x+	40x+	20x	15x	10x	MSFT
Dividend Yield	0.0%	0.7%	0.6%	0.5%	0.0%	MSFT
FCF Margin	38%	32%	30%	35%	30%	ADBE
ROIC	27%	28%	14%	22%	18%	MSFT/ADBE
5Y Net Dilution	~Flat	~Flat	+5%	+3%	+2%	ADBE
P/E vs. History	Discount	Premium	In-line	Premium	In-line	ADBE

**Wealth Preservation Quality Score: 65/100**

**Balance Sheet Fortress (40): 30/40**

- D/E 0.5x: 10 points
- Interest coverage >8x: 15 points
- FCF positive 5/5 years: 10 points
- Penalty for current ratio at 1.0x: -5 points

**Income Reliability (30): 0/30**

- No dividend: 0 points

**Capital Efficiency (15): 15/15**

- ROIC >15%: 10 points
- ROIC trend stable: 3 points
- Plus 2 for ROIC well above 25%

**Valuation (15):** 12/15

- Trading near 25th percentile of 5Y range on P/E: 12 points

**Adjusted Score: 65/100** (no dividend creates a structural ceiling)

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## STAGE 4: QUALITATIVE DEEP DIVE

### 4.1 Competitive Moat

**Primary Moat:** Combination of switching costs (workflow lock-in, file format standards, learned skill investment) and brand power (Photoshop and Acrobat as verbs). Secondary: ecosystem and integration across Creative Cloud and Document Cloud.

**Threat Assessment:** ELEVATED

- Canva ARR at \$3.1 billion growing 40%+ targets the prosumer and SMB segment
- Figma owns collaborative design; Adobe failed to acquire it
- Generative AI (Midjourney, Runway, OpenAI) commoditizes parts of the creative workflow
- Younger creators increasingly start with browser-native tools rather than Adobe

**Moat Preservation Confidence: MEDIUM**

The moat is strong in enterprise and professional segments where switching costs are highest, but eroding at the edges where price-sensitive users have viable alternatives.

### 4.2 Management & Capital Allocation

CEO Shantanu Narayen has led since 2007 and executed the perpetual-to-subscription transition with skill. Capital allocation has been disciplined — bolt-on M&A, aggressive buybacks, and R&D investment at 17-18% of revenue. The Figma deal was a strategic misstep that cost over \$1 billion in breakup fees and left a competitive gap unfilled. The pattern of subscription fee disputes and FTC action reflects pricing aggression that erodes goodwill with end users.

**Management Quality: GOOD**

**Capital Allocation Track Record: STRONG**

### 4.3 Recession Performance

In 2020, Adobe's revenue grew through the pandemic given digital tailwinds. In 2008-09 (pre-subscription), revenue declined ~18% peak-to-trough. The current subscription model should prove more resilient than the legacy license model — base case revenue decline in a severe recession is 5-10%, not 20%+. The stock itself drew down 50% from peak in 2022 on rate and growth concerns, recovering over 18 months.

**Recession Profile: SENSITIVE**

Revenue is resilient; stock price is not, given multiple sensitivity.

### 4.4 Catalysts

Catalyst	Timeline	Probability	Impact	Risk
AI monetization (Firefly)	12-24 months	High	+Moderate	Could disappoint on credit consummation
\$25B buyback execution	24-36 months	High	+Moderate	EPS accretion of 8-10% over 2 years
FTC settlement	12-18 months	High	Modest negative	\$100-500M fine plus UI changes
Margin expansion from cost discipline	12-24 months	Medium	+Modest	AI infra costs offset gains
Large M&A	24+ months	Low	Mixed	Antitrust likely blocks anything material

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## STAGE 5: VALUATION & SCENARIO ANALYSIS

### Total Return Model (10-Year)

**Dividend Return:** 0% (no dividend)

**Earnings Growth:** ~8% CAGR (revenue at 8-9%, modest margin expansion offset by SBC)

**Multiple Change:** Roughly neutral (current 23x P/E to fair ~24x)

**Buyback EPS Lift:** ~2% annually from share count reduction

### Scenario Analysis

**BEAR CASE (25%)** — AI competition compresses growth and pricing

- Revenue CAGR: 3%
- Operating margin compresses to 38% (from 47%)
- Terminal multiple: 16x (recession trough)
- 10-Year Price Target: \$220
- Total Return CAGR: **-1.5%**

**BASE CASE (50%)** — Steady compounding, AI is net neutral to slightly positive

- Revenue CAGR: 8%
- Operating margin holds at 46-47%
- Terminal multiple: 22x
- 10-Year Price Target: \$520
- Total Return CAGR: **7.5%**

**BULL CASE (25%)** — AI monetization drives ARPU expansion

- Revenue CAGR: 12%
- Operating margin expands to 50%
- Terminal multiple: 26x
- 10-Year Price Target: \$860
- Total Return CAGR: **13.0%**

**Probability-Weighted Expected Return: 6.6% CAGR**

This falls below the 7% inflation+4% hurdle by a hair.

### Downside Protection

- Historical max drawdown (2022): -52%
- Bear case price decline from current: -13%
- No dividend cushion to soften the blow
- Probability of >50% permanent loss (not recovered in 5 years): ~6%

The probability of permanent capital loss is low because the business will survive any plausible scenario. The probability of significant temporary impairment is meaningful.

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## STAGE 6: WEALTH PRESERVATION SCORING

### Downside Protection Score: 55/100

- Start: 50
- Bear case total return negative: -15
- D/E <0.5x: +10
- Maintained operations through 2008/2020: +10 (no dividend to maintain, partial credit)
- Max drawdown of -52% in recent history: -10
- No yield cushion: -5
- Probability of permanent loss <10%: +15

### Return Adequacy Score: 55/100

Base case CAGR of 7.5% lands in the 7-8% marginal band.

### Quality Score: 65/100 (from Stage 3)

$$\text{Composite WP Score} = (55 \times 0.45) + (55 \times 0.30) + (65 \times 0.25) = 24.75 + 16.5 + 16.25 = 57.5 \approx 58$$

### Absolute Requirements Check

Requirement	Status
Bear case total return $\geq 0\%$	FAIL (-1.5%)
Base case total return $\geq 7\%$	Pass (7.5%)
Solvency FORTRESS or ADEQUATE	Pass (FORTRESS)
Dividend sustainability	N/A
Probability of >50% loss <10%	Pass (~6%)

The bear case turns slightly negative, which fails the strict downside protection test. Combined with the absence of dividend income, this disqualifies Adobe from BUY at current levels.

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## STAGE 7: FINAL RECOMMENDATION

### RECOMMENDATION: HOLD / WATCHLIST

**Current Price:** \$253.77

**Target Entry Price:** \$215.00 (15% below current)

**Why Hold:** Adobe is a high-quality compounder trading at a fair price, not a cheap price. The base case return barely clears the hurdle, the bear case turns negative, and the absence of dividend income removes the cushion that wealth preservation mandates require. The business is excellent; the entry point is not yet compelling.

#### Trigger for Upgrade to BUY:

- Price reaches \$215 (forward P/E compresses to ~19x), which widens margin of safety to 25%+ and turns the bear case positive
- OR Adobe initiates a dividend at 1.5%+ yield (would change the WP Score by 15+ points)
- OR ARR re-accelerates above 12% with margin expansion confirmed

#### Trigger for Downgrade to AVOID:

- ARR growth decelerates below 8%
- Operating margin compresses below 40%
- FTC settlement exceeds \$1 billion or mandates structural subscription changes
- Large acquisition above \$5 billion announced

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## ANALYST NOTES

### Key Assumptions:

- Revenue grows 8% CAGR in base case
- Operating margin holds near 47% in base case
- No dividend initiation over 10-year horizon
- AI monetization is net neutral to modestly positive

### Limitations:

- AI disruption is genuinely hard to model; the bear case may be too generous or too harsh
- FTC outcome is binary and not fully reflected
- Generative AI cost structure (GPU infrastructure) on margins is uncertain
- Some 2025 figures sourced from Perplexity narrative rather than direct filing extraction

**Confidence Level: MEDIUM** — The framework outputs are defensible but the AI disruption variable carries genuine uncertainty that could push the base case in either direction.

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*Report prepared for Moschovakis Capital. This analysis is for informational purposes only.*

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## IMPORTANT DISCLOSURES

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