Moschovakis Capital

Adobe Inc.

ADBE

EQUITY RESEARCH REPORT

November 18, 2026

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ADBE — ADOBE INC.

Report Date: 2026-11-18

Analyst: Moschovakis Capital Research

EXECUTIVE SUMMARY

Metric	Value
Recommendation	BUY
Current Price	$235.55 USD (€214.54 EUR)
Fair Value (Base Case)	$317.85
Margin of Safety	34.9%
Target Entry (if HOLD)	N/A

Return Profile	Value
Dividend Yield	0.0%
Expected Dividend Growth	N/A (no dividend)
Expected Price Appreciation (10Y)	10.3% CAGR
Total Expected Return (Base)	10.3% CAGR
Bear Case Total Return	1.1% CAGR
Bull Case Total Return	15.7% CAGR
Probability-Weighted Return	9.4% CAGR

Risk Assessment	Value
Wealth Preservation Score	72 / 100
Downside Protection Score	68 / 100
Quality Score	65 / 100
Risk Level	MODERATE
Probability of >50% Loss	<5%
Recession Profile	RESILIENT (estimated)

One-Line Thesis:

Adobe is a dominant creative, document, and enterprise content franchise trading at roughly 10 times forward non-GAAP earnings and an 11% free cash flow yield because the market prices in AI disruption, while its recurring subscription revenue, modest leverage, and repurchases preserve capital even in a bear case and the base case clears the 7% hurdle.

INVESTMENT THESIS

Adobe sells subscriptions to software that creative professionals, document users, and enterprises embed into daily workflows. The company generated $23.8 billion of revenue in fiscal 2025, growing about 10.7%, and subscription revenue represented roughly 96% of the total. Photoshop, Illustrator, Premiere Pro, Acrobat, and PDF workflows are industry standards. The moat is switching costs and product standardization, not an unbreakable monopoly. The data flags competitive pressure from Canva, Figma, and low-cost generative tools, but Adobe still holds pricing power and enterprise distribution. The balance sheet is modestly leveraged, with debt-to-equity of 0.53x and interest coverage of 128x. Free cash flow reached $9.9 billion in fiscal 2025, a 41.4% FCF margin. Adobe pays no dividend and instead returns cash through buybacks, including 26.1 million shares repurchased for $6.82 billion in the first nine months of fiscal 2026. The recurring cash flow is the core preservation asset.

The current price of $235.55 values Adobe at roughly 9.6 times forward non-GAAP earnings of $24.45 and less than 9 times trailing free cash flow. That is a steep discount to the five-year average multiple on every standard metric except price-to-book. The discount exists because investors worry that generative AI will compress pricing, that the CEO transition on December 1 creates execution risk, and that the DOJ litigation over subscription cancellation practices could impose penalties. Those risks are real but already reflected in the multiple. The central question is whether an owner at $235.55 loses permanent capital. The bear case below assumes only 3% EPS growth and a permanently depressed 8x terminal multiple. Even under those assumptions, the 10-year total return is positive at about 1.1% annually. Permanent capital loss would require a steeper multiple, a prolonged earnings decline, or management destroying the cash engine. The evidence does not support that probability exceeding 5%.

The base case assumes 7% EPS growth, well below the 13.97% sell-side EPS growth forecast and below the 9.53% revenue growth forecast, and a 13x terminal multiple, which is still below the sector median. That produces a 10.3% annual total return, entirely from price appreciation because there is no dividend. This clears the inflation-plus-HYSA hurdle with a margin of safety. The entry price does not require Adobe to win the AI race. It requires Adobe to hold its franchise and grow earnings at a low single-digit rate. For a wealth preservation mandate, that asymmetry is compelling.

1. BUSINESS QUALITY ASSESSMENT

Adobe operates three clouds: Creative Cloud, Document Cloud, and Experience Cloud. The customer mix in Q2 fiscal 2026 split into Creative & Marketing Professionals at 68.56% of revenue and Business Professionals & Consumers at 28.00%, with the remainder in other subscription, product, and services revenue. The company reports more than 30 million Creative Cloud subscribers and cited more than 1 billion monthly active users in Q3 fiscal 2026. The subscription base creates recurring revenue, with total ARR of $27.50 billion in Q3, up 11.2% year over year. The revenue model is not tied to a single product cycle. Customers pay annually or monthly and renew because their files, collaborators, and integrations live inside Adobe.

The moat centers on switching costs. A designer or marketing team that builds a workflow around Photoshop, Illustrator, and Premiere Pro cannot easily replace those tools without retraining staff and breaking file compatibility. Acrobat and PDF benefit from a standard Adobe helped make open in 2008, which paradoxically strengthened its position as the default for advanced document work. The enterprise bundling adds another layer: Experience Cloud customers connect content, analytics, and customer data. The data classifies the market structure as competitive with moderate pricing, so this is a narrow moat rather than a wide one. The source material also notes that access to non-exclusive partner AI models limits Adobe's advantage. That is an honest caveat: Adobe's AI products rely partly on models it does not control, so the differentiation must come from workflow integration and training rather than proprietary model dominance.

Quality shows in the margin structure. Gross margin is about 89%. GAAP operating margin for fiscal 2025 is 36.6%, with non-GAAP operating margin near 45%. R&D consumes about 20% of revenue, roughly $7 billion in fiscal 2024, funding AI and cloud reinvestment. The company is not harvesting the franchise to inflate near-term earnings. It is reinvesting heavily, which is appropriate given the competitive threat. The AI-first business is growing fast: the data cites AI-first ARR growth of more than 150% year over year, with over $500 million in Q2 fiscal 2026 and a target of $1 billion by end of fiscal 2026. That is small relative to total ARR but materially growing.

The main quality risk is generative AI. Free or low-cost tools chip away at the low end of the stock-content market. Canva relaunched Affinity free, and Figma's Q2 2026 revenue grew 48% year over year on AI-credit monetization. Adobe counters with Firefly, GenStudio, and Firefly Foundry. The Google partnership embeds Acrobat into Workspace and brings Adobe tools into Gemini and AI Mode in Search. That distribution bridge matters because it places Adobe products where users already work. The company also completed the $1.87 billion Semrush acquisition, extending into SEO and brand-visibility analytics, and has a pending Topaz Labs acquisition to strengthen AI imaging and video. These moves do not guarantee victory, but they show management is not standing still. For preservation purposes, the core cash flows remain intact even if the AI upside disappoints.

2. FINANCIAL FORTRESS ANALYSIS

The solvency picture is strong for a software company. Adobe reports debt-to-equity of 0.53x and interest coverage of 128x. The latter means operating income covers interest expenses more than a hundred times over. That is a fortress-level cushion. The current ratio is 1.07x, below the 1.5x threshold the framework prefers, but that is normal for a subscription software business with deferred revenue and negative working capital. The current ratio alone is not a solvency warning when interest coverage is 128x and free cash flow is positive.

Free cash flow is the core proof. Fiscal 2024 generated $7.82 billion of free cash flow on $21.50 billion of revenue, a 36.4% FCF margin. Fiscal 2025 generated $9.9 billion on $23.8 billion of revenue, a 41.4% margin. Fiscal 2024 operating cash flow of $8.06 billion equaled 144.9% of net income, which indicates earnings quality rather than aggressive accrual accounting. Q3 fiscal 2026 operating cash flow was a record $2.52 billion. The company holds $4.359 billion of cash and $1.280 billion of short-term investments. The fiscal 2024 net cash position was roughly negative $1.83 billion, meaning debt exceeded cash. That modest net debt is manageable given the cash flow. The data does not provide a full debt maturity schedule, so I cannot verify the absence of a cliff. The interest-rate swaps hedging $2.70 billion of fixed-rate debt reduce refinancing risk.

A stress test of a 30% revenue decline for two years shows the company would remain solvent. If revenue fell from $23.8 billion to $16.7 billion, gross margin would likely remain above 85% given the software cost structure, producing roughly $14 billion of gross profit. Even with materially lower operating margin, interest expense remains trivial relative to EBIT under the 128x coverage. The dividend is zero, so there is no dividend cut risk. The company could continue buybacks or suspend them without threatening operations. The revenue decline would compress earnings, but it would not trigger a liquidity event.

The solvency assessment is FORTRESS with one caveat: the working capital ratio is low for a traditional balance sheet lens, and the net cash position is slightly negative. The caveat does not change the conclusion. Interest coverage, free cash flow, and recurring revenue dominate the picture. Adobe can survive a severe recession without needing an equity raise, without cutting a nonexistent dividend, and without breaching debt covenants. For wealth preservation, that is the non-negotiable gate, and Adobe passes it.

3. DIVIDEND ANALYSIS

Adobe pays no dividend.

4. VALUATION ANALYSIS

Adobe is cheap relative to its own history and cheap relative to the sector on earnings and cash flow. Seeking Alpha data shows a trailing non-GAAP P/E of 10.40 versus a five-year average of 25.67, a discount of 59.5%. EV/EBITDA is 9.77 versus a five-year average of 24.32, a discount of 59.8%. Price-to-cash-flow is 8.86 versus a five-year average of 23.53, a discount of 62.4%. The sector median non-GAAP P/E is 21.00, so Adobe trades at less than half the sector multiple. StockAnalysis reports a P/FCF of 8.66 and an FCF yield of 11.55%. ChartMill reports EV/EBITDA of 9.12 and says Adobe is cheaper than 93.5% of industry companies on price-to-free-cash-flow. Morningstar shows normalized P/E of 11.10 for Adobe versus 29.04 for Microsoft and 15.51 for Oracle.

The exception is price-to-book: 8.18 versus a sector median of 3.18. That premium is justified by extraordinary returns on capital. Morningstar shows ROE of 76.66%, ROA of 30.13%, and ROIC of 48.47%. A company earning almost half its invested capital back annually should trade at a premium book multiple. The market is not overpaying for book value; it is paying for a high-ROIC franchise at a historically compressed earnings multiple.

The current price of $235.55 divided by the fiscal 2026 non-GAAP EPS guidance midpoint of $24.45 gives a forward P/E of 9.6. The PEG ratio appears as 0.63 from StockAnalysis and 1.10 from another source, both indicating that the multiple is low relative to forecast growth. Even if the growth forecast is too optimistic and gets cut in half, the earnings yield is 10.4% and the FCF yield is above 11%. An owner receives more than 11% of the purchase price in free cash flow each year before any growth. That compares with the 4% HYSA baseline and the 7% wealth preservation hurdle.

I set base-case fair value at 13x fiscal 2026 non-GAAP EPS of $24.45, or $317.85. That is conservative. The five-year average multiple is 25.7x, and the sector median is 21x, but I use 13x because the forward stream faces AI uncertainty and CEO transition risk. At $235.55, the margin of safety is 34.9%. The analyst consensus target range runs from $260.61 to $319.07, with a median near $252.50 and a high of $379. My fair value sits inside that range. The valuation does not require Adobe to regain its historical multiple. It requires only a modest multiple recovery combined with earnings growth.

5. SCENARIO ANALYSIS

The scenario horizon is 10 years. Starting EPS is the fiscal 2026 non-GAAP guidance midpoint of $24.45. Adobe pays no dividend, so the total return is price appreciation plus any share-count reduction embedded in EPS growth. The buyback program reduces the share count over time, which I include implicitly in EPS growth rather than separately. The base, bear, and bull cases all assume the company remains solvent and continues generating free cash flow.

In the bear case, AI competition and the CEO transition worsen. Revenue grows 3% annually, and EPS grows 3% annually. The terminal multiple falls to 8x, reflecting permanent derating. After 10 years, EPS is $32.86, and the terminal price is $262.88. The 10-year total return from $235.55 is 1.1% annually. That is poor relative to the hurdle but positive in nominal terms. The owner does not suffer a permanent loss of capital. The bear case requires no AI win, no pricing power recovery, and no multiple recovery. It still preserves nominal capital because the entry multiple is so low. If inflation exceeds 1.1%, the real return is negative, so this is not a comfortable scenario, but it does meet the absolute requirement of no nominal loss.

In the base case, Adobe holds its market position. EPS grows 7% annually, a conservative figure relative to the 13.97% consensus forecast and the 9.53% revenue growth forecast. The terminal multiple is 13x, still below the sector median and roughly half the historical average. After 10 years, EPS is $48.08, and the terminal price is $625.04. The annual total return is 10.3%. That clears the inflation-plus-HYSA hurdle with margin. The base case

assumes the AI threat is contained, not that Adobe becomes an AI leader.

In the bull case, AI monetization works and the credit system protects margins. EPS grows 10% annually, and the multiple recovers to 16x, still below the historical average. After 10 years, EPS is $63.42, and the terminal price is $1,014.72. The annual total return is 15.7%. The bull case requires successful execution by the new CEO and evidence that Firefly credit consumption converts to ARR.

The probability-weighted return is 9.4% annually, using 25% bear, 50% base, and 25% bull. The downside in the bear case is a 1.1% nominal annual return, not a catastrophic drawdown. That asymmetry supports a BUY. The main limitation is that no dividend provides a cash cushion during a drawdown, so a holder must tolerate price volatility even though the 10-year arithmetic is favorable.

Scenario	10Y Price Target	Total CAGR	Weight	Contribution
Bear	$262.88	1.1%	25%	0.3%
Base	$625.04	10.3%	50%	5.2%
Bull	$1,014.72	15.7%	25%	3.9%
Probability-weighted		9.4%		9.4%

6. RISK ASSESSMENT

The largest single risk is generative AI compressing Adobe's pricing power. The data repeatedly identifies this as the bear trigger. Canva's free Affinity relaunch and Figma's 48% year-over-year Q2 2026 growth show that low-cost and collaborative competitors are taking share at the edges. If AI tools let users generate stock content at near-zero cost, Adobe's low-end Creative Cloud subscriptions could see slower conversion and higher churn. The risk is not immediate insolvency; it is a slow erosion of ARR growth. The bear threshold specified in the data is subscription growth falling below 8%. Q3 fiscal 2026 Creative & Marketing Professionals subscription revenue grew 13%, so the current print is above that threshold. I will monitor it every quarter.

The second material risk is the CEO transition. Anil Chakravarthy becomes CEO on December 1, 2026. The outgoing CEO, Shantanu Narayen, has been in place for a long tenure. A new CEO may reset guidance, reallocate capital, or admit that some growth assumptions were too high. The data flags soft fiscal 2027 targets from the new CEO as a downside trigger. If Chakravarthy guides below the 12% to 8% revenue trajectory, the stock could derate further. The current low multiple already prices some of this uncertainty, but the transition creates near-term volatility.

The DOJ litigation over ROSCA subscription cancellation practices is unresolved. The data classifies the potential loss as indeterminate and cites a $62 million loss contingency related to a legal settlement. The FTC separately pursued subscription cancellation practices under ROSCA and the FTC Act. An adverse outcome could require changes to cancellation flows and produce monetary penalties. The securities class action was previously dismissed. These legal matters are serious but not large enough relative to Adobe's $9.9 billion annual free cash flow to threaten solvency. They do, however, create headline risk and potential customer trust damage.

Macro sensitivity is moderate. About 42% of revenue comes from outside the Americas, exposing Adobe to currency fluctuations, trade policy, and geopolitical instability. Enterprise spending cycles affect Experience Cloud, which grew only 8.6% year over year in Q2 fiscal 2026. Advertising and marketing budgets are sensitive to recessions. A recession would slow new subscription growth and delay enterprise deals, but the existing base would remain highly profitable. The company has no history of needing recession support in the provided data,

but the recurring revenue model and low leverage indicate resilience rather than vulnerability.

The P/B premium is a residual risk. Price-to-book of 8.18 exceeds the sector median of 3.18. If Adobe's high ROIC compresses because AI permanently lowers margins, the book value premium would not protect the downside. The bear case handles this by assuming a terminal multiple below the sector median. The probability of a greater-than-50% permanent loss is below 5% because earnings and free cash flow would need to decline sharply and stay down for years. The current FCF yield of over 11% means Adobe can buy back stock, reduce shares, and still return cash to holders even in a slower-growth world.

7. MANAGEMENT & GOVERNANCE

The data does not provide a formal management quality rating, compensation detail, or insider ownership percentage, so this section is built from observed capital allocation and governance actions. Adobe's capital allocation record is characterized as good and well managed. The company reinvests about 20% of revenue in R&D while returning surplus cash through repurchases. The most notable sign of discipline is the abandoned Figma deal. Adobe walked away from the $20 billion acquisition after regulatory opposition and paid a small fee rather than overpay or fight a losing antitrust battle. That decision preserved shareholder capital and avoided a dilutive, integration-heavy transaction.

Adobe authorized a new $25 billion buyback program through April 30, 2030. In the first nine months of fiscal 2026, the company repurchased 26.1 million shares for $6.82 billion. Fiscal 2024 repurchases were $9.5 billion. The buyback program is designed to offset stock-based compensation and reduce share count, which supports EPS growth even if net income grows more slowly. The data shows $3.47 billion of unrecognized stock-based compensation, meaning dilution remains a reality, but the repurchase program counters it. I do not treat the buybacks as a dividend substitute for income reliability scoring, but they do support per-share value.

The governance structure shows all eleven director nominees were elected at the April 2026 shareholder meeting. The amended 2019 Plan was approved, KPMG was ratified as independent auditor, and advisory executive compensation was approved. Four stockholder proposals, including golden parachute votes and a board matrix, were not approved. That is a standard outcome and does not indicate a governance failure. No auditor warning or going-concern disclosure appears in the provided filings.

The main management concern is insider selling. Shantanu Narayen, through The Narayen Family Trust, sold 125,000 shares on September 16 and 17, 2026, at weighted prices around $246 to $252. That selling occurred slightly above the current price and shortly before the CEO transition. It could be routine diversification, but it arrives at a sensitive moment. I treat it as a mild negative, not a thesis breaker. The new CEO, Anil Chakravarthy, must prove execution on AI monetization and the Semrush and Topaz integrations. The Q3 fiscal 2026 print shows net income grew only 3% while revenue grew 13%, because operating expenses and cost of revenue rose faster than sales. That margin caution is a management execution test.

8. PEER COMPARISON

Morningstar data allows a direct comparison with Microsoft and Oracle. Adobe trades at a normalized P/E of 11.10 versus 29.04 for Microsoft and 15.51 for Oracle. On price-to-cash-flow, Adobe is 9.56 versus 20.13 for Microsoft and 12.07 for Oracle. On price-to-sales, Adobe is 3.81 versus 11.26 for Microsoft and 5.13 for Oracle. The earnings and cash flow valuation gap is large and favorable to Adobe. The price-to-book comparison is different: Adobe is 8.08 versus 8.27 for Microsoft and 6.13 for Oracle. Adobe is not cheap on book value, but that reflects its 48.47% ROIC and asset-light model.

The competitor set includes private companies that the public comp table cannot capture. Canva and Figma are the direct creative and collaborative threats. Canva's free Affinity relaunch pressures the low end, and Figma

grew Q2 2026 revenue 48% year over year on AI-credit monetization. These private competitors are taking share at the margin, but they do not yet replicate Adobe's full enterprise distribution or document workflow lock-in. Adobe's margin profile remains superior: 89% gross margin and 41.4% FCF margin with $9.9 billion of annual free cash flow.

Dimension	ADBE	MSFT	ORCL	Preservation Read
Normalized P/E	11.10	29.04	15.51	ADBE cheapest
Price/Cash Flow	9.56	20.13	12.07	ADBE cheapest
Price/Sales	3.81	11.26	5.13	ADBE middle
Price/Book	8.08	8.27	6.13	ADBE premium to ORCL
ROIC	48.47%	Not shown	Not shown	ADBE exceptional
Gross Margin	89.3%	Not shown	Not shown	ADBE high
FCF Margin	41.4%	Not shown	Not shown	ADBE high

Adobe wins the preservation comparison on valuation and cash flow yield. Microsoft is more diversified and has a wider moat across enterprise software, but it is nearly three times as expensive on normalized earnings. Oracle is cheaper than Microsoft but still more expensive than Adobe on earnings and cash flow. The choice for a preservation mandate is Adobe at roughly 11 times earnings and an 11% FCF yield, accepting the AI disruption risk, versus paying a premium for Microsoft's diversification. At the current price, Adobe's downside is better protected by the cash flow yield.

9. KEY METRICS SUMMARY

Metric	Value
Current Price	$235.55
FY2025 Revenue	$23.8 billion
FY2025 Revenue YoY	+10.7%
Q3 FY2026 Revenue	$6.76 billion, +13%
Q3 FY2026 Subscription Revenue	$6.58 billion, +14%
Total ARR (Q3 FY2026)	$27.50 billion, +11.2%
FY2025 Gross Margin	89.3%
FY2025 GAAP Operating Margin	36.6%
FY2025 Net Margin	30.0%
FY2025 Free Cash Flow	$9.9 billion
FY2025 FCF Margin	41.4%
FY2026 Non-GAAP EPS Guidance	$24.45 to $24.50
Forward P/E (on $24.45)	9.6x

Metric	Value
P/FCF	8.66 to 8.79x
FCF Yield	~11.5%
Debt/Equity	0.53x
Interest Coverage	128x
Current Ratio	1.07x
ROE	61.3%
ROIC	48.47%
Short Interest	4.55% of shares outstanding
Dividend	None

10. MONITORING CHECKLIST

Item	Threshold	Next Data Point	Action
Revenue	Q4 FY2026 consensus $6.85B	Dec 9, 2026	Below $6.80B guide triggers re-review
FY2027 guidance	Growth below 8% breaks thesis	Dec 9, 2026	Exit or reduce
Creative ARR growth	Above 13% bull, below 8% bear	Every quarter	Below 8% exit
AI-first ARR	$1B by end FY2026	Q4 FY2026 report	Miss re-rates growth case downward
Non-GAAP operating margin	45% or above	Every quarter	Below 45% triggers review
Total ARR growth	10.2% FY2026 target	Every quarter	Below 10% reduces conviction
Digital Experience revenue	Above 8% YoY	Every quarter	Continued deceleration is negative
Semrush ARR disclosure	Management returns to granularity	Q4 FY2026 call	Continued opacity is negative
FTC/DOJ ROSCA outcome	Material penalty or operational change	Ongoing calendar	Any material adverse ruling re-open
CEO transition	New strategic priorities	Dec 1, 2026	Soft FY27 targets trigger sell
Buyback pace	Offset SBC dilution	Quarterly	Inability to offset dilution is negative
Forward P/E	Re-rate above 18x without growth lifting	Ongoing	Trim position

11. MARKET EXPECTATIONS & CONSENSUS

The current stock price embeds a low-growth assumption. At a forward P/E of 9.6 and FCF yield above 11%, the market does not require Adobe to deliver AI upside. It requires only that the cash flow engine continues. VCP Scanner labels the implied EPS growth at 32.8% for the next year, but that figure appears to be a consensus-growth input rather than a requirement of the current multiple. The more important point is that the multiple can stay depressed and Adobe can still produce a base-case return above 7% because the earnings yield and free cash flow yield are high relative to the entry price.

The sell-side is split. VCP Scanner reports 64 analysts with 28 Buy/Strong Buy, 28 Hold, and 8 Sell/Strong Sell, a wide disagreement. The consensus target is $260.61, about 10.6% above the current price, with a low target of

$190 and a high of $379. StockAnalysis reports a $266.91 average target across 39 analysts. The mybobby.ai sample shows only 2 Buy, 4 Hold, and 2 Sell with a $319.07 average, but that sample is too small to be comparable. The split reflects genuine uncertainty: some analysts see a high-quality franchise priced for pessimism, and others see AI disruption compressing the earnings base. Several firms reset targets in October, with Goldman Sachs at $200 Sell, Morgan Stanley at $240 Underweight, Citi at $250, and JPMorgan at $315 Buy.

The consensus bull case requires Q4 fiscal 2026 revenue at or above $6.85 billion, FY2027 guidance consistent with 12% to 8% revenue growth, and more disclosure on Semrush ARR and AI monetization. The consensus bear case is AI pricing pressure, decelerating growth, and a soft new-CEO reset. Short interest is 4.55% of shares outstanding, which is elevated but not extreme. A positive Q4 print could force short covering, while a weak print would validate the short thesis.

The forward valuation table uses the available data. The forward P/E is 8.78 to 10.05 depending on source, with StockAnalysis at 8.78 and Seeking Alpha at 10.05. The PEG ratio is 0.63 to 1.10. EV/EBITDA forward is 7.61 to 9.36. Beta is not provided in the research packet, so I do not assign a fabricated figure.

Metric	Value	vs. Sector Avg	Assessment
Forward P/E	8.78 to 10.05	Sector 18.96 to 21.00	Deep discount
PEG	0.63 to 1.10	Not provided	Undemanding
EV/EBITDA	7.61 to 9.36	Sector 12.44 to 16.37	Deep discount
Beta	Not provided	Not provided	Not estimable from packet

12. KEY BUSINESS DRIVERS

Driver 1: AI-first ARR

Why it matters: This is the AI monetization scorecard. It measures whether Adobe's generative features convert users into paying revenue rather than just free engagement.

Current level: More than $500 million in Q2 fiscal 2026; target of $1 billion by end-of-fiscal-2026.

Bull threshold: Exceeds $1 billion by end of fiscal 2026 with credit consumption accelerating.

Bear threshold: Misses $1 billion or growth stalls below the 150% year-over-year pace.

Next data point: Q4 fiscal 2026 report on approximately December 9, 2026.

Driver 2: Creative Cloud subscription growth

Why it matters: Creative Cloud is the core franchise and the largest revenue pool. A slowdown here means the moat is leaking.

Current level: 13% year-over-year in Q2 fiscal 2026; 13% in Q3 for Creative & Marketing Professionals.

Bull threshold: Sustains 13% or higher and shows pricing power from Agentic AI features.

Bear threshold: Falls below 8% due to AI competition.

Next data point: Every quarterly earnings report.

Driver 3: Total ARR growth

Why it matters: Total ARR captures the durability of all subscription revenue across Creative, Document, and Experience.

Current level: $27.50 billion in Q3 fiscal 2026, up 11.2% year over year. Fiscal 2026 target is 10.2%.

Bull threshold: Holds above 10.2% for fiscal 2026 and re-accelerates.

Bear threshold: Organic ARR growth drops below 8% excluding acquisitions.

Next data point: Q4 fiscal 2026 report.

Driver 4: Non-GAAP operating margin

Why it matters: This measures whether Adobe can absorb rising AI token and inference costs without sacrificing profitability.

Current level: Q3 fiscal 2026 non-GAAP operating income of $2.97 billion on revenue of $6.76 billion implies about 43.9%, slightly below the 45% target.

Bull threshold: 45% or higher for fiscal 2026.

Bear threshold: Falls below 43% and stays there.

Next data point: Q4 fiscal 2026 report.

Driver 5: Digital Experience revenue growth

Why it matters: Experience Cloud ties Adobe to enterprise martech budgets and measures the health of the enterprise expansion thesis.

Current level: $1.33 billion in Q2 fiscal 2026, up 8.6% year over year.

Bull threshold: Accelerates above 10%.

Bear threshold: Drops below 6% or becomes negative.

Next data point: Every quarterly earnings report.

13. PROXY TRACKERS & LEADING INDICATORS

Proxy	Ticker/Symbol	Relationship	Signal
iShares Expanded Tech-Software ETF	IGV	Leads software sector valuations and is often the first to	Bullish if IGV holds above its 200-day mo
Microsoft	MSFT	AI distribution partner and adjacent enterprise software bar	Bullish if MSFT Copilot monetization
Alphabet	GOOGL	Google partnership partner and AI competitor	Bullish if Google Workspace integration d
US 10-Year Treasury Yield	^TNX	Rates pressure long-duration software multiples	Bullish if yields fall; bearish if yields spike

Monitoring rule: If IGV breaks below its 200-day moving average, re-evaluate the Adobe thesis within five days even if no company-specific news has emerged.

EXIT TRIGGERS

- Q4 fiscal 2026 revenue below $6.80 billion or FY2027 guidance below 8% revenue growth: Re-evaluate and likely reduce.
- Creative ARR growth falling below 8% due to AI churn: Exit.
- AI-first ARR missing the $1 billion fiscal 2026 target: Reduce position size and require evidence of re-acceleration before adding.
- Non-GAAP operating margin falling below 43% for consecutive quarters: Re-evaluate cost trajectory and exit if margin pressure persists.

- Adverse FTC or DOJ ROSCA judgment imposing material monetary penalties or forcing cancellation-flow changes that meaningfully reduce subscription conversion: Exit.
- New CEO issues soft fiscal 2027 guidance or announces a strategy that de-emphasizes the core Creative franchise: Exit.
- Forward P/E re-rating above 18x without a corresponding growth acceleration: Trim, because the margin of safety has been consumed.

FINAL RECOMMENDATION

RECOMMENDATION: BUY

Adobe at $235.55 passes the wealth preservation gates. The bear case delivers a positive nominal 10-year return. The base case delivers 10.3% annually, exceeding the inflation-plus-HYSA hurdle. The solvency profile is a fortress on cash flow and interest coverage. The main missing element is a dividend, which lowers the income reliability sub-score under the stated framework, but the large buyback program provides a capital return mechanism. The probability of a greater-than-50% permanent loss is below 5%. Position sizing should be standard but not full: the CEO transition and AI disruption risk justify holding a normal position rather than an oversized one.

ANALYST NOTES

Key Assumptions:

- Fiscal 2026 non-GAAP EPS of $24.45 at the guidance midpoint.
- Ten-year holding period with no dividend.
- Buybacks offset stock-based compensation and are embedded in EPS growth.
- Terminal multiples of 8x, 13x, and 16x for bear, base, and bull cases.
- Current price of $235.55 only.

Limitations:

- Recession performance history is not provided, so the RESILIENT rating is an estimate from recurring revenue and cash flow.
- Full five-year FCF, revenue, and EPS history for fiscal 2021 through 2023 is not available.
- Debt maturity schedule is not provided.
- Management compensation and insider ownership percentages are not available.
- Valuation sources are inconsistent on forward P/E and PEG.
- Market cap and share count data conflict across sources.

Confidence Level: MEDIUM

Confidence is capped by the December 1 CEO transition, the unresolved DOJ ROSCA litigation, and the genuine competitive threat from AI-native tools. The valuation cushion and cash flow yield support the thesis, but Q4 fiscal 2026 earnings and the new CEO's first guidance remain the near-term validation points.

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

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