

Adobe Inc · NDX: ADBE

# Negative sentiments seem too stretched, AI brings further potential for growth

RATING

**BUY**

TARGET PRICE

**\$ 298**

▲ 25% upside

CMP

**\$ 238**

As of 27 May 2026

MARKET CAP

**\$ 96.25 Bn**

## COMPANY OVERVIEW

Adobe Inc. is a global technology company with three core segments. Digital Media serves creators including photographers, designers, and content creators with tools for creating and publishing content. Digital Experience provides platforms enabling brands to manage customer experiences across analytics and commerce. Publishing and Advertising offers e learning, document publishing, web conferencing, and advertising solutions. Adobe distributes through its website, app stores, distributors, retailers, and system integrators, serving both enterprises and consumers. The company recently partnered with HUMAIN to develop generative AI models and AI powered applications. Founded in 1982 and headquartered in San Jose, California, Adobe provides comprehensive solutions across digital creation, marketing, and customer experience management.

## KEY CATALYSTS

### 01 AI to push further growth

While AI was one of the major reasons for the fall of the stock, we believe AI will lead further growth for Adobe. It was believed that GenAI would generate content and the need for Adobe will disappear but the professionals who make the majority customer base don't just generate content, they require control over it. Most images AI generated by pros end up in Photoshop before getting published. To compete with the GenAI threat, Firefly is Adobe's own GenAI which is trained exclusively on licensed/Adobe stock content this will help reduce the worries of creators about IP liability. With AI the market priced in disruption, the actual result may be augmentation

### 02 Broad product portfolio with strong customer retention

Adobe has a vast span of services ranging from photography, graphic design, video editing, business solutions, etc. Subscribers get most of this with the creative cloud subscription which makes Adobe very hard to replace there being no like to like replacement and one would have to work across different apps which leads to high customer retention. The firm can easily up-sell or cross-sell now products which can compound ARR per customer over time

### 03 Negative sentiments look overdone

Sentiments had turned negative due to the rise of Figma, Canva and other AI developments, while the concerns were justified, the re-rating Adobe went through seems a bit too harsh. Adobe's main segment is for professionals and serious creative artists who tend to be sticky and don't change the platform easily. While Canva looks like has conquered the SMB market due to its ease of usage, it still doesn't come close to Adobe in case of professional use cases and segments like video editing. The rise of AI spread fear regarding use case of Adobe going forward but the firm has done a good enough job harnessing the potential of AI through services like firefly to generate content. At a forward P/E of 9x, the valuations look good for an industry leader and there is potential for a multiple re-rating as sentiments normalize through which we could see a healthy upside

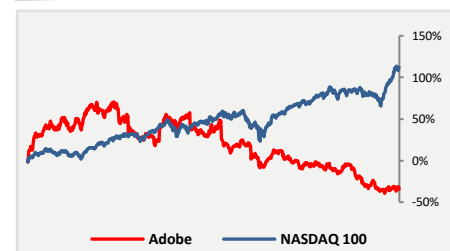
## INVESTMENT THESIS

*At the current valuations, Adobe provides a healthy margin of safety. The multiple re-rating due to AI fears seems overdone and with the growth Adobe has been showing across Firefly, Lightroom and other services. We believe that the current price levels provide a good entry opportunity in an industry leader and can expect a multiple re-rating*

## FINANCIALS SUMMARY

Revenue (FY25)	<b>\$ 23,769 Mn</b>
Revenue (FY26E)	<b>\$ 25,870 Mn</b>
Gross Profit Margin	<b>89.26%</b>
PAT (FY26E)	<b>\$ 7,252 Mn</b>
EPS (FY25)	<b>\$ 20.94</b>
P/E	<b>14.09x</b>
Forward P/E	<b>9.16x</b>
ROE	<b>58.77%</b>
Debt/Equity	<b>0.58x</b>

## STOCK PRICE MOVEMENT (3YRS)



## ANALYSTS

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## RISKS

**Entry Level Market Remains at Risk** as generative AI tools mature, the entry level use case for services like Basic Image Editing, Short Form Videos and other gets commoditized by cheaper and easier alternatives. Adobe’s MOAT has always been pro-grade depth, but the AI development can dry up the casual users which potentially become long term users this can also restrict the firm from increasing prices. Something to watch-out for will be how or if Adobe retains its pricing power over the years ahead

**Geopolitical Uncertainty** can further deteriorate. While the firm looks like is harnessing the potential AI presents, the current geopolitical environment can become further uncertain and companies might cut spending which will hamper Adobe’s performance

**Pricing Model Transition** can pose some risk as the usage of AI grows and there is a shift towards consumption-based pricing mainly for tools like FireFly. Though not a very major risk but customers might be accustomed to predictable subscription model

EXHIBIT: Revenue Split Based On User Group (in Billions USD)

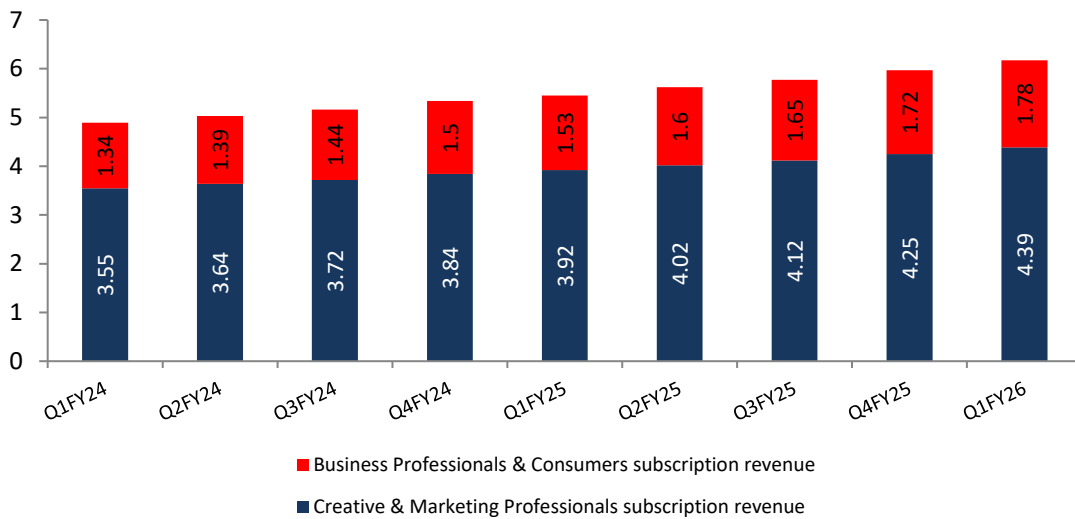
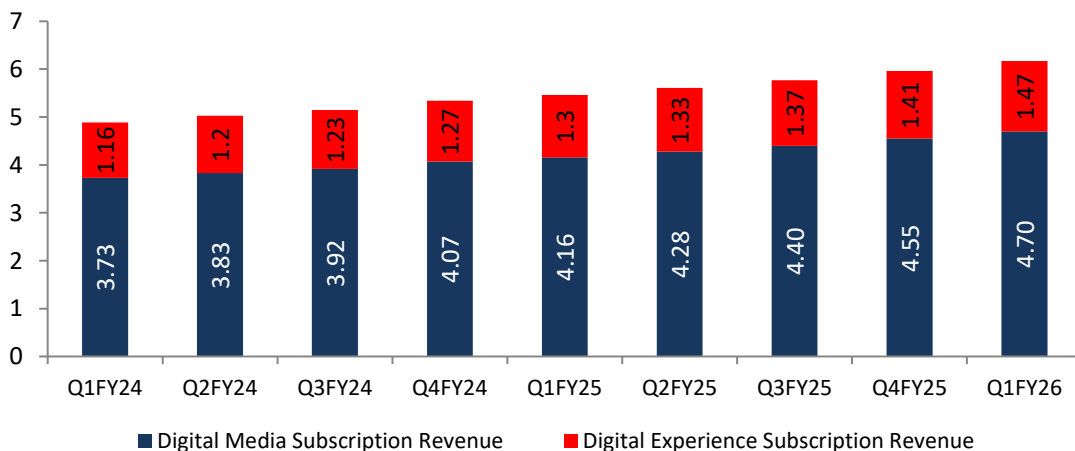


EXHIBIT: Revenue Split Based On Segment (in Billions USD)



**VALUATION**

	Historical			Projected				
	2023	2024	2025	2026	2027	2028	2029	2030
Revenue				25,870	27,848	29,744	31,524	33,079
COGS				2,917	3,140	3,354	3,554	3,730
<b>Gross Profit</b>				<b>22,953</b>	<b>24,708</b>	<b>26,390</b>	<b>27,969</b>	<b>29,349</b>
(-) Selling, General, and administrative				14,137	15,218	16,254	17,227	18,076
(+) Depreciation & Amortization								
<b>EBITDA</b>				<b>8,816</b>	<b>9,490</b>	<b>10,136</b>	<b>10,743</b>	<b>11,273</b>
(-) Depreciation & Amortization				817.22	817.22	817.22	817.22	817.22
<b>EBIT</b>				<b>9,633</b>	<b>10,307</b>	<b>10,954</b>	<b>11,560</b>	<b>12,090</b>
(-) Tax Expense				1,750	2,037	2,178	2,310	2,425
<b>NOPAT</b>				<b>7,884</b>	<b>8,270</b>	<b>8,776</b>	<b>9,250</b>	<b>9,665</b>
(+) Depreciation & Amortization				817.22	817.22	817.22	817.22	817.22
(-) Capex								
(-) Change in NWC				-512	-343	-329	-309	-270
<b>Unlevered Cash Flow</b>				<b>9,213</b>	<b>9,431</b>	<b>9,922</b>	<b>10,376</b>	<b>10,752</b>
Discount Factor				0.92	0.84	0.77	0.71	0.65
<b>Present Value of Unlevered Free Cash Flows</b>				<b>8,475.68</b>	<b>7,921.85</b>	<b>7,639.92</b>	<b>7,367.19</b>	<b>6,988.75</b>

Calculation of Enterprise Value	
Exit Multiple Method	
Terminal year EBITDA	11,272.91
Exit Multiple	10.5
Terminal Value	118,365.59
WACC	7.38%
<b>PV of terminal Value</b>	<b>82,892.20</b>
Sum of PV of FCF	38,393.39
<b>Enterprise value</b>	<b>121,285.59</b>

Calculation of Equity Value	
Exit Multiple Method	
Enterprise Value	121,285.59
Plus: Cash and equivalents	5,431
Less: Total Debt	6,210.00
Less: Preferred shares	-
Less: Noncontrolling interest	-
<b>Equity Value</b>	<b>120,506.59</b>
Fully Diluted Shares Outstanding	404
<b>Implied Share Price</b>	<b>298.28</b>
Implied Upside (%)	25



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