

EQUITY RESEARCH · INITIATION OF COVERAGE · SOFTWARE

Adobe Inc. (NASDAQ: ADBE)

Revenue grew 13 percent. Net income grew 2 percent. The argument is about which of those two numbers is the business.

RATING	PRICE (10/9/26)	FAIR VALUE	IMPLIED RETURN	CASH EARNINGS YIELD
HOLD	\$242.27	\$280	+15.6%	8.0%

READ THIS FIRST · A HOLD WITH UPSIDE IN IT. Our fair value of \$280 sits +16% above the price and we are still rating this **HOLD**. That is not a hedge. The same model, run on a different but equally defensible definition of earnings, produces answers from \$225 to \$333, and the price sits inside that range. A 16% gap against a spread that wide is not a margin of safety. The reasoning is set out in full on page 6.

DISCLAIMER · This is not investment advice and is not a recommendation to buy or sell any security. 2 Comma Investor (@2commainvestor) is not a registered investment adviser or broker-dealer. This report is opinion, published for educational purposes only. The author holds no position in ADBE and has no plans to initiate one. Fair-value estimates are opinions, not predictions. Investing in equities involves risk of loss, including total loss of principal. Full disclosures on the final page.

We are initiating on Adobe with a **HOLD** and a \$280 fair value, +15.6% against the \$242.27 close on Friday, October 9, 2026.

Adobe trades at 9.9 times the non-GAAP earnings it has guided for this fiscal year. For a company growing revenue 13% at a 44% non-GAAP operating margin, a multiple that low is not a valuation. It is an accusation: that the reported growth is borrowed from a future that will not arrive, and that generative AI is going to take the creative software franchise apart.

So the only question worth modeling is whether Adobe's own disclosure supports the accusation. It partly does, which is not what we expected to write.

The headline numbers are excellent and the numbers underneath them are not. Revenue grew 13%. Total ARR reached \$27.5bn and grew 11.2%. The contracted backlog grew 8%. GAAP net income, from fiscal 2025 to the company's own fiscal 2026 guidance, grew **1.8%**. And net new ARR fell about 36%.

Every one of those is a growth rate for the same company in the same quarter. They sort almost perfectly by how far each one sits from cash actually arriving. That ordering is the report.

SNAPSHOT	
Market cap	\$94.3B
Shares out	389.2M
Net debt	\$724M
P/E, guided non-GAAP	9.9x
P/E, guided GAAP	13.4x
Cash earnings yield	8.0%
Buyback yield	10.3%
Implied growth	+1.75%
Revenue growth	+13%
Total ARR	\$27.5B
ARR growth	+11.2%
RPO growth	+8%
Net new ARR	-36%
GAAP net income growth	+1.8%
Non-GAAP op margin	44.0%
Share count change	-6.8%
52-week range	\$190-\$364
From 52-wk high	-33%

SECTION ONE

Revenue grew 13 percent. Profit did not.

Every growth rate Adobe disclosed for the quarter ended August 28, 2026, sorted worst to best.

Measure	Year over year
Net new ARR (analyst figure, undisputed)	-36.5%
GAAP net income, FY25 to guided FY26	+1.8%
GAAP net income, Q3 against Q3	+3.1%
Non-GAAP operating income, Q3	+7.2%
Owner earnings, FY25 to trailing twelve months	+7.7%
Remaining performance obligations	+8.0%
GAAP earnings per share, FY25 to guided FY26	+8.7%
Guided fiscal 2026 ending ARR	+10.2%
Total ARR	+11.2%
Revenue	+13.0%

Read it from the bottom. Revenue is the fastest-growing number Adobe reports and also the most lagging, because subscription revenue recognized this quarter was contracted in earlier ones. Then ARR, then the backlog, then profit. The further you move toward money the company keeps, the slower it goes.

The two lines that matter most are the first and the last. GAAP net income grew 1.8% on revenue growth of 13%. GAAP earnings per share grew 8.7%. The entire difference is the share count, which fell 6.8% as Adobe retired 9.5 million shares for \$2,232m in the quarter alone.

Almost all of the per-share growth is the buyback. That is not a criticism of the buyback, which at these prices is a sensible use of cash. It is an observation that the operating business contributed close to nothing to earnings growth this year.

Why the profit did not follow

Because Adobe chose that. GAAP operating margin fell from 36.6% in fiscal 2025 to 34.8% in the third quarter. Management is spending on freemium acquisition and explicitly deferred Creative Cloud pricing actions. On the call the outgoing chief executive said he was “really happy that we didn't focus on the pricing actions”, arguing that user acquisition matters more than short-term pricing relief.

That is a defensible strategy and may be the right one. It is also, precisely, a decision to trade near-term profit for future optionality. Bulls and bears agree on the mechanism and disagree on whether the conversion ever happens.

The evidence Adobe offers is real but small. AI-first ending ARR passed \$650m and grew more than 150%. Firefly ARR grew 40% quarter on quarter. Monthly active users passed 900 million. But set \$650m against \$27.5bn of total ARR and it is 2.4% of the company. It is growing fast from approximately nothing, which is what things do.

SECTION TWO

What the price assumes

We take the price as given, because it is the one number nobody has to estimate, and solve for the growth it requires.

Discounting at 10% with a 2.0% terminal rate over 10 years, Adobe's \$242.27 price implies that cash earnings grow **+1.75% a year for a decade** and then 2.0% forever. Against 2.5% inflation that is -0.73% in real terms. The market is paying for a business whose profits shrink slightly, in purchasing power, every year from here.

Growth assumption	Rate	Value / share
net new ARR (analyst figure, undisputed)	-36.5%	\$27
what today's price requires	+1.8%	\$242
GAAP net income, FY25 to guided FY26	+1.8%	\$243
remaining performance obligations	+8.0%	\$380
owner earnings, FY25 to trailing twelve months	+7.7%	\$373
guided fiscal 2026 ARR growth	+10.2%	\$447
consensus fiscal 2027 revenue growth	+9.2%	\$415
total ARR, year over year	+11.2%	\$480
reported revenue, year over year	+13.0%	\$548

The contracted backlog is growing 8%. That is the most conservative forward number Adobe publishes, it is a contractual obligation rather than a forecast, and it alone would be worth \$380 a share on this model. The price is \$242.27.

At other discount rates

The hurdle is the one input with no observable anchor. A capital asset pricing calculation on Adobe's 1.42 beta would give 11.1%, which we think is too high for reasons set out in the methodology.

Cost of equity	2.0% terminal	2.5% terminal
9.0%	-0.05%	-0.58%
9.5%	+0.87%	+0.37%
10.0%	+1.75%	+1.29%
10.5%	+2.61%	+2.18%
11.0%	+3.44%	+3.04%

Across every hurdle we would defend, the price requires cash earnings growth between roughly minus one half of one percent and plus three and a half percent, nominal, forever. For a business with \$27.5bn of recurring revenue growing 11.2%, that is a strong claim. It is not an absurd one.

SECTION THREE

Which earnings are real

Everything above depends on a number we have not yet justified: what Adobe's cash earnings actually are. There are three candidates, the choice moves the answer by more than any other judgment in this report, and so we make it in the open.

Line	\$m
Guided fiscal 2026 GAAP net income	7,258
plus depreciation and amortization	484
less capital expenditure	(214)
equals cash earnings before working capital	7,528
plus working capital and deferred revenue	992
equals owner earnings (FCF less stock compensation)	8,520
plus stock-based compensation added back	2,071
equals reported free cash flow	10,591

Reported free cash flow of \$10,591m is the wrong number and we will not use it. It adds back \$2,071m of stock-based compensation, which is a real cost: the company either issues shares or spends cash preventing the issue, and Adobe is visibly doing the second, repurchasing \$9,695m over the trailing twelve months against that charge. That is 4.7 times cover. The cash is going out of the door.

GAAP net income of \$7,258m is too low. Adobe spends \$214m a year on property and equipment against a \$484m depreciation and amortization charge. A company whose depreciation runs at more than twice its capital spending is not consuming its asset base, and deducting the full charge understates what an owner gets.

Owner earnings of \$8,520m is too high, for a reason easy to miss. Roughly \$992m of operating cash flow, 12% of owner earnings, is cash collected ahead of revenue recognition. Deferred revenue stood at \$7,204m at the quarter end. That tailwind exists only while the subscription base expands. Pairing it with a growth path that fades toward 2% books the same optimism twice: it assumes the business both stops growing and keeps collecting the cash that growth produces.

So we use the middle: **\$7,528m**. The shares trade at 12.5 times that figure, a 8.0% cash earnings yield.

If you disagree, here is what your answer would be. On owner earnings the price implies +0.01% a year and this is a clear BUY. On GAAP net income it implies +2.26% and the stock is close to fairly valued. On reported free cash flow it implies -3.10% and the stock is conspicuously cheap. We picked the conservative middle, and readers should notice that the rating would change if we had picked differently.

SECTION FOUR

The bear case, taken seriously

The bear case is not that Adobe is a bad business. It is that generative image and video models collapse the value of the tool layer, that Photoshop and Illustrator become one option among many for work that increasingly starts from a prompt, and that a franchise built on thirty years of switching costs stops being defensible when the thing being switched away from is the act of manual creation itself.

Three pieces of Adobe's own disclosure support it.

Net new ARR fell about 36%. ARR is a stock and net new ARR is the flow that feeds it. A stock growing 11.2% on a flow down by more than a third is a stock whose growth rate is going to fall, arithmetically, whatever anybody believes about AI.

The backlog is growing more slowly than revenue. RPO grew 8% against revenue growth of 13%, and the current portion, due over the next twelve months, grew 9%. The backlog is still being added to, but more slowly than revenue is growing. Unless bookings accelerate, revenue growth has to converge down toward the growth of the backlog it is drawn from, which the current portion puts near 9%.

Pricing power is being deferred rather than demonstrated. A company confident in its moat raises prices. Adobe chose not to, and said so. The charitable reading is a land-grab ahead of monetization. The uncharitable one is that the pricing actions were withheld because the market would not have borne them. We cannot distinguish between those two from the outside, and neither can anyone else, which is the central problem with this stock.

Two risks that are not about AI

Adobe changes chief executive on December 1, 2026, when Anil Chakravarthy succeeds Shantanu Narayen after eighteen years and Narayen becomes executive chair. The chief financial officer's seat is also open: Dan Durn left earlier in the year and Steven Day is serving on an interim basis. A company facing a genuine question about the durability of its franchise is about to face it with two new people in the two seats that matter most.

SECTION FIVE

Why this is a HOLD and not a BUY

Our central case is that cash earnings grow 5% and fade to 2% over ten years, then grow at 2% in perpetuity. That path sits between what the GAAP line is doing now, about 2%, and what the contracted backlog is doing, 8%. It is below every growth rate Adobe currently discloses except the GAAP net income line itself. It is not a bullish path.

It produces \$278.41 a share, which we round to \$280. And we are still not calling it a BUY. Here is the grid that explains why.

Cost of equity	0.0% term	1.0%	2.0%	2.5%
9.0%	\$279	\$297	\$319	\$333
9.5%	\$264	\$278	\$297	\$309
10.0%	\$249	\$262	\$278	\$288
10.5%	\$237	\$248	\$262	\$270
11.0%	\$225	\$235	\$247	\$254

Every cell rests on assumptions we would defend in public. They run from \$225 to \$333. The price is \$242.27, inside the range, in the lower third of it.

A fair value 16% above the price, drawn from a distribution that wide, is not a margin of safety. It is the midpoint of an argument we cannot settle. We hold the view that Adobe is more likely undervalued than overvalued, and the honest expression of a view that weak is HOLD rather than a BUY we would have to caveat into meaninglessness.

There is one more reason, and it is the asymmetry running the other way. The bear case is not a multiple de-rating that mean-reverts. It is a permanent impairment of a franchise, and if it is right the terminal value in every cell of that grid is wrong rather than merely optimistic. Our bear path gives \$171 a share, -30%. Our bull path gives \$330. We do not have a confident basis for weighting those two, and anyone who tells you they do is describing a conviction rather than an analysis.

For context rather than guidance: the consensus of 39 analysts is an average target of \$275.06 and a median of \$265.50, ranging from \$195 to \$373, with 23 of 39 at Hold. Our \$280 is near that average. We arrived at it independently and mention the coincidence only because a reader is entitled to know when an answer is unremarkable.

SECTION SIX

Risks, and what would change our mind

Upgrade to BUY if net new ARR stabilizes. The cleanest single trigger in the report. The flow feeding the recurring base is down by more than a third. Two consecutive quarters of it flattening or turning up would remove the arithmetic case for a decelerating ARR line and would move us.

Upgrade if the deferred pricing actions resume and stick. Pricing power is the whole question. A price increase the installed base absorbs without elevated churn would answer it directly, in a way no amount of AI-first ARR growth from a small base can.

Downgrade to SELL if ARR growth breaks below the high single digits while margins keep compressing. That combination is what the early innings of a structural impairment would look like, and it would mean the price was right and we were slow.

Watch the GAAP operating margin, not the non-GAAP one. It has fallen from 36.6% to 34.8%. Guidance assumes a 45.0% non-GAAP margin, which excludes \$2,071m of stock compensation. The gap between the two is \$6.33 a share of guided earnings, and it is where the cost of defending this franchise shows up first.

The risk to our own reasoning

We use a 10% cost of equity against a reported beta of 1.42, which a capital asset pricing calculation would put at 11.1%. We think the beta is high because the share price has been falling on disruption fear, and using a hurdle derived from that fear to discount cash flows we have already haircut for the same fear would charge the stock twice for one risk. A reader who disagrees should read the 11% row of both grids, where the price looks roughly fair. We have also valued the business on a cash earnings definition of our own construction, and every such definition is a choice someone could have made differently.

APPENDIX

Methodology, sources and disclosures

Methodology

Every figure is computed by a model script rather than typed, and the script asserts that the reverse solve reconciles to the observed market capitalization, that the three earnings bases nest in the correct order, and that the trailing twelve month cash flow figures reconcile from the primary filings. Valuation is a reverse discounted cash flow. The central case uses a linear fade rather than a constant growth rate, because a company decelerating this visibly will not grow at one rate for a decade.

The earnings base

Trailing twelve month operating cash flow is computed from primary filings as fiscal 2025 (\$10,030m) less the nine months to August 29, 2025 (\$6,871m) plus the nine months to August 28, 2026 (\$7,646m), giving \$10,805m. Capital expenditure and stock-based compensation reconcile the same way and agree with an independent compilation to within rounding on all three lines. The valuation base of \$7,528m is guided fiscal 2026 GAAP net income plus depreciation and amortization less capital expenditure, excluding the \$992m working capital tailwind.

The reference price

The \$242.27 reference price is the close on Friday, October 9, 2026, verified before any modeling against five independent sources. stockanalysis, Yahoo Finance and MarketBeat each reported the identical close, date and change of \$1.22, or 0.51%; TradingView reported the same price with the market shown closed; Robinhood showed \$242.40 intraday in the same session. Four further sources were examined and rejected as stale rather than contradictory: Google Finance was serving a September 25 close, Morningstar a snapshot carrying a 404.2 million share count, Investing.com an October 7 page, and Macrotrends a 2024 price. We note the rejections because a reader checking our work against one of those four would find a different number.

The net new ARR figure

The decline of about 36% in net new annual recurring revenue is not a company disclosure. It was put to management by an analyst on the third-quarter earnings call of September 10, 2026, and management did not dispute it, attributing the slowdown to the freemium strategy and normal seasonality. We treat it as reliable enough to reason from and flag it as second-hand wherever it appears.

Primary sources

Third Quarter Fiscal 2026 Earnings Release, exhibit 99.1 to the Form 8-K filed September 10, 2026, for the quarter ended August 28, 2026. Revenue, segment subscription revenue, operating income, earnings per share, ARR, remaining performance obligations, repurchases and all guidance figures.

Fourth Quarter and Fiscal 2025 Earnings Release, for the fiscal 2025 comparatives, full-year operating cash flow and the prior-year ARR base.

Form 10-Q for the quarterly period ended August 28, 2026, condensed consolidated statements of cash flows, both nine-month columns, and the condensed balance sheet.

Third quarter fiscal 2026 earnings call transcript, September 10, 2026.

Adobe leadership update, March 12, 2026, and subsequent reporting confirming the chief executive succession effective December 1, 2026.

Correction, October 13, 2026

The version of this report published on October 10, 2026 said that revenue was being recognized faster than new contracted revenue was being added. In dollar terms that was wrong: remaining performance obligations grew, so new bookings exceeded the revenue recognized out of the backlog. The correct statement, now in section four, is that the backlog is growing more slowly than revenue, which pulls revenue growth down toward the backlog's rate over time. No figure, the fair value or the rating changed.

Scoring

This call is dated and public. It joins the scoreboard as an open position at \$242.27 and will be scored against the S&P 500 on October 10, 2027, on the same terms as every other call we have made, whether it works or not. We publish misses with the same prominence as hits.

Nature of this publication

2 Comma Investor is an independent publication. It is not a registered investment adviser, broker-dealer, or research firm, and nothing here is personalized investment advice. This report is opinion published for educational purposes. Fair-value estimates are opinions about a range of outcomes, not predictions, and they are frequently wrong. The author holds no position in ADBE and has no plans to initiate one within 72 hours of publication. Analyst consensus figures are cited for context only and no part of the valuation derives from them. Past performance does not indicate future results. Investing in equities involves risk of loss including total loss of principal. Readers should conduct their own due diligence and consult a qualified professional before making any financial decision.

2 Comma Investor · twocommainvestor.com · @2commainvestor · contact@twocommainvestor.com

Initiated 2026-10-10 at \$242.27. Rating HOLD. Fair value \$280. Scoring date October 10, 2027.