



Adobe (ADBE)

US | Nasdaq Global Select Market | Technology

2025-11-01

Rating:

Buy

12 M Target price: 435,00 USD
Current price: 342,53 USD
Difference: 27%

Creative Dominance Set Up For Revaluation

Our analysis leads to a compelling Buy rating for Adobe (ADBE) with a 12-month price target of \$435.00, representing a 27% upside. The core of our thesis rests on a significant and likely temporary valuation disconnect: the market has over-discounted the competitive threat from emerging Generative AI, while critically under-appreciating Adobe's robust financial position, deeply entrenched ecosystem, and highly successful AI-first strategy. This prevailing market skepticism has left Adobe's shares trading at a significant discount to historical averages. This depressed valuation acts as a crucial margin of safety, offering an asymmetric risk/reward profile.

At the heart of Adobe's resilience is its impregnable economic moat and highly lucrative, subscription-based business model, built on industry-standard products like Creative Cloud and Document Cloud creating a strong moat while at the same time providing stability and profitability, contributing to Adobe's status as a capital efficient powerhouse capable of generating massive recurring revenue streams.

Crucially, we view AI as an accelerator, not a disruptor. Contrary to market fears, Adobe is strategically leveraging Generative AI to strengthen its enterprise position. Its focus on "commercially safe" AI models, such as Firefly, trained exclusively on legally sourced content, provides a unique and powerful advantage for corporate and enterprise adoption by eliminating the intellectual property risks that plague competitors. This strategy is already yielding material financial results. As the market acknowledges Adobe's successful defense of its moat, superior capital efficiency, and leadership in enterprise-grade AI, we anticipate a re-valuation to take place. Our target price is supported by a DCF valuation and a conservative P/E multiple expansion thesis. Furthermore, management's aggressive share buyback program signals strong confidence that the stock remains materially undervalued.

Analyst

William Hällersfors Fund Analyst

Market Data

Exchange	Nasdaq Global Select Market
Trading Currency	USD
Share Class	Ordinary
Shares OS ('000)	418 600
Market Cap	141 428 MMUSD
EV	142 138 MMUSD

Metrics & Drivers	2024	2025E	2026E
EV/EBIT	31,5x	18,0x	16,2x
P/S	11,4x	6,5x	5,9x
EPS	12,43\$	16,5\$	18,1\$
Revenue Growth	10,8%	36,4%	36,8%
EBIT Margin	36,0%	42,5%	42,0%

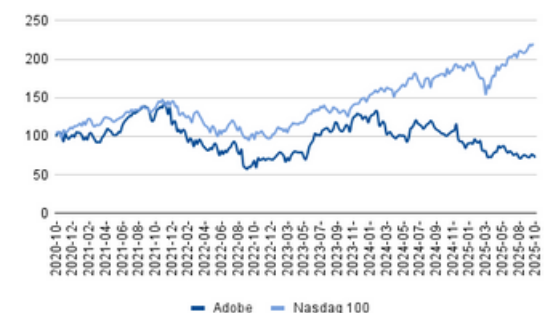
Major Shareholders (votes)

The Vanguard Group	9,76%
Blackrock Institutional Trust Company	6,04%
State Street Investment Management	4,84%
Geode Capital Management	2,65%
Invesco Capital Management	2,09%

Management

Shantanu Narayen, CEO
Dan Durn, CFO
Anil, Chakravarthy, President Digital Experience
David Wadhvani, President Digital Media

Stock Price Movement 5Y %





Key Insights

Strong market momentum meeting skepticism

market exuberance from AI innovation has remained the main driving force and story rapidly propelling the markets up to new all-time since the launch of ChatGPT in late November 2022. With the S&P 500 and Nasdaq 100 gaining over 73% and 122% respectively driven in large part by the “Magnificent Seven” and hyperscaler, semiconductor and megacap tech stocks. This can be compared to Adobe stock gaining just above 9% in the same time due to the perceived threat towards the competitiveness of its core product offerings against this new emerging technology. As a result of these significant market wide moves, broad skepticism has started to emerge surrounding the promises of AI innovations, which have, and keep on driving the markets forward today. Comparisons are now being made to the .com bubble of 2001 with analysts pointing towards an unprecedented and unsustainable level of spending on AI-infrastructure, slow rate of enterprise adoption and uncertainties regarding the ability to monetize new AI innovations.

Response to threat of competition

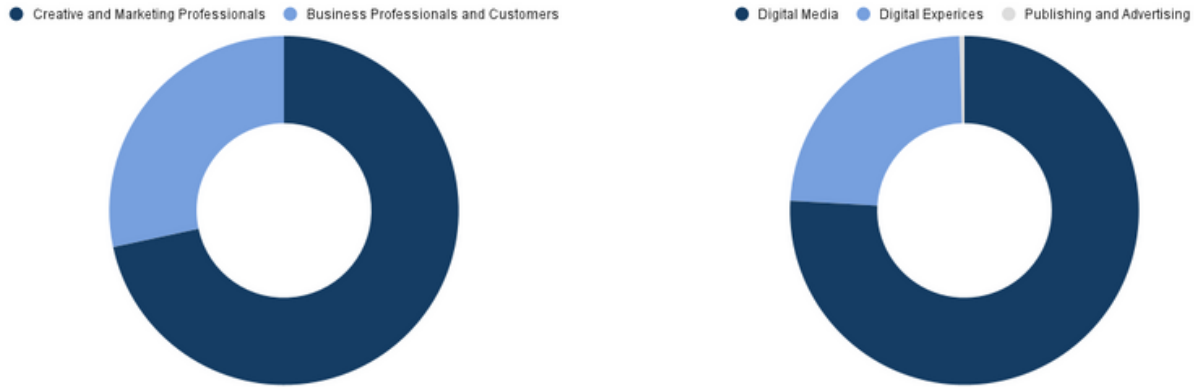
Competition from legacy software and emerging AI solutions for multimedia and creative software has introduced great uncertainty and rising skepticism over Adobe and their products ability to compete in an innovative and rapidly changing market filled with innovation. This has led to the current P/E and EV/EBIT reaching 21.6 and 18.0 respectively being significantly under their 3 year average of 39.0 and 29.7 despite maintaining a stable double digit revenue growth and slightly increasing their margins during this time period. Assuming that Adobe is able to maintain a competitive market position just as it has done up until now, this presents an excellent opportunity for an investment that has great potential to generate alpha as a result of a possible revaluation and multiple expansion is likely to occur in the case of a changing sentiment for the stock.

Robust business with legacy products

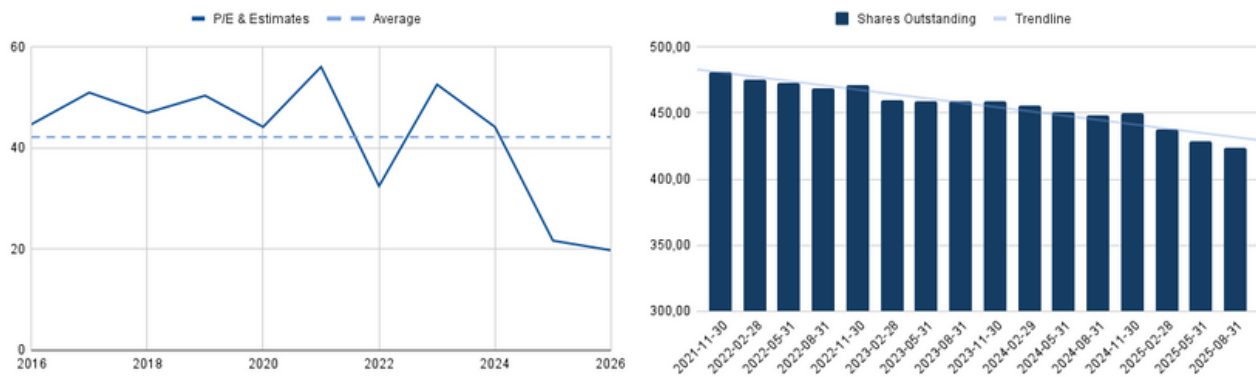
Adobe's lucrative business model is based on generating recurring revenue through new innovative product offerings and well established de-facto products deeply integrated with each other across multiple creative industries. Their software is recognized and demanded by consumers and industry professionals, most of whom have spent their whole careers learning and building expertise inside the adobe products giving them high customer retention and a strong moat. This in turn causes enterprises as well as customers who have built competence and entered into their ecosystems to become dependent on their software and extensive technical functionalities. This dominance was displayed when great regulatory scrutiny regarding competitive concerns emerged from a planned acquisition with the competitor Figma.

Investment Thesis Overview

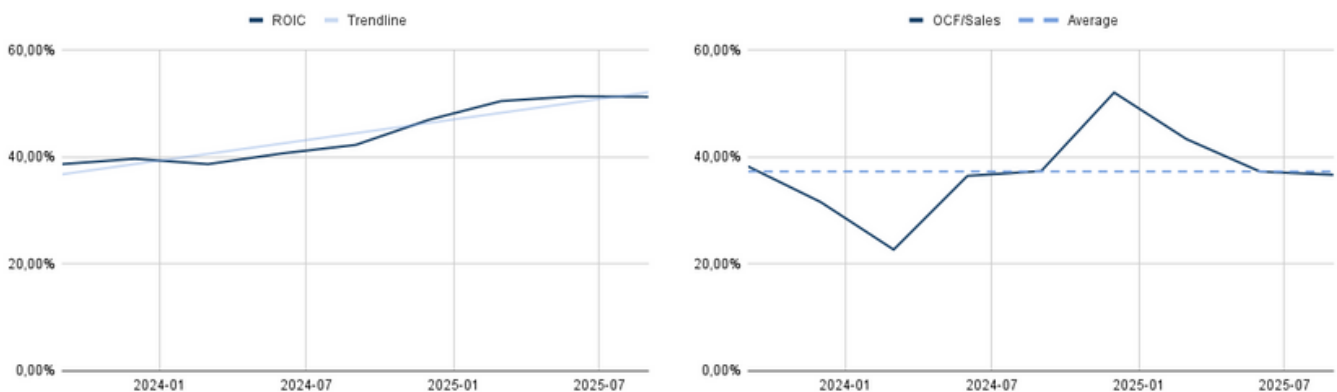
Subscription by Revenue Concentrated in High Retention Customers & Segments



Decreased Valuation and Management Demonstrating Confidence with Buybacks



Excellent Execution Generating High Returns and Cashflow margins





Investment Thesis

Resistant Business with High Profitability and Strong Financial Standpoint

The business model of Adobe is centered around having a majority of subscription-based, predictable, recurring revenue that's achieved a double digit earnings growth yet to see a negative impact from emerging AI competition. This provides great conditions to defend, and further expand their market dominance in the case of a changing market landscape. Even if they have to do so by following proven features from other competing first-movers. As a result of their impressive sustained revenue margins and extensive operating cashflow margins of around 35% EBIT and 42% OCF/Sales, combined with its rapidly growing ROIC figure currently at 51,2% combined with a proven capability to develop market-leading cutting edge software will in the case of a disruption from the AI industry allow Adobe to quickly and effectively adapt to new circumstances and demand from its customers by increasing its investments in research and development. This strong financial position can be observed in the balance sheet with Adobe having 6 billion dollars in short term investments at hand and by their low leverage having a Debt / EBITDA ratio of 0.7x. This is also achieved while conducting an extensive buyback program purchasing 8 million shares during Q3 alone that at the same time displays confidence from management that the stock is undervalued.

AI Innovation as an Opportunity Rather than Threat

Adobe have put development of their own AI-based tools and functionalities built especially for enterprise use cases as a core part of their current strategy. With a goal to be "commercially safe", respecting intellectual property that eliminates the risk for legal repercussions that could come as a result of using competing AI based features for video and image generation solutions. This gives them a huge competitive advantage for enterprise use cases over current feared AI based solutions. Furthermore Adobe has implemented safeguards to ensure that creators are protected from intellectual theft when utilizing their software, making them an even more attractive platform to create content in the age of the AI era. This is also demonstrated as Adobe has successfully implemented and monetized AI features and products. Already, they claim that AI as of Q3 2025 has positively influenced the existing software stack, generating additional ARR surpassing 5 billion dollars as well as new AI-first products generating over 250 million dollars in ARR. This has been achieved by Adobe leveraging their access to their own unique database consisting of massive amounts of legally sourced data in order to train and develop AI products in a commercially safe manner. This access to data gives Adobe a unique advantage against the competition that will continue to be utilized in order to defend and gain market share.

Market Skepticism Providing an Excellent Opportunity and Hedge In Case of a Changing Sentiment

A significant valuation disconnect from the broader, AI-driven market creates a compelling asymmetric risk-reward opportunity. This depressed valuation functions as a strong margin of safety. As broad skepticism emerges around unsustainable AI infrastructure spending and uncertain monetization paths Adobe is uniquely positioned as a hedge. A significant portion of the pessimistic AI-competition scenario is already reflected in its stock price, inherently limiting its downside potential in a market downturn driven by deflating AI hype. This valuation floor is anchored by Adobe's exceptionally wide economic moat. Its revenue is not based on speculative future technology but on a lucrative, recurring subscription model for deeply integrated, industry-standard products. High switching costs, built over decades as professionals invested their careers in the ecosystem, ensure powerful customer retention and predictable fundamentals. Therefore, in a "risk-off" environment where a correction deflates the AI bubble, Adobe's proven business model and compressed multiple provide a resilient foundation, positioning it to generate significant alpha through relative outperformance and an eventual re-valuation.



Company Overview

Adobe Inc. is an American global leader in providing multimedia and creative software solutions, enabling individuals and enterprises to design, create, and manage digital content. Founded in 1982 and headquartered in San Jose, California, Adobe has evolved from a traditional software provider focused on one time purchases into a subscription-based cloud company with a dominant position in digital media and marketing solutions now offering nearly 100 different tightly integrated software products built for a wide range of applications. These products are mainly used by creative and marketing professionals making up about 72% of ARR with the remaining 28% coming from Business professionals and regular consumers.

The company's business model is split into two main segments: Digital Media and Digital Experience. The Digital Media segment makes up about 74% of revenue and 75% of ARR as of Q3 2025 and includes flagship offerings such as Creative Cloud, a suite of industry-standard tools for content creation, such as Photoshop and Premier Pro, and Document Cloud, which enables secure document management and e-signature solutions. The Digital Experience segment makes up 25% of revenue and 24% of ARR provides data-driven marketing and analytics platforms that help enterprises deliver personalized, optimized customer experiences at scale. Additionally, Adobe also has a third Publishing and Advertising segment making up the remaining 1% of revenue and 0,6% of ARR providing niche solutions supporting specialized professional workflows complementing the companies broader digital media and experience ecosystems.

Business Strategy

Since the launch of Adobe creative cloud in 2013, Adobe has seen a shift towards a recurring revenue model through cloud subscriptions which has established a highly profitable, predictable business with strong customer retention and consistent cash flow generation. This enables Adobe to effortlessly invest large amounts of capital in case that a downturn would occur or in the case that increased spending is needed towards R&D and product development. This has been achieved by leveraging its broad ecosystem, trusted brand, and a strategy centered around delivering category leading solutions to its diverse customer base.

AI Development

Recently, this strategy has included developing and delivering AI-infused solutions in existing products and standalone offerings such as Adobe Firefly to retain its leadership in the global creative and digital marketing markets. Adobe is utilizing their unique position having access to one of the world's largest creative datasets of legally sourced and enterprise ready data to power their AI products. AI product innovation and implementation has become a core point of focus for Adobe in order to boost paid subscriptions and cross-selling across its different products.



Market Overview

Revenue growth in the software is predominantly driven from existing clients increasing their exposure to current already adapted offerings and through new vendors entering the market. Players in the software industry often create and take advantage of moats derived from their products. These often come as a result of switching costs. Meaning that once an application is implemented in the business, it tends to be costly and challenging to change to a different vendor due to employee proficiency and business processes being formed by the product. Additionally Network effects tend to be an additional point of stickiness making it even harder to move to a different product. As a result of this strong customer retention among software providers with wide moats, steady streams of recurring revenue and high lifetime value of customers are created enabling large R&D efforts to be undertaken to continuously maintain and strengthen competitive advantages.

According to Morningstar, the software market is projected to remain a robust area for growth in the coming years forecasting total software revenue growth exceeding a CAGR of 11% through 2029. Cited tailwinds for the industry include exponential growth for organizing and utilizing data, increased demand for cloud-native software solutions with the rise of public cloud investments, and most prominently an increased demand for generative AI use cases. On the other hand the most current headwinds include data privacy concerns from customers and risk for regulatory intrusion slowing innovation.

Data source: Morningstar Software Industry Outlook: Where We see Growth and What's Ahead for AI

Valuation

Peer Valuation

Due to the unique market position of Adobe having a vast offering of successful products tightly integrated across each other in a unique ecosystem, comparing them against peers becomes more challenging. Comparisons could be made towards different sets of companies depending on which of Adobes products you focus on, such as competitors offering design and creative software, enterprise and analytics software and marketing software. Here we will compare the company against other large cap tech companies with significant moats in their business of providing software solutions mainly for enterprise use cases to best give a comparison of the core business of Adobe, even if the specific solutions provided are used in a different context than many of Adobes products.

When conducting the peer valuation analysis, Two things in particular stick out. First off, at the time of the analysis Adobe traded at a P/E multiple of 22,3x and EV/EBIT of 18,6x which is significantly lower than the mean of 44,2x and 33,6x of the compared companies indicating a large and meaningful undervaluation. Additionally, They also have a significantly higher ROIC than any of the peers, demonstrating a much superior ability to efficiently deploy its capital to generate profits. On the other hand, Adobe is on the worse half of the companies when it comes to revenue growth but this offset is not near what we observed in the previously mentioned metrics. This observed and apparent undervaluation from the market could become a catalyst for a higher share price of Adobe in the case of a multiple expansion which puts it in line with our investment thesis of investing in companies with significant short term potential.

Peer Valuation	Market Data		Financials				Valuation	
	Mkt Cap	Enterprise Value	EBITDA Margin	EBIT	Revenue - CAGR	ROIC	P/E	EV/EBIT
Company name	LTM (bUSD)		LTM (bUSD)					
Intuit	191,35	194,44	31,30%	4,94	15,60%	17,60%	49,40	39,40
Salesforce	224,61	238,57	29,70%	8,38	8,30%	11,20%	36,70	28,50
SAP	317,13	317,13	34,00%	9,62	9,70%	17,10%	38,60	28,40
Autodesk	67,25	67,73	25,80%	1,52	13,80%	25,70%	64,50	44,70
Roper Technologies	49,81	58,94	41,10%	2,17	14,00%	5,00%	31,70	27,10
Median							38,60	28,50
Mean							44,18	33,62
Adobe	155,61	155,82	41,20%	8,40	10,70%	51,30%	22,30	18,60



DCF Analysis

After conducting a discounted cash flow (DCF) analysis using estimates from 2025E-2029E and financial data from Wall Street analysts provided by TIKR.com, the target price for Adobe is 417,11\$ per share. This valuation assumes a weighted average cost of capital (WACC) of 12,10% and a long-term growth rate (LTG) of 3.0%. These estimates and assumptions are in line with consensus.

Our set target price is based of this DCF calculation with a slight upwards adjustment following the result of the peer valuation and analysis of the P/E ratio.

WACC	
Market Cap	154 605
% of Equity	96,47%
Risk Free Rate	4,10%
Beta	1,49
Market Risk Premium	6%
Cost of Equity	12,37%
Debt	5 650
% of Debt	3,53%
Cost of Debt	6,15%
Tax Rate	21%
Total	160 255
WACC	12,10%

Discount period	2020A	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Unlevered FCF	5308	6 882	7 396	6 942	7 873	9 141	10 329	11 065	11 634	14 503
Present Value of FCF						8 206	9 931	8 749	8 235	9 221
Terminal Value										254 385
Present Value of Terminal Value										89 326
Sum of FCF										44 342
TV										89 326
EV										172 532
(-) Debt										5 650
(+) Cash										7 886
Equity Value										174 768
Share outstanding										419
Equity Value per Share										417,11

Analysis of P/E

An analysis of the P/E ratio based on the 2026 EPS estimate displays the upside potential for the stock price in the event of a multiple expansion. Adobe stock has had an average P/E ratio of 42,2x in the last 5 years and 49,1x in the last 10 years. If the stock were to be traded at a higher multiple, still significantly under the historical average, there would be a significant rise in the stock price. In the event of a changed sentiment towards the company, a multiple of 26x is deemed highly likely.

2026E EPS	P/E	Share Price
18,1	18	325,8
	20	362
	24	434,4
	28	506,8
	32	579,2
5 year Average	42,2	763,82
Chosen Prediction	26	470,6

Appendix

Income Statement

Income Statement	16-11-30	17-11-30	18-11-30	19-11-30	20-11-30	21-11-30	22-11-30	23-11-30	24-11-30 LTM	23 181.00
Total Revenues	5 854.43	7 301.51	9 030.00	11 171.00	12 868.00	15 785.00	17 606.00	19 409.00	21 505.00	23 181.00
% Change YoY	22.08%	24.72%	23.67%	23.71%	15.19%	22.67%	11.54%	10.24%	10.80%	
Cost of Goods Sold	-820.31.00	-1 010.49	-1 195.00	-1 673.00	-1 722.00	-1 865.00	-2 165.00	-2 354.00	-2 358.00	-2 518.00
Gross Profit	5 034.52	6 291.01	7 835.00	9 498.00	11 146.00	13 920.00	15 441.00	17 055.00	19 147.00	20 663.00
% Change YoY	24.27%	24.96%	24.54%	21.23%	17.35%	24.89%	10.93%	10.45%	12.27%	
% Gross Margins	86.00%	86.16%	86.77%	85.02%	86.62%	88.18%	87.70%	87.87%	89.04%	89.14%
Selling General & Admin Expenses	-2 486.40	-2 822.30	-3 366.00	-4 125.00	-4 559.00	-5 406.00	-6 187.00	-6 764.00	-7 293.00	-7 904.00
% Change YoY	12.17%	13.51%	19.26%	22.55%	10.52%	18.58%	14.45%	9.33%	7.82%	
% of Revenue	42.47%	38.65%	37.28%	36.93%	35.43%	34.25%	35.14%	34.85%	33.91%	34.10%
R&D Expenses	-976.39.00	-1 224.06	-1 538.00	-1 930.00	-2 188.00	-2 540.00	-2 987.00	-3 473.00	-3 944.00	-4 195.00
% Change YoY	13.13%	25.42%	25.65%	25.49%	13.37%	16.09%	17.60%	16.27%	13.55%	
% of Revenue	16.67%	16.76%	17.03%	17.28%	17.00%	16.09%	16.97%	17.89%	18.24%	18.10%
Depreciation, Amortization, Depletion	-78.53.00	-76.56.00	-91.00.00	-175.00.00	-162.00.00	-172.00.00	-169.00.00	-168.00.00	-169.00.00	-162.00.00
% Change YoY	14.40%	-2.51%	18.86%	92.31%	-7.43%	6.17%	-1.74%	-0.59%	0.60%	
% of Revenue	1.34%	1.05%	1.01%	1.57%	1.26%	1.09%	0.96%	0.87%	0.79%	0.70%
Total Operating Expenses	-3 540.92	-4 122.92	-4 995.00	-6 230.00	-6 909.00	-8 118.00	-9 343.00	-10 405.00	-11 406.00	-12 261.00
Operating Income	1 493.60	2 168.10	2 840.00	3 268.00	4 237.00	5 802.00	6 098.00	6 650.00	7 741.00	8 402.00
% Change YoY	65.39%	45.16%	30.99%	15.07%	29.65%	36.94%	5.10%	9.05%	16.41%	
% Operating Margins	25.51%	29.69%	31.45%	29.25%	32.93%	36.76%	34.64%	34.26%	36.00%	36.25%
Interest Expense	-70.44.00	-74.40.00	-89.00.00	-157.00.00	-116.00.00	-113.00.00	-112.00.00	-113.00.00	-169.00.00	-247.00.00
Interest And Investment Income	47.34.00	66.07.00	93.00.00	68.00.00	43.00.00	17.00	61.00.00	269.00.00	341.00.00	
Other Non Operating Income (Expenses)	00.03	00.08	00.26	00.31	01.00		01.00	01.00		
Merger & Restructuring Expense	01.51								-1 000.00	
Gain On Sale Of Security	-35.39.00	-22.20.00	-50.00.00	26.00.00	11.00	-01.00.00	-40.00.00	-08.00.00	18.00	15.00
Other Unusual Items	-01.51.00		-00.26.00	-00.31.00						291.00.00
EBT Incl. Unusual Items	1 435.14	2 137.64	2 794.00	3 205.00	4 176.00	5 705.00	6 008.00	6 799.00	6 931.00	8 461.00
Income Tax Expense	-266.36.00	-444.09.00	-203.00.00	-254.00.00	1 084.00	-883.00.00	-1 252.00	-1 371.00	-1 371.00	-1 504.00
Effective Tax Rate %	18.56%	20.76%	7.27%	7.93%	-25.96%	15.48%	20.84%	20.16%	19.78%	17.78%
Earnings From Continuing Operations	1 168.78	1 693.95	2 591.00	2 951.00	5 260.00	4 822.00	4 756.00	5 428.00	5 560.00	6 957.00
Net Income to Company	1 168.78	1 693.95	2 591.00	2 951.00	5 260.00	4 822.00	4 756.00	5 428.00	5 560.00	6 957.00
Net Income to Common	1 168.78	1 693.95	2 591.00	2 951.00	5 260.00	4 822.00	4 756.00	5 428.00	5 560.00	6 957.00
% Change YoY	85.65%	44.93%	52.96%	13.89%	78.24%	-8.33%	-1.37%	14.13%	2.43%	
% Net Income Margins	19.96%	23.20%	28.69%	26.42%	40.88%	30.55%	27.01%	27.97%	25.85%	30.01%
Weighted Average Diluted Shares Outstar	504.30.00	501.12.00	498.00.00	492.00.00	485.00.00	481.00.00	471.30.00	459.10.00	450.10.00	433.20.00
% Change YoY	-0.56%	-0.63%	-0.62%	-1.20%	-1.42%	-0.82%	-2.10%	-2.51%	-2.05%	
Diluted EPS	02.32	03.38	05.20	06.00	11.23	10.02	10.10	12.22	12.36	16.04
% Change YoY	87.10%	45.69%	53.85%	15.38%	80.50%	-7.48%	0.80%	17.03%	4.57%	



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