

ADOBE INC.

Equity Research • Company Update | NASDAQ: ADBE | Application Software — Creative Cloud, Document Cloud & Digital Experience | 30 August 2026

RECOMMENDATION	RATING CHANGE	INVESTMENT SCORE
WATCHLIST Downgraded from Buy	Buy → Watchlist The pre-stated \$290–300 trigger fired	65 / 100 Was 69 on the same weighting

Price (28 Aug close)	\$291.52	Market Cap	\$115.9 B	Since 15 Aug report	+10.4%
Forward P/E (NTM)	11.24x	P/E on FY26 guide	11.95x	Trailing P/E (GAAP)	16.68x
Price / free cash flow	11.27x	FCF yield	8.87%	Buyback yield	5.84%
Combined cash yield	14.71%	Shares out (YoY)	397.5 M (–5.8%)	Beta	1.40
Consensus target	\$269.72 — Hold	Price vs target	+8.1% above	Weighted fair value	~\$299
Since original Buy	+26.4% from \$230.61	CEO / CFO	Still vacant / interim	Next earnings	10 Sep 2026, post-close

Why the Rating Has Changed

Adobe is downgraded from Buy to Watchlist. The previous report, published on 15 August with the stock at \$264.02, named the condition precisely: "a further advance toward \$290–\$300 without an earnings confirmation, which would take the forward multiple past 12x and close the last of the discount to fair value" would move the rating to Watchlist. Nine sessions later the stock closed at \$291.52. The condition has been met, and the rating follows it.

Because a price trigger is only as good as the reason the price moved, it is worth being specific about what caused the advance. Adobe rose 5.1% on 27 August and a further 0.8% on 28 August. The drivers were a sector-wide relief rally in enterprise software following Salesforce's second-quarter results and Nvidia's earnings beat, which lifted the Nasdaq Composite around 1.6%; a set of product announcements including an AI-assisted editor in Photoshop and expanded Firefly editing; and the disclosure of a BlackRock stake above 10%. Each is a reason for the shares to be worth more. None is an earnings confirmation, and none is a permanent chief executive.

That distinction is the whole of the downgrade. The trigger was written specifically to catch a multiple expansion unaccompanied by resolution of the two open questions, and that is exactly what has occurred. A stock can be a Buy at 10.2 times forward earnings and a Watchlist at 11.2 times without the business changing at all, because the entire Buy case here was the size of the discount rather than confidence about the narrative.

The valuation cushion this report has tracked for four consecutive editions is now largely gone. The forward multiple has moved from 9.7x on 2 August to 10.18x on 15 August to 11.24x today. The free-cash-flow yield has fallen from 10.3% to 9.80% to 8.87%. The discount to the consensus target of \$269.72 has gone from 7.7% to 2.1% to a premium of 8.1%: Adobe now trades above the average sell-side price target rather than below it. Probability-weighted fair value of \$298.98 sits 2.6% above spot, inside the sub-10% band the previous report explicitly named as the Watchlist threshold. None of that deterioration was earned by the business, and all of it was paid for by the buyer.

1. What Has Moved Since 15 August

Item	15 August 2026	28 August 2026	Read
Price	\$264.02	\$291.52	+10.4%; +26.4% above the original Buy
Forward P/E (NTM)	10.18x	11.24x	Past the 11x line, approaching 12x
P/E on FY26 guide midpoint	10.82x	11.95x	Guide \$24.35–24.45 non-GAAP
Free cash flow yield	9.80%	8.87%	Down 93 bp on price alone
Combined cash yield	15.6%	14.71%	Still exceptional, but thinner
Discount to consensus target	2.1% discount	8.1% premium	The cushion has inverted
Weighted fair value gap	+13.8%	+2.6%	Below the stated 10% Watchlist line
CEO / CFO	Both vacant or interim	Both vacant or interim	Now roughly 5.5 months
50-day moving average	\$230.53	\$240.18	Price 21.4% above; extended
200-day moving average	\$272.32, overhead	Reclaimed and left behind	Resistance became support
RSI (14)	59.2	68.8	Approaching overbought
Company news in window	None material	Product launches; BlackRock stake >10%	No earnings, no CEO

Fiscal Q3 2026 results are scheduled for 10 September 2026 after the close, eleven days from this report. Forward and next-twelve-month earnings figures carry over from the 15 August edition, since no company disclosure has revised them; the multiples move on price alone.

2. The Business Case Is Unchanged, and That Is the Point

Nothing in the financial position has moved, because nothing could: there has been no release, no guidance revision and no filing of substance in the window. Trailing revenue of \$25.20 billion converts to \$22.53 billion of gross profit, \$9.25 billion of operating income and \$10.28 billion of free cash flow, a 40.8% free-cash-flow margin that very few businesses of any size produce. Gross margin is 89.4%, operating margin 36.7%, return on equity 62.9% and return on invested capital 60.7%. Leverage is negligible at \$7.08 billion of debt against \$5.63 billion of cash, with interest cover of 35 times and an Altman Z-score of 8.35. The buyback has retired 5.84% of the share count in a year.

This is why the downgrade should not be read as a negative view of Adobe. The company is one of the highest-quality cash generators in software and remains cheap in absolute terms: 11.24 times forward earnings is still roughly a third of the application-software median, and a 14.71% combined cash-return yield is extraordinary. The question a rating answers is not whether a business is good but whether the price on offer compensates for what is unresolved, and at \$291.52 the compensation has fallen by roughly half in a month while the two unresolved items have not moved an inch.

Valuation method	At \$291.52	At \$264.02 (15 Aug)	Read
Forward P/E (NTM)	11.24x	10.18x	Still far below the software median
P/E on FY26 guide midpoint	11.95x	10.82x	At the 12x line the last report flagged
Trailing P/E (GAAP)	16.68x	15.10x	On \$17.48 GAAP EPS
Price / free cash flow	11.27x	10.21x	FCF per share \$25.86
Free cash flow yield	8.87%	9.80%	Below 9% for the first time in this series
Price vs consensus target	8.1% premium	2.1% discount	The clearest single signal
Weighted fair value gap	+2.6%	+13.8%	The Watchlist threshold was 10%

Trailing operating figures, guidance midpoint and free cash flow per share are carried forward from the 15 August edition, as no company disclosure has revised them; only the price and therefore the multiples have changed. Consensus target of \$269.72 from 40 analysts, rating Hold.

3. What Has Not Changed, and Why It Still Caps the Rating

Two unresolved items carry the bear case, and neither has moved. Adobe has been without a permanent chief executive since Shantanu Narayen announced in March that he would transition to chair after eighteen years, and without a permanent chief financial officer since Dan Durn departed on 15 June. The board's special committee, chaired by lead independent director Frank Calderoni, continues to weigh internal and external candidates with a stated preference for artificial-intelligence credentials. That is the right filter. It has also now been running for roughly five and a half months while the company executes a freemium pivot and an AI product transition with two interim seats at the top.

The second is the generative-AI question itself. Bank of America reinstated coverage on 7 July at Underperform with a \$190 target on the argument that AI structurally pressures Adobe's monetisation, and Morgan Stanley cut to Underweight at \$240 on 21 July. Both targets are now far below the market. That tells you the tape has moved decisively against the bears; it does not tell you the argument has been settled. Fiscal third-quarter results on 10 September are the first opportunity in months to settle it with data, specifically on annual recurring revenue durability and on whether freemium conversion economics can be quantified for the first time.

The BlackRock disclosure deserves a fair hearing on the other side. A passive manager crossing 10% is largely a mechanical consequence of index weight and of Adobe's own buyback shrinking the denominator, so it is weak evidence of conviction. But it is not nothing: it removes a marginal supply concern and it coincided with the stock reclaiming its 200-day average, which had been the first real resistance. Read charitably it is a reason the shares deserve to be higher. It is not a reason to keep paying up after they already are.

4. Technical Picture

Indicator	Reading	Signal
Close (28 Aug 2026)	\$291.52	—
SMA 20 / 50 / 100	\$268.25 / \$240.18 / \$241.36	Above all three by a wide margin
EMA 20 / EMA 50	\$267.79 / \$252.38	Above both
Price vs 50-day	+21.4%	Materially extended
SMA 200	Not computed (100-session series)	Cited near \$272 on 15 Aug; now reclaimed
RSI (14)	68.8	Approaching overbought; was 59.2
MACD (12,26,9)	+11.43, signal +10.26, histogram +1.17	Positive and re-widening
ATR (14)	\$10.65 (3.7% of price)	Moderate
Volume (20d / 50d)	4.25 M vs 5.60 M	Advance on declining volume
Support / resistance	Support \$272, \$268, \$250; resistance \$294	New high; no overhead reference
100-session range	\$190.12 – \$294.09	Trading within 0.9% of the high

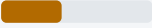
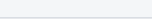
Computed from 100 daily bars (8 April to 28 August 2026), Wilder smoothing for RSI and ATR. The 200-day average is not computed because the series used is shorter than the required window.

The trend is intact and that is precisely the difficulty. Adobe has reclaimed the 200-day average it was struggling with two weeks ago, sits 21.4% above its 50-day, and is trading within 1% of a hundred-session high, with the relative strength index at 68.8 and the advance running on volume roughly 24% below its fifty-day average. A rally that is accelerating in price while decelerating in participation, into an earnings event eleven days out, is not a setup that offers a good entry. It is a setup that offers a good exit for anyone who bought the original \$230.61 recommendation.

5. Risks

Risk	Description	Probability	Severity
Leadership vacuum	No permanent CEO for ~5.5 months and an interim CFO during a strategy pivot	High	Medium
Generative-AI disruption	Structural pressure on creative-software monetisation; the core bear thesis	Medium	High
Multiple round-trip	The re-rating from 9.7x to 11.24x was sentiment-led and can reverse as fast	Medium	Medium
Freemium conversion	Conversion economics of the freemium pivot remain undisclosed	Medium	Medium
10 Sep earnings event	Q3 results land in 11 days into a stock at a 100-session high	High	Medium
Entry discipline	Price is now above every published band; chasing removes the margin of safety entirely	High	Medium
Value-trap risk	A cheap multiple can persist for years if ARR growth decelerates	Medium	Medium
Macro / IT budgets	90%+ recurring revenue dampens but does not remove the cycle; beta 1.40	Medium	Low-Med

6. Scorecard

Component	Score	Weight	Commentary
Business Quality	 8/10	15%	Elite margins, 90%+ recurring revenue, a real if narrowing moat. Unchanged.
Financial Strength	 9/10	15%	40.8% FCF margin, 62.9% ROE, 60.7% ROIC, Altman Z of 8.35. Unchanged.
Competitive Advantage	 6/10	12%	Strong in professional and enterprise; still losing prosumer. Unchanged.
Management	 4/10	10%	~5.5 months without a permanent CEO and an interim CFO. Unchanged.
Growth Potential	 7/10	13%	AI ARR growth and AEP momentum against a deliberate H2 ARR sacrifice. Unchanged.
Valuation	 5/10	20%	Down two: 11.24x forward, 8.87% FCF yield, and now an 8.1% premium to consensus. Was 7.
Risk (10 = lowest risk)	 6/10	10%	Business risk low; narrative and leadership still cap it. Unchanged.
Technical Setup	 6/10	5%	Trend intact but RSI 68.8, 21.4% above the 50-day, volume falling. Was 7.

Scored 1–10, where 10 is always best, including Risk. Weights sum to 100% and reflect a value-oriented, cash-flow-led framework: valuation and the two quality measures carry over half, and technicals are capped at 5% because they inform timing only. Weighted total 65 / 100, down from 69. The previous report used the same direction convention for Risk, so the two totals are directly comparable. Two components moved, both on price rather than on anything the company did.

7. Recommendation — WATCHLIST (downgraded from Buy)

The rating describes the price, not the asset. Adobe the business is unchanged and remains one of the most profitable franchises in software. Adobe the security has risen 26.4% since the original Buy at \$230.61 on 16 July, with every point of that move coming from multiple expansion and none of it from a resolution of the two questions that made the stock cheap in the first place. The margin of safety that justified the rating has been consumed by the people buying it.

Existing holders are not being told to sell. At 11.24 times forward earnings with a 14.71% combined cash yield there is no valuation case for exiting a quality compounder, and the 10 September results could easily extend the move. The

instruction is narrower: this is no longer a stock to add to, and new money has no business here at \$291.52 with a probability-weighted fair value of \$298.98. A 2.6% expected return does not compensate for a 30.5% bear case, however good the company is.

Guidance for existing positions	Level
Hold, do not add	The valuation case no longer supports new capital above \$272, the reclaimed 200-day
Trim discipline	Positions built near \$230 have gained 26%; taking partial profit into \$300 is reasonable
Thesis break	A weekly close below \$250 would break the August shelf and invalidate the trend, not just the entry
Re-entry zone	\$250–268, a return to the 20-day shelf, would restore a double-digit expected return
Next catalyst	Fiscal Q3 results, 10 September 2026 after the close

What would restore a Buy	What would take this to Hold or lower
A credible AI-literate permanent chief executive named with a clear mandate	A September quarter showing ARR deceleration beyond the guided second-half sacrifice
A September quarter that quantifies freemium conversion favourably for the first time	Evidence that generative-AI competition is compressing Creative Cloud pricing
A pullback into \$250–268 with the fundamentals intact	A permanent CEO hired from outside with no AI credentials, or a further delay past six months
ARR reacceleration that converts the cheap multiple into a re-rating catalyst	A weekly close below \$250, breaking the shelf built through August

8. Scenario Analysis

Scenario	Prob.	Outlook	Fair value
Bull	28%	A credible AI-literate CEO is named; ARR reaccelerates on the September print; the multiple normalises toward 15x on stable earnings	\$360 – \$390
Base	47%	ARR proves durable; the buyback keeps compounding per-share value; the partial re-rating to ~12x that has already happened holds but does not extend	\$290 – \$320
Bear	25%	Freemium conversion disappoints and AI erosion shows in ARR; the multiple returns to 8–9x and the August re-rating round-trips	\$190 – \$215

Probabilities sum to 100%. Probability-weighted fair value on scenario midpoints ($0.28 \times \$375 + 0.47 \times \$305 + 0.25 \times \$202.50$) is \$298.98, 2.6% above the 28 August close of \$291.52. The bull weighting is reduced from 30% and the base raised from 45%, because the partial re-rating the base case anticipated has now largely occurred in the price. Fair values are the analyst's own calculations derived from stated inputs and are not price predictions.

The distribution is the argument. At \$264.02 the same scenarios gave 13.8% of expected return; at \$291.52 they give 2.6%, because the price has moved into the base case while the base case has not moved. An investor is now being asked to accept a 25% chance of a 30.5% loss for a central outcome worth roughly nothing. That is a holding, not a purchase.

9. Final Verdict

Would an investor commit new capital to Adobe at \$291.52 today? No, and the reasoning is entirely about price. Adobe earns an 89.4% gross margin on \$25.2 billion of revenue, converts 40.8% of it to free cash flow, returns 62.9% on equity, carries essentially no net leverage, and retires almost 6% of its shares every year. Those facts were true at \$230.61 in July and they are true now. What has changed is that an investor buying today pays 26% more for them.

The single biggest concern is that this report has now had to raise its levels three times in six weeks and has finally run out of room to do so honestly. The original Buy set an entry of \$225–235 with a \$185 stop. On 2 August that became

\$230–252 and \$205. On 15 August it became \$235–268 with a \$235 stop and an explicit warning that \$290–300 without a fundamental confirmation would end the Buy. Raising the band a fourth time would be following the price rather than valuing the company, and the discipline that made the original call work is the discipline that ends it here.

What would change this. A permanent chief executive with genuine AI credentials, or a September quarter that quantifies freemium conversion, would convert a cheap multiple into a re-rating catalyst and could support a Buy even at these levels. Absent either, the more likely path back to a Buy is the ordinary one: a pullback toward \$250–268 that hands the patient buyer the margin of safety the last four weeks have taken away.

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