

ADOBE INC.

Equity Research | Post-earnings update | ADBE | Creative, document, and experience software | 11 September 2026

BUY	WATCHLIST TO BUY	75 / 100
RECOMMENDATION	RATING CHANGE	INVESTMENT SCORE
\$248.83 Latest completed close, 10 Sep	\$241.29 (-3.0%) Early extended-hours indication	Obtained Transcript status

Adobe cleared both conditions that held back the prior rating: a permanent chief executive is named, and the share price has returned to the stated buy zone. The quarter was strong, although freemium conversion remains unproven.

Price basis and scope

The latest completed US session ended before the earnings release. The extended-hours figure is shown only as an early market reaction. Valuation and technical calculations use the completed close from Alpha Vantage, and the technical series therefore predates the announcement. A full MarketBeat transcript was available and reviewed, including analyst questions and management responses.

What the quarter changed

Adobe reported fiscal Q3 2026 revenue of \$6.76 billion, 12.9% above the prior year and about \$66 million above consensus. Non-GAAP EPS of \$6.13 beat consensus by \$0.05 and rose 15%. Management raised the full-year revenue and EPS targets.

The prior Watchlist report identified two routes back to Buy: a credible permanent chief executive and a pullback into the \$250 to \$268 zone. Anil Chakravarthy will become CEO on 1 December, and the completed close fell to \$248.83. Both conditions are now met. The rating moves to Buy, even though the call exposed a weaker net-new-ARR profile during the freemium push.

The investment score rises from 65 to 75. Leadership certainty, valuation, and competitive evidence improved. The technical score fell because momentum turned down before the earnings release.

1. Reported results and guidance

Measure	Q3 FY26 actual	Comparison	Investment read
Revenue	\$6.76 B	+12.9% YoY; \$0.07 B above consensus	Growth stayed double-digit despite the freemium transition.
Non-GAAP EPS	\$6.13	+15% YoY; \$0.05 above consensus	Margin discipline continued through higher AI investment.
GAAP EPS	\$4.62	+11% YoY	No identified one-off requires a clean-EPS adjustment.
Total ARR	\$27.50 B	Company-reported ending balance	The recurring base remains large and durable.
AI-first ARR	>\$650 M	+150% YoY	AI monetization is material and scaling quickly.
RPO	\$22.16 B	cRPO was 67%; growth slowed	Forward coverage remains solid, with less momentum than revenue.
Operating cash flow	\$2.52 B	Record Q3	Cash conversion supports buybacks and product investment.
Share repurchases	9.5 M shares	During Q3	Per-share value continues to compound through a lower share count.

Consensus comparisons are from MarketBeat. Company-reported figures and growth rates are from Adobe Investor Relations.

Forward guidance

Period	Revenue	Non-GAAP EPS	Other target	Read
Q4 FY26	\$6.80 B to \$6.85 B	\$6.30 to \$6.35	389 M diluted shares	The range implies continued growth and buyback support.
Full FY26	\$26.576 B to \$26.626 B	\$24.45 to \$24.50	Ending ARR growth 10.2%	Revenue and EPS targets moved higher, while ARR growth was held.

Guidance accuracy was good: Q3 revenue and EPS exceeded the prior target ranges, and management raised the full-year objectives. The unchanged 10.2% ARR target remains the key test for Q4.

2. Custom framework and business quality

Adobe monetizes recurring software across Creative Cloud, Acrobat, Express, Firefly, and enterprise experience products. Two-year shareholder returns depend on AI-driven user acquisition, conversion of free users into ARR, retention of professional workflows, enterprise adoption, and continued per-share growth from buybacks.

The moat is strongest where professional workflows, file formats, trained user habits, and collaboration standards reinforce one another. Generative tools can lower the cost of creating basic content, which pressures the entry-level product layer. Adobe's response is to widen the funnel with free products, embed multiple model choices, and monetize through subscriptions, credits, usage, and enterprise services.

Competition is broad. Canva and newer creation tools attack ease of use. Microsoft and Google bundle productivity and generative features. Specialized image and video models compete on quality. Adobe retains an advantage in workflow depth, rights management, enterprise trust, and its ability to connect ideation with final production.

Return drivers

Driver	Current evidence	Two-year implication
User acquisition	More than 1 B monthly active users; creative freemium MAU above 100 M	A larger funnel supports future conversion if engagement persists.
AI monetization	AI-first ARR above \$650 M; Firefly ARR up 40% QoQ	AI is becoming revenue rather than remaining a defensive feature.
ARR durability	Total ARR \$27.5 B; net new ARR down about 36% to 37% YoY	The installed base is stable, while incremental growth needs proof.
Leadership	Anil Chakravarthy becomes CEO on 1 Dec	The long CEO search is resolved with an internal operator close to enterprise AI.
Capital return	9.5 M shares repurchased in Q3	Buybacks add material per-share growth at a low valuation.

3. Transcript read and management

The full MarketBeat transcript was available and reviewed. Analysts focused on the 36% to 37% year-over-year decline in net new ARR. Management attributed much of the pressure to deliberately routing traffic into the freemium funnel and prioritizing user acquisition before conversion. The answer explains the mechanism but does not quantify conversion timing, cohort economics, or the payback period.

The pricing discussion was similarly clear. Adobe chose user growth over short-term pricing actions and intends to tune paywalls after engagement signals strengthen. That choice may build a larger long-term base. It also shifts proof into future quarters and keeps the core bear argument alive until conversion data appears.

Leadership uncertainty improved sharply. Chakravarthy has direct experience in experience orchestration and enterprise customers, which fits the next phase. Shantanu Narayen will move to executive chair, lowering transition risk. An interim CFO remains a governance gap, though a smaller one than the dual vacancy in the previous report.

Management assessment

Test	Evidence	Assessment
Prior guidance delivery	Q3 revenue and EPS exceeded target ranges	Positive
Strategy consistency	Freemium pressure matched the June warning	Positive, with proof deferred
Leadership succession	Internal CEO named; chair transition defined	Positive
Disclosure quality	Strong MAU and AI ARR data; no conversion economics	Mixed

Financial strength

Adobe's model remains one of the strongest cash generators in application software. Q3 operating cash flow reached \$2.52 billion on \$6.76 billion of revenue. The company repurchased about 9.5 million shares during the quarter, and Q4 guidance assumes a diluted count near 389 million.

Using the \$248.83 completed close and the Q4 share-count guide gives an equity value near \$96.8 billion. This is an analyst calculation. Against the prior report's roughly \$10.28 billion trailing free cash flow, the current price implies a free-cash-flow yield near 10.6%. The comparison is approximate until the full Q3 cash-flow statement is filed.

4. Valuation and macro conditions

Adobe trades at about 10.2 times the midpoint of its raised fiscal 2026 non-GAAP EPS guide of \$24.475. The completed close also sits below the prior report's \$250 to \$268 re-entry zone. A high-quality recurring software franchise with double-digit revenue and EPS growth, strong cash conversion, and a shrinking share count now offers a reasonable margin of safety.

The most relevant macro variables are enterprise software demand and the discount rate. August ISM services activity rose to 55.4, consistent with continued enterprise spending, while the 10-year Treasury yield reached 4.95% on 10 September. Higher rates cap long-duration software multiples. Adobe's low current multiple limits that sensitivity compared with richly valued peers. For the consumer and prosumer funnel, July real spending was flat, which makes conversion quality more important than raw user growth.

The market's early extended-hours decline of about 3% appears to focus on slower forward ARR metrics. That reaction improves the entry price if it persists, while the report keeps the completed close as its formal valuation basis.

Scenario analysis

Scenario	Prob.	Operating path	Fair value
Bull	30%	Freemium users convert, AI-first ARR keeps compounding, and enterprise adoption expands. The multiple returns toward the mid-teens.	\$340
Base	50%	Revenue and EPS remain in low-double-digit growth, ARR reaches guidance, and buybacks support per-share value. The multiple settles near 12x.	\$285
Bear	20%	Net new ARR weakness persists, pricing power fades, and generative competition compresses growth and the multiple.	\$190

Probability-weighted fair value: $0.30 \times \$340 + 0.50 \times \$285 + 0.20 \times \$190 = \282.50 , about 13.5% above the \$248.83 completed close.

5. Risks and sentiment

Risk	Probability	Severity	Evidence and effect
Freemium conversion	High	Medium	User growth is strong, while conversion timing and unit economics remain undisclosed.
Generative competition	Medium	High	Low-cost creation tools can pressure entry-level pricing and user habits.
ARR deceleration	Medium	High	Net new ARR fell about 36% to 37% year over year in Q3.
Leadership execution	Medium	Medium	A successor is named, while CEO handover and CFO recruitment still need delivery.
Acquisition integration	Low-Med	Medium	Semrush and proposed Topaz integration add product and execution complexity.
Macro and FX	Medium	Medium	High rates compress multiples, and Q4 guidance includes a small FX headwind.
Technical weakness	Medium	Low-Med	Momentum deteriorated into the announcement and no post-earnings close exists yet.

Sentiment and positioning

Moomoo surfaced the Q3 revenue beat quickly, while its notice and research feeds were otherwise old or noisy. The digest view is therefore positive on the reported quarter and neutral on the broader rerating. The primary release and transcript carry more weight.

Sell-side views remain divided. Recent published targets ranged from \$220 at Bank of America to \$315 at RBC before the release, with several neutral ratings near \$285 to \$301. Institutional ownership was about 81.8% in recent MarketBeat data. The wide target range reflects the unresolved question of whether AI expands Adobe's market or erodes its pricing power.

Scorecard

Factor	Score	Weight	What moved
Business Quality	8/10	15%	Unchanged. Recurring revenue and cash conversion remain elite.
Financial Strength	9/10	15%	Unchanged. Record cash flow and buybacks reinforce the balance sheet.
Competitive Advantage	7/10	12%	Up from 6. AI ARR and enterprise adoption show the moat adapting.
Management	7/10	10%	Up from 4. A permanent CEO is named with a defined transition.
Growth Potential	7/10	13%	Unchanged. AI growth is strong, offset by weaker net new ARR.
Valuation	8/10	20%	Up from 5. The stock is near 10.2x raised FY26 EPS guidance.
Risk (10 = lowest risk)	7/10	10%	Up from 6. Leadership risk fell, while conversion risk remains.
Technical Setup	4/10	5%	Down from 6. Momentum weakened and the close predates earnings.

Scored 1-10, where 10 is always best, including Risk. Weighted score = 75/100. The prior report used the same Risk direction, so no restatement was required.

6. Trade plan and technical setup

Decision item	Level	Basis
Recommended entry	\$242 to \$249	Current completed close and early extended-hours indication
Ideal buy range	\$235 to \$250	Prior support and a discount to weighted fair value
Cut-loss	\$210	Below the summer base and bear-case transition zone
Target 1	\$285	Base-case fair value; about 14.5% above \$248.83
Target 2	\$320	Upper-base to lower-bull value; about 28.6% above \$248.83
Expected downside	15.6% to \$210	Measured from the completed close
Risk/reward	0.9x to T1; 1.8x to T2	Upside divided by downside
Holding horizon	12 to 24 months	Time for conversion data and leadership execution
Position size	Moderate; 3% to 5% portfolio	High business quality, offset by AI transition risk

Technicals through the pre-announcement close

Indicator	Reading	Interpretation
Completed close	\$248.83	Below the 20-day and 50-day measures.
SMA 20 / 50	\$272.39 / \$251.78	The August rally had reversed before earnings.
SMA 100 / 200	\$244.00 / \$266.96	Price held just above the 100-day and below the 200-day.
RSI 14	40.2	Weak, but outside oversold territory.
MACD	2.32; signal 7.37; hist. -5.05	Momentum deteriorated sharply.
ATR 14	\$10.62, or 4.3%	Position sizing should allow for wide daily swings.
20-day range	\$247.19 to \$294.53	The completed close sat near the range floor.

Indicators were computed from 300 split-adjusted, non-dividend-adjusted Twelve Data sessions. No post-earnings closing bar was available.

7. Recommendation and final verdict

Adobe moves from Watchlist to Buy. The completed close of \$248.83 sits below the re-entry zone stated in the previous report, the CEO search is resolved, and the company beat its own quarter targets while lifting the full-year outlook. At roughly 10.2 times guided non-GAAP EPS, the price compensates for a slower near-term ARR profile.

The single biggest concern is the absence of quantified freemium conversion economics. Management has shown that it can attract users and grow AI-first ARR. It has not yet shown when free engagement becomes durable paid growth at a rate sufficient to offset deferred pricing actions. A Q4 miss on the maintained 10.2% ending ARR target would challenge the upgrade.

Capital can be committed inside the \$235 to \$250 range with a 12 to 24 month horizon and a moderate allocation. The \$210 cut-loss limits thesis damage if the summer base fails. The first objective is \$285, with \$320 available if AI monetization and net new ARR improve together.

What would change the view

Trigger	Evidence required
Strengthen the Buy	Q4 ARR reaches guidance and management quantifies better freemium conversion or pricing yield.
Strengthen the Buy	AI-first ARR and enterprise adoption keep accelerating without margin erosion.
Move back to Watchlist	A sustained price above \$285 without better ARR evidence, or a Q4 miss against the maintained 10.2% target.
Move lower	Evidence that generative alternatives are compressing retention or professional pricing.
Macro condition	A sustained weakening in enterprise software demand alongside higher discount rates would reduce fair value.

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