

LANTERN LABS

INVESTMENT RESEARCH

www.lanternlabs.net

Adobe Inc. (NASDAQ: ADBE)

Decision Framework Memo

Date: July 15, 2026

Price: \$221 (14 Jul 2026; 52-wk \$190–\$376) | Market Cap: ~US\$92 bn | Fwd P/E ~9.1x

Initiation of Coverage | First-Touch Assessment | 5-year analytical horizon

Decision Intelligence, not Decision Making — this report informs the client's decision; it is not a recommendation.

Prepared by Lantern Labs

Contents

DECISION SPINE	3
EXECUTIVE BRIEF	6
DECISION RELEVANCE	8
WHERE WE SEE IT DIFFERENTLY	9
DEPTH REPORT	11
Company Overview	11
Snapshot Scorecard	14
Compounding Synthesis	15
Key Variables — Thesis Drivers	16
Dimensional Analysis	17
Anti-Thesis	19
Failure Pattern Assessment	20
Scenario Analysis	20
Risk Map	23
Catalysts	24
Financial Statements & Accounting Quality	24
Valuation	26
The one sentence to remember	29
Key Questions Open — Known Unknowns	30
Key Monitorables — a causal dashboard	30
Synthetic Diligence — What Public Signals Tell Us	31
Governance Appendix	32
Post-Results Update Template	32
Source Appendix	33
IMPORTANT DISCLOSURES & DISCLAIMER	36

DECISION SPINE

Lantern wins not by producing better reports, but by becoming a better investor after every report it produces.

Decision Intelligence, not Decision Making. This report exists to sharpen a decision — it does not issue buy, sell, or hold instructions.

The whole report in six lines

- **One question** — Does AI still need Adobe’s workflow?
- **One why** — Because whoever owns the workflow captures the value AI creates; the tool is only worth what the workflow is worth.
- **One mechanism** — When the cost of *generating* content collapses to zero, value migrates to whoever makes AI output *usable, brand-safe, and shippable* — Adobe currently holds a strong position in that layer, **unless the agent replaces the workflow instead of running inside it.**
- **One key variable** — Organic Digital Media net-new ARR growth.
- **One monitorable** — Organic Digital Media ARR is the *primary public outcome signal* (>11% = workflow winning; <9% with falling ARR-per-user = agent winning) — confirmed, not replaced, by AI-first ARR, paid conversion and direct workflow-retention evidence.
- **One decision** — Cheap enough to watch, not yet proven enough to back: add to watchlist, size against the \$147 bear until the ARR line confirms.

Thesis half-life: ~2 quarters — this view expires at Q3 FY2026 (~Sept), when the next organic-ARR print either confirms or breaks it; auto-revisit then.

Two questions, kept separate

We judge two theses independently so neither contaminates the other:

- **Operating thesis** — *does Adobe retain the workflow?* On today’s evidence this leans **intact** (ARR +10%, RPO +13%, AI-ARR tripling, margins held) — but the confidence is *Medium*, because the load-bearing piece (Firefly’s enterprise IP-safety edge) is inferred, not confirmed.
- **Valuation thesis** — *does today’s price already compensate for the risk that it does not?* At ~9× forward earnings the price underwrites only ~+0.8% owner-earnings growth, so this leans **cheap** — but only if the operating thesis holds.

A business can be durable and still overvalued, or deteriorate modestly and still be cheap. Keeping the two apart is what stops “Adobe is good” from being mistaken for “Adobe is cheap enough.”

What one metric can and cannot settle

Organic Digital Media ARR is the *fastest public indicator* of whether Adobe’s workflow stays commercially relevant. It does **not** by itself resolve Firefly’s moat, freemium economics, or management execution — each needs its own evidence:

Open question	The evidence that answers it
Is the workflow holding commercially?	Organic Digital Media net-new ARR + enterprise net revenue retention
Is Adobe monetizing AI?	AI-first ARR run-rate + freemium paid-conversion within 4–6 quarters
Is the IP-safe position creating value?	Enterprise wins that specifically cite Firefly indemnification

Hero metrics — each tied to the decision it changes

Metric	Reading	What decision it changes
Price / Fair-value range	\$221 vs \$147 (bear) – \$349 (base) – \$583 (bull)	Which side of the workflow question you take: +58% if base, –34% if bear
Forward P/E (non-GAAP)	~9.1× (FY26 non-GAAP EPS guide \$24.35–24.45, raised 11 Jun 2026 [S3])	At ~half the software median (~18.5× [S13]), this is a value trap <i>only if</i> owner-earnings growth stays ~1%
Owner Earnings / OE yield	~\$8.0B / ~8.7% (<i>Lantern-derived: reported FCF ~\$9.85B [S1] less ~\$1.9B SBC</i>)	An 8.7% owner yield is cheap <i>unless</i> earnings decline — so the whole call is whether they do
Organic Digital Media ARR growth	~10.5% , sixth straight step-down [S19]	The one number that moves intrinsic value; <9% breaks the thesis, >11% confirms it
AI-first ARR	>\$500M, tripled YoY [S16]	If it stalls, the bull case (freemium converts) is gone

Confidence — fact vs. interpretation vs. judgment

Load-bearing claim	Confidence
Adobe shrank net (diluted) share count ~5% in FY25; reported FCF ~\$9.85B	Derived from company filings (share cut computed from reported share counts; FCF = reported OCF – capex)
Owner Earnings ~\$8B (reported FCF less ~\$1.9B SBC)	Derived (Lantern measure — not company-reported)
The professional workflow survives the generative agent	Judgment
Firefly’s IP-safety stays a durable enterprise standard	Inferred (low)

The valuation upside rests on the rows that are Judgment or Inferred, not on the reported facts. That is the whole risk, stated up front.

Our Best Judgment Today

*Based on today’s evidence, we believe the following — a stand, with its confidence and its falsifier stated. Not a prediction; not a refusal to judge. **Every judgment here is falsifiable, and every falsifier is observable.***

Field	Our answer
Our best judgment today	Lean constructive / Base case — the market underrates workflow durability; fair value ~\$325–349 vs \$221
Confidence	Medium — the call rests on Judgment (workflow survives), not on fact
Why	The workflow still looks durable: RPO +13%, AI-ARR tripling, 95% Digital Media margins intact — deceleration, not decline

Field	Our answer
Why we're not more confident	The load-bearing claim — Firefly's enterprise IP-safety advantage — is <i>inferred</i> , not confirmed; and the CEO successor is unnamed, so execution on the pivot is unproven
Most important evidence	Organic Digital Media net-new ARR
What would change our mind	Organic ARR <9% for two quarters <i>with</i> declining ARR-per-user → we move to Bear
Next review date	Q3 FY2026 earnings (~Sept 2026)

Decision Spine index

Block	Sections
Front Matter	Decision Spine · Executive Brief · Decision Relevance · Where We See It Differently
Business & Thesis	Company Overview · Scorecard · Compounding Synthesis · Key Variables · Dimensional Analysis
Adversarial Review	Anti-Thesis · Failure Patterns · Scenario · Risk Map · Catalysts
Financials & Close	Statements & Ratios · Valuation · Monitorables · Synthetic Diligence · Governance · Sources

Page numbers for every section are in the Table of Contents.

Reading order for the time-boxed reader: Executive Brief → Where We See It Differently → Valuation Judgment → Key Monitorables.

Core Tension

The same force that raises the value of Adobe's node — generation collapsing to zero makes the *usable, safe, shippable* layer more valuable — is the force that could destroy it, if the agent becomes the workflow rather than running inside it.

Evidence hierarchy — three levels, so fact isn't mixed with opinion

Level	Means	In this report
Confirmed	Fact — filings, market data, company disclosure	Price, reported OCF & capex, ARR, RPO, segment revenue, share count, comp, the CEO/CFO transition (FCF and Owner Earnings are <i>Derived</i> from these, not themselves company-reported)
Inferred	Analysis — reasoned from evidence, not stated	Organic ARR ex-Semrush, Firefly's competitive position, competitor ARR/valuations
Judgment	Opinion — our call, could be wrong	Scenario weights, value-chain migration, whether the workflow survives the agent

EXECUTIVE BRIEF

Synthesis: Adobe is priced for low growth forever — cheap, but not “left for dead” — even as it compounds double-digit recurring revenue, earns ~\$8B of owner earnings (after charging stock comp), triples its AI revenue, and shrinks its net diluted share count ~5% in FY2025 on ~\$11.3B of repurchases (roughly 12% of today’s market cap; a fresh \$25B authorization runs through April 2030); the entire investment reduces to whether the professional creative workflow survives the creative agent, because that is what decides whether owner-earnings growth stays near the ~1% the market implies or reaches the mid-single-digit the base case assumes.

The sharpest insight (the mechanism): Value Adobe honestly — on **Owner Earnings**, free cash flow after charging the ~\$1.9B/yr of stock-based comp as the real cost it is — and the reverse-DCF flips: at \$221 the price embeds only ~+0.8% **Owner-Earnings growth in perpetuity**, not decline [S1][S8]. That is *low-growth* pricing, not Kodak pricing. So the bull/bear split is not “expensive vs. cheap” — Adobe is modestly cheap either way — it is “does the workflow hold,” because that is what carries owner-earnings growth from ~1% to the mid-single-digit our base case assumes (worth ~\$349). (*Full back-solve — the \$200 no-growth anchor, and why a pre-SBC read misleads — in Valuation.*)

Claim, mechanism, evidence — kept distinct (so “positioned” is not read as “will capture the value”):

- **Claim:** Adobe can retain the commercially usable layer of AI creativity.
- **Mechanism (the durable part):** when generation becomes abundant and near-free, value migrates toward the layer that makes output *usable, brand-safe, and shippable* — editing, governance, brand control, distribution, and licensing-clean supply.
- **Evidence today (supports the claim):** 95%-gross-margin Digital Media persists through the AI wave; RPO +13%; AI-first ARR tripling past \$500M [S15][S16][S20].
- **Evidence still missing (why confidence is Medium, not High):** whether enterprises are choosing Firefly *because of* indemnification, and whether agents end up running *inside* Creative Cloud or *replacing* its seats. Until those resolve, “Adobe is positioned” is not yet “Adobe captures the value.”

Theme context: Generative AI is compressing the marginal cost of content creation toward zero — a real, multi-year shift, mid-way through its arc (image mature; video, audio, agents early). **Conviction: Cautious** — the theme is durable, but value capture *at Adobe’s node* is contested, turning on three conditions (Firefly’s IP-safety moat, workflow switching costs, freemium conversion).

Snapshot scorecard (condensed): Business Quality strong (Green: Economics, Cash Generation, Capital Allocation; the 95%-gross-margin Digital Media engine and 45% operating margin are not in question). Contested (Amber): Market Opportunity, Competitive Advantage, Innovation, Leadership. One genuine Red flag: **Leadership continuity** — a simultaneous CEO and CFO transition during the most important strategic pivot in the company’s history [S5][S18].

Compounding weak link: Organic Digital Media net-new ARR. It has decelerated for six straight quarters to ~10.5%, and management is deliberately deferring price increases and routing users into free products to defend the top of the funnel [S17][S19]. If this metric keeps sliding while free monthly-active-users balloon, the disruption thesis is winning regardless of the FCF today.

Key variables: (1) organic DMe ARR growth — re-accelerate >11% or slide <9%; (2) AI-first ARR — sustain >100% growth toward ~\$1.5B; (3) freemium MAU→paid conversion within 4–6 quarters; (4) non-GAAP operating margin holding ≥44% through the pivot.

Anti-Thesis headline: Two of the four bear legs are genuine thesis-killers — *the agent becomes the workflow* and *IP-safety gets neutralized by model-vendor indemnification*. The other two — buyback-carried EPS and M&A-masked organic decline — are real but are the *reason the asset is cheap*, not reasons it is impaired.

Valuation: Bear \$147 / Base \$349 / Bull \$583; probability-weighted ~\$325 (Bear 35% / Base 45% / Bull 20%). Against the current \$221 that is a barbell of roughly **–34% downside to +58% upside to base**. Relative to an index at ~18–20× forward earnings, Adobe at ~9× only makes sense if the workflow is lost.

What’s priced in (headline): The price implies only ~+0.8% owner-earnings growth forever; the fundamentals (ARR +10%, RPO +13%, AI-ARR tripling) support more. **So what:** if organic ARR merely *stops decelerating*, the base case (~\$349) is right — you are paid to wait for one number to stabilize.

Nearest catalysts: New CEO announcement (0–9 months, sentiment-defining) [S5]; Q3 FY2026 results ~September (organic ARR + AI-ARR conversion print) [S3].

Top monitorables: Organic DMe ARR growth; AI-first ARR run-rate; non-GAAP operating margin; new-CEO identity and mandate.

DECISION RELEVANCE

What should a client do differently because of this report? (Not buy/sell/hold — decision relevance.)

Decision this report addresses: Whether to initiate a position in Adobe as a large-cap quality-compounder trading at a distressed multiple, given an unresolved disruption debate.

What changes because of this report:

- **Add to watchlist with a defined trigger, not on the multiple alone.** The asymmetry (−34% / +58%) is real, but it is *conditional* on one observable. The disciplined action is to size against the bear (\$147), not the base, until the workflow question shows evidence — then let the monitorable, not the multiple, drive conviction.
- **Nearest monitorable and threshold:** organic Digital Media ARR growth. Re-acceleration above ~11% for two consecutive quarters materially raises the base-case probability; a break below ~9% while MAU keeps climbing confirms the bear and should *lower*, not raise, conviction despite the cheap multiple.
- **Biggest Unknown to resolve before committing capital:** Firefly’s share of *enterprise* generative spend and whether its IP-indemnification advantage is holding against model-vendor indemnification (Level-3/4 evidence gap — see Synthetic Diligence).
- **Comparable to consider alongside:** the profile is closest to a *dominant-installed-base incumbent facing a platform shift* — the useful analogue set is Microsoft (Office → Copilot) and Intuit, not Figma/Canva (which are the disruptors, not comparators). Opportunity cost is best framed against a quality-compounder index sleeve.

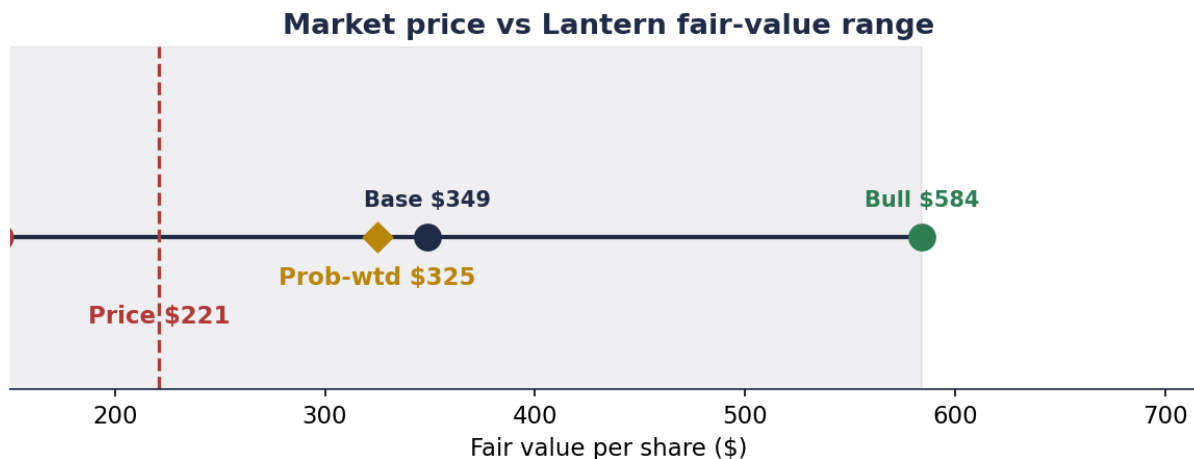
What would change our view: A break in organic DMe ARR growth below ~9% for two quarters *with* falling ARR-per-user, indicating the freemium funnel is diluting rather than seeding monetization — that would move the thesis from “priced for a decline that isn’t happening” toward “the decline is starting.”

Trigger for next update: Q3 FY2026 earnings (~September 2026) — organic ARR trajectory and AI-first ARR run-rate. A Post-Results cycle is pre-committed to that event.

WHERE WE SEE IT DIFFERENTLY

Market believes *X* / We believe *Y* — each pressure-tested against external evidence, with the observable that settles it.

The gap, in one visual:



The market prices Adobe as **category: disrupted legacy software**. If the thesis is right, Adobe is a different category entirely — **the IP-safe production-and-distribution layer of the AI creative stack**, the toll road every commercially-usable generated asset still has to travel. That is the re-categorization the whole divergence turns on.

1. **Market believes** generative AI is Adobe's Kodak moment — image generation is nearly free, so the tools are worthless. **Why consensus holds this (and it is not stupid):** it watched the cost of a usable image fall to near-zero in ~18 months, watched Figma and Canva take share at the edges, and extrapolated the Kodak pattern — a dominant incumbent killed by a technology it couldn't outrun. That is a *reasonable* prior. **We believe** it mis-locates the disruption: when generation goes to zero, the scarce layer becomes the one that makes AI output *usable, brand-safe, and shippable at professional standard* — licensing-clean training data (Firefly), the professional editing workflow, and the enterprise relationship. Adobe currently has meaningful positions in all three, and Kodak's real lesson is that *film died while photography exploded* — the incumbent that owns the new medium's safe-supply layer is the digital-camera seller, not the film-maker. **Evidence:** Firefly is commercially indemnified and trained on licensed content [S16]; 95%-gross-margin Digital Media persists through the AI wave [S20]. **Settles it:** enterprise Firefly adoption citing IP-safety as the reason.
2. **Market believes** the six-quarter ARR deceleration is the leading edge of structural decline. **We believe** it is a deliberate, disclosed decision to defer price increases and give product away to grow the funnel from 50M to 90M MAU — trading near-term ARR for future monetization surface [S17][S19]. **Settles it:** whether MAU converts to paid within 4–6 quarters.
3. **Market believes** EPS growth is a financial illusion carried by buybacks (Q2 GAAP net income grew ~1%) [S4]. **We believe** the buyback at ~9× FCF is one of the most value-accretive uses of capital available to any large-cap — ~\$11.3B of FY2025 repurchases (~12% of today's market cap) cut the net diluted share count ~5% in FY2025, and at an 8.7% owner-earnings yield that compounds per-share value fast *even if the business merely holds* [S1][S14]. **Settles it:** free-cash-flow-per-share trajectory, not absolute net income.
4. **Market believes** the CEO+CFO transition signals internal trouble at exactly the wrong moment. **We believe** it is a real, un-ignorable risk — but Narayan is leaving as Chair after 18 years and a >10× revenue build, not being ejected, and the pivot strategy predates the transition [S5]. **Settles it:** the identity and mandate of the new CEO.
5. **Market believes** Figma and Canva are eating Adobe. **We believe** they are winning *adjacent* categories (UI/product design; prosumer/SMB) at extreme valuations (Figma ~68× revenue) while Adobe defends the professional core and enterprise — the encroachment is real at the edges, not the center [S10][S11]. **Settles it:** Creative Cloud enterprise net revenue retention.

The fastest public test across these divergences: organic Digital Media net-new ARR — it is the quickest outcome signal on whether Adobe's commercial relevance is holding. It does *not* on its own resolve every divergence: whether Adobe is building *proprietary learning* on the agentic curve is confirmed by AI-first ARR and freemium conversion, and settled only by primary evidence on whether professionals run agents *inside* Adobe or move the workflow outside it.

So what: both sides agree on today's numbers — the disagreement is purely about *category*. If we are right, every quarter that organic ARR holds is evidence the market is mis-categorizing a workflow-and-distribution layer as legacy software, and the re-rating from 9× toward the ~18× software median is the prize. If we are wrong, that same line tells you first.

DEPTH REPORT

The forensic layer behind the decision. The front matter carries the conclusion; what follows is the evidence, the adversarial review, and the audit trail. A reader who has read only the Executive Brief has the thesis; a reader who works through the Depth Report can check it.

Company Overview

This section answers: why has Adobe historically earned 95% gross margins — and what now threatens them?

Business in Plain English

Adobe sells the tools professionals use to make and manage digital content, and it sells them as subscriptions. There are two engines. The first and larger, **Digital Media** (~\$17.6B of FY2025's \$23.8B revenue, 95% gross margin), is Creative Cloud — Photoshop, Illustrator, Premiere, After Effects, Lightroom, the newer Express, and Firefly, Adobe's generative-AI model — plus the Document Cloud franchise built around Acrobat and the PDF, which Adobe invented. A designer, a video editor, a marketing team, or a student pays a recurring fee for access; Adobe recognizes it as annual recurring revenue (ARR), and the business's health is read not off quarterly revenue but off the *growth in that ARR base* [S1][S20].

The second engine, **Digital Experience** (~\$5.9B, 72% gross margin), is enterprise software: tools for large companies to build websites, run marketing campaigns, manage customer data, and measure what works — Adobe Experience Manager, Analytics, and the Marketo/marketing stack, now joined by the newly acquired Semrush. A tiny legacy Publishing & Advertising line (~\$0.25B) rounds out the total [S20].

How it makes money and why customers stay: the value is not any single feature — it is that Adobe's formats and tools are the *lingua franca* of professional creative work. A photograph is edited in Photoshop, laid out in InDesign, and delivered as a PDF; an agency's entire pipeline, its file formats, its plug-ins, and the muscle memory of everyone it employs are built around Adobe. That is a switching cost measured not in dollars but in retraining an industry. For enterprises, the Digital Experience stack sits inside mission-critical marketing operations that are painful and risky to rip out. This is why gross margins sit at 95% and why the business has historically raised prices without losing customers.

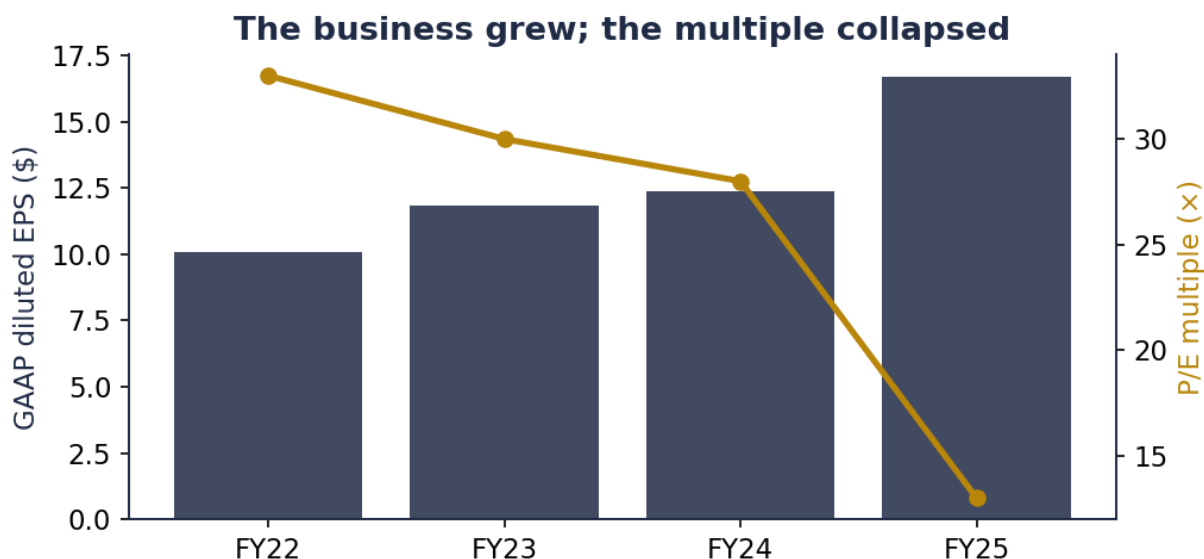
What makes it structurally interesting — and fragile — right now: generative AI attacks the premise. If a marketer can describe an image and get a finished, on-brand asset from an AI agent without ever opening Photoshop, the workflow that anchors the switching cost weakens. Adobe's answer is threefold: build its own model (Firefly) trained on licensed, commercially-safe content so enterprises can use generated assets without legal risk; embed AI *inside* the existing apps so the workflow absorbs the technology rather than being replaced by it; and flood the top of the funnel with free product (Express, freemium Firefly, Acrobat AI) to keep users inside Adobe's gravity. The strategic bet is that Adobe becomes the *place AI creative work gets finished and shipped*, not the place it gets disrupted. The single biggest dependency is therefore behavioral: whether professionals and marketers keep doing their work *in* Adobe's tools as AI agents mature.

Gate check: a reader who has read this section can explain what Adobe sells, how it earns its 95% margin, why customers are sticky, and the one question the whole investment turns on — the workflow-vs-agent question.

How We Got Here

FY	Revenue (B) Net income(B)	GAAP diluted EPS (\$)	P/E (avg)	
FY22	17.61	4.76	10.10	~33×
FY23	19.41	5.43	11.82	~30×
FY24	21.51	5.56	12.36	~28×
FY25	23.77	7.13	16.70	~13×

Figures FY22–FY25 from company filings [S1][S2]; P/E from market data [S9].



The business grew; the multiple collapsed — GAAP diluted EPS vs average P/E

Total-shareholder-return decomposition (FY22→FY25): earnings growth has been strongly positive (EPS +66% over three years), but the stock is roughly *flat-to-down* over the period — the entire gap is **multiple de-rating** (~33× → ~13×), partly offset by a rising buyback yield. This is the single most important fact about the last three years: *the business grew; the multiple collapsed*. The investment question is whether that de-rating was a correct re-pricing of terminal risk or an overshoot.

Ownership Intelligence

Holder type	Approx. holding	Direction
Institutional (mutual/index/active)	~85%	Stable-to-down (some active exits)
Insiders/management	<1%	Stable
Retail/other	~14%	Up

Ownership is diffuse and institution-dominated, typical of US mega-cap software [S8]. **Implication:** there is no promoter/controlling shareholder — governance risk here is board-and-succession risk, not related-party risk. The relevant signal is that the multi-year de-rating has coincided with active-manager selling; a name where *institutions looked and left* de-rates differently from one they never owned. That the stock now trades at ~9× is partly a story of forced/benchmark-driven selling into the disruption narrative.

Evolution Timeline

Founded 1982 (PostScript) → invented the PDF (1993) and Photoshop-led creative dominance → **2013 transition from packaged software to Creative Cloud subscription** (the defining strategic act, executed under Narayen) → Document Cloud + Marketing/Experience Cloud build-out → **2023: \$20B Figma acquisition announced, then abandoned (Dec 2023, \$1B breakup fee paid)** under regulatory pressure [S10] → **2023–24 Firefly launch** → **2026: the AI inflection** — freemium pivot, Semrush + Topaz acquisitions, and a CEO+CFO transition. *Next disclosed milestone:* naming of Narayen's successor [S5].

Sector KPI Anchor

The 2–3 metrics that actually drive value in subscription creative/enterprise software, with Adobe’s current reading and direction:

- **Organic net-new ARR growth (→, decelerating):** the master value driver. ~10.5% organic and stepping down for six quarters [S19]. *Mechanism:* ARR is the present value of the subscriber base; its *growth rate* is what the multiple capitalizes. This is directional-down and is the reason the multiple fell.
- **Net revenue retention / cRPO growth (→):** cRPO grew ~11% and total RPO ~13% in FY25 [S15]. *Mechanism:* forward-booked demand; still double-digit, which is inconsistent with imminent collapse.
- **FCF margin & buyback (↑):** ~42% FCF margin; ~\$11.3B of FY2025 repurchases (~12% of today’s market cap) cut the net diluted share count ~5% in FY2025; a fresh \$25B authorization runs through April 2030 [S1][S14]. *Mechanism:* per-share compounding independent of top-line — a support under the bear case.

Industry & How It Evolves

The creative and marketing-software market Adobe leads is being reshaped by generative AI faster than any prior technology transition it has navigated. Five points frame it.

Size & structure. Adobe’s addressable market spans professional creative tools, document workflows, and enterprise marketing software — a combined opportunity management sizes in the hundreds of billions, but the more decision-relevant number is the *generative-AI-in-creative* slice, estimated at ~\$4.1B in 2025 growing to ~\$5.4B in 2026, a ~32% CAGR [S12]. The professional core is consolidated (Adobe dominant); the new AI-native layer is fragmenting fast, with well-capitalized entrants (OpenAI, Google, Midjourney, Canva, Figma, Anthropic) all shipping. **So what (decision):** the pie is growing *and* the number of hands reaching for it is rising — TAM growth alone does not accrue to Adobe.

The 2–3 secular drivers. (1) *Cost-of-creation collapse* — AI drives the marginal cost of a usable image/video toward zero, expanding who can create (demand-side tailwind) while threatening per-seat pricing (supply-side headwind). (2) *Content explosion* — enterprises need vastly more personalized content, which favors whoever owns the production-and-governance layer. (3) *Enterprise AI-safety demand* — commercial users cannot ship legally-uncertain generated content, creating a durable pull toward indemnified, licensed-data models. **So what (decision):** drivers (2) and (3) favor Adobe’s node; driver (1) is the double-edge.

How it evolves + the building blocks. Over the hold, the stack re-forms around a new **agentic-orchestration layer** — “prompt to finished asset.” The building blocks being assembled: the *model* (commoditizing at the output level), *commercially-safe training data* (scarce — Adobe’s Firefly, Getty), the *professional workflow* (Adobe’s core), *agentic orchestration* (contested, forming now — Canva AI 2.0, Figma agent, Claude Design), and *distribution/installed base* (Adobe strong). The open question is whether orchestration is captured *inside* the incumbent workflow or *around* it. **So what (decision):** value is migrating to whoever owns orchestration + safe data; Adobe is positioned in both but not uncontested.

Regulatory / policy trajectory. Double-edged. Copyright and training-data litigation *helps* Adobe (its licensed-data model is the safe harbor) while AI-content-provenance rules (C2PA, which Adobe co-authored) entrench its standards; antitrust *hurt* it (the Figma deal was blocked). **So what (decision):** the regulatory arc net-favors the IP-safe incumbent — a tailwind the market is not pricing.

So-what for this name. Adobe sits at the intersection of the two building blocks value is migrating *toward* — safe data and distribution — and one it must defend (workflow). It is not in the eroding raw-generation node. **Investment implication:** the industry’s evolution is not uniformly bearish for Adobe; it is bearish for the *generation* layer and contested for the *workflow* layer, which is precisely the distinction the market’s blanket de-rating collapses.

Model & valuation link — Revenue: the agentic-orchestration outcome sets the Digital Media growth taper (base 6%→3%). **Margins:** freemium/price-deferral pressures the sustainable operating margin (base 45%). **Valuation:** both feed the DCF FCF path. **Monitorable:** organic DMe ARR growth.

Value Chain Position

Chain compressed to the highest-signal nodes; Adobe’s span highlighted.

Node	Gross margin	Moat	Value migration
Foundation model / compute	50–70% (est.)	Model scale	→ then ↓ (output commoditizing)
IP-safe / commercial model layer (Firefly) (Adobe)	~90% (est.)	Licensed data + indemnity	↑ Accumulating
Professional workflow apps (Adobe)	~95% (conf.)	Switching cost, muscle memory	→ Stable ; ↓ risk from agents
Agentic orchestration	n/a (forming)	Winner emerging	↑ Accumulating (new node)
Distribution / installed base (Adobe)	~90% (est.)	Scale, enterprise lock-in	→ Stable

Margins Confirmed for the Digital Media workflow node (95%, FY25 filing [S20]); Inferred elsewhere.

Top-down × bottom-up verdict: Adobe holds a genuinely defensible workflow-and-distribution node with a real IP-safety control point, inside a theme where value is migrating away from the raw-generation node it does not depend on — but the agentic layer that commoditizes generation is also the one force that could turn the professional workflow from a moat into a legacy destination. The bottom-up quality is real; its durability reduces to one question — does the workflow survive the agent, or does the agent become the workflow? (This verdict is carried into the Anti-Thesis lead leg and Key Variable 1.)

Investment implication: Adobe is a verticalist, not a wrapper — it owns the workflow, the data, and the sales motion, not a single re-creatable task. That is why the current-margin durability is real *today*. Whether it is durable *through the hold* is the one thing the value chain cannot settle on its own.

Snapshot Scorecard

14 dimensions. Green / Amber / Red + rationale + the specific condition that moves the rating.

No.	Dimension	Rating	One-line rationale	Moves band if
1	Market Opportunity	Amber	Huge, growing TAM, but value migration to the AI-native layer is contested	if AI-first ARR sustains >100% growth; if organic ARR <9%
2	Business Economics	Green	95% DMe gross margin, ~45% operating margin, recurring model	only if operating margin breaks <40%
3	Character Through Cycles	Green	Navigated the 2013 pack-aged→subscription transition successfully	if freemium pivot mis-managed
4	Cash Generation	Green	~\$10B FCF, ~42% FCF margin, low capex	if FCF margin <35%
5	Balance Sheet	Green	~net-cash, investment-grade, ample coverage	if M&A adds material leverage
6	Reinvestment Runway	Amber	Reinvests via M&A (Semrush, Topaz) more than organic capex; runway real but ROIC on deals unproven	if AI monetization scales organically

No.	Dimension	Rating	One-line rationale	Moves band if
7	Competitive Advantage	Amber	Deep in the professional core; encroached at the edges (Figma/Canva) and threatened by agents	if enterprise NRR holds; if agent adoption bypasses workflow
8	Customer Value	Green	Mission-critical, high switching cost, industry-standard formats	if prosumer churn to Canva accelerates
9	Accounting Quality	Green	Clean, high-disclosure; one non-cash goodwill impairment noted [S3]	if acquisition goodwill grows materially
10	Operating Leverage	Green	Software model; incremental margins high	if freemium permanently dilutes
11	Management Quality	Amber	Strong track record, but simultaneous CEO+CFO departure mid-pivot	once a credible CEO is named
12	Capital Allocation	Green (cond.)	~\$11B/yr buyback at ~9× FCF is highly accretive; R&D ~18% of revenue funds the next curve	to Amber if R&D stalls / organic ARR falls while buybacks rise (harvest signal), or a large dilutive deal
13	Leadership Continuity	Red	CEO (18-yr) and CFO departing at the most critical strategic moment [S5][S18]	once succession resolves credibly
14	Relevance / Bigger Picture	Amber	The underlying need (content creation) is growing; the question is Adobe's share of it	if it captures the AI creative layer; if disintermediated

Dispersion note: three Greens carry the thesis (Economics, Cash Generation, Capital Allocation); one Red and four contested Ambers threaten it. Culture is folded into Management (no independent evidence base) and is shown as N/A rather than a padding Amber.

Compounding Synthesis

The weakest *thesis-relevant* dimension is **Competitive Advantage** — not because Adobe's moat is weak today, but because it is the dimension where the disruption acts. A 95% gross margin and industry-standard formats are a formidable moat *in a world where professionals do their work in creative applications*. The entire bear case is that generative agents change that world. The moat is not eroding operationally — enterprise retention and gross margins are intact — but it sits in a node under structural attack.

Does the weak link structurally cap the compounding outcome? **Partly, and asymmetrically.** If the workflow holds, none of the Green dimensions are threatened and the compounding machine (double-digit ARR × 95% margins × ~12% gross buyback yield) runs for years — that is the \$349–583 outcome. If the workflow is disintermediated, the Greens decay in sequence (ARR growth → operating leverage → cash generation) and the terminal value the market fears is real — the \$147 outcome. The weak link does not cap the *upside*; it defines the *bimodality*. This is not a business that muddles to a middling outcome — it either compounds or it breaks. Organic Digital Media ARR is the fastest public *outcome* signal for which way the fork resolves; AI-first ARR, paid conversion, and primary workflow evidence are what explain *why*.

Top-down read: *Adobe holds a defensible workflow-and-distribution node inside a theme where value is migrating away from raw generation — but the agentic layer that commoditizes generation could turn the*

workflow from a moat into a legacy destination; durability reduces to whether the workflow survives the agent.

The deeper formulation — is Adobe earning the moat or spending it? The client-facing question is “*does AI still need Adobe’s workflow?*” The sharper internal version is: *can Adobe use its installed workflow, enterprise relationships, and proprietary licensed-data position to learn and improve faster on the agentic curve than AI-native rivals — or will those same assets become organizational constraints that push it to protect the application model while the workflow moves elsewhere?* The moat Adobe owns today (formats, installed base, switching costs) is accumulated capital built from earlier learning; a large moat can stay financially productive for years *after* the learning underneath it has flattened. That lag is exactly Adobe’s risk — and why intact retention and 95% margins are not, by themselves, evidence the curve is still steep.

Structural verdict — learner or protector? Genuinely mixed, which is the honest read. The evidence *for* learner behaviour is real and deliberate: Adobe is deferring price increases, giving away more product, expanding the creative funnel from ~50M to ~90M MAU, embedding Firefly inside the applications, and accepting near-term monetization uncertainty to defend the future workflow — that is precisely the willingness to cannibalize the old model that the durable compounders show. The evidence *against* is equally real: very large buybacks during the transition, greater reliance on acquisitions, six quarters of organic ARR deceleration, no disclosed freemium conversion rate, no disclosed Firefly enterprise share, and CEO+CFO turnover mid-pivot. **Net: Adobe is an incumbent showing genuine learner behaviour whose conversion into a durable *agentic* advantage is not yet proven.** That is exactly what supports the Medium-confidence, lean-constructive call — it justifies neither Bull nor Bear until the agentic-learning evidence arrives.

Investment implication: the reason to do the work on Adobe is precisely that the outcome is bimodal and the pivot point is *watchable* — a thesis you can be wrong about quickly and cheaply, the best kind to underwrite at a distressed price.

Key Variables — Thesis Drivers

No.	Variable	Current level / trajectory	Threshold that matters	Drawn from
1	Organic Digital Media net-new ARR growth	~10.5% ex-Semrush, 6-qtr step-down [S19]	Re-accel >11% = workflow intact; <9% = agent winning	Competitive Advantage / value-chain verdict
2	AI-first ARR	>\$500M, tripled YoY; Firefly ~\$300M [S16]	Sustain >100% growth toward ~\$1.5B FY27 = monetization real	Market Opportunity / Valuation
3	Freemium MAU → paid conversion	90M creative MAU (from 50M) [S17]	Visible paid conversion within 4–6 qtrs, else permanent dilution	Customer Value / Operating Leverage
4	Non-GAAP operating margin	~45% [S1]	Hold ≥44% through pivot = pricing intact; <42% = buying share with price	Business Economics / DCF margin
5	Firefly enterprise IP-safety share	Unknown — not disclosed	Named enterprise wins citing indemnification = control point holds	Competitive Advantage / Anti-Thesis bear leg 2

Investment implication: four of the five variables are *observable within a year* and three print every quarter. The

thesis is unusually falsifiable for a mega-cap — you do not need to wait five years to learn whether you were right about the workflow.

Dimensional Analysis

Full depth on each of the 14. Every dimension closes with an Investment implication and contains at least one explicit challenge to the consensus read.

Market Opportunity — Amber. The addressable market is large and growing, but the analytically honest point is that *TAM growth is not the variable* — value migration within the stack is. The generative-AI creative slice compounds ~32% [S12], yet that growth is being competed for by the best-funded companies in technology. *Challenge to consensus:* bulls cite TAM expansion as if Adobe automatically participates; it does not — a growing pie with more forks is a share fight, and Adobe's share of the *new* AI-native spend is unproven beyond the \$500M AI-first ARR. *Investment implication:* rate the opportunity on captured AI-ARR, not on TAM slides.

Business Economics — Green. A 95% Digital Media gross margin and ~45% non-GAAP operating margin on recurring revenue is among the best economic models in software [S20]. *Challenge:* the freemium pivot deliberately spends some of this margin to buy reach; the question is whether that is investment or the first crack. The evidence says investment — margins are guided to hold ~45% in FY26 [S1] — but this is the number to watch. *Investment implication:* the economics are the floor under the bear case; a margin break would be the first hard signal the bear is right.

Character Through Cycles — Green. Adobe executed the hardest transition in enterprise software — packaged licenses to cloud subscription (2013) — and came out larger and more profitable. That is genuine evidence of adaptability under existential pressure, the exact trait the current pivot demands. *Challenge:* the operator who ran that transition (Narayan) is leaving; institutional memory of *how* to navigate a model shift may walk out the door. *Investment implication:* the track record is real but is partly embodied in a person now departing — see Leadership Continuity.

Cash Generation — Green. ~\$10B FCF, ~42% FCF margin, capex under \$0.5B [S1]. Cash conversion is near-total. *Challenge:* stock-based compensation is a real economic cost partly masking GAAP-vs-FCF gaps; buybacks offset dilution rather than purely returning capital. Even net of ~\$1.5–2B annual SBC, the FCF is enormous. *Investment implication:* the cash engine is the single most under-priced fact in the stock at ~9× FCF.

Balance Sheet — Green. Modest net cash: liquidity \$6.6B (cash \$5.4B + short-term investments \$1.2B) against debt \$6.2B = ~\$0.4B net cash, investment-grade [S1]. *Challenge:* debt rose to fund buybacks and M&A; a string of large deals could change the profile. As is, the balance sheet is a non-issue. *Investment implication:* balance-sheet risk is not part of this thesis.

Reinvestment Runway — Amber. Adobe reinvests less through organic capex (software) and more through M&A — Semrush (~\$2B) and Topaz (~\$0.7–1.0B) in 2026 alone [S6][S7]. *Challenge:* buying \$480M of Semrush ARR to fill an organic ARR gap is a reinvestment *and* a tell — if the core were compounding organically, the deals would be optional. The ROIC on these deals is unproven. *Investment implication:* watch whether M&A is additive or substitutive for organic growth (Anti-Thesis bear leg 4).

Competitive Advantage — Amber (the weak link). The moat — industry-standard formats, deep workflow integration, enterprise lock-in, and now IP-safe Firefly — is powerful in the professional core and genuinely encroached at the edges by Figma (product design) and Canva (prosumer/SMB) [S10][S11]. *Challenge to both sides:* bears over-read Figma/Canva as center-of-the-target competition when they are winning adjacent categories; bulls under-weight that agentic orchestration is a *new node* that could bypass the workflow entirely, a threat neither Figma nor Canva posed historically. The moat is intact against *today's* competitors and untested against *tomorrow's* interaction model. *Investment implication:* this is where the thesis lives or dies; everything routes back to organic DMe ARR.

Customer Value — Green. For professionals and enterprises, Adobe is mission-critical infrastructure with formats and pipelines built around it. Net revenue retention in enterprise remains strong (cRPO +11% [S15]). *Challenge:* prosumer/individual value is more contestable — a hobbyist or small business genuinely can switch to Canva or a free AI tool, and the 50M→90M freemium MAU move is partly a defensive response to that reality. *Investment implication:* the enterprise core is defensible; the long tail is where share leaks first and should be watched as an early indicator.

Accounting Quality — Green. High disclosure, clean statements, conservative revenue recognition on subscriptions.

The one item of note is a \$0.17/share non-cash goodwill impairment in Q2 FY26 [S3] — small and disclosed, but a reminder that acquisition goodwill is accumulating as M&A picks up. *Challenge:* as deals grow, watch goodwill as a share of assets and any future impairments. *Investment implication:* accounting is not a concern; goodwill trajectory is a mild watch-item.

Operating Leverage — Green. Incremental software margins are high; the model scales. *Challenge:* the freemium strategy inverts the usual leverage — costs (compute for free AI generations) rise ahead of monetization, so near-term incremental margins compress by design. This is temporary *if* conversion follows. *Investment implication:* margin trajectory through the pivot is Key Variable 4.

Management Quality — Amber. Deep bench and a genuine record, but the simultaneous CEO+CFO transition is a real quality discount right now [S5][S18]. *Challenge:* markets often over-punish transitions; but the honest read is that executing a bet-the-franchise pivot with two new C-suite principals raises execution variance. *Investment implication:* upgrade path is a credible CEO appointment (a catalyst).

Capital Allocation — Green (conditional). Deploying ~\$11B/yr into buybacks — a ~12% gross yield at ~9× FCF (net share count fell ~5% in FY25 after stock-comp issuance) is, mechanically, one of the highest-return capital deployments available to any large-cap — it is the bull case’s quiet engine [S14]. M&A has been disciplined in size. *Two challenges, one deeper than the other.* The first is the bear’s standard rejoinder: buybacks at a low multiple are accretive only if the business is not impaired — a value-trap buyback destroys value, and that is fair. The second is more structural and is why the rating is *conditional*: **during a technology transition, returning cash is not automatically excellent allocation — it can signal harvesting the old learning curve rather than funding the next one** (“buybacks mask a flattening curve”). The honest test is not “are the repurchases accretive today?” but “*after fully funding Firefly, agentic workflows, proprietary data, and distribution, is the remaining cash genuinely excess — or is Adobe returning it for want of productive next-curve uses?*” On today’s evidence the harvest read is **not** established: R&D is ~\$4.3B (~18% of revenue) and rising, and the two acquisitions are aimed squarely at the AI curve — that is real next-curve funding, so the buyback still reads as genuine surplus deployed well. *Investment implication:* the buyback is a lever multiplier on whichever scenario proves true — accretive in base/bull, value-destructive in bear — and its *quality* is conditional on the learning loop staying active. **Moves to Amber if:** R&D growth stalls or organic ARR keeps decelerating *while* buybacks rise — i.e. cash is being returned because Adobe has run short of productive ways to climb the next curve, not because it is genuine excess.

Leadership Continuity — Red. The only Red. Shantanu Narayen, CEO for 18 years and architect of the subscription transition, announced his transition (staying as Chair) in March 2026 with *no successor yet named*; CFO Dan Durn is also departing [S5][S18]. Two C-suite vacancies during the most consequential strategic pivot since 2013. *Challenge to the bull:* you cannot wave this away — leadership is where a pivot is won or lost, and Adobe is changing pilots mid-maneuver. *Challenge to the bear:* this is a resignation-as-Chair after a >10× build, not a crisis exit, and the strategy predates the departure. *Investment implication:* this is the single most resolvable overhang — a strong external or internal appointment converts it from Red to Amber and is a defined catalyst.

Relevance / Bigger Picture — Amber. The First-Principle question: is the world moving toward or away from what Adobe does? The underlying need — creating and managing digital content — is *growing explosively*, not declining. The risk is not obsolescence of the need but disintermediation of the provider. *Challenge:* a business can be perfectly relevant and still lose, if the value migrates to a different layer (the Kodak-vs-photography distinction — photography boomed; Kodak died). *Investment implication:* relevance of the *need* is confirmed; relevance of *Adobe’s node* is the open question, which is exactly the value-chain verdict.

Insight box — the Kodak inversion. The bear analogy is Kodak: a dominant incumbent killed by a technology shift. But the precise Kodak lesson is that *film died while photography exploded* — the need grew, the provider missed the migration. The bull inversion is that Adobe, unlike Kodak, *owns the new medium’s safe-supply and distribution layer* (Firefly’s licensed data + Creative Cloud) rather than clinging to the old one. Whether Adobe is Kodak or is *the company that sold the digital cameras* is the entire debate — and it is decided at one node: the workflow.

Anti-Thesis

Argued as hard as the bull case. Four legs, then sorted into thesis-killers versus reasons-the-asset-is-cheap.

The bear in one line: the risk is not that Adobe fails to build good AI — it is that it builds good AI *inside* a workflow the market is leaving. AI usage, free-user counts, and Firefly output can all rise while the new workflow ownership accumulates *outside* Adobe. That is the failure mode Bear leg 1 describes; the rest is detail.

Bear leg 1 — The agent becomes the workflow (thesis-killer). *Causal chain:* as agentic tools mature (“age of creative agents,” April 2026 [S12]), a marketer describes a finished, on-brand asset in natural language and receives it — no Photoshop, no timeline, no layers — *because* the agent orchestrates the model directly. *Therefore* the work migrates from the application to the agent; *because* Adobe’s switching cost is built on the application, that switching cost evaporates when the work leaves it; *which means* value migrates to whoever owns the agent and the model, not the legacy editor. Canva AI 2.0, Figma’s native design agent, and Anthropic’s Claude Design are early instances of the orchestration node forming *outside* Adobe [S12]. The mechanism is disintermediation of the center, not encroachment at the edges — and it would show up first as organic Digital Media ARR sliding while MAU rises, exactly the pattern beginning now, per the Q2 FY26 disclosure [S17][S19]. *Falsification:* organic DMe ARR re-accelerates and enterprise NRR holds even as agents proliferate, evidence the agent runs *inside* Adobe. *Monitorable:* organic DMe ARR + MAU/paid mix.

Bear leg 2 — IP-safety gets commoditized (thesis-killer). *Causal chain:* Firefly’s differentiation exists *because* it is trained on licensed content and commercially indemnified, so enterprises can ship its output without legal risk, according to management’s positioning per the Q2 earnings commentary [S16]. But *if* OpenAI, Google, and Getty offer their own indemnification and licensing deals — which they are moving toward — *then* the scarcity of “safe generation” collapses; *because* safety is no longer scarce, Firefly’s moat reduces to raw model quality, *where* Adobe is not the frontier leader. *The result:* the control point Lantern identifies in the value chain is neutralized by the deepest-pocketed companies in technology, and Firefly’s ~\$300M ARR growth [S16] decelerates as pricing power evaporates. *Falsification:* named enterprise Firefly wins citing IP-safety as the deciding factor, and Firefly ARR sustaining >100% growth. *Monitorable:* Firefly enterprise ARR and competitive indemnification announcements.

Bear leg 3 — The earnings are financially engineered (reason the asset is cheap). *Causal chain:* per the Q2 FY26 filing, GAAP net income grew ~1% while non-GAAP EPS grew ~19%, confirmed in the earnings disclosure [S4] — the gap exists *because* buybacks shrink the denominator and add-backs lift the numerator, not *because* operating profit compounded. Compounding the concern, the “raised” ARR guide includes ~\$480M of acquired Semrush ARR [S7], which *masks* an organic *cut* of ~2 points [S19]; *therefore* a skeptic reads the headline “raise” as decline in disguise. *Sorting:* the mechanism is real but it is *visible and already priced* — it is precisely why the stock sits at ~9× and not 18× [S13], not a hidden landmine. Conditional on the workflow holding (Bear leg 1), buyback-driven per-share compounding at an 8.7% owner-earnings yield [S1] is a feature, not a fraud. *Monitorable:* organic vs. acquired ARR disclosure; FCF/share trajectory.

Bear leg 4 — Growth by acquisition masks organic erosion (reason the asset is cheap). *Causal chain:* Semrush and Topaz arrived in a single year [S6][S7], both AI/growth tuck-ins, *precisely as* organic ARR decelerated — and *because* buying growth to fill an organic hole is a classic late-cycle tell, the pattern raises the question of whether the core can still grow on its own. *Sorting:* the mechanism is worth watching, but *because* ~\$3B of tuck-ins sits against ~\$27B ARR and ~\$10B FCF [S1], it is margin-funded product acquisition, not balance-sheet-threatening empire-building; *therefore* it signals *where* organic growth is soft (useful) rather than *proving* impairment. *Monitorable:* deal cadence, size, and post-deal organic disclosure.

The thesis-break test — which of these would reverse the decision? Only two: Bear leg 1 (the agent becomes the workflow) and Bear leg 2 (IP-safety commoditized). Each breaks the compounding engine at its source, so confirmation of either reverses the thesis, not merely dents it. Bear legs 3 and 4 (buyback-carried EPS, M&A masking organic decline) would **not** break the thesis — they are *risks*, not thesis-killers; they are the visible reasons the asset is cheap, and conditional on the workflow holding they change sizing or confidence, not the core view. **This is the distinction that matters: an anti-thesis is only the two legs that would reverse the decision — everything else changes sizing or confidence, not the core thesis.** That is why sizing against the bear until Bear leg 1 shows its hand is the disciplined posture; if it never does, legs 3–4 are noise.

Honest symmetry close. *The strongest bull counter to this Anti-Thesis* is the reverse-DCF: even on Owner Earnings (stock comp charged), the price embeds only $\sim +0.8\%$ /yr growth forever, so Bear legs 1 and 2 must be not merely true but *severe and fast* — enough to turn $+0.8\%$ growth into outright decline — to justify \$221, a high bar the double-digit RPO and tripling AI-ARR do not yet clear [S15][S16]. *The bear case is most vulnerable* to one observable: if organic Digital Media ARR growth *stabilizes or re-accelerates above $\sim 11\%$ for two consecutive quarters* while enterprise NRR holds, Bear leg 1 is falsified at its root and the bear weakens materially — because that is direct evidence the agent is running inside the workflow, not replacing it. Conversely, the bull case is most vulnerable to organic ARR breaking below $\sim 9\%$ with falling ARR-per-user. Both sides therefore stake their claim on the *same* falsifiable metric — which is what makes this thesis honest rather than a risk list.

Investment implication: the Anti-Thesis is neither shorter nor softer than the bull case *because* the thesis-killers are genuinely capable of producing the \$147 outcome. But they are *watchable*, and the mispricing legs are already in the price. That combination — real downside, but observable, against a price that already assumes the downside — is the definition of an asymmetric setup worth monitoring.

Failure Pattern Assessment

The 10 patterns, each stated present/absent, checked against precedent where possible.

1. **Margin is borrowed** — *Largely absent.* Margins are real (95% DMe GM); the freemium pivot spends margin deliberately, not to hide unit-economics rot. *Watch:* if operating margin breaks $<42\%$ without conversion, this flips present.
2. **Growth by acquisition masking organic decline** — *Partially present* (Semrush/Topaz; Anti-Thesis bear leg 4). Precedent: many late-cycle software roll-ups; here the scale is modest relative to FCF.
3. **Disrupted incumbent in denial** — *This is the market's thesis; tested honestly.* Adobe is *not* in denial — the freemium pivot and Firefly are aggressive responses. Whether they are *sufficient* is the open question, but denial is not the failure mode here.
4. **Serial dilution** — *Absent.* Net share count is *falling* $\sim 5\%$ /yr (FY25, after stock-comp issuance); the opposite of dilution [S14].
5. **Capital allocation destroying value** — *Contested.* Buybacks are accretive if not impaired, value-destructive if impaired — scenario-dependent, not a standing flag.
6. **Accounting aggression** — *Absent.* Clean, high-disclosure; one small disclosed goodwill impairment.
7. **Governance/promoter risk** — *Absent structurally* (no controlling shareholder) but *elevated on succession* (Leadership Continuity).
8. **TAM fantasy** — *Absent.* The market is real and monetized; if anything the market under-credits the FCF, not over-credits the TAM.
9. **One-customer/one-product concentration** — *Absent.* Diversified across Creative, Document, and Experience clouds and millions of subscribers.
10. **Terminal-value borrowed from a heroic assumption** — *Absent in Lantern's base* (base FV uses Owner Earnings decelerating to a 2.5% terminal rate, RONIC-consistent; if anything the *market's* implied $\sim +0.8\%$ terminal owner-earnings growth is arguably too pessimistic for a business still compounding double-digit ARR).

Investment implication: the failure-pattern scan is unusually clean for a de-rated name — the one genuine present pattern (acquisition-masking) is modest, and the market's own pricing embeds the mirror-image failure (excessive terminal pessimism). This is more consistent with a mispriced compounder than a structurally broken one.

Scenario Analysis

Scenario	Prob.	Core assumptions	FV/share
Bear	35%	<i>Mouse trap</i> — Adobe keeps improving legacy apps but clean-slate agents own the end-to-end workflow; organic ARR fades to low-single-digit then negative; FCF declines ~3–4%/yr; margin to ~40%; WACC 10.5%	\$147
Base	45%	<i>Established player adapts</i> — AI runs inside Adobe, strengthening retention and moderating disruption, but Adobe does not own agentic orchestration; ARR decelerates but holds; FCF grows 6%→3%; margin ~45%; WACC 9.5%	\$349
Bull	20%	<i>Application expansion</i> — Adobe converts its installed base, enterprise trust and licensed data into control of the AI production-and-governance layer; AI-first ARR inflects; freemium converts; FCF grows ~10% tapering; margin ≥45%; WACC 9%	\$583

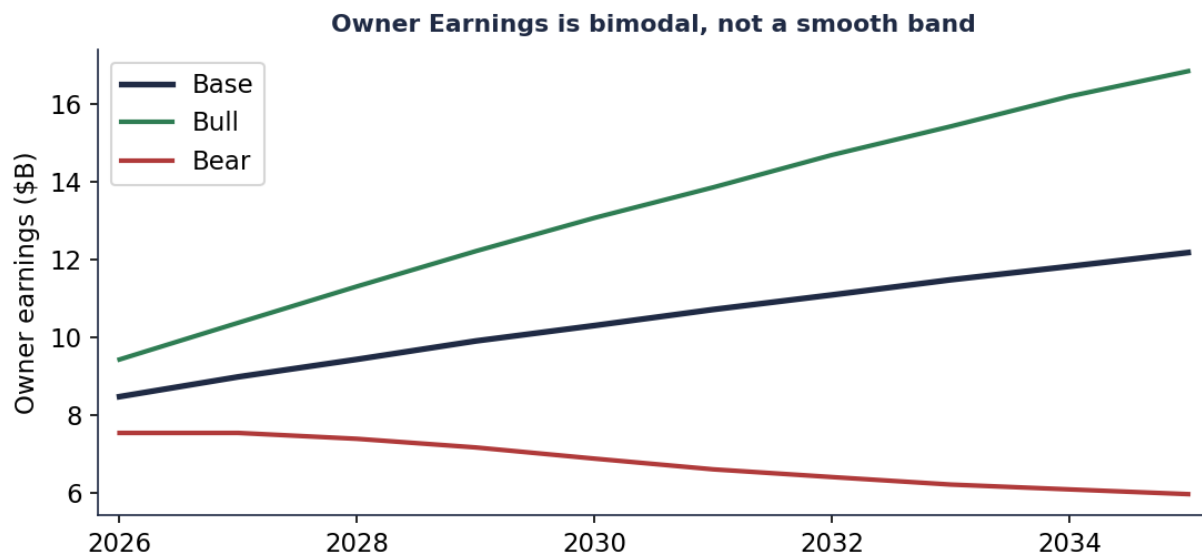
The scenarios are different **strategic states**, not just different growth rates: *Bear* = Adobe improves the old box while the market moves to a new one; *Base* = it adapts but shares the new layer; *Bull* = it owns the new production layer.

Why these weights (earned, not asserted):

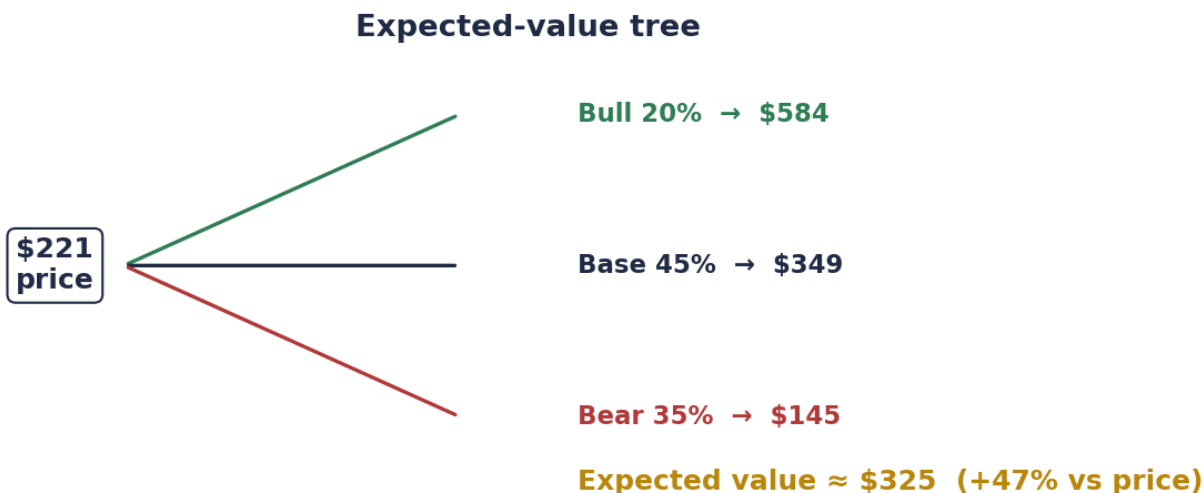
Weight	Why it is what it is	What would raise it
Bear 35%	The agentic threat is real and early, the ARR slide is six quarters old, and the CEO+CFO seat is empty mid-pivot — a genuine, not tail, probability	A sub-9% organic ARR print; a major enterprise agent win; a weak CEO appointment
Base 45%	The most likely path is “deceleration, not collapse” — double-digit RPO and tripling AI-ARR say the workflow is bending, not breaking, but not re-accelerating either	Organic ARR stabilizing ~10–11%; margin holding ≥44%

Weight	Why it is what it is	What would raise it
Bull 20%	Requires <i>two</i> things to go right (AI-ARR inflects <i>and</i> freemium converts) — deliberately the smallest weight because it is a conjunction, not a single event	AI-ARR >\$1.5B run-rate + visible paid conversion; a strong CEO

Probability-weighted fair value ≈ \$325 (vs. \$221 price). The distribution is deliberately bimodal — the base and bear are not neighbors, they are different companies. The bear weight is set *high for a cheap stock* on purpose, to avoid the confirmation bias of a low multiple.



Scenario fan — Owner Earnings is bimodal, not a smooth band



Expected-value tree

Our current view — and the two alternatives, steelmanned. We *lean Base* (constructive). But intelligent people hold the other two views for real reasons, and we state what would prove each right:

- **Bear view — why intelligent people believe it:** agentic tools are advancing fast, the ARR slide is six quarters old, and the company is changing CEO *and* CFO mid-pivot — a rational reading is that the workflow is quietly being disintermediated and the numbers just lag. *What would prove them right:* organic ARR <9% for two quarters with falling ARR-per-user; a marquee enterprise moving creative production onto an agent. → we move to Bear.
- **Bull view — why intelligent people believe it:** Firefly’s IP-safe model is a genuine enterprise control point, the freemium funnel (90M MAU) is an un-monetized asset, and a 9× multiple on a 95%-margin compounder is absurd if growth merely holds. *What would prove them right:* AI-first ARR >\$1.5B run-rate + visible freemium paid conversion + margin ≥45%. → we move to Bull.
- **Our lean (Base):** as the weights table sets out, the evidence favors deceleration over collapse. **So what:** we hold a Medium-confidence constructive view and let the primary signal — organic ARR, confirmed by AI-first ARR and workflow-retention evidence — arbitrate; at \$221 the market prices ~+0.8% perpetual owner-earnings growth — well below our base (~6% decelerating to 2.5%) but above our modeled bear (outright decline); the gap is either information we don’t have or an overshoot, and the monitorables are built to tell which.

Risk Map

No.	Risk	Mechanism	Early-warning signal
1	Agentic disintermediation	Work migrates from apps to agents; switching cost evaporates	Organic DMe ARR <9%; MAU up but ARR/user down
2	IP-safety commoditized	Model vendors offer indemnification; Firefly moat → price	Competitor indemnification launches; Firefly ARR growth <50%
3	Leadership execution gap	New CEO+CFO mismanage the pivot	Strategy reversals; guidance credibility erosion; delayed CEO naming

No.	Risk	Mechanism	Early-warning signal
4	Freemium never converts	90M MAU stays free; permanent ARR dilution	Paid-conversion silence 4–6 qtrs; ARPU decline
5	Multiple stays de-rated	Even if fundamentals hold, sentiment keeps the multiple at 9×	FCF/share compounds but stock flat — a “value realized via buyback, not re-rating” outcome

Investment implication: Risk 5 is the subtle one — the bull case can be *fundamentally right and still return modestly* if the market never re-rates; but the buyback (~5% net share-count reduction in FY25; ~12% gross yield at today’s price) means per-share value compounds even without re-rating, which is the floor that makes the setup defensible.

Catalysts

Positive and negative, tagged 3 / 6 / 12 months. Each with a Market Awareness Check.

Positive: - **New CEO announcement (3–9m).** *Market awareness:* low-to-medium — consensus is “Hold” pending clarity; a strong appointment is not priced [S13]. 52-week range shows the stock near lows, so positive succession news has room. *Multi-year base breakout check:* the stock is *not* in a confirmed breakout — it is near the bottom of a multi-year range (\$190–376) [S8]; timing is unconfirmed, argues for patience, not chasing. - **AI-first ARR beat / \$1.5B run-rate (6–12m).** *Market awareness:* low — the market is discounting AI monetization to ~zero; evidence of inflection would directly attack the disruption narrative. - **Organic ARR stabilization print (3–6m, Q3 FY26).** *Market awareness:* medium — this is the number everyone watches; a stabilization would be the single highest-impact positive surprise.

Negative: - **Organic ARR sub-9% print (3m).** *Market awareness:* medium — partly feared, not fully priced; would confirm Bear leg 1. - **A major agent launch capturing enterprise creative share (6–12m).** *Market awareness:* low-medium — the “age of creative agents” is a known narrative but a specific enterprise-share loss is not priced. - **Margin break <42% (6–12m).** *Market awareness:* low — consensus assumes ~45% holds.

Investment implication: the catalyst calendar is unusually dense and near-term — succession, Q3 print, AI-ARR run-rate all land within 12 months. This is a thesis that *resolves*, not one that drifts.

Financial Statements & Accounting Quality

All three statements; actuals from filings, forward estimates from the Segment Model. Estimates are Inferred and tie to the live model.

Income Statement (\$B)

\$B | FY23 | FY24 | FY25 | FY26E | FY27E | FY28E |

|—|—|—|—|—|—|—|—| Revenue | 19.41 | 21.51 | 23.77 | 26.5 | 28.8 | 31.0 | | Operating margin — GAAP (%) | 34.3 | 31.3 | 36.6 | 36.6 | 36.8 | 37.0 | | Operating margin — non-GAAP (%) | 46.0 | 46.6 | 46.2 | 45.0 | 45.0 | 45.0 | | Net income (GAAP) | 5.43 | 5.56 | 7.13 | 7.8 | 8.5 | 9.3 | | GAAP diluted EPS (\$) | 11.82 | 12.36 | 16.70 | 18.5 | 20.4 | 22.6 |

Actuals FY23–25 are Company-reported [S1][S2]. FY24 GAAP operating margin (31.3%) reflects the \$1.0B Figma termination fee — ex-fee GAAP margin ≈ 36.0%; non-GAAP operating margin excludes SBC, amortization and one-offs. EPS is GAAP diluted throughout (basic EPS was 16.73 in FY25). FY26E–28E are Lantern model outputs (Derived), anchored to Adobe’s FY26 guidance as raised on 11 Jun 2026 (revenue \$26.5–26.6B incl. Semrush; GAAP EPS \$17.90–18.00; non-GAAP EPS \$24.35–24.45; non-GAAP operating margin ~45%); FY26E revenue of ~\$26.5B ties to the updated guidance midpoint.

Balance Sheet (\$B)

\$B	FY23	FY24	FY25	FY26E
Cash & equivalents	7.14	7.61	5.43	5.6
Short-term investments	0.70	0.27	1.16	1.1
Liquidity (cash + STI)	7.84	7.89	6.60	6.7
Total debt (current + long-term)	3.63	5.63	6.21	6.0
Net cash (liquidity – debt)	+4.21	+2.26	+0.39	+0.7
RPO (off-balance-sheet)	17.22	19.96	22.52	25.3

Adobe held **~\$0.4B net cash** at FY25 (liquidity \$6.60B — cash \$5.43B **plus \$1.16B short-term investments** — against debt \$6.21B). Cash fell and debt rose in FY25 to fund \$11.3B of buybacks — a deliberate lever, not distress [S1][S14]. FY26E Derived.

Cash Flow (\$B)

\$B	FY23	FY24	FY25	FY26E
Operating cash flow	7.30	8.06	10.03	10.7
Capex (purchases of P&E)	–0.36	–0.18	–0.18	–0.5
Free cash flow (OCF – capex)	6.94	7.87	9.85	10.2
Buybacks	–4.6	–9.5	–11.3	–11.0

Actuals Company-reported [S1][S2]; FY25 FCF of \$9.85B ties to OCF \$10.03B less capex \$0.18B. FY26E Derived.

Key-Ratio Dashboard

Metric	FY24	FY25	FY26E	Peer median	Read
Revenue growth (GAAP reported)	10.8%	10.5%	11.5%	~15%	Adobe reports “11%” rounded; FY26E incl. Semrush elite
Non-GAAP op margin	46.6%	46.2%	~45%	~30%	
FCF margin	36.6%	41.4%	~38%	~25%	elite
ROE	36%	~55%	~55%	~22%	rising ROE is buyback-driven (equity shrinking), not margin expansion
Net cash / EBITDA	net-cash	net-cash	net-cash	~0.5× lev.	net-cash every year
Owner-earnings yield (at \$221)	—	—	8.7%	~3%	cheap, not “priced for death”
Forward P/E	~32×	~13×	~9.1×	18.5×	de-rated

Metric	FY24	FY25	FY26E	Peer median	Read
Gross buyback yield (at current mkt cap)	~10%	~12%	~12%	~2%	yield, not share-count cut (net shares -5%)
Rule of 40 (rev growth + FCF margin)	~47	~52	~49	40	clears comfortably

Peer set: large-cap application software (Microsoft, Intuit, Salesforce, Autodesk) [S13]. The two ratios that carry the thesis are the ~8.7% owner-earnings yield and the ~9.1× forward multiple (on Adobe's FY26 non-GAAP EPS guide of \$24.35–24.45, raised 11 Jun 2026) — both anomalous for a business still clearing the Rule of 40. Owner-earnings yield is shown only for the decision-relevant FY26E because it is a forward, price-dependent measure.

Accounting/disclosure quality (gist): clean, high-disclosure, conservative subscription revenue recognition; the only forensic note is a \$0.17/share non-cash goodwill impairment in Q2 FY26 [S3] and rising acquisition goodwill to watch as M&A accelerates. No confidence-adjustment required to dimensions 9, 10, or 12. The Beneish/earnings-quality screens are clean in background.

Valuation

*This section answers: **what growth is priced in, and what is the business worth once we charge stock comp as a real cost?***

Lantern Fair Value Estimate

Scenario	FV / share	Probability	Key assumption it turns on
Bear	\$147	35%	Agent disintermediates the workflow; FCF declines
Base	\$349	45%	Organic ARR decelerates but holds; FCF grows 6%→3%
Bull	\$583	20%	AI-ARR inflects; freemium converts; margin holds
Prob-weighted	≈ \$325	—	—

*Lantern's stand-alone view of what the business is worth, valued on **Owner Earnings** — free cash flow after charging the ~\$1.9B/yr of stock-based compensation as the real cost it is. The current price of \$221 is referenced only after. The distribution is asymmetric to the upside: probability-weighted FV ~47% above price, base ~58% above, modeled **bear (\$147)** ~34% below — see the reverse-DCF for what the price actually implies.*

Full trace: the complete ten-year Owner-Earnings forecast, each scenario's annual build (bear \$147 / base \$349 / bull \$583), the reverse-DCF solve, and the full sensitivity grid are carried in the accompanying financial model, from which every figure in this section is rendered — any number here can be reconstructed from its source.

Why Owner Earnings, not “FCF”. Adobe's reported free cash flow (~\$9.9B FY25) adds back stock-based compensation, which is non-cash but a genuine economic cost — Adobe spends ~\$11B/yr on buybacks largely to offset the dilution it creates. Charging SBC (~\$1.9B, ~7% of revenue) gives **Owner Earnings of ~\$8.0B FY26E (~\$19/share)**. The whole valuation is built on this number, not on the flattering pre-SBC figure. (*FCFF before the SBC charge is ~\$9.9B — it ties to reported FCF, a validation the build is right; on that looser basis fair value is ~\$431, shown only as an upper bound.*)

Value first, price second. On a 10-year explicit DCF of Owner Earnings — growing with the segment build (~6% early, decelerating to a 2.5% terminal rate), discounted at 9.5% — the business is worth **~\$349/share**. Terminal value

is **55% of enterprise value** (disclosed, not heroic). The 2.5% terminal growth is reinvestment-consistent: at a terminal RONIC of ~20%, it implies a terminal reinvestment rate of only ~12.5% ($g = \text{RONIC} \times \text{reinvestment rate} = 20\% \times 12.5\% = 2.5\%$), well within Adobe's cash generation.

Margin bridge & Owner-Earnings build (rendered from the model, \$B):

\$B	FY26E	FY27E	FY28E	FY29E	FY30E
Revenue	26.5	28.8	31.0	33.1	35.2
Non-GAAP EBIT (45% margin)	11.9	12.9	13.9	14.9	15.9
less: tax @ 20% → NOPAT	9.5	10.4	11.2	11.9	12.7
+ D&A	1.0	1.1	1.2	1.3	1.3
– capex	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)
– change in working capital	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
= FCFF	9.9	10.8	11.7	12.5	13.3
– SBC (real owner cost)	(1.9)	(2.1)	(2.2)	(2.4)	(2.5)
= Owner Earnings	8.0	8.7	9.4	10.1	10.7

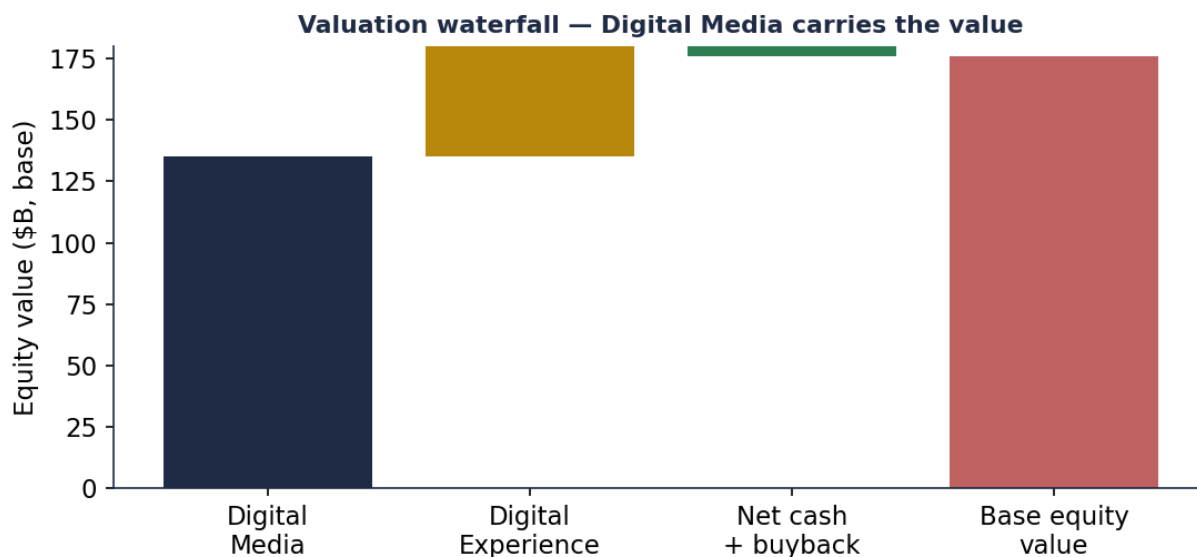
DCF waterfall roll-up (Owner Earnings, \$B):

Component	Value
PV of explicit Owner Earnings (FY26–35E)	65.9
PV of terminal value	80.6
Enterprise value	146.5
add: net cash (cash + ST investments – total debt)	+0.4
Equity value	146.9
÷ shares (~421M diluted, forecast avg) → fair value / share	~\$349
<i>memo: TV as % of EV</i>	55%

Absolute valuation — reverse DCF (the key exhibit, finished into drivers). Running the DCF in reverse on Owner Earnings: at **\$221**, the market is embedding roughly **+0.8% Owner-Earnings growth in perpetuity** [S1][S8]. This is the most important correction the model produced: on a pre-SBC “FCF” basis the price looks like it embeds *decline* (~–1.0%), but once SBC is charged, **the price embeds modest positive growth, not decline**. The tell: a zero-growth Owner-Earnings perpetuity is worth **~\$200/share — slightly below the \$221 price**. So the market is not pricing Adobe to shrink; it is pricing it to grow owner earnings ~0.8%/yr forever. *Finishing the back-solve into operating drivers:* +0.8% terminal OE growth, on a ~45% margin, corresponds to roughly **1–2% long-run revenue growth** — i.e., the market is underwriting organic Digital Media ARR growth fading from today's ~10.5% to low-single-digits and staying there. Our base underwrites the fade stopping nearer mid-single-digits. *That* — a few points of durable ARR growth — is the entire gap, and it is exactly what the workflow-vs-agent question decides.

Owner earnings yield. FY26E Owner Earnings ~\$8.0B (~\$19/share) against \$221 is an **~8.7% owner-earnings yield** (the looser FCFF yield is ~10.7%) — still ~2.5× the peer median and ~4 points above the ~4.3% risk-free rate, but no longer the double-digit “priced-for-death” yield the FCF shortcut implied. A high-quality compounder at an ~8.7% owner yield is cheap; it is not, on honest numbers, priced for terminal decline.

Valuation waterfall (per-segment). Digital Media (~\$17.6B revenue, 95% GM) contributes the overwhelming majority of intrinsic value; Digital Experience (~\$5.9B, 72% GM, now +Semrush) adds a growing enterprise annuity; Publishing is immaterial. On a sum-of-parts, applying even a *discounted* software multiple to Digital Media alone recovers most of the current market cap, with Digital Experience and the net-cash/buyback effectively free.



Valuation waterfall — Digital Media carries the value

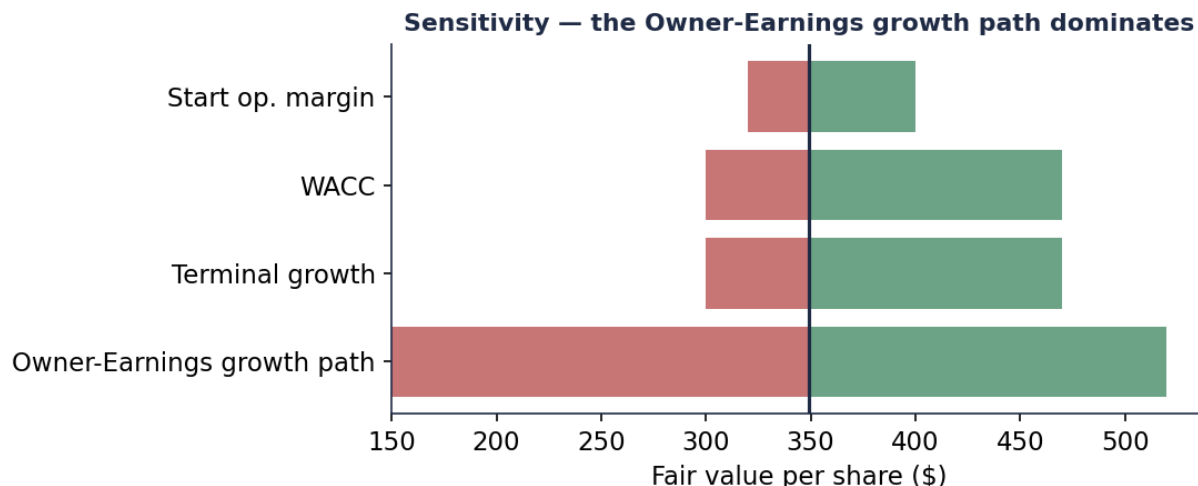
Relative valuation. At $\sim 9.1\times$ forward earnings (Adobe's FY26 non-GAAP EPS guide \$24.35–24.45, raised 11 Jun 2026) and $\sim 8.7\%$ owner-earnings yield, Adobe trades at roughly *half* the application-software median forward multiple ($\sim 18.5\times$) despite superior margins and cash generation [S13]. The discount is entirely a disruption discount — the market is not confused about the quality; it is betting the quality is temporary.

What's Priced In table.

Assumption implied by \$221	Implied level	Segment Model base	Gap
Perpetual Owner-Earnings growth	$\sim +0.8\%$	$+6\% \rightarrow 2.5\%$ taper	The whole thesis
Organic DMe ARR growth	fades to $\sim$ low-single-digit and stays	$\sim 10.5\%$ fading to mid-single	Moderate
AI-first ARR	little terminal value	tripling, $>\$500\text{M}$	Large
Operating margin	$\sim$ holds, no expansion	$\sim 45\%$ held	Small

This table feeds the Monitorables' surprise-direction tags and the Executive Brief headline.

Sensitivity (tornado). The FV is most sensitive, in order, to: (1) the Owner-Earnings growth path (the workflow question), (2) terminal growth, (3) WACC, (4) starting operating margin. Across a WACC of $8.5\text{--}10.5\%$ and terminal growth of $1.5\text{--}3.5\%$ (holding the base Owner-Earnings growth path), modeled FV ranges **$\sim \$265\text{--}\$428$** — the *entire* live sensitivity grid still sits above the current \$221. Only by pushing into the separately-modeled bear *path* — declining Owner Earnings, not just a higher discount rate — does FV fall to **$\$147$** , and that is what makes the bear a genuine $\sim 34\%$ outcome rather than a shallow one.



Sensitivity tornado — the Owner-Earnings growth path dominates

Margin of safety. Against the base case (\$349), the current price is a ~37% discount; against the probability-weighted FV (\$325), ~32%. Against the modeled bear (\$147), the downside is ~34%. The margin of safety is real but *not* a free lunch — the downside is genuine (the bear is a –34% outcome, not –13%), which is why the disciplined posture is to size against the bear, not the base. This is the resilience-scaled margin of safety: a bimodal outcome demands a wider cushion, and at \$221 the cushion to the base is ~37% while the bear is honestly modeled.

Expected-value tree. (Bear 35% × \$147) + (Base 45% × \$349) + (Bull 20% × \$583) = ~\$325. Expected value is ~47% above price; the payoff is asymmetric (–34% / +58% to base / +164% to bull) but the left tail is *not* fully truncated — a true workflow-disintermediation is a real –34%, partly cushioned by the buyback (~12% gross yield at today’s price; ~5% net FY25 share reduction) and the low-leverage balance sheet. *See the expected-value tree below.*

Valuation Judgment

The current price is underwriting roughly **+0.8% Owner-Earnings growth in perpetuity** — modest positive growth, not decline. Our base case underwrites Owner Earnings growing ~6% and decelerating to a 2.5% terminal rate. The largest single gap between the two is the organic Digital Media ARR trajectory — whether the professional workflow survives the generative agent. The stock’s outcome is therefore most sensitive to **organic Digital Media net-new ARR growth**, the fastest observable test of the Central Misconception. Relative to the alternative of a broad quality-equity index at ~18–20× forward earnings, Adobe at ~9× forward earnings and an ~8.7% owner-earnings yield appears **mis-priced to the upside — provided the workflow holds**; if it does not, the modeled bear is a genuine –34% and the index is the better place to be. The decision is therefore not “is Adobe cheap” (it is, modestly) but “do you believe the workflow survives the agent, and are you willing to size against the bear until the data confirms it.” **Governance overlay:** the CEO+CFO transition argues for sizing against the bear and in stages until a credible CEO is named.

No buy/sell/hold. Decision Intelligence only.

The one sentence to remember

Adobe is not a bet on AI. It is a bet on whether AI still needs Adobe’s workflow.

Everything in this report — the +0.8% the price implies, the \$147 bear, the \$349 base, the six-quarter ARR slide — is a different angle on that single question. Organic Digital Media ARR is the fastest public *outcome* signal — it tells you whether the workflow is holding one quarter at a time; AI-first ARR, paid conversion, and primary workflow evidence tell you *why* that outcome is occurring.

Key Questions Open — Known Unknowns

Not all unknowns are equal. We separate the ones that move intrinsic value from the ones that don't — so effort and worry go where they change the decision.

Unknowns that move intrinsic value (resolve these before committing capital):

- **Workflow ownership — inside Adobe or outside it.** The core unknown, stated as the diligence gap: *what share of AI-enabled creative work begins, is materially edited, and is completed within Adobe's ecosystem* versus routed through external agents? This is Bear leg 1 and the whole thesis. Not publicly disclosed; observable proxies to track meanwhile — paid conversion from the free funnel, AI-first ARR growth, enterprise wins where Firefly/Adobe agents were the reason for selection, and whether customers keep Creative Cloud seats after adopting external agents. Needs primary verification.
- **Firefly's share of enterprise generative spend** — the IP-safety control point (Bear leg 2). Undisclosed; the single most valuable diligence target.
- **Freemium paid-conversion rate** — determines whether 90M MAU is an asset (bull) or a permanent cost (bear). Not yet disclosed.
- **New-CEO mandate — learner or protector.** *Not the résumé; the posture.* At a curve transition, whether the next CEO defends Creative Cloud seat economics and margins, or willingly rebuilds pricing, interface, workflow and product architecture *before* agents do it externally, bears directly on sustainable growth, margin and terminal value. The decisive questions: will Adobe accept near-term revenue/margin pressure to own the agentic layer; where is the best product/engineering talent allocated; does Firefly stay an attachment to Creative Cloud or become the architecture the workflow is rebuilt around. A protector appointment raises the bear weight; a learner appointment raises the bull. This is an unknown that *moves* intrinsic value, not merely sentiment.

Unknowns that do *not* move the decision (noise — noted, not worried over):

- **ROIC on Semrush/Topaz** — ~\$3B of tuck-ins against ~\$27B ARR; even a poor outcome is immaterial to intrinsic value. Watch for signal on *where* organic growth is soft, not for the deal returns themselves.

So what: four unknowns can change the answer; one cannot. Diligence budget goes entirely to the first group — and the new-CEO mandate is now inside it, because posture, not identity, is what decides which way the compounding loop runs.

Key Monitorables — a causal dashboard

*A monitorable is not a metric to track; it is the **evidence that answers a question**. Metrics that answer no thesis question are noise. The three that move intrinsic value (signal) are separated from the rest (background).*

Signal — these three change the answer:

Question	Evidence (metric)	Threshold that flips it
Is the workflow surviving the agent?	Organic Digital Media net-new ARR	>11% = base strengthens; <9% with falling ARR/user = bear confirms
Is Adobe monetizing AI, not just shipping it?	AI-first ARR run-rate	Sustains >100% YoY toward \$1.5B = bull path opens
Are the economics intact through the pivot?	Non-GAAP operating margin	≥44% = pricing intact; <42% = buying share with price

Background — track, don't worry over: - Freemium MAU→paid conversion — matters medium-term (below); today it is unproven, not yet decision-moving.

*(The **new-CEO announcement** is intentionally **not** in this background list — its mandate* is a signal-grade unknown that moves intrinsic value; see Key Questions Open. What is watchable here is the posture the appointment signals — learner or protector — not the name.)**

So what: if you only had time to read one line each quarter, read organic Digital Media ARR — it is the fastest evidence for the one question the whole thesis turns on. But hold it to its limit: **ARR holding is necessary, not sufficient.** ARR can stabilize on pricing, bundling, enterprise inertia, buybacks, or acquired revenue *without* proving Adobe owns the next workflow. The deeper test — answered by the AI-first and freemium-conversion lines, and settled only by primary evidence — is whether AI is *expanding Adobe’s workflow ownership* or merely *defending revenue from the existing one*.

Medium-term (1–3 years): - **Freemium MAU → paid conversion** — *tests whether the funnel is an asset or permanent dilution* (Key Variable 3). - **Enterprise Creative Cloud net revenue retention** — *tests whether the core is being disintermediated* (Risk 1). - **Firefly enterprise wins citing IP-safety** — *tests whether the value-chain control point holds* (Anti-Thesis bear leg 2). - **FCF/share compounding** — *the floor: confirms per-share value accretes even without re-rating* (Risk 5).

Synthetic Diligence — What Public Signals Tell Us

Module E-Lite: what public signals support, contradict, and what only primary diligence can settle.

What public signals SUPPORT: the FCF machine (filings), double-digit RPO/cRPO growth (forward demand intact), AI-first ARR tripling past \$500M (monetization starting), and margin resilience — all point to *deceleration, not decline* [S1][S3][S15][S16].

What public signals CONTRADICT / complicate: the six-quarter organic ARR slide, the Semrush-inclusion masking an organic cut, GAAP net income +1% vs non-GAAP +19%, and the CEO+CFO transition — all support the bear’s “engineered/eroding” read [S4][S19].

Mini evidence table:

Signal	Public source	Direction	Confidence	Residual human check
AI-first ARR >\$500M, tripled	Q2 FY26 release/call [S16]	Bull	High	Is it net-new or reclassified existing revenue?
Organic ARR ~10.5%, 6-qtr slide	Analyst decomposition [S19]	Bear	Medium	Confirm ex-Semrush organic rate from filings
Freemium MAU 50→90M	Q2 call [S17]	Neutral	High	Paid-conversion rate — undisclosed
CEO+CFO transition	Adobe news / 8-K [S5][S18]	Bear	High	Successor quality — unknowable until named
Firefly enterprise indemnity edge	Adobe positioning [S16]	Bull	Low	Requires primary channel work

What only primary diligence can settle (≥3 named channels): 1. **Enterprise creative directors / procurement leads at Fortune-500 marketing orgs** — *resolves:* are they adding agent tools *alongside* or *instead of* Creative Cloud seats? *Shifts thesis:* “instead of” confirms Bear leg 1 → lower intrinsic value, Competitive Advantage to Red; “alongside” breaks Bear leg 1 → base/bull. 2. **AI-governance / legal officers at regulated enterprises** — *resolves:* does Firefly’s indemnification actually win deals versus OpenAI/Google? *Shifts thesis:* yes = control point holds (Anti-Thesis bear leg 2 broken, bull); no = Firefly moat is price-only (bear). 3. **Creative-agency owners and freelance professionals** — *resolves:* is day-to-day work still happening inside Adobe apps, or moving to agents/Canva/Figma? *Shifts thesis:* the ground-truth on the workflow-vs-agent question that the ARR line only lags.

No “proxy” labels — an enterprise procurement conversation is the customer signal, not a stand-in for one.

Governance Appendix

Triggered: ≥ 2 active governance flags (CEO transition + CFO transition).

Signal inventory:

Signal	Status	Severity
CEO transition, no successor named	Active [S5]	High
CFO departure	Active [S18]	Medium
Controlling shareholder / promoter risk	None (diffuse ownership)	—
Related-party transactions	None material	—
Accounting flags	One small disclosed goodwill impairment	Low

Dominant signals (prose): the governance risk here is *succession-and-continuity*, not extraction or accounting. Two of the top three executive seats are changing simultaneously during the most consequential strategic pivot since 2013. Mitigating: Narayan stays as Chair (institutional continuity), the search is board-led by the Lead Independent Director, and the strategy predates the departures (so the pivot is not a new-management experiment). There is no controlling-shareholder overhang, no related-party pattern, and no accounting aggression — the clean structural governance is why this is a *watch*, not a *veto*.

Two-speed sizing verdict: governance argues for **sizing against the bear case and in stages**, not to the base, until (a) a credible CEO is named and (b) the first post-transition organic ARR print lands. The overhang is real but resolvable, and its resolution (CEO naming) is itself a catalyst.

What moves it up/down: a strong external/internal CEO appointment → downgrade to Amber, remove the sizing discount. A prolonged vacancy, a second surprise departure, or strategy reversal → escalate. **Feeds the final sentence of the Valuation Judgment.**

Limitations: successor quality is unknowable until named; this verdict is a risk-management posture, not a prediction of the appointment.

Post-Results Update Template

Converts this report into a tracked thesis. To be filled at Q3 FY2026 (~September 2026).

Monitorable	Threshold set here	Next reading	Verdict (Confirm/Watch/Break)	Action implication
Organic DMe ARR growth	>11% bull / <9% bear	—	—	—
AI-first ARR run-rate	>100% YoY toward \$1.5B	—	—	—
Non-GAAP op margin	$\geq 44\%$	—	—	—
New CEO named	Credible appointment	—	—	—
Freemium paid conversion	Evidence within 4–6 qtrs	—	—	—

Kill-trigger checklist: organic ARR <9% for 2 consecutive quarters *with* falling ARR/user → thesis broken, move to bear. Margin <42% without conversion → economics cracking. Second C-suite surprise → governance escalation.

Governance re-check line: confirm CEO succession status and any further executive changes at each update.

Source Appendix

Every [S#] tag in the body resolves here. A claim with no source tag is an unsourced assertion.

Evidence class (four levels — replaces the single “Confirmed” tag): **CR** = Company-reported (in a filing or disclosure) · **DP** = Derived from a primary source (we computed it from reported figures) · **LM** = Lantern assumption or model output · **TP** = Third-party estimate (not company-sourced). Company facts and third-party estimates are listed separately below so “primary-source verified” is never read more broadly than it should be.

A. Company-reported and derived-from-filing (CR / DP)

S#	Claim	Source	Date	Class
S1	FY2025 revenue \$23.77B, OCF \$10.03B, buybacks \$11.3B; FY25 cash \$5.43B + STI \$1.16B, debt \$6.21B (net cash \$0.4B); reported FCF \$9.85B	Adobe Q4/FY25 8-K; FY25 10-K cash flow	Dec 2025	CR (FCF = OCF – capex, DP)
S2	FY2025 segments; GAAP diluted EPS \$16.70 (basic \$16.73); net income \$7.13B	Adobe Form 10-K FY2025	Jan 2026	CR
S3	Q2 FY26 revenue \$6.62B; non-GAAP EPS \$5.96, GAAP \$4.25; goodwill impairment; FY26 targets RAISED 11 Jun 2026 — revenue \$26.50–26.60B, non-GAAP EPS \$24.35–24.45, GAAP EPS \$17.90–18.00, non-GAAP op margin ~45%, ~399M diluted shares (supersedes prior \$23.30–23.50 EPS / \$25.9–26.1B ex-Semrush)	Adobe Q2 FY26 8-K EX-99.1	11 Jun 2026	CR
S4	Q2 FY26 GAAP net income +1%, non-GAAP EPS +19%; call commentary	Adobe Q2 FY26 earnings call transcript	Jun 2026	CR

S#	Claim	Source	Date	Class
S5	Narayan CEO transition announced, no successor named, stays as Chair	Adobe news release / 8-K	12 Mar 2026	CR
S6	Topaz Labs acquisition (AI image/video enhancement)	Adobe news release	25 Jun 2026	CR (deal); price ~\$0.7–1.0B TP
S14	~\$11.3B FY2025 repurchases (~12% of current market cap); FY2025 net diluted share reduction ~5%; fresh \$25B authorization runs through April 2030	Adobe FY2025 Form 10-K (cash-flow & shareholders' equity statements) for repurchase spend and share count; Adobe news release / 8-K for the \$25B authorization	10-K filed Jan 2026; authorization announced Apr 2026	CR (spend, share cut, auth.); gross-yield & ~5% net-reduction ratios DP
S15	FY25 RPO \$22.52B (+13%), cRPO +11%	Adobe Q4 FY25 (8-K)	Dec 2025	CR
S16	AI-first ARR >\$500M tripled; Firefly ~\$300M; Acrobat AI MAU +150%	Adobe Q2 FY26 call	Jun 2026	CR (Futurum detail TP)
S17	Creative freemium MAU 50M→90M	Adobe Q2 FY26 call	Jun 2026	CR
S18	CFO Dan Durn departure	Adobe / news	Jun 2026	CR
S20	FY25 segment revenue / gross margins (DMe 95%, DX 72%)	Adobe 10-K FY2025	Jan 2026	CR

B. Lantern-derived / analyst inference (LM)

S#	Claim	Basis	Class
S19	Organic DMe ARR ~10.5% ex-Semrush vs 10.9% Q1; ~2pt organic guide cut	Analyst decomposition — not company-disclosed ; the single most important monitorable is an inference, not a reported figure	LM
—	Owner Earnings ~\$8.0B; DCF fair values \$147/\$349/\$583	Lantern model: reported FCF less SBC; 10-yr DCF	LM

C. External market data and estimates (TP — not company-sourced)

S#	Claim	Provider	Class
S7	Semrush acquisition ~\$2B, ~\$480M ARR	Company-announced; ARR figure trade press	CR (deal) / TP (ARR est.)
S8	Price ~\$221, 52-wk \$190.12–\$376.16, ownership	Market data (Yahoo/CNBC), 14 Jul 2026	TP
S9	Historical P/E band (~28–33× → ~13×)	Macrotrends	TP
S10	Figma IPO ~\$19–24B, ~68× revenue; failed Adobe deal	Trade press	TP
S11	Canva ~\$3.3–4B ARR, 265M MAU, ~\$42B valuation	Trade press	TP
S12	GenAI-creative TAM \$4.1B→\$5.4B (32% CAGR)	Industry data / trade press (estimate)	TP
S13	Analyst consensus Hold, PT ~\$268–272; peer fwd P/E ~18.5×	MarketBeat / Public.com / GuruFocus	TP

Prepared by Lantern Labs · Decision Intelligence, not Decision Making · www.lanternlabs.net

IMPORTANT DISCLOSURES & DISCLAIMER

Nature of this document. This report is a Decision Intelligence product. It is prepared for the informational and analytical use of the intended recipient only and is intended to sharpen the recipient's own investment process — not to replace it. **It does not constitute investment advice, a research recommendation, or an offer or solicitation to buy or sell any security.** Lantern Labs does not issue buy, sell, or hold ratings and expresses no view on whether any security is suitable for any particular person.

No reliance; your decision remains yours. Nothing here should be relied upon as the basis for an investment decision. Any decision to buy, sell, hold, or size a position — and all portfolio, tax, and suitability judgments — rests solely with the recipient and their own professional advisers. Lantern Labs is not acting as your investment adviser or fiduciary.

Opinions as of the date shown, and subject to change. All views, estimates, valuations, and “fair value” ranges are Lantern's opinion as of the report date (15 July 2026) and rest on assumptions and judgments that are explicitly identified as such. They may prove wrong and may change without notice; Lantern is under no obligation to update this document. The price and market data referenced are as of the stated as-of date and will have moved since.

Sources, estimates, and forward-looking statements. Figures are drawn from primary filings and third-party sources believed to be reliable, but their accuracy and completeness are not guaranteed. Figures labelled *Derived*, *Inferred*, *Estimate*, or *Judgment* are Lantern's own calculations or opinions and are not company-reported. Forward-looking statements are inherently uncertain; actual outcomes may differ materially.

Positions. Lantern Labs, its principals, or connected persons may hold, or may in future hold, positions in the securities referenced. This document is not intended to promote any position they may hold.

Confidential. This document is confidential, prepared for the named recipient, and is not for redistribution. Past performance is not indicative of future results. Investing involves risk, including possible loss of principal.

This report is analysis, not investment advice. Lantern Labs does not issue buy/sell/hold recommendations.