Adobe Inc. (NASDAQ: ADBE) Long

Price $263.08 · Market cap $105.9bn · Enterprise value $106.9bn · 402.5m diluted shares

THE BUSINESS

Adobe sells subscriptions to people who make things for a living. Creative Cloud and Acrobat are $17.6bn of revenue growing 11%; the enterprise marketing business adds $5.9bn. Revenue is 96% subscription, gross margin 89%, capex under 1% of sales, and customers pay up front. The stock is down 65% from its 2021 high.

THESIS

Most bull cases point at the multiple and argue for a re-rating. I don't want to rely on that. Adobe generates about $7.9bn of after-SBC free cash flow and can retire roughly 5% of its shares a year out of that cash flow without borrowing. Over FY21–FY25 cash flow grew 8% a year, but *per share* it grew 11.3%, because the count fell from 481m to 402m. The return from that constitutes the core of my thesis.

RETURNS — buyback limited to free cash flow less acquisitions

Cash flow growth	No M&A	$1bn/yr M&A
0%	5.8%	4.6%
3%	9.9%	**8.6%**
5%	12.8%	11.4%

Base case is 8.6%, or 12.6% if it re-rates to 16x. The downside is a 30% loss only if revenue falls 5% *and* margins compress 800bp together; flat revenue alone costs almost nothing, because the buyback absorbs it.

VARIANT VIEW

Everyone frames AI monetisation as good. However, digital Media carries a 95% gross margin; but generative credits have a real marginal cost, and working back from published API pricing puts them nearer 35%. If AI reaches 10% of Digital Media, blended gross margin falls six points, and non-GAAP operating margin is already at 44.5%, the lowest in nine quarters.

WHY IT HOLDS

Generative tools make great media but commercial work needs a specific one, and Adobe is that. Furthermore before a rival agent can produce a compliant asset for a large enterprise it needs that company's licensed library, brand rules and approval chain. Adobe holds those across most of the Fortune 100, which is a strong moat.

WHAT WORRIES ME

The buyback slowed when it should have accelerated: $2.1bn last quarter against $3.5bn a year earlier, with the stock near seven-year lows. Anil Chakravarthy has only just taken over as CEO and the CFO seat has been open since Dan Durn left for Marvell in June. Management spent $1.9bn on Semrush at a 78% premium while the shares sat at the lows. Adobe also deferred planned price increases costing $500m of ARR, and its stock-photo business is being killed by its own AI product.

MONITORABLES

Quarterly buyback above $2.5bn · share count below 390m by Q4 · operating margin above 43% · net-new Digital Media ARR above $450m. **Sell** on two quarters below $2.0bn of repurchase with no stated rationale, or a large acquisition funded out of buyback capacity.

Bottom line. A cheap, cash-generative business with a narrowing moat, worth owning at moderate size while the buyback does the work.

Figures from Adobe FY23–FY25 10-Ks, Q1–Q2 FY26 filings and transcripts, and the IR data sheet of 11 June 2026.