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Adobe Inc. | North America

Five Key Questions into Investor Session at Adobe Summit

In a narrative-driven tape, Summit is unlikely to be a clear catalyst. That said, investors leaving Q1 EPS with incremental questions on the growth algo presents oppty for management to improve visibility on monetization trends, with GenStudio, Foundry, credits, & freemium conversion most pertinent.

High Bar for Materiality with SaaS Performance Nearing Capitulation. Adobe heads into its annual Summit Conference with shares down ~35% YTD, underperforming the Large Cap Software group (down ~25% over the same period), despite shares now trading at ~9x PE (and ~11x GAAP eps), meaningfully below both Large Cap peers (at ~20x) and ADBE's historical multiple range, Exhibit 1). Broadly, lack of investor willingness to underwrite shares despite GAAP EPS support (rare across the Software group) concentrates around the perceived outsized Gen AI related risk in the Creative / Design niche. While we'd argue that the bulk of the competitive concerns (Diffusion engines, products from frontier models, and embedded content generation tools within marketing / advertising platforms) are more likely to acutely impact the Consumer / simple marketer use case (where Adobe has less exposure), challenges with confidently sizing potential pools of risk within the business understandably creates a difficult set up to step in on (which we articulated in our *move to EW*). Q1 earnings (See *Adobe Inc.: 1Q26 Results – O Captain! My Captain!*) added additional uncertainty to the go forward growth equation, with the company more discretely calling out material behavioral changes across Adobe's user base (creative journey beginning in Agentic surfaces driving headwinds to the traditional stock business and delayed monetization as users increasingly engage with Freemium offerings). An impending CEO transition (also announced on 1Q earnings) amidst a critical stage in Adobe's strategic transformation adds an additional obstacle to engaging with shares. As such, while Adobe has strung together a number of compelling data points related to AI usage and engagement, skepticism remains around the timeline for usage to be more clearly monetized, how differentiated Adobe remains in a world of rapidly improving third-party models, and whether the company can be a net beneficiary of platform consolidation – ***this leaves Summit unlikely to settle debates, but could create opportunity to narrow them by providing investors a cleaner bridge from product momentum to revenue contribution.***

Below we outline the five key questions we're monitoring into the event:

1. Can GenStudio Become the Control Point for MarTech Stack Consolidation? *GenStudio is well positioned to consolidate a fragmented MarTech landscape by bridging content creation and activation, though pace of adoption remains a debate given the lengthy and often resource intensive process of replacing incumbent stacks and rewiring workflows.* Since being initially launched in late 2023, management has

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Adobe Inc. (ADBE.O, ADBE US)

Software | United States of America

Stock Rating	**Equal-weight**
Industry View	**Attractive**
Price target	**$365.00**
Shr price, close (Apr 15, 2026)	$244.66
Mkt cap, curr (mm)	$102,023
52-Week Range	$422.95-224.13

Fiscal Year Ending	12/24	12/25e	12/26e	12/27e
EPS ($)**	18.43	20.94	23.46	26.37
Prior EPS ($)**	-	-	-	-
P/E	28.7	20.1	12.9	11.2
EPS ($)§	18.28	20.84	23.50	26.34
Div yld (%)	0.0	0.0	0.0	0.0

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
** = Based on consensus methodology
§ = Consensus data is provided by Refinitiv Estimates
e = Morgan Stanley Research estimates

QUARTERLY EPS ($)

Quarter	2024	2025e Prior	2025e Current	2026e Prior	2026e Current
Q1	4.49	-	5.08a	-	6.05
Q2	4.49	-	5.06a	-	5.85
Q3	4.65	-	5.31a	-	5.70
Q4	4.81	-	5.50a	-	5.85

e = Morgan Stanley Research estimates, a = Actual Company reported data framed the GenStudio opportunity as solving for the full content supply chain, integrating both the traditional Digital Media and Digital Experience sides of the business through spanning ideation, creation, production, activation, and analytics. This integrated experience is important as most enterprise MarTech stacks remain fragmented across workflows (planning, asset management, creative tooling, campaign execution, measurement), with marketing consistently noted as an area of high consolidation propensity from CIOs (Exhibit 2). Early operating signals are encouraging, with the components of the integrated GenStudio stack now exceeding $1B+ in ARR, and GenStudio standalone ARR growing 30% in 1Q26. Our channel work has suggested GenStudio adoption has been somewhat measured as these are often not simple point-product rollouts – rather, customers are frequently rationalizing or replacing pieces of an existing stack, reworking workflows across creative, marketing, and operations teams, and integrating GenStudio into broader enterprise architectures. As such, we continue to look for deeper evidence that longer-cycle projects are maturing into larger, multi-product standardizations to build confidence in GenStudio evolving into a true control plane for enterprises' content supply chain.

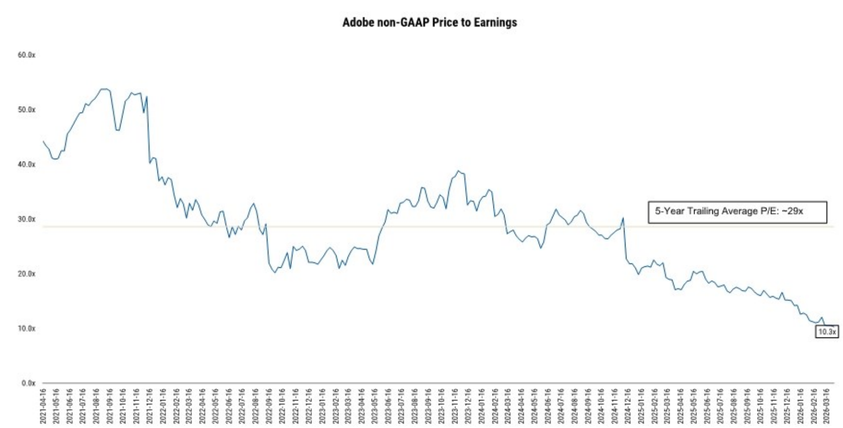
2. How Durable of a Competitive Advantage Does Firefly Foundry & Custom Models Provide? *From our perspective, the debate is less around whether enterprises want brand-safe, IP-protected generative AI and more around whether Adobe can make Foundry adoption scalable enough to move beyond bespoke, high-touch deployments into a meaningful and repeatable enterprise spend category.* Generic models remain structurally limited when the use case requires proprietary IP, franchise assets, product catalogs, or brand-specific creative rules, which is why Foundry has important strategic positioning in our view. Since launch, customers have created more than 2,500 custom models, with broader Firefly ARR now tracking beyond $250M. Our conversations with the channel suggested that adoption of Firefly services (the precursor to Foundry) lagged given the onus placed on brands to train models on their own assets – importantly, Adobe is going to market with Foundry as a managed service, potentially accelerating adoption (and in turn, economic impact). Management has spoken to meaningfully accretive economics when customers engage with Foundry, recently highlighting a media company example suggesting Foundry can sit on top of an existing creative relationship and expand wallet share, with roughly $7 million of incremental Foundry and Services spend added to a $10 million creative base after models moved into production within a few months. That said, since these deals remain curated and services-heavy, they can be difficult to replicate at scale. In this light, we look to Summit to highlight proof of repeatability – indications around skew of customers that have moved from pilot to production, length of deployments by use case, the portion of Foundry spend that is recurring versus project-based, and whether customers are expanding from one custom model to multiple production workflows over time.

3. When do Generative Credits Become a Revenue Needle Mover? *The debate is less about whether Adobe can drive AI usage, and more about how management's shift from optimizing for monetization over proliferation drives durable pricing power or exposes potential demand elasticity once credits become a paid constraint.* Adobe's recent data points highlight an inflection in credit consumption, with credits consumed increasing 45% QoQ in 1Q26 after growing 3x sequentially in 4Q25, while usage is shifting into more compute-intensive modalities (video generative actions grew 8x YoY and audio actions doubled YoY as of 1Q). This mix shift matters because it should accelerate movement through included allowances and increase the likelihood of paid conversion. Firefly subscription and credit pack ending ARR growing 75% QoQ in 1Q26 is an encouraging early proof point of Adobe's ability to monetize this usage, and management's commentary around stronger second-half acceleration as users hit paywalls suggests Adobe sees a visible path from freemium usage to paid consumption. Still, given the directionality of overall ARR growth, investors need more evidence around unit economics and materiality, where there are a number of open questions: what portion of the Adobe base is made up of power users with high propensity to exhaust embedded credits, whether falling model costs compress pricing power over time, how/if standalone AI tools pressure willingness to pay, amongst others. Management presenting relevant cohort data outlining credit exhaustion and conversion patterns – for example, what percent of active users run through their included credits, what percent then buy packs or move up tiers, whether video and audio users monetize at materially higher rates, and how much of current credit ARR is coming from repeat behavior rather than one-time experimentation – would be a first step towards building confidence in credits proving a durable revenue lever rather than a somewhat ambiguous usage metric.

4. Does Acrobat Serve as the Right Model for the Pace of Freemium Conversion Ahead? *With Adobe's top of funnel widening (total MAU across Acrobat, Creative Cloud, Express, and Firefly now exceeds 850M), investors look to assess whether those users can be converted efficiently and repeatedly into higher-value paid relationships.* Management has explicitly positioned Acrobat as Adobe's first and best-performing freemium funnel. However, investors question whether Acrobat is a unique case given the ubiquity of PDFs and document workflows, or whether the same playbook can translate to Creative Cloud, Express, and Firefly. Importantly, the company has shown signs of success with monetizing AI-forward add-ons to the Acrobat base in both AI Assistant and Studio, highlighting an incremental willingness to pay for AI-enabled tools even inside of an established base. While competitive forces are certainly stronger on the Creative side, we'd note an already relatively scaled creative freemium MAU base crossing 80M and growing 50% YoY as of 1Q26 providing a strong foundation for future monetization. Increased visibility on funnel detail would allow investors to better underwrite monetization across Freemium surfaces going forward – we look for management to provide commentary around conversion rates from free to paid by entry point, retention of AI-assisted cohorts versus traditional cohorts, and whether Creative and Express are beginning to show monetization behavior that resembles Acrobat.

5. Is Adobe's Multi-Model Strategy a Driver to Deepen its Moat or Dilute Differentiation, and What are the Margin Implications? *Investors continue to debate whether Adobe's open model architecture strengthens its position as the workflow layer for enterprise creativity, or whether it risks pushing the company toward a lower-margin intermediary role sitting on top of third-party models.* Adobe has now integrated ~30 partner models into the platform, reinforcing management's view that the competitive moat sits less in any single foundation model and more in the interface, workflow, governance, and production environment where models are orchestrated. In our view, that is directionally the right strategy, particularly as enterprises increasingly prioritize flexibility, brand safety, IP protection, and compliance over commitment to any one model vendor in an environment of accelerating model capabilities. Accordingly, investors debate the margin impacts, and the extent to which the use of higher-cost third-party models (especially in video, audio, and other compute-intensive workflows) subjects Adobe to reselling inference capacity and taking on pass-through cost pressure that compresses gross margin over time. The bull case (and management's argument) is that Adobe should be able to protect economics by owning the monetization and routing layer, dynamically steering workloads across first-party Firefly and partner models, optimizing to the lowest-cost model that meets the use case, and pricing around workflow value and enterprise control rather than the raw model call itself. Said differently, if Adobe is becoming the operating system for multi-model creative work, the architecture could ultimately be margin supportive. To date, Adobe has seemingly been able to mitigate any notable gross margin impact as AI-aligned products scale, sustaining 90%+ margins. To assess go forward margin durability, we look for management to provide incremental visibility around usage mix and economics, namely what portion of generation is happening on first-party versus partner models, whether third-party model usage carries structurally different contribution margins, and how flexible the credit rate card is by model or modality.

Exhibit 1: At ~10x non-GAAP P/E, ADBE Shares Trade Far Below Historical Averages



Source: Company Data, Morgan Stanley Research

Exhibit 2: Marketing Remains Heavily Skewed to Consolidation (Relative to Best of Breed Market)

Source: AlphaWise, Morgan Stanley Research. n=60 (US and EU data)

Valuation Methodology and Risks

Adobe Inc. (ADBE.O)

Our $365 PT is based on a 13x Base Case 2027e EPS of $27.56 as Generative AI sustains durable growth in Creative Cloud. The 13x EPS multiple in FY27e implies a ~1x PEG, a discount to ADBE's historical average.

Risks to Upside

- GenAI pricing closer to peers
- Expand the addressable customer base
- Added GenAI functionality to the Digital Experience product portfolio
- Faster transition to margin expansion out of investment mode

Risks to Downside

- Timing of releases / AI availability
- Pricing on Firefly / ETLA / Creative Cloud uplift
- Lower margins from GenAI investment
- Cannibalization of the subscriber base / increased competition

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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1534	42%	461	50%	30%	698	43%
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Not-Rated/Hold	4	0%	1	0%	25%	1	0%
Underweight/Sell	568	15%	89	10%	16%	209	13%
Total	3,679		923			1624	

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Stock Price, Price Target and Rating History (See Rating Definitions)

Stock Rating History: 4/1/21 : O/A; 6/21/22 : E/A; 7/31/23 : O/A; 9/24/25 : E/A

Price Target History: 3/24/21 : 575; 6/18/21 : 610; 9/15/21 : 736; 12/17/21 : 652; 3/23/22 : 591; 6/21/22 : 362; 9/15/22 : 337; 12/16/22 : 382; 3/16/23 : 385; 6/12/23 : 470; 6/16/23 : 510; 7/31/23 : 660; 3/13/25 : 600; 4/15/25 : 510; 9/12/25 : 520; 9/24/25 : 450; 12/11/25 : 425; 3/13/26 : 365

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
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INDUSTRY COVERAGE: Software

COMPANY (TICKER)	RATING (AS OF)	PRICE* (04/15/2026)
Chris Quintero		
BILL Holdings Inc (BILL.N)	E (06/10/2025)	$39.31
Blackline Inc (BL.O)	O (09/29/2024)	$32.57
Descartes Systems Group Inc (DSGX.O)	O (01/15/2026)	$72.60
Manhattan Associates Inc. (MANH.O)	E (10/21/2025)	$128.88
Navan Inc (NAVN.O)	O (11/24/2025)	$14.43
SPS Commerce Inc (SPSC.O)	E (11/11/2025)	$55.36
Vertex Inc. (VERX.O)	O (01/17/2024)	$12.20
Elizabeth Porter, CFA		
Amplitude Inc. (AMPL.O)	O (01/15/2026)	$6.69
Autodesk (ADSK.O)	O (08/23/2024)	$239.32
Figma Inc (FIG.N)	E (08/25/2025)	$20.34
Five9 Inc (FIVN.O)	E (10/10/2022)	$15.36
Freshworks Inc (FRSH.O)	E (10/18/2021)	$8.26
GoDaddy Inc (GDDY.N)	E (07/19/2021)	$82.33
HubSpot, Inc. (HUBS.N)	O (03/21/2023)	$218.62
Klaviyo, Inc (KVYO.N)		$18.37
LegalZoom.com Inc (LZ.O)	U (07/28/2022)	$6.24
Liveramp Holdings Inc (RAMP.N)	E (01/13/2025)	$27.36
NICE Ltd. (NICE.O)	O (10/16/2023)	$102.00
RingCentral Inc (RNG.N)	E (08/08/2023)	$38.71
Semrush Holdings Inc -A (SEMR.N)	E (08/05/2025)	$11.95
Sprinklr Inc (CXM.N)	E (07/19/2021)	$5.41
Sprout Social Inc (SPT.O)	E (11/17/2020)	$5.57
Twilio Inc (TWLO.N)	O (02/24/2025)	$134.07
Wix.Com Ltd (WIX.O)	O (01/13/2025)	$70.16
Zeta Global Holdings Corp (ZETA.N)	E (08/01/2024)	$17.37
ZoomInfo Technologies Inc (GTM.O)	E (02/01/2024)	$6.15
Josh Baer, CFA		

Asana Inc (ASAN.N)	U (05/20/2025)	$6.08
Box Inc (BOX.N)	E (05/21/2024)	$23.81
CCC Intelligent Solutions Holdings Inc (CCC.O)	O (11/13/2024)	$5.38
Commerce.com Inc. (CMRC.O)	++	$2.59
Coursera, Inc. (COUR.N)		$6.15
DigitalOcean Holdings Inc (DOCN.N)	O (01/16/2025)	$77.71
Docebo Inc. (DCBO.O)	E (05/12/2025)	$16.20
DocuSign Inc (DOCU.O)	E (01/16/2024)	$46.84
Lightspeed POS Inc. (LSPD.N)	E (02/18/2021)	$9.46
monday.com Ltd (MNDY.O)	O (08/12/2025)	$65.43
Nebius Group NV (NBIS.O)	E (01/15/2026)	$166.77
Sabre Corp (SABR.O)	E (03/16/2021)	$1.76
ServiceTitan Inc (TTAN.O)	O (01/20/2026)	$61.93
Toast, Inc. (TOST.N)	O (12/16/2021)	$28.16
Udemy Inc (UDMY.O)		$4.91
Via Transportation Inc (VIA.N)	O (01/20/2026)	$17.14
Zoom Communications (ZM.O)	E (10/11/2022)	$89.03
Keith Weiss, CFA		
Adobe Inc. (ADBE.O)	E (09/24/2025)	$244.66
Atlassian Corporation PLC (TEAM.O)	O (01/13/2020)	$66.00
Cloudflare Inc (NET.N)	O (12/02/2024)	$190.13
CoreWeave (CRWV.O)	E (04/22/2025)	$118.69
Intuit (INTU.O)	O (02/26/2025)	$389.72
Microsoft (MSFT.O)	O (01/13/2016)	$411.22
Oracle Corporation (ORCL.N)	E (01/15/2019)	$169.81
Salesforce, Inc. (CRM.N)	O (12/21/2023)	$177.60
Samsara Inc (IOT.N)	E (03/23/2023)	$28.85
ServiceNow Inc (NOW.N)	O (09/24/2025)	$94.19
Shopify Inc (SHOP.O)	O (04/19/2024)	$127.41
Workday Inc (WDAY.O)	E (02/19/2025)	$124.12
Meta A Marshall		
Check Point Software Technologies Ltd. (CHKP.O)	E (10/16/2023)	$134.69
CrowdStrike Holdings Inc (CRWD.O)	O (03/10/2026)	$411.16
Fortinet Inc. (FTNT.O)	U (09/02/2025)	$79.64
Gen Digital Inc. (GEN.O)	E (06/07/2024)	$19.67
Netskope, Inc. (NTSK.O)	O (10/13/2025)	$9.68
Okta, Inc. (OKTA.O)	O (12/02/2024)	$67.35
Palo Alto Networks Inc (PANW.O)	O (10/10/2017)	$164.11
Qualys Inc (QLYS.O)	U (02/09/2021)	$85.17
Rapid7 Inc (RPD.O)	E (08/11/2015)	$5.76
SailPoint Inc (SAIL.O)	O (09/02/2025)	$11.76
SentinelOne, Inc. (S.N)	E (12/02/2024)	$13.26
Tenable Holdings Inc (TENB.O)	E (12/02/2024)	$18.93
Varonis Systems, Inc. (VRNS.O)	E (01/26/2026)	$23.14
Zscaler Inc (ZS.O)	O (09/02/2025)	$131.01
Sanjit K Singh		
Akamai Technologies, Inc. (AKAM.O)	O (01/12/2026)	$90.38
Appian Corp (APPN.O)	O (01/12/2026)	$21.41
C3.ai (AI.N)	U (01/04/2021)	$9.52
Datadog, Inc. (DDOG.O)	O (01/12/2026)	$121.06
Dynatrace Inc (DT.N)	E (02/13/2024)	$35.45
Elastic NV (ESTC.N)	O (12/16/2024)	$47.51
GitLab Inc (GTLB.O)	E (01/12/2026)	$21.76
JFrog Ltd. (FROG.O)	O (12/21/2023)	$42.87
MongoDB Inc (MDB.O)	O (04/12/2023)	$244.06

PagerDuty, Inc. (PD.N)	E (01/24/2024)	$6.32
Palantir Technologies Inc. (PLTR.O)	E (02/04/2025)	$142.15
Snowflake Inc. (SNOW.N)	O (06/24/2025)	$144.48
UiPath Inc (PATH.N)	E (09/07/2022)	$10.61

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* Historical prices are not split adjusted.