

Adobe: Earnings Confirm GARP Is An Understatement

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Ticker ADBE	Analyst rating BUY	Price at publication -	Last price \$350.55	Change since publication -
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Summary

Adobe continues double-digit growth in Q3, beating estimates and upping guidance. Revenue share from subscriptions increased to 97% in Q3.

The Business & Consumers segment continues to outgrow the Creative & Marketing audience, leading to a welcome diversification.

With its professional clientele reach, Adobe establishes itself as an AI single point of contact, even including third-party tools from Google or Open AI.

PEG ratio is well below the sector median, and the FCF to EV yield is 6.4%, rendering ADBE a GARP investment in plain sight amid disruption fears, which is not evident from financials.



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Adobe (NASDAQ:[ADBE](#)) amid AI has been referred to as the Nokia in time of the iPhone, or Blockbuster in the age of Netflix. However, no weakness is showing in Adobe's business, and the latest Q3 numbers reaffirmed this. Beyond that, Adobe itself is partaking in AI disruption. I first made this point [a quarter ago](#), yet the stock continued to drop by another 11%. With that, Adobe now offers even more attractive entry points for investors looking for Growth At A Reasonable Price [GARP].

Subscription Share Increases, Diversification Beyond Creativity Continues

Q3 revenues beat by 1% on the top-line to land at a consecutive and robust 11% YoY growth. Non-GAAP EPS beat by 3% with a 14% YoY increase. The momentum prompted management to increase revenue and EPS guidance for Q4 and FY2025 slightly above previous consensus expectations. Q3 gross and operating margins remained strongly cemented at 89% and 36%, respectively.

Amid these strong figures, two developments are continuously pleasing to see.

First, the share of subscription revenues has increased further to 97%, from 96% during the same quarter a year ago. 9-months subscription revenues were 96% of the total, up from 95% during the same period a year ago.

Second, Adobe continues to diversify from Creative & Marketing Professionals to Business Professionals & Consumers. AI disruption in the creative realm is probably the more prevalent talking point. Given this, I continue to see it as positive that Adobe is growing its reach into Business Professionals & Consumers even faster. This target audience continues to outgrow the creative audience and has reached a subscription revenue share of 29% in Q3, up from 27% two years ago. Still, this is not to downplay continuously robust double-digit growth in the creative audience alongside.

Adobe Sub Revenues	Q3-23	Q3-24	Q3-25
Creative & Marketing Professionals	3,38	3,72	4,12
YoY		10%	11%
Business Professionals & Consumers	1,22	1,44	1,65
YoY		18%	15%
<i>Sub Revenue share Creative & Marketing</i>	73%	72%	71%
<i>Sub Revenue share Business & Consumers</i>	27%	28%	29%

Florian Müller | Data: Adobe

Author | Data: Adobe

AI Bearing First Fruits

Figma and Canvas are likely among the most talked about names that could disrupt Adobe. While there is some validity to these concerns, they are not necessarily direct competitors. Beyond that, the market might be big enough for all these providers. Figma focusses on UI/UX and Canva is targeted at a non-professional audience looking for quick and free solutions. Adobe remains for professionals. And Adobe is not naive in that it fails to see the competition. Instead, Adobe continues to [integrate third-party models](#) in its offering with Google Gemini Flash 2.5, Google Veo or Open AI models added just recently. It is a one-stop-shop for professionals.

Furthermore, some of the hype around competing tools stems from them partly starting off as AI-supported tools, while Adobe comes from a long pre-AI-historic era. So, there is some kind of falsely balanced narrative that overlooks the scale at which Adobe itself is already implementing AI, and successfully so. AI influenced Annual Recurring Revenue [ARR] surpassed \$5 billion in the recent quarter. That is over a fifth of the giant's total revenue already.

Recent AI enhancements include the [launch of agents](#) that take on workflows or campaigns, with the possibility to customize your own agents already announced. Also, the less creativity-oriented [Acrobat Studio](#) receives Adobe Firefly-powered AI upgrades like Text-to-Video and Text-to-Image. Furthermore, imagine the vast amounts of PDF documents stored in organizations that [AI powered Acrobat](#) would help extract intelligence from. With that, my thesis remains that big software names are not necessarily doomed to AI disruption but stand at the forefront of monetizing the paradigm-shift themselves.

Undemanding Valuation For Double Digit Growth

Adobe's TTM GAAP Price-Earnings-Growth rate [PEG] is 0.55 and the FWD Non-GAAP PEG is 1.22, according to Seeking Alpha. Both figures are not only more than reasonable in absolute terms, but also a notable 33% to 44% lower than sector median values.

	Sector Relative Grade	ADBE	Sector Median	% Diff. to Sector	ADBE 5Y Avg.	% Diff. to 5Y Avg.
PEG GAAP (TTM)	B	0.55	0.99	-44.19%	-	NM
PEG Non-GAAP (FWD)	B+	1.22	1.82	-32.98%	2.02	-39.54%

Adobe PEG ratios (Seeking Alpha)

Ahead of earnings, revenue estimates for the next three years were largely unchanged since my previous coverage, while EPS consensus has been up slightly already, yet still below Adobe's renewed guidance. With that, consensus expectations had remained positively stable, once again hinting at nothing but multiple-contraction as opposed to fundamentals as reason for the further declines the stock had seen.

Fiscal Period Ending	EPS Estimate	YoY Growth	Forward PE	Low	High	# of Analysts
Nov 2025	20.58	11.73%	17.01	19.62	21.11	38
Nov 2026	23.10	12.25%	15.16	21.78	24.27	38
Nov 2027	25.99	12.52%	13.47	23.46	27.96	19

Adobe EPS estimates (Seeking Alpha)

Fiscal Period Ending	Revenue Estimate	YoY Growth	FWD Price/Sales	Low	High	# of Analysts
Nov 2025	23.57B	9.60%	6.30	23.48B	23.77B	37
Nov 2026	25.78B	9.39%	5.76	25.20B	26.59B	38
Nov 2027	28.22B	9.46%	5.26	27.10B	29.37B	21

Adobe Revenue estimates (Seeking Alpha)

Adobe's TTM Free Cashflow has increased to \$9.6 billion, while the current market-derived Enterprise Value came down from \$177 billion during my last coverage to now \$149 billion. Therefore, the FCF multiple has decreased from 19x to 16x. This translates to an FCF yield of 6.4%, up from 5.3% in my last coverage. Compare that to my current WACC estimate of 10.4% to see that this implies a residual growth rate of only 4.0% starting today. With double digit EPS growth expected for at least another three years, this does not come as a demanding residual growth rate.

Refer to the summary below to retrace my WACC calculation. My spot-estimate of 10.4% is roughly 50 bps lower than last time, driven by both notably lower [cost of debt](#) and [risk-free rates](#).

Adobe cost of capital		
rf	4,38%	30y US Treasury - CDS
ERP	5,26%	Country-weighted based on Damodaran 2025-07
Beta in use	1,21	
Raw SA 24M	1,13	1)
Raw SA 60M	1,49	
Raw average	1,31	2)
Blume adjusted (in use)	1,21	3)
CoE	10,73%	
Weight Equity	96%	
Cost of Debt pre tax	4,64%	Adobe 2035 Bond Yield-to-Maturity
CoD (after tax)	3,48%	
Weight Debt	4%	
WACC	10,43%	

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Data: Seeking Alpha, Damodaran, Boerse Frankfurt

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Disruption Fears Offer GARP In Plain Sight

Adobe's FCF to EV yield is now 6.4% while the company is likely to continue to grow solid double digits in the foreseeable future. This looks like a formidable "value for money", or rather "growth for money", which the far below-sector PEG ratios confirm. AI disruption is not evident and it becomes increasingly likely that Adobe's professional appeal helps the company evolve into an AI single point of contact itself. Risks certainly remain, as the AI paradigm shift is likely only in its first innings. Not only AI as a whole, but also the AI ecosystem from within poses risks like regulatory or copyright issues. But what business has no inherent risks? Furthermore, this should be factored into the elevated beta factor.

After continued declines since Q2 earnings, which were not fundamentally justified, continued strong Q3 numbers might be the catalyst to leave behind the bottom for this GARP gem in plain sight.

Editor's Note: This article was submitted as part of Seeking Alpha's [Best GARP Idea investment competition](#), which runs through September 23. With cash prizes, this competition-open to all analysts-is one you don't want to miss. If you are interested in becoming an analyst and taking part in the competition, [click here](#) to find out more and submit your article today!

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AI-first products are ahead of target. The ARR from Adobe's "AI-first" products— such as Firefly, Acrobat AI Assistant, and GenStudio — already exceeded the company's \$250 million year-end target. AI-first product revenue for ADBE is growing at a ~25% to 40% clip based on extrapolation from the data-points they do provide on the success of such services.

Even Figma's TTM revenue is coming up at ~\$1B, while ADBE is successfully monetizing AI with \$250M ARR and rising.

Within the next 12 months, ADBE's AI-first product ARR will overtake Figma's AI-first product ARR, because as per Figma's own admission and filings, AI is similarly a risk / opportunity for them, and they clearly have not yet successfully monetized their own product portfolio given their questionable profitability (though I hope they eventually will).

So, here is a relevant question - who has? Who has successfully monetized AI offerings in the software world?

Outside of Google, Microsoft, Adobe, and few other names, I am hard pressed to think of many of Adobe's actual so-called start-up competitors being successful at AI monetization. Most of them are unprofitable. Unprofitable businesses go bankrupt, or, they raise prices. Inevitably, either event is a positive for ADBE given its fortress balance sheet and record OCF/FCF.

All ADBE needs to do is outlast unprofitable, commercially unsafe, poorly branded startups and await the inevitable market consolidation in the next 3-10 year period.

In the meantime, Adobe is already cementing itself with a first mover advantage to become the ecosystem of choice for creative workflows, a competitive advantage that is not easy to replicate even for a well-funded opponent such as Google.

So, Adobe's competitive advantages are in fact IMPROVING.

- 1) Ecosystem
- 2) Network effect
- 3) Brand (commercially safe to use)
- 4) Switching costs (inclusive of discounting products for students, the next few generations)
- 5) Product differentiation / integration / breadth
- 6) Business model / balance sheet
- 7) Intellectual property, R&D, patents
- 8) Data moat / ownership of assets, especially for generative AI

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