

ORIGINAL RESEARCH

Stock Volatility and Market Valuation: Analyzing the Financial Impact of Subscription Transitions at Adobe and Autodesk

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Abstract

This study examines how switching from traditional software licenses to a recurring subscription model impacts a company's financial performance and market valuation over time. For this comparative case study, this paper analyzes Adobe Inc. and Autodesk, Inc. by looking at their financial data from the pre-transition, active-transition and post-transition periods. The study focuses on the important financial metrics like total revenue, GAAP net income, operating margins, Annual Recurring Revenue (ARR), Enterprise Value-to-Sales (EV/Sales) multiples, Price-to-Earnings (P/E) multiples and stock price volatility. The findings show that both companies faced problems during their transitions, with temporary declines in metrics like revenue, profitability, and operating margins. On the other hand, ARR increased significantly as the subscription revenue became a larger part of each company's business. The valuation multiples generally increased and stock price volatility fluctuated over time. These results suggest that some of the decline in financial performance during a transition to a subscription model may be related to changes in when the revenue is actually recognized. However, this study does not measure how much of this decline can be attributed to these accounting changes. Overall, the analysis found that Adobe and Autodesk experienced temporary declines in their financial performance during the transition before recovering as recurring revenue increased. Both companies also experienced higher EV/Sales valuations in later years, but this does not prove that switching to a subscription model would produce similar results for other companies.

Keywords: Adobe; Autodesk; Subscription; Transition; ARR

1. Introduction

How does a company convince its shareholders that cutting its immediate revenue is a winning strategy? The software industry used to sell expensive, one-time perpetual licenses to generate instant profits. However, over the past decade, these companies have shifted to Software-as-a-Service (SaaS) models built on Annual Recurring Revenue (ARR) (Chao et al. 2017). This transition changes how these companies are viewed by the markets, as they have moved from large, unpredictable increases in revenue to smaller, yet highly predictable, recurring payments (Adobe Systems Incorporated 2014). It's imperative

for investors to understand this model, as it completely changes how future cash flow is projected. Instead of only looking at large upfront cash payments, analysts need to track subscription revenue over time and watch customer retention rates to accurately estimate the value of a company (McCarthy, Fader, and Hardie 2017).

To view this in the real world, Adobe Inc. and Autodesk, Inc. serve as the perfect set of companies to perform a comparative case study. Both companies are ideal for a comparative analysis as they share a similar timeline, operate in the same design software industry, and went through major transitions in the 2010s. When Adobe announced it was discontinuing its traditional Creative Suite in 2013, and Autodesk followed by phasing out its perpetual licenses in 2015, both transitions were documented in public financial filings, which allow for a direct, before and after comparison (Adobe Systems Incorporated 2014; Autodesk, Inc. 2015). Analyzing these two companies provides insights into how their stock prices and market valuations changed during their transitions to a subscription model.

Even with long term success, the initial transitional period can be associated with short-term financial problems (Chao et al. 2017). When a company stops collecting large upfront payments, its short-term revenue can decline, as it is transitioning into recurring, subscription payments (Chao et al. 2017). When working with the subscription model, the revenue generated may be recognized over the period of the contract rather than all at once, which can contribute to lower reported revenue during the transition (Autodesk, Inc. 2016). For example, when the numbers are compared to the actual 10-K filings, it shows that during the transitions, Adobe's net income dropped from \$833 million in 2011 to \$268 million in 2014, while Autodesk saw its operating margin drop to 1% in late 2015 (Adobe Systems Incorporated 2015; Autodesk, Inc. 2015). Subscription-based companies can require metrics like customer acquisition, retention, and lifetime value, on top of all the other common financial information (McCarthy, Fader, and Hardie 2017). Although transitioning to a recurring subscription model was associated with a temporary revenue J-curve and lower operating margins for firms like Adobe and Autodesk, the transition was followed by financial recovery and higher EV/Sales valuations, while P/E multiples and stock price volatility showed more mixed patterns.

To examine this thesis, the paper is structured to analyze both the operational problems and the market rewards for these transitions. First, this paper will look at revenue J-Curve and margin compression experienced by Adobe and Autodesk. Then, it will focus on market valuations and price volatility levels as the revenue made from the subscription model settles. Finally, the paper will connect these findings to provide insights into how market valuations and stock volatility changed during these major corporate shifts.

2. Literature Review

Subscription-based businesses have shown a lot of growth and have also changed how investors and researchers evaluate company performance. Traditional metrics like revenue, net income, and operating margins are still very important, but subscription businesses have shifted attention to metrics that track recurring revenue and customer retention, which are focused on long-term performance. Research done by McCarthy, Fader and Hardie (2017) shows that the growth of businesses running on subscription models has increased the significance of customer-based metrics, including Customer Lifetime Value (CLV), customer acquisition, and retention, when investors measure the overall value of a company. In the software industry, ARR is also a vital measure as it provides information about the growth of a company's recurring revenue. Looking at Adobe, it began reporting ARR as a key performance metric when it transitioned to the Creative Cloud (Adobe Systems Incorporated 2014).

As SaaS businesses have grown, measures like the Rule of 40 have also become common performance indicators. This rule compares a software company's revenue growth with its profitability or free cash flow. Research done by McKinsey found that software companies performing better than the Rule of 40 generally had higher enterprise-value-to-revenue multiples compared to companies that performed below it (Roche and Tandon 2021). McKinsey also identified ARR and customer retention as important measures that relate to SaaS performance and valuation. All these measures show why evaluating a

subscription company through short-term metrics may leave out key details and information regarding future revenue and customer base.

Further research also focuses on the financial pressure software companies can face while transitioning from perpetual licenses to subscriptions. Under the perpetual licensing model, companies can show a larger portion of revenue close to the time of the initial sale. Under a subscription model, payments can spread across a larger time period, not allowing companies to recognize the instant revenue generated. Thus, shifting to a recurring revenue model can create short-term dips in reported revenue, even while the company is building its subscription base. McKinsey's research showed that handling the short-term temporary dip in sales is the hardest challenge these companies face when shifting to a subscription model (Chao et al. 2017). This pattern is also seen in the company's filings. When Adobe was transitioning to the Creative Cloud, the company said that focusing on the adoption of the subscription model has made its perpetual-license revenue decline. The new model is expected to make revenue more recurring and predictable over the long run (Adobe Systems Incorporated 2014). Autodesk also showed similar signs during its transition, explaining that revenue and operating margins will be impacted as more revenue is recognized over time rather than all at once (Autodesk, Inc. 2016).

Existing research suggests that investors might value subscription-based businesses in a different way compared to companies that rely on individual transactions. McCarthy, Fader, and Hardie (2017) connect the customer acquisition and retention data to the overall valuation of the subscription-based companies. This shows that customer behavior can provide key information beyond the financial statements. Similarly, McKinsey's research on software companies found a relationship between stronger recurring revenue and higher enterprise-value-to-revenue multiples (Roche and Tandon 2021). These findings suggest that short-term declines in earnings may not provide a complete understanding of a company's performance or how investors might value the company in the long run.

However, the literature reviewed here does not give attention to what happens to both financial performance and market valuations during the transition. The research either talks about the bigger picture of subscription businesses or focuses on the long-term pros and cons of the recurring revenue model. There is not enough focus on directly comparing changes in revenue, valuation multiples, stock price volatility and other metrics across the different stages of the transition. Looking at these metrics together can provide insights into how market valuations change alongside short-term drops in profit and growth in recurring revenue and customer base.

This study addresses the gap through a comparative analysis of Adobe Inc. and Autodesk, Inc. It compares both companies across the pre-transition, active-transition, and post-transition time periods. Instead of just focusing on the financial success of these companies, this study tracks how their financial performance, valuation multiples and stock price volatility changed during the transition. This study aims to examine how financial performance and market valuations changed as Adobe and Autodesk shifted to subscription models.

3. Methodology

This paper uses a comparative case study to understand how such big software companies shift from perpetual licenses to recurring subscriptions. It uses Adobe Inc. and Autodesk, Inc. as the companies for the case study. These two companies were chosen because both work in the creative and design software industry and went through similar business model transitions in the 2010s (Adobe Systems Incorporated 2014; Autodesk, Inc. 2016). To actually understand the market changes throughout the transition period, the study analyzes data from three different time periods:

Company	Pre-Transition	Active Transition	Post-Transition
Adobe Inc.	2010–2012	2013–2014	2015–2018
Autodesk, Inc.	2012–2014	2015–2016	2017–2020

Multiple financial metrics were used in the study, including total revenue, net income, operating mar-

gins, and Annual Recurring Revenue (ARR). All of these are taken directly from the official corporate disclosures filed with the U.S. Securities and Exchange Commission (SEC), mainly from the Form 10-K annual reports and Form 10-Q quarterly reports. Adobe and Autodesk both reported financial information regarding their subscription models throughout their transitions (Adobe Systems Incorporated 2014; Autodesk, Inc. 2016). Other market valuation metrics were collected from different financial data platforms, like FinanceCharts and Macrotrends. Stock price volatility data were collected from WallStreetNumbers.

To understand the financial impact of this transition, this paper tracks changes in GAAP profitability and subscription growth. The total revenue represents the company's total sales, and the net income represents the GAAP profitability after cutting the expenses. The gross profit margin is used to measure how much revenue remains after the direct costs associated with providing the product/service:

$$\text{Gross Profit Margin (\%)} = \left(\frac{\text{Gross Profit}}{\text{Total Revenue}} \right) \times 100 \quad (1)$$

The operating margin is also tracked to measure operating profitability with regard to the total revenue:

$$\text{Operating Margin (\%)} = \left(\frac{\text{Operating Income}}{\text{Total Revenue}} \right) \times 100 \quad (2)$$

Annual Recurring Revenue (ARR) is used to track the growth of the recurring subscription revenue during the transition. Adobe used ARR as a key metric to evaluate the progress of its Creative Cloud transition (Adobe Systems Incorporated 2014). The year-over-year ARR growth rate is calculated as:

$$\text{ARR Growth Rate} = \left[\frac{\text{ARR}_t - \text{ARR}_{t-1}}{\text{ARR}_{t-1}} \right] \times 100 \quad (3)$$

To understand how the market values the company based on its revenue, this paper also looks at the Enterprise Value-to-Sales (EV/Sales) multiple:

$$\text{EV/Sales} = \frac{\text{Enterprise Value}}{\text{Total Revenue}} \quad (4)$$

Price-to-Earnings (P/E) ratio is another measure for market valuation. These valuation measures are compared across all three time periods, to see how market valuations changed as each company grew its recurring revenue.

Stock price volatility is used to observe the changes in the stability of a stock. This study uses one-month annualized stock volatility to compare changes in volatility over time. The volatility data were collected from WallStreetNumbers and compared across the different transition periods for both the companies (WallStreetNumbers n.d.-a; WallStreetNumbers n.d.-b).

This methodology also has some limitations. This study focuses on only two large, publicly traded software companies. As a result, the findings may not apply to smaller companies, private firms, or companies in other industries. On top of this, Adobe and Autodesk did not transition at the same time. So, the differences in the broader economy and the stock market could have affected their financial performance and valuations. Finally, the changes in stock prices and valuations may not just be affected by the business model transition. Other factors and company decisions could also have influenced investors during that time period.

Despite these limitations, comparing Adobe and Autodesk across similar stages still provides important information. It examines the company's financial performance and the changes in the market valuations during their subscription transitions. The exact financial data from this study are presented in the next section.

4. Results/Findings

4.1 Total Revenue

Both Adobe Inc. and Autodesk, Inc. show a similar revenue pattern. They experienced a drop in total revenue during their transitions, before recovering and growing in the post-transition period. Adobe's

revenue grew consistently through Fiscal Year (FY) 2012 before it started declining in FY2013 (Adobe Systems Incorporated 2014). Adobe's revenue started recovering in FY2014 and passed its pre-transition level in FY2015. By FY2018, total revenue reached \$9.03 billion (Adobe Inc. 2019). Autodesk's total revenue remained stable through FY2014 before starting a multi-year decline, with its lowest being at \$2.03 billion in FY2017 (Autodesk, Inc. 2017). Revenue began recovering in FY2018 and passed its pre-transition level by FY2020 (Autodesk, Inc. 2020).

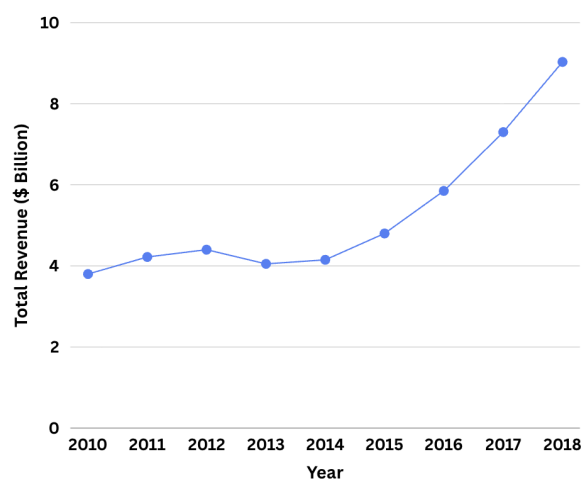


Figure 1. Adobe Inc. Total Revenue Trajectory (FY2010–FY2018)

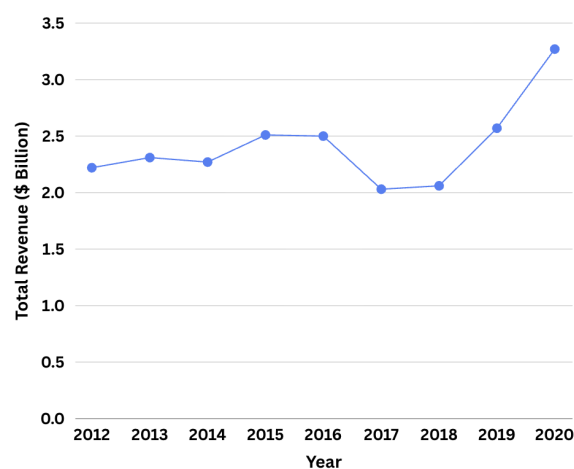


Figure 2. Autodesk, Inc. Total Revenue Trajectory (FY2012–FY2020)

Table 1. Adobe Segment Revenue Transition (FY2012–FY2014)

Revenue Metric	FY2012	FY2013	FY2014
Product Revenue (% of Total Revenue)	76%	60%	39%
Subscription Revenue (% of Total Revenue)	15%	28%	50%
Total Net Revenue (\$ Million)	\$4,403.7	\$4,055.2	\$4,147.1

Table 1 shows the change in Adobe's revenue during the start of its Creative Cloud transition. Between FY2012 and FY2014, its product revenue from perpetual licenses decreased from 76% of total net revenue to 39%. Subscription revenue from the Creative Cloud increased from 15% of total net revenue to 50%, passing the product revenue in FY2014. Total net revenue decreased from \$4,403.7 million in

FY2012 to \$4,055.2 million in FY2013 before it started recovering (Adobe Systems Incorporated 2015). For both companies, the total revenue declined in the initial phases before recovering and eventually passing the pre-transition levels.

4.2 Net Income and GAAP Profitability

GAAP net income for Adobe and Autodesk across the three transition periods is shown in Tables 2 and 3:

Table 2. Adobe Inc. GAAP Net Income Trajectory

Transition Phase	Adobe Net Income (\$ Billion)
Pre-Transition Baseline	\$0.77B – \$0.83B
Active Transition Trough	\$0.27B – \$0.29B
Post-Transition Peak / Recovery	\$0.63B – \$2.59B

Adobe reported net income of \$774.7 million in FY2010, \$832.8 million in FY2011, and \$832.8 million in FY2012. Net income then dropped to \$290.0 million in FY2013 and \$268.4 million in FY2014. It later recovered to \$629.6 million in FY2015 and reached \$2.59 billion by FY2018 (Adobe Systems Incorporated 2014; Adobe Inc. 2019).

Table 3. Autodesk, Inc. GAAP Net Income Trajectory

Transition Phase	Autodesk Net Income (\$ Billion)
Pre-Transition Baseline	\$0.23B – \$0.29B
Active Transition Trough	–\$0.33B – \$0.08B
Post-Transition Peak / Recovery	–\$0.58B – \$0.21B

Autodesk reported net income of \$285.3 million in FY2012, \$247.4 million in FY2013, \$228.8 million in FY2014, and \$81.8 million in FY2015. The company then reported net losses of \$330.5 million in FY2016, \$582.1 million in FY2017, \$566.9 million in FY2018, and \$80.8 million in FY2019. Autodesk returned to positive net income of \$214.5 million in FY2020 (Autodesk, Inc. 2016; Autodesk, Inc. 2017; Autodesk, Inc. 2020).

As shown in Table 2, Adobe experienced a huge drop in GAAP net income during its transition but still made a profit throughout. Autodesk experienced multiple years of net losses before returning to a positive GAAP net income in FY2020.

4.3 Gross Profit Margin (%)

Compared to operating margins and net income, gross profit remained relatively stable for both companies. Adobe's gross profit margin remained stable across the transitional periods. Adobe reported gross margins of approximately 89% in FY2012, 86% in FY2013, 85% in FY2014, and 87% in FY2018 (Adobe Systems Incorporated 2014; Adobe Inc. 2019). Autodesk's gross profit margin also remained stable. It reported GAAP gross profit margin of 90% in FY2012, 90% in FY2013, 88% in FY2014, 85% in FY2018, 89% in FY2019, and 90% in FY2020 (Autodesk, Inc. 2014; Autodesk, Inc. 2020).

4.4 Operating Margin (%)

The changes in operating margins, calculated using equation (2), for both the companies are shown in Tables 4 and 5 across different points in their transition periods. Adobe's operating margin declined significantly during the active transition before recovering above the pre-transition level. Autodesk's operating margins were negative during the transition, reaching around –25% in FY2017 and FY2018. Eventually, Autodesk's operating margin recovered to positive by FY2020 (Autodesk, Inc. 2020).

Table 7. Autodesk, Inc. ARR Growth

Fiscal Year	ARR Measure	ARR (\$B)	YoY Growth
FY2019	Total ARR	\$2.75B	34%
FY2019	Subscription Plan ARR	\$2.20B	87%
FY2020	Total ARR	\$3.43B	25%
FY2020	Subscription Plan ARR	\$3.11B	41%

Table 4. Adobe Inc. Operating Margin Trajectory

Landmark Phase	Adobe Operating Margin (%)
Pre-Transition Peak (FY2011)	26.1%
Active Transition Trough (FY2014)	10.0%
Early Rebound (FY2016)	25.5%
Late Peak (FY2018)	31.5%

Table 5. Autodesk, Inc. Operating Margin Trajectory

Landmark Phase	Autodesk Operating Margin (%)
Pre-Transition Peak (FY2014)	12.5%
Post-Transition Trough (FY2017)	–24.6%
Continued Post-Transition Loss (FY2018)	–24.8%
Late Peak (FY2020)	10.0%

Across both companies, operating margins declined during the transition and recovered in later years.

4.5 Annual Recurring Revenue (ARR) Growth

Annual Recurring Revenue (ARR) totals and year-over-year (YoY) growth rates, calculated using equation (3), are given below. Adobe's ARR increased throughout the active-transition and post-transition periods. Autodesk's ARR also increased throughout the transition, with strong annual growth.

Adobe reported different types of ARR, including Creative ARR and total Digital Media ARR, during the years this study focuses on. As these are different measures, they are shown separately instead of combining them into one ARR metric.

Table 6. Adobe Inc. ARR Growth

Fiscal Year	ARR Measure	ARR (\$B)	YoY Growth
FY2013	Creative ARR	\$0.80B	–
FY2014	Creative ARR	\$1.68B	110%
FY2017	Digital Media ARR	\$5.39B	–
FY2018	Digital Media ARR	\$6.83B	27%

Adobe reported its Creative ARR of \$1.68 billion in FY2014, compared with the \$801 million in FY2013. By FY2018, total Digital Media ARR reached \$6.83 billion, compared with the \$5.39 billion in FY2017. Adobe also reported that FY2018 Digital Media ARR would be equal to \$6.71 billion when adjusted using the beginning-of-FY2019 currency rates (Adobe Systems Incorporated 2015; Adobe Inc. 2019).

Autodesk reported its total ARR of \$2.75 billion in FY2019, showing a 34% year-over-year growth. The subscription plan ARR was \$2.20 billion and increased by 87%. In FY2020, the total ARR increased to \$3.43 billion while the subscription plan ARR reached \$3.11 billion (Autodesk, Inc. 2019; Autodesk, Inc. 2020).

Across both companies, reported ARR increased as their subscription business and revenue grew.

4.6 Market Valuation Multiples and Risk Perception

Enterprise Value-to-Sales (EV/Sales) multiples, P/E ratios, and stock price volatility changed throughout the different transitional periods for both companies.

4.6.1 Enterprise Value-to-Sales (EV/Sales)

Adobe's EV/Sales multiples increased throughout the transitional periods. It was approximately 3.8x at the end of FY2012, then it increased to approximately 6.9x by the end of FY2013 and finally it reached 8.1x by the end of FY2014, and continued increasing after the active transition. By the end of FY2018, Adobe's EV/Sales multiple reached approximately 13.7x (FinanceCharts n.d.-a).

Autodesk also experienced an increase in its EV/Sales. It was approximately 3.2x in early FY2012 and 4.8x in early FY2014. During the following years, it generally increased and reached above 13x during parts of the post-transition period (FinanceCharts n.d.-b).

Table 8. Selected EV/Sales Multiples

Company	Pre-Transition	Active Transition	Post-Transition
Adobe	3.8x (FY2012)	8.1x (FY2014)	13.7x (FY2018)
Autodesk	4.8x (FY2014)	4.7x (FY2016)	13.3x (FY2020)

Across both companies, the EV/Sales multiples were higher in the later years studied compared to the earlier time periods.

4.6.2 Price-to-Earnings (P/E)

Adobe's P/E ratio changed heavily during the transition. Adobe had a P/E ratio of approximately 20.9x at the end of FY2012. As their earnings declined during the active transition period, the P/E ratio increased significantly, reaching approximately 101x at the end of FY2013 and 139x at the end of FY2014. The ratio later decreased as earnings started to recover, reaching approximately 48x at the end of FY2018 (Macrotrends n.d.-a).

Autodesk had P/E ratios of approximately 29.5x in early FY2012 and 51.3x in early FY2014. The ratio then increased as the earnings declined. Once Autodesk began reporting its net losses, a normal P/E ratio was no longer meaningful because its earnings were negative. P/E became meaningful again when the company returned to positive earnings (Macrotrends n.d.-b).

Table 9. Selected P/E Ratios

Company	Pre-Transition	Active Transition	Post-Transition
Adobe	20.9x (FY2012)	139.0x (FY2014)	48.3x (FY2018)
Autodesk	51.3x (FY2014)	N/M (Loss)	205.1x (FY2020)

Across the different time periods, the P/E ratios changed as the company earnings changed, with Autodesk's P/E ratio becoming less meaningful during its loss-making years.

4.6.3 Stock Price Volatility

Stock price volatility changed throughout the transition periods for both companies. Adobe's one month annualized volatility was 30.1% at the end of 2010 and 35.3% in 2011. It fell to 24.9% in 2012. During the active transition, it increased to 50.1% in 2013. It later decreased back down to 37.2% in 2014. During the post transition, it continued to vary up and down, reaching 29.8% in 2015, 19.1% in 2016, 29.3% in 2017, and 56.9% in 2018 (WallStreetNumbers n.d.-a).

Autodesk also experienced changes in volatility throughout its transition. Its one month annualized volatility went up and down across the years analyzed, instead of following any consistent pattern (Wall-StreetNumbers n.d.-b).

Table 10. Selected One-Month Annualized Stock Volatility

Year	Adobe	Autodesk
FY2015	29.8%	23.2%
FY2016	19.1%	45.4%
FY2017	29.3%	19.7%
FY2018	56.9%	49.0%

Across both companies, stock price volatility fluctuated throughout the transition periods.

4.7 Factual Summary of Findings

Across both companies, the data shows two main patterns. The total revenue, GAAP net income, and operating margins declined during parts of the transition before they started recovering. At the same time, gross profit margins remained stable, while ARR increased as both companies grew their subscription model.

4.7.1 Individual Metrics Summary

Total revenue declined during the transition but eventually recovered and passed the pre-transition levels. The GAAP net income also dropped during the transition before recovering. Adobe remained profitable throughout the time periods, while Autodesk experienced many years of net losses before returning to positive net income. The gross profit margins remained relatively stable during the time periods analyzed, while operating margins declined initially before recovering over time. Annual Recurring Revenue (ARR) increased as both companies expanded their subscription business.

The market valuation metrics showed a different pattern. EV/Sales increased overall for both companies and reached higher valuation multiples in their later transition periods. The P/E ratios changed as the company earnings changed, and Autodesk's P/E ratio was not meaningful during the years it reported net losses. The stock price volatility fluctuated throughout the transition periods rather than consistently following a pattern.

5. Discussion

The results show a clear pattern: Adobe and Autodesk experienced short-term financial pressure as they shifted from one-time software sales to a subscription model, before recovering over time. During the active transition, Adobe and Autodesk went through drops in revenue, net income and operating margins. As their subscription revenue grew, these financial metrics also recovered. This follows a J-curve-like pattern, where the financial performance weakens during the transition before improving over the years.

Adobe and Autodesk followed a similar pattern, but their transition varied in length and impact. Adobe recovered relatively quickly and stayed profitable throughout the transitions. Autodesk experienced a longer transition, including multiple years of net losses and negative operating margins, before returning to making profits. At the same time, ARR continued to grow as the subscription business became stronger. These findings match previous research showing that going from upfront sales to recurring revenue can create short-term financial pressure while the subscription revenue grows over time (Chao et al. 2017).

The market results were more mixed. The EV/Sales multiples increased overall for both companies, while P/E ratios changed as earnings declined but later recovered. Autodesk's P/E ratio also became meaningless during its years making net losses. However, stock price volatility fluctuated instead of consistently decreasing. Overall, the findings support the research question by showing the short-term

financial pressure followed by strong recurring revenue growth, even though not all metrics followed the same pattern.

There are some limitations to these findings. This study only looks at Adobe and Autodesk, so the results may not apply to every company or industry. It also focuses on a specific historical time period while using a comparative case study model. This means the patterns we notice cannot prove that the subscription transition alone caused these financial changes. If looked at from a larger perspective, broader economic conditions, technology changes and other factors could also have affected the results. Despite these limitations, the findings suggest that companies transitioning to subscription models may experience short-term financial pressures as their recurring revenue grows. For the investors, looking at ARR with revenue, profitability, and valuation multiples can provide a better view of a company during a major business model transition.

6. Conclusion

This study examined how financial performance and market valuation changed as Adobe and Autodesk transitioned from traditional perpetual licenses to a subscription model over time. By comparing Adobe Inc. and Autodesk, Inc. in all three transition periods, the research looked at whether the short-term financial pressure of this shift was followed by stronger long-term performance. Overall, both companies faced challenges during their transitions, but their financial performance later recovered as recurring revenue grew. As subscription revenue became a larger part of each business, ARR started growing and the long-term results were much better compared to the company's performance during the transition.

The results show a few important patterns. Total revenue, net income and the operating margins faced short-term declines during the active transition periods, but they recovered eventually as recurring revenue grew. At the same time, gross profit margins were comparatively stable, showing that the basic profitability of the companies' software business remained strong even when their revenue models were changing. The market results were different compared to the short-term financial findings as ARR was increasing, valuation multiples generally expanded and stock price volatility fluctuated over time. Together, these findings suggest that short-term declines in traditional financial metrics during a major revenue model transition may not fully reflect a company's long-term performance. Instead, evaluating a company should also include other metrics that focus on a company's long-term performance.

Although this study only focuses on Adobe Inc. and Autodesk, Inc., the results can still provide information for companies and investors looking at similar business model transitions. These findings suggest that companies considering shifting to a subscription model may need enough financial capital and flexibility to handle possible temporary declines in revenue and profitability while recurring revenue grows and stabilizes. Investors should be careful about judging company performance by only looking at short-term metrics during a major transition. Future research could examine a larger and more diverse group of companies to see if similar patterns are seen across different industries. It could also analyze these companies for longer time periods after their transition to see if higher valuations and recurring revenue growth continue, and how stock price volatility changes after subscription models are completely in place. In conclusion, Adobe and Autodesk both experienced short-term financial challenges during their subscription transitions before recovering as their recurring revenue grew. These findings suggest that similar patterns may occur at other companies, but further research with a larger sample size would be needed to determine whether these results apply more broadly.

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Conflicts of Interest

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