

Adobe Inc. (ADBE)

Monte Carlo Valuation Summary | 3 / 5 / 7 / 10-year horizons | June 19, 2026 | Spot \$194.64

Attractive on a risk-adjusted basis - a re-rating / mean-reversion bet. At 8x FCF the market prices in roughly 50% odds of AI disruption; this model uses 33%, and that gap is the edge.

CHEAP (PV +21% vs spot at a 12.5% required return)

Current snapshot

Market cap	~\$80.8B
TTM revenue	\$25.2B (+13% YoY, Q2 FY26)
FY26 non-GAAP EPS guide	\$24.35-24.45 (~8.0x fwd P/E)
Free cash flow (FY25)	~\$9.85B
P/FCF / FCF yield	8.2x / 12.2%
Gross / operating margin	89% / 36%
Total ARR (AI-first >\$500M, tripled)	\$27.1B
Net debt / dividend	~\$1B / none (buybacks ~\$11B/yr)
Realized vol / max drawdown	36% / -72% (2021 peak to now)

Monte Carlo framework

500,000 paths. Required return 12.5% (CAPM 11.3% + idiosyncratic tail premium). Forward vol 37%. Sortino MAR 7%. Terminal value = (FCF grown / shares shrunk by buybacks) x terminal P/FCF.

Regime	Prob	Revenue CAGR	Terminal P/FCF
Disruption / secular decline	33%	0 - 5%	5 - 9x
Stable compounder at a discount	45%	5.5 - 10.5%	9 - 14x
AI winner / re-rating	22%	9 - 15%	13 - 18x

Distribution of terminal value by horizon

Yr	E[price]	Median	P5	P95	E[CAGR]	P(loss)	Sortino	Med. max DD
3	\$338	\$334	\$105	\$661	16.1%	30.7%	0.81	-37%
5	\$425	\$416	\$115	\$881	13.3%	28.3%	0.84	-46%
7	\$536	\$518	\$125	\$1,176	12.3%	24.9%	0.91	-52%
10	\$766	\$719	\$142	\$1,822	11.6%	18.5%	1.01	-58%

Fundamental scenarios (regime-conditional median price)

Case	3-year	10-year
Downside - Disruption (33%)	\$136 (-11.2%/yr)	\$187 (-0.4%/yr)
Base - Stable compounder (45%)	\$358 (+22.5%/yr)	\$774 (+14.8%/yr)
Upside - AI re-rating (22%)	\$565 (+42.7%/yr)	\$1,521 (+22.8%/yr)

Investment assessment

Main upside drivers. Multiple normalization from a distressed 8x toward 11-15x (the biggest single swing); buyback accretion at a 12% FCF yield; AI monetization via Firefly / GenStudio converting threat to ARPU.

Main downside drivers. Permanent de-rating (a value trap where 8x never recovers); genuine commoditization compressing both revenue and the 89% gross margin; buyback unsustainable if FCF falls.

What would change the conclusion. Bullish flip: two quarters of accelerating AI-first ARR with total ARR $\geq 10\%$ and the multiple recovering. Bearish flip: AI-first ARR decelerates AND total ARR dips below $\sim 9\%$, or FCF margin slips below the high-30s. Watch RPO/billings, which lead reported revenue by 2-4 quarters.

Notes. Probability of loss equals probability of negative CAGR (no dividend). Sensitivity: even a bearish 45/40/15 regime mix stays modestly cheap; only a permanent $\sim 8x$ 'value trap' makes it $\sim 13-15\%$ rich.

Cross-name context: across ADBE, MSFT and GOOGL the margin of safety runs inverse to market affection - ADBE (+21%, most disliked) > MSFT (+14%) > GOOGL (-7%, most loved). The less the market loves a name, the cheaper it is.

Disclaimer: educational / illustrative model output, NOT investment advice. A fundamentals-driven Monte Carlo (500,000 paths) anchored to live market data as of June 18-19, 2026 (Polygon), with assumptions calibrated by a six-lens adversarial review. These are probabilistic estimates conditioned on stated assumptions, not forecasts; there is no 'true' future value. Figures are internal-consistency outputs only. Past performance and modeled scenarios do not guarantee future results. Do your own research.