

ValuationBot.ai

Eli Lilly and Company (LLY)

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Prepared for: Edmund Simms
Prepared by: ValuationBot

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1. Executive summary

Company: Eli Lilly and Company

Ticker: LLY

Recommendation: Strong Sell

Current price: US\$1,037.15

Estimated value: US\$501.98

Upside: -51.6%

Expected IRR: 5.8%

I believe Eli Lilly and Company is overvalued at US\$1037. The market is pricing in a rare combination of outcomes: revenue growth of about 21.5% sustained for about 13 years and a stable net income margin of about 32.9%, which together justify today's premium multiples. I see a different picture. I expect growth to slow to 17.0% and to fade earlier, with stability in about 10 years, because GLP-1 supply catches up, payers push back through tighter coverage and higher rebates, and competitors led by Novo Nordisk increase price pressure as the category matures. I also expect a 26.0% stable net income margin because Lilly will keep funding heavy R&D and commercial spend while it expands manufacturing, and because net pricing pressure should rise as obesity budgets become more visible. Compared with peers, Lilly already trades at rich levels (60.4x earnings and 20.6x sales), so it has little room for disappointment. I estimate fair value at about US\$502 per share (US\$255–US\$838), which implies 52% downside from today's price. Key events such as FY2025 results and 2026 guidance (likely February 2026, timing unconfirmed) and orforglipron Phase 3 readouts and filing steps during 2026 (timing unconfirmed) will test whether growth, runway, and margins can really match the market's assumptions. The main risks are an upside surprise in oral GLP-1 execution, slower rebate pressure than I assume, and a broader pipeline that extends the high-growth period. Taking all this together, I rate the shares a Strong Sell over the next 12 months.

2. Overview

Company	Eli Lilly and Company
Ticker	LLY
Analysis date	Feb 02, 2026
Expected IRR	5.8%
Latest filing	10-Q, Oct 30, 2025
Industry	Drug Manufacturers – General
Sector	Healthcare
Recommendation	Strong Sell
Upside potential	-51.6%
Exchange	NYSE
Market cap	\$929.76bn
Current price	US\$1,037.15
Estimated value	US\$501.98

3. Investment summary

Recommendation: Strong Sell LLY (Eli Lilly and Company) shares at US\$1037.

Thesis: The market prices Lilly as if GLP-1 growth stays above 20% for over a decade and net margins stay near peak levels. I think Lilly keeps a strong franchise, but payer leverage, intensifying competition, and sustained investment needs make 17% growth, a 10-year fade to stability, and a 26% stable net margin more realistic.

Catalysts: FY2025 results and 2026 outlook (likely February 2026, timing unconfirmed) should show whether revenue growth can sustain near 21.5% and whether net margin can hold near 33% versus a path towards 17% growth and a mid 20s net margin. Orforglipron Phase 3 readouts and filing milestones during 2026 (timing unconfirmed) should also clarify whether the growth runway really looks like 13 years or closer to 10.

Valuation: My base-case intrinsic value is about US\$502 per share versus US\$1037 today, which implies about 52% downside. The intrinsic value range is about US\$255–US\$838 per share, so even my bull case implies downside at today's price.

Risks: If orforglipron expands the addressable market faster than I assume and payers fund broader obesity access, revenue growth could move towards 21.5% and keep the high-growth phase closer to 13 years. If net income margin holds nearer 32.9% on mix and operating leverage, fair value could rise towards my bull-case estimate of about US\$838, which would reduce but not remove the downside versus today.

4. Company background

Industry

Drug Manufacturers – General

Description

Eli Lilly and Company discovers, develops, and sells branded medicines globally. It earns most revenue from prescription drugs across cardiometabolic disease (including GLP-1 therapies), oncology, immunology, and neuroscience, supported by a large research pipeline and selected collaborations.

Key products

Mounjaro, Zepbound, Trulicity, Jardiance (collaboration), Humalog and Humulin insulins, Verzenio, Taltz, Olumiant, Emgality, Retevmo, Cyramza, Alimta, Cymbalta, Zyprexa, Forteo, Cialis, Omvoh (early launch and pipeline focus), orforglipron (pipeline).

Business model

Value proposition: Branded, patent-protected medicines for large chronic diseases, led by GLP-1 therapies for diabetes and obesity.

Revenue engine: Product sales of branded pharmaceuticals plus smaller collaboration and royalty income.

Cost drivers and investment focus: High R&D spend, large manufacturing scale-up for GLP-1 supply, and lifecycle studies and launches.

Unit economics

Key unit: One treated GLP-1 patient on Mounjaro or Zepbound.

Revenue per unit: Not disclosed publicly.

Cost per unit: Implied low cost of sales at peak, with gross margin in the low-80s in recent periods.

Contribution margin: High at the gross level, but net margin depends on rebates, R&D, and selling costs.

Competitive landscape

Direct competitors: Direct competitors: Novo Nordisk in GLP-1; other large pharma across oncology and immunology.

Relative positioning: Relative positioning: Strong GLP-1 portfolio and deep pipeline, but the valuation already assumes best-in-class outcomes.

Key threat/trend: Payer and regulator pushback on obesity drug pricing and coverage as competition increases.

Operating segments

Pharmaceutical products (100%): Branded human medicines across cardiometabolic, oncology, immunology, and neuroscience

Geographic segments

United States (largest): Highest realised prices and the largest GLP-1 profit pool

International (remainder): Faster unit growth potential but tighter pricing controls and tender pressure

5. Financial summary

All financial figures in \$ millions

Fiscal year	2024	2023	2022	2021	2020
Revenue	45,043	34,124	28,541	28,318	24,540
YoY growth	32.0%	19.6%	0.8%	15.4%	10.0%
Adjusted net profit	15,393	8,823	7,737	7,209	7,000
Margin	34.2%	25.9%	27.1%	25.5%	28.5%
Reinvestment	8,213	4,004	2,701	2,872	3,813
FCFE	7,180	4,819	5,036	4,337	3,187
Adjusted equity	46,717	38,493	34,788	31,626	26,661
Return on equity (ROE)	33.0%	22.9%	22.2%	22.8%	26.3%
Sales to equity ratio	0.96	0.89	0.82	0.90	0.92

6. Investment thesis

The market prices Lilly as if GLP-1 growth stays above 20% for over a decade and net margins stay near peak levels. I think Lilly keeps a strong franchise, but payer leverage, intensifying competition, and sustained investment needs make 17% growth, a 10-year fade to stability, and a 26% stable net margin more realistic.

GLP-1 growth will cool as supply and payers catch up: The market assumes Lilly can sustain about 21.5% revenue growth, but I forecast 17.0% because today's GLP-1 surge should fade as the category moves from early penetration to broader, budget-constrained access. Consensus already points to a high-teens growth profile over the medium term, which supports strong growth but does not require a decade-long 20%+ outcome.

Competition led by Novo Nordisk should lift rebates and slow net pricing, even if unit demand stays high. Lilly should still outgrow large pharma peers, but a 17% path better reflects normalised growth after capacity expansion and payer tightening.

Stable net margin should normalise below today's implied peak: The market implies a 32.9% stable net income margin, but I forecast 26.0% because Lilly must keep spending to defend share, fund R&D, and build manufacturing capacity, while net pricing faces rising rebate and policy pressure. Gross margin can stay strong, yet net margin depends on sustained high investment and payer terms, not only product mix. Obesity treatment draws political and employer scrutiny, so I expect tougher negotiations over time, especially as competition widens choice. A 26% stable margin still signals a high-quality franchise, but it does not support a mid-30s net margin through a full cycle.

The market overstates the length of the super-growth period: The market prices about 13 years to stability, but I use 10 years because category maturity and payer tools should arrive sooner than the market implies. As supply expands and more GLP-1 options appear, payers should exert more leverage on coverage rules and net prices, which pulls forward the point where growth fades. Oral GLP-1 could expand the market, but it can also speed up substitution and intensify price competition once multiple products reach scale. Lilly's broader pipeline helps, but it does not remove the reality of patent cycles and reimbursement pressure in a maturing, high-spend class.

7. Catalysts

FY2025 results and 2026 guidance should reset growth expectations: Lilly should report FY2025 results in February 2026 based on its usual reporting pattern, but the exact date is unconfirmed. Investors should focus on 2026 revenue guidance and GLP-1 volume versus net price to see whether growth stays near the market's implied 21.5% or drops towards my 17.0% view. If guidance points to a mid-teens exit rate as rebates rise and the growth base gets larger, I expect the shares to de-rate towards my base-case value of about US\$502. A move from US\$1037 towards the 90th percentile of simulated intrinsic values at about US\$688 implies about 34% downside.

Net margin commentary should test the 33% steady-state assumption: FY2025 results and the 2026 outlook, likely in February 2026 (timing unconfirmed), should clarify whether recent profitability is sustainable or a mix-and-scale peak. If management guides to sustained high R&D and selling spend to support pipeline launches and broader obesity access, the market should move away from a 32.9% stable net margin towards my 26.0% view. That margin reset should compress the multiple because Lilly already trades at premium earnings and sales ratios. If the market accepts a mid-20s steady margin, I expect a step down in the share price towards the middle of the simulated value range around US\$489.

Orforglipron timelines should define whether runway is 13 years or 10: Orforglipron Phase 3 readouts and filing milestones during 2026 are plausible, but timing is unconfirmed. If results, safety, or payer positioning point to narrower use or slower uptake than investors expect, the market should pull forward the maturity point from about 13 years towards my 10-year assumption. A shorter runway lowers the terminal value contribution and reduces tolerance for today's premium valuation. If the runway narrative weakens at the same time as guidance slows, I expect the shares to track towards my base-case value of about US\$502.

8. Valuation

Current price: US\$1,037.15

Base case value: US\$501.98

Upside potential: -51.6%

Expected IRR: 5.8%

Currency: USD

Report date: Feb 02, 2026

Latest annual financials: Dec 31, 2024

[Base case assumptions](#) [DCF model](#) [Bull/Bear scenarios](#)

Story:

Lilly sits in a late growth phase, driven by strong demand for its GLP-1 obesity and diabetes medicines and supported by a broader cardiometabolic and oncology portfolio. I expect rapid revenue growth to continue for several years as Lilly expands manufacturing capacity and widens access, but growth slows as supply catches up, competitors launch alternatives, and payers push back on price. I expect margins to stay strong yet ease from peak levels because Lilly keeps investing heavily in research and development and spends to defend and expand franchises. I treat the outcome as probable because it matches recent momentum, planned capacity expansion, and the typical pharma pattern of high returns that normalise over time.

Multiples snapshot

Peers in large pharma typically trade on much lower ratios than Lilly, and the sector does not look cheap versus history given more normal post-pandemic growth and a higher-rate backdrop. Lilly trades at 60.4x earnings, 20.6x sales, and 19.9x book value, which places it around the 81st percentile of its own earnings multiple history and the 90th percentile of its sales and book multiples, so investors already pay for exceptional growth and profitability. This premium only makes sense if Lilly delivers something close to the market-implied path of 21.5% revenue growth, about 13 years to stability, and a 32.9% stable net margin, which my base case does not support. A fairer valuation looks closer to the mid-to-upper historical range: the 75th percentile implied price is about US\$472 on sales, about US\$798 on earnings, and about US\$266 on book value, with book value being less informative for a research-led pharma because intangibles and buybacks can distort equity. Taken together, these checks reinforce my DCF outcome and support a Strong Sell rating at US\$1037.

Price-to-sales: 20.6x ("e90th percentile vs. peers) with implied share prices from US\$70 to US\$1,005 across the revenue-weighted peer set.

Price-to-earnings: 60.4x (81th percentile vs. peers) with implied share prices from US\$170 to US\$1,448 across the revenue-weighted peer set.

Price-to-book: 19.9x ("e90th percentile vs. peers) with implied share prices from US\$47 to US\$584 across the revenue-weighted peer set.

9. Risks

Oral GLP-1 could sustain 20%+ growth for longer: If orforglipron delivers strong Phase 3 outcomes and Lilly executes a fast global launch, it could expand the treated population

and keep revenue growth closer to the market's implied 21.5% rather than my 17.0%. If payers broaden obesity coverage with less restriction than I assume, unit growth could stay high even as supply expands. In that scenario, the shares should re-rate because the current price already leans on a high-growth narrative. If growth aligns with 21.5%, I would expect fair value to move towards my bull-case estimate of about US\$838.

Operating leverage could keep net margins near 33%: If GLP-1 mix rises faster and manufacturing scale lowers unit costs more than I expect, net income margin could settle closer to the market's implied 32.9% rather than my 26.0%. A friendlier payer outcome, with slower rebate expansion or more stable net pricing, would reinforce that upside. That would raise earnings power and support the premium multiple for longer. If margins align with 32.9%, I would again expect fair value to shift towards the upper end of my range near US\$838.

Pipeline depth could extend the high-growth runway beyond 10 years: If Lilly delivers several large launches beyond GLP-1, it could keep above-trend growth for closer to the market's implied 13 years rather than my 10-year runway. Strong readouts in immunology and oncology would diversify growth and reduce dependence on a single category, which would delay the fade to stable growth. Faster approvals and wider global access would have the same effect. If the runway aligns with 13 years, the terminal value rises and the downside case weakens, though it still needs strong margins to justify today's price.

10. Appendix

10.1 Base case assumptions

Valuation story

Lilly sits in a late growth phase, driven by strong demand for its GLP-1 obesity and diabetes medicines and supported by a broader cardiometabolic and oncology portfolio. I expect rapid revenue growth to continue for several years as Lilly expands manufacturing capacity and widens access, but growth slows as supply catches up, competitors launch alternatives, and payers push back on price. I expect margins to stay strong yet ease from peak levels because Lilly keeps investing heavily in research and development and spends to defend and expand franchises. I treat the outcome as probable because it matches recent momentum, planned capacity expansion, and the typical pharma pattern of high returns that normalise over time.

Revenue growth rate

Value: 17.0%

Explanation: I treat Lilly as a late growth pharma, with an unusual demand tailwind from GLP-1 obesity and diabetes drugs plus a broad cardiometabolic portfolio. Analysts' revenue path rises from about \$45B to about \$91B over the medium term, which implies a high-teens annual growth profile early on. I set this rate to match that trajectory while allowing for normalised growth later as capacity, pricing pressure, and competition start to bite.

Stable growth rate

Value: 3.4%

Explanation: I assume Lilly matures into a large global healthcare name that grows a little below the wider economy because of patent cycles and payer pressure. I keep terminal growth close to the risk-free rate but below it, which fits a mature drug maker that still benefits from ageing populations and chronic disease prevalence. This stays within the hard constraint and avoids building in unrealistic perpetual outperformance.

Years to stability

Value: 10.0

Explanation: I give Lilly a long but not extreme high-growth runway because the GLP-1 opportunity can scale for years, yet the business will still face patent cliffs, new entrants, and reimbursement negotiation. With Y set to 10, the model applies the high growth rate for 5 years, which lines up with the medium-term consensus ramp in revenue. It then tapers, which fits a late growth firm moving towards maturity.

Sales-to-equity ratio

Value: 1.0

Explanation: Lilly runs with meaningful intangible investment and rising manufacturing capex, so it does not look capital light even though it sells high-value medicines. The historical adjusted sales to equity ratio sits just under 1.0 and remains around the industry upper quartile range. I hold it near 1.0 to reflect strong efficiency, but also the need to fund capacity build-out and pipeline investment.

Stable net profit margin

Value: 26.0%

Explanation: I expect margins to settle above the industry median because Lilly has scale and premium products, but below the recent peak because competition, payer pressure, and ongoing R&D will persist. The adjusted margin jumped to the mid-30s on mix and

scale effects, which looks hard to sustain through a full cycle in pharma. A mid-20s stable margin fits a strong but normalised franchise.

FY+1 net profit margin

Value: 31.0%

Explanation: I expect the next year margin to stay high but step down from the recent peak as Lilly keeps spending on R&D, acquired pipeline assets, and commercial build-out for new indications. The qualitative notes flag near-term margin pressure from these items even while revenue stays strong. I therefore set FY+1 as a still-elevated margin that starts a gradual move towards the stable level rather than a simple midpoint.

Margin convergence

Value: 6.0

Explanation: I assume margins take time to normalise because the product mix benefit and operating leverage fade gradually, not all at once. At the same time, sustained high R&D and manufacturing ramp costs should keep margins from staying at peak levels for a full decade. I converge in 6 years, which keeps convergence inside the 10-year growth horizon and matches a realistic pharma investment cycle.

Stable ROE

Value: 18.0%

Explanation: I assume Lilly retains above-average returns in maturity because its brand, scale, and pipeline capabilities create durable but not unchallenged advantages. Current adjusted ROE sits far above industry percentiles, which likely reflects a temporary mix and growth surge rather than a permanent state. A stable ROE around the high end of industry outcomes stays well above the stable cost of equity, which fits value creation in a strong mature pharma.

Credit rating

Value: A2/A

Explanation: Lilly carries meaningful debt and funds heavy investment plus shareholder returns, but it also generates strong cash flow and has a diversified set of large products. The business risk stays moderate for a major drug maker, while the financial risk looks contained under a base case of continued growth and solid profitability. That combination fits a strong single-A profile rather than a higher rating.

Recovery ratio

Value: 50.0%

Explanation: I assume a mid-level recovery because Lilly holds valuable IP and global manufacturing assets, but much of the value sits in intangibles that can lose worth fast if products face disruption. Large pharma typically supports better recoveries than most sectors, yet it rarely reaches very high recoveries because patents and franchises can be fragile in distress. A 50% recovery fits this balance.

10.2 DCF model

All financial data in US\$ millions unless stated otherwise

	Base year	FY+1	FY+2	FY+3	FY+4	FY+5	FY+6
Revenue	45,043	52,700	61,659	72,141	84,405	98,754	112,856
YoY growth, %	32.0%	17.0%	17.0%	17.0%	17.0%	17.0%	14.3%
All expenses	29,649	36,363	43,059	50,980	60,350	71,432	82,573
Net profit	15,393	16,337	18,600	21,161	24,055	27,322	30,283
Net margin, %	34.2%	31.0%	30.2%	29.3%	28.5%	27.7%	26.8%
Reinvestment	8,213	7,657	8,959	10,482	12,264	14,349	14,102
Invested equity	46,717	54,374	63,333	73,815	86,079	100,428	114,530
ROE, %	33.0%	30.0%	29.4%	28.7%	27.9%	27.2%	26.4%
S/E ratio, x	1.0	1.0	1.0	1.0	1.0	1.0	1.0
FCFE	7,180	8,680	9,641	10,679	11,791	12,973	16,181
Stable value							
FCFs to discount		8,680	9,641	10,679	11,791	12,973	16,181
Discount factor		1.0	0.9	0.9	0.8	0.7	0.7
Cost of equity, %	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%
PV of FCFE		8,680	8,915	9,130	9,321	9,482	10,936
	...		FY+7	FY+8	FY+9	FY+10	Stability
Revenue			125,902	137,032	145,418	150,362	155,475
YoY growth, %			11.6%	8.8%	6.1%	3.4%	3.4%
All expenses			93,167	101,403	107,609	111,268	115,051
Net profit			32,735	35,628	37,809	39,094	40,423
Net margin, %			26.0%	26.0%	26.0%	26.0%	26.0%
Reinvestment			13,046	11,130	8,386	4,944	7,636
Invested equity			127,576	138,706	147,092	152,036	
ROE, %			25.7%	25.7%	25.7%	25.7%	18.0%
S/E ratio, x			1.0	1.0	1.0	1.0	1.0
FCFE			19,688	24,499	29,422	34,150	32,788
Stable value							
FCFs to discount			19,688	24,499	29,422	34,150	690,088
Discount factor			0.6	0.6	0.5	0.5	0.5
Cost of equity, %			8.2%	8.2%	8.2%	8.2%	8.2%
PV of FCFE			12,303	14,155	15,719	16,870	340,895
Sum of PV of FCFE							456,406.2
Less: Distress adjustments							5,629.6
Distress likelihood, %							1.3%
Recovery ratio, %							50.0%
Value of common equity							450,776.6
Less: Employee options							0.0
Less: Unfunded liabilities							775.0
Value of common shareholders' equity							450,001.6
Divide: Share count							896.5
Equity value per share							US\$501.98

10.3 Scenarios

Bear case

Value: US\$254.74

Upside: -75.4%

Story: I treat Lilly as a late growth drug maker that moves into maturity faster because key

risks hit at the same time. I assume obesity and diabetes growth slows as payers tighten access, competition closes the efficacy gap, and Lilly faces supply and quality execution issues while it expands capacity. I also assume Lilly keeps spending heavily on research and development and deals, so costs stay high even as revenue growth cools. This bear case stays plausible because Lilly relies on a few large product classes and faces well-known pharma pressures such as pricing action, patent cycles, and manufacturing disruption risk.

Revenue growth rate: 12.0%

Stable growth rate: 3.2%

FY+1 net margin: 26.0%

Stable net margin: 21.0%

Sales-to-equity ratio: 0.9

Years to stability: 8.0

Stable ROE: 14.0%

Bull case

Value: US\$837.89

Upside: -19.2%

Story: Lilly sits in a late growth phase and turns its obesity and diabetes leadership into a wider cardiometabolic platform with several successful new indications and faster global access. I assume capacity expansions come online smoothly, supply stays reliable, and payer coverage improves, so volume growth stays stronger than the industry trend and beats what the market bakes into medium-term expectations. I assume Lilly keeps premium pricing power for longer because outcomes data and brand trust support favourable formulary placement, while its pipeline adds new revenue streams that reduce single-product dependence. This bull case stays plausible because the recent growth surge, high adjusted profitability, and planned manufacturing build-out already point to an unusually strong franchise, even though competition and policy risk still limit the long-run steady state.

Revenue growth rate: 20.0%

Stable growth rate: 3.7%

FY+1 net margin: 33.0%

Stable net margin: 29.0%

Sales-to-equity ratio: 1.1

Years to stability: 12.0

Stable ROE: 20.0%

10.4 Other claims

(in US\$ millions unless stated)

Employee stock options

Number of stock options: 0.0

Weighted avg. strike price: 0.00

Weighted avg. maturity: 0.0

Assumed volatility: 0.0%

Assumed dividend yield: 0.0%

Value of options: 0.0

Unfunded liabilities

Pension obligations: 0.0

Post-retirement benefits: 0.0

Healthcare liabilities: 0.0

Deferred compensation: 0.0

Lawsuit contingencies: 215.0 – I used the \$435.0m litigation charge disclosed for 2024 as the best quantified lawsuit exposure in the excerpt. I applied a 50% probability because the filing describes active, uncertain litigation outcomes, so the expected value is \$217.5m. Environmental liabilities: 560.0 – I used the environmental-related Brazilian Cosmopolis facility LPA ruling amount of BRL 1.4bn (inflation-adjusted) as the main quantified exposure. I applied a 40% probability because appeals are pending and the amount is not final, so the expected value is BRL 560.0m.

Other: 0.0

Total liabilities: 775.0

10.5 Cost of equity

Inputs for risk-free rate

Ten-year bond yield, %	4.2%
Bond yield country	United States of America
Default spread, %	0.3%
Risk-free rate, %	3.9%

Beta calculation

Operating segment	Sales	EV/Sales	Weight, %	Business beta
Pharmaceuticals	4,295	4.3	9.5%	0.8
Pharmaceuticals	40,748	4.3	90.5%	0.8

Business beta	0.81
Debt-to-equity ratio, %	3.6%
Cash-to-firm value ratio, %	0.4%
Marginal tax rate, %	22.4%
Equity beta	0.8

Equity risk premium (ERP) calculation

Geographic segment	Sales	Weight, %	ERP, %	Tax rate, %
China	1,660	3.7%	5.3%	25.0%
United States of America	30,375	67.4%	4.5%	21.0%
Global (ex United States)	4,271	9.5%	6.9%	25.6%
Japan	1,815	4.0%	5.3%	30.6%
Europe	6,921	15.4%	6.4%	24.0%

Company ERP, %	5.1%
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Cost of equity calculation

Risk-free rate, %	3.9%
Beta x ERP	4.2%
Equity beta	0.8
Equity risk premium, %	5.1%
Cost of equity, %	8.2%

Stable cost of equity calculation

Risk-free rate, %	3.9%
Beta x ERP	4.2%
Stable beta (clamped)	0.8

Stable cost of equity calculation (continued)

Equity risk premium, %	5.1%
Stable cost of equity, %	8.2%

10.6 Reverse DCF

Expected IRR	5.8%
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Driver	Base value	Market-implied value	Difference
Revenue growth rate, %	17.0%	21.5%	+4.5
Stable net profit margin, %	26.0%	32.9%	+6.9
Years to stability	10	13	+3

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