Quarterly Brief

Capital market data as of 30 September 2023

October 2023
kpmg.at

Preface

Dear reader,

Looking back at the past year, it's clear that vast number of events have caused significant disruptions worldwide. Global trade has been fragile and almost came to a halt due to supply chain disruptions, overshadowed by geopolitical escalations such as Russia's war against Ukraine, the escalating tensions between People's Republic of China and Republic of Taiwan and now the attack of Israel by Hamas. Additionally, there is the ever-present climate crisis and other humanitarian emergencies around the world. Inflation returned higher than expected, followed by the step increases of interest rates. Artificial intelligence appears to have reached a new era, led by generative AI such as ChatGPT. Almost every day, new challenges arise, making it even more difficult for companies to make decisions in such a constantly changing and highly uncertain environment. For this reason, well-founded value analyses that provide a solid foundation for decision-making continue to be of highest importance for all stakeholders.

Our Quarterly Brief is a publication that not only provides well-founded market data but also delves into key current topics that influence valuation analysis. In recent years, our publication has explored a range of important issues, from the impact of COVID-19 to ESG considerations, renewable energy, and geopolitical influences on valuations. By exploring these topics in depth, the Quarterly Brief offers valuable insights for valuation experts and readers alike, helping them make informed decisions in their daily activities.

That being said, the flow of exciting yet complex work for our clients has been persistently engaging us at a substantial level over the past months, limiting our ability to react in our publication to the many relevant valuation topics surfacing every day. However, our readers clearly expressed their interest in receiving the most current market data on a regular basis. To meet this expectation while maintaining the high-quality insights of the 'Quarterly Brief', we decided that going forward, the Quarterly Brief will be issued regularly, consisting of the market data section, keeping the readers up to date on the latest developments in the relevant financial markets. Additionally, we will feature informative articles covering hot topics that impact valuations on an intermittent basis.

We wish you all the best in these persistently volatile times and look forward to discussing your questions regarding valuation trends and practices.

Yours faithfully

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We provide a selection of key financial market data covering:

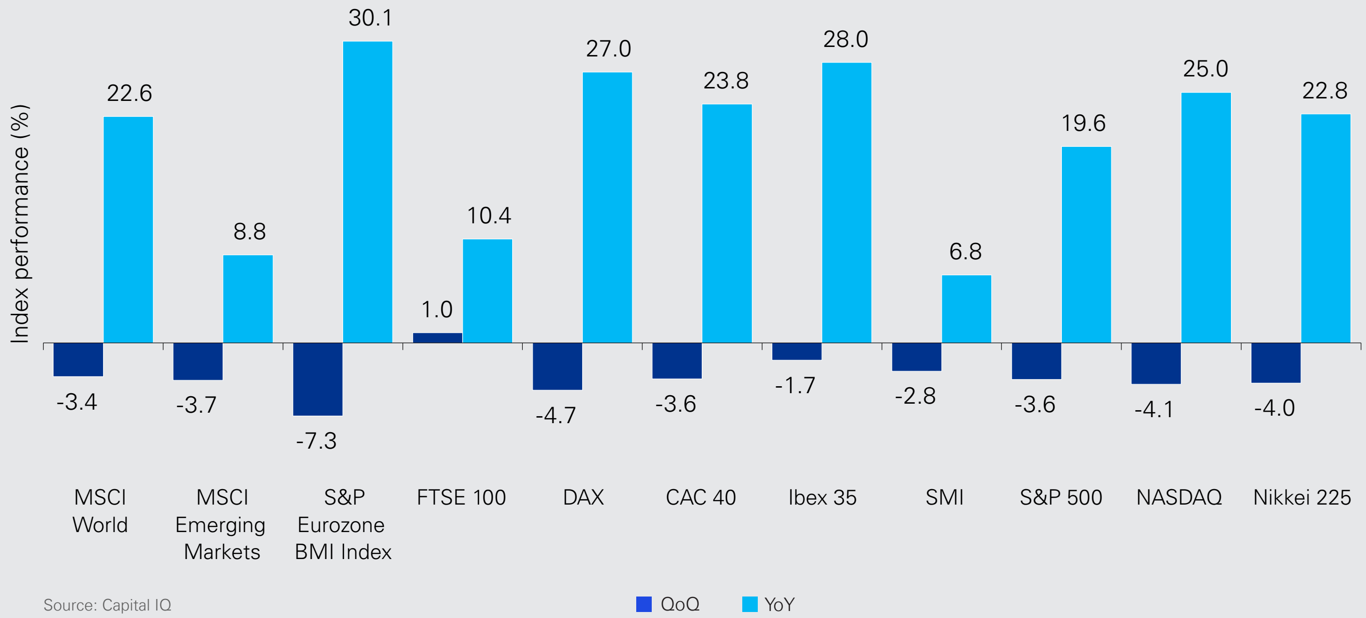
- Comparison of major stock market performance for the 12 months ending 30 September 2023
- S&P Eurozone BMI Index sector multiples
- Risk-free rate for Austria
- Equity risk premium for Austria
- Country risk premiums and inflation adjusted risk-free rates for the BRICS countries

Major stock market performance: Slowdown after surge in growth on stock markets across the world
Capital markets have experienced a notable period of growth over the past year, with double-digit growth rates observed for most indices since September 2022. Conversely, the MSCI Emerging Markets Index and the SMI have demonstrated only moderate year-over-year growth rates of 8.8% and 6.8%, respectively.

Despite the remarkable YoY performance, markets have experienced a downturn over the past quarter, with the Eurozone being particularly impacted. Specifically, the S&P Eurozone BMI Index has shown negative growth of -7.3%, while the FTSE 100 has only demonstrated slight growth of 1%.

Performance of leading indices

30 September 2022 – 30 September 2023



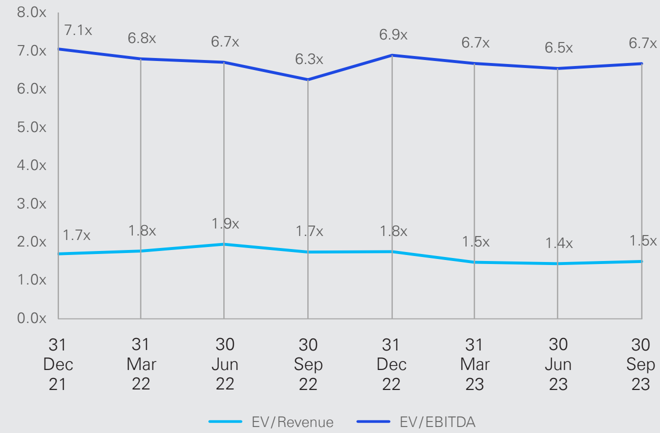
Source: Capital IQ

S&P Eurozone BMI Index sector multiples

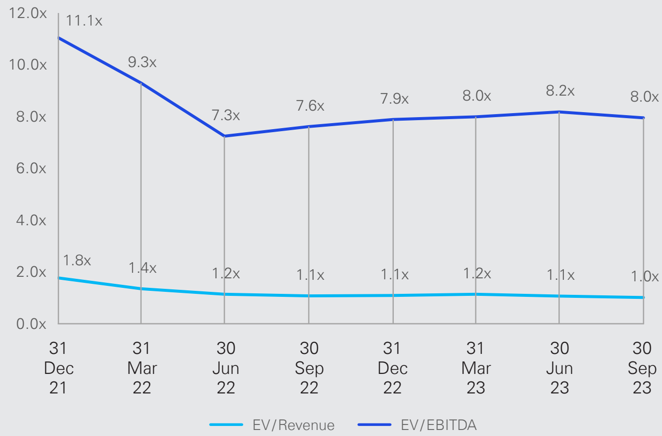
The downward trend on stock markets witnessed since June 2023 also resulted in a decline of multiples across most industries, except for four sectors: Communication Services (+0.2x), Energy (+0.2x), Materials (+0.1x), and Real Estate (+0.1x). The industries recording the most significant losses in the EV/EBITDA multiples were Health Care (-0.8x), Information Technology (-0.8x), and Industrials (-0.6x).

It is apparent that EV/EBITDA multiples underwent stronger changes in value as compared to EV/Revenue multiples. A possible reason for this trend could be the emerging inflation that affected the majority of the companies' cost to income ratios. As a result, the companies were unable to pass on the entire cost increase to their customers.

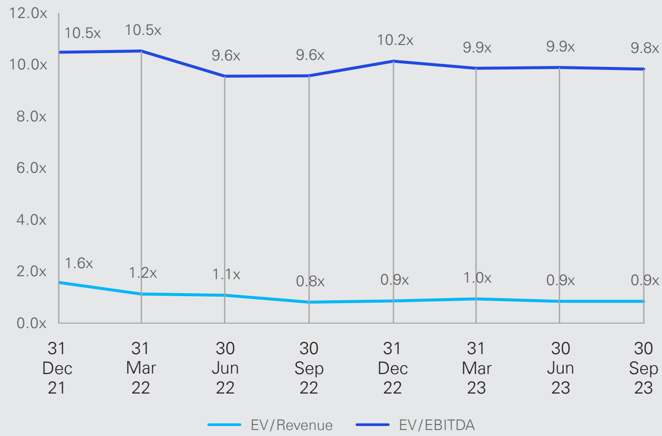
Communication Services



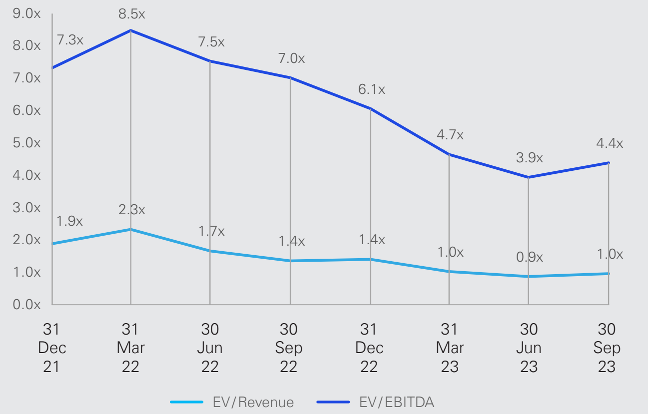
Consumer Discretionary



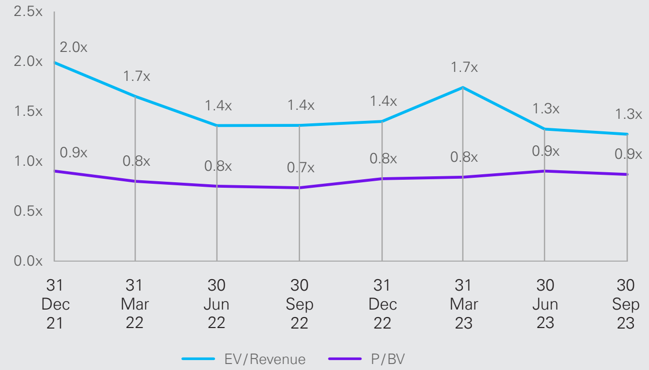
Consumer Staples



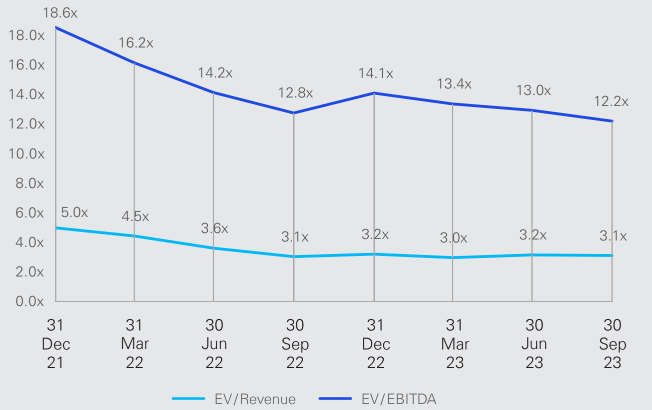
Energy



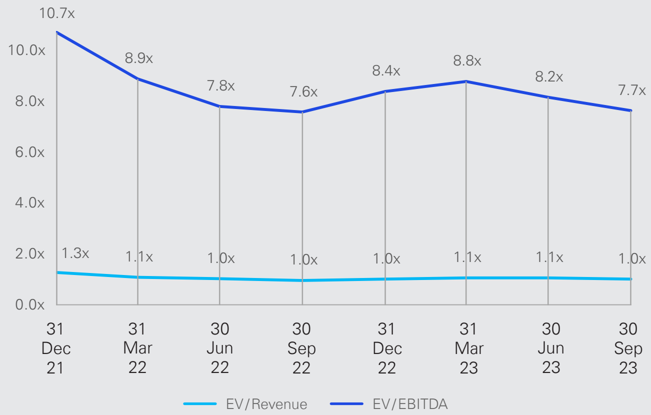
Financials



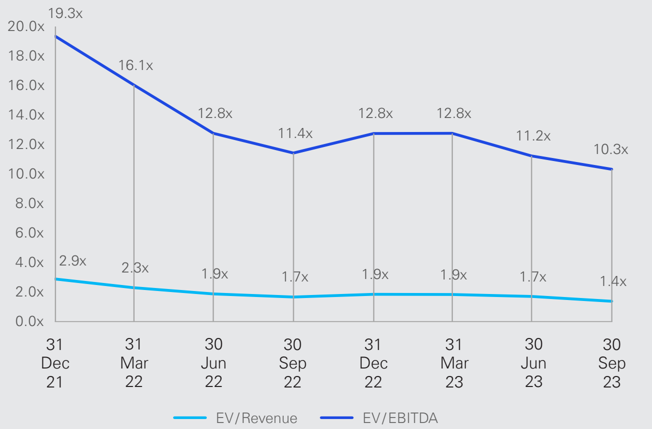
Health Care



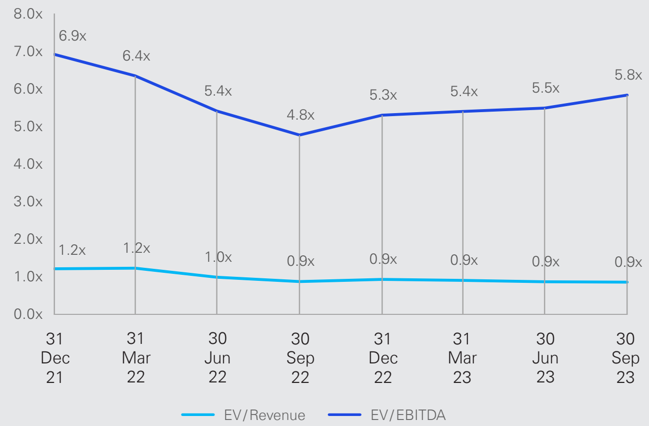
Industrials



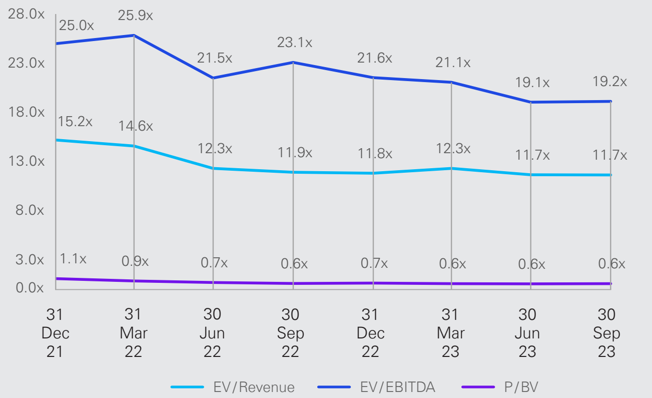
Information Technology



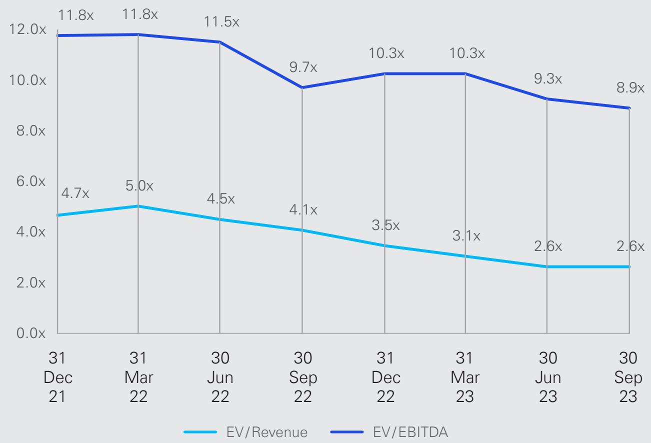
Materials



Real Estate



Utilities



Source: Capital IQ, KPMG analysis

Notes: Multiples are analyzed based on the latest information available as of the assessment date for the respective edition of the Quarterly Brief newsletter. Changes in index composition, revised financial information and newly available information as of the respective assessment date may cause multiples to change.

Risk-free rate for Austria

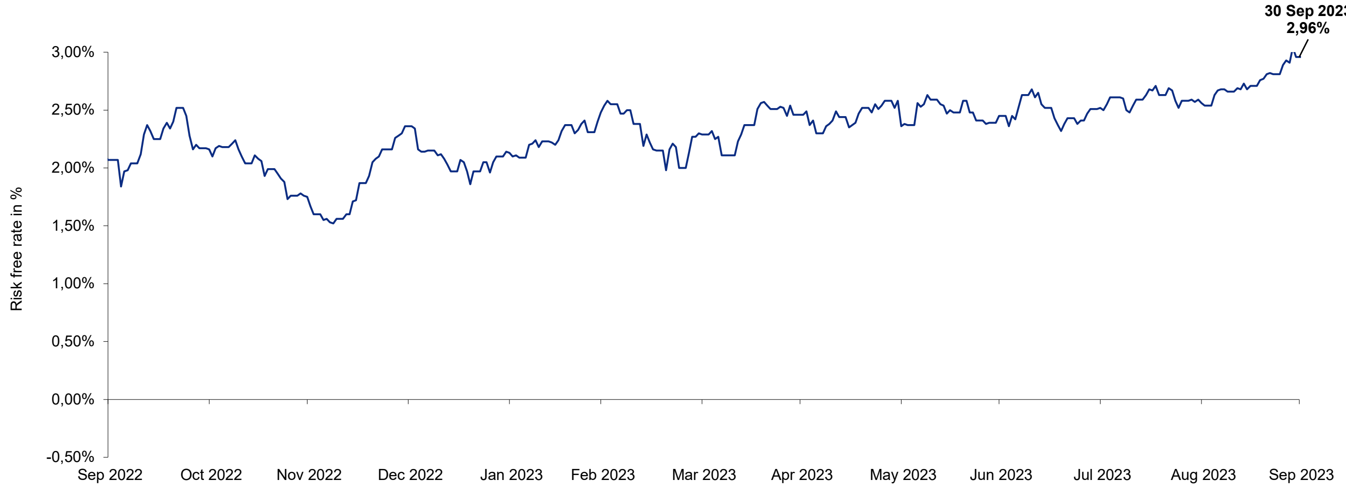
The risk-free rate can generally be broken down into two key components that seek to compensate the investor: the first for expected inflation and the second for deferred consumption. The risk-free rate is considered to be free of risks except for risks embedded in the underlying currency and risks related to investments in the particular country (including general political, legal, regulatory and tax risks, as well as the risk of a moratorium). As no investment is truly risk-free, the risk-free rate is typically approximated by reference to the yield on long-term debt instruments issued by presumably financially healthy governments.

As a risk-free rate we recommend using the spot rate of zerobonds, denominated in Euro with a maturity of 30 years applying the Svensson yield curve and data from Deutsche Bundesbank, as of the valuation date. This approach is also in line with the Austrian Professional Guidelines for the Valuation of Businesses (KFS/BW 1) and respective recommendations.

The graph below summarizes the development of the above-mentioned risk-free rate (zerobonds) over the last months as of 30 September 2023.

Risk-free rate (30y spot rate)

last 12 months as of 30 September 2023



Source: Deutsche Bundesbank; KPMG analysis

The risk-free rate (30-year spot rate of German zerobonds) as of 30 September 2023 amounts to 2.96 percent.

Equity risk premium for Austria

The equity risk premium represents a compensation for the higher risk of investing in a company compared to a (theoretically) risk-free security, e.g. government bonds. According to finance theory – i.e. CAPM – the equity risk premium refers to the excess return of the equity market, i.e. the difference between the expected return on the market portfolio, which represents the portfolio of a typified fully diversified investor, and the return of a risk-free investment.

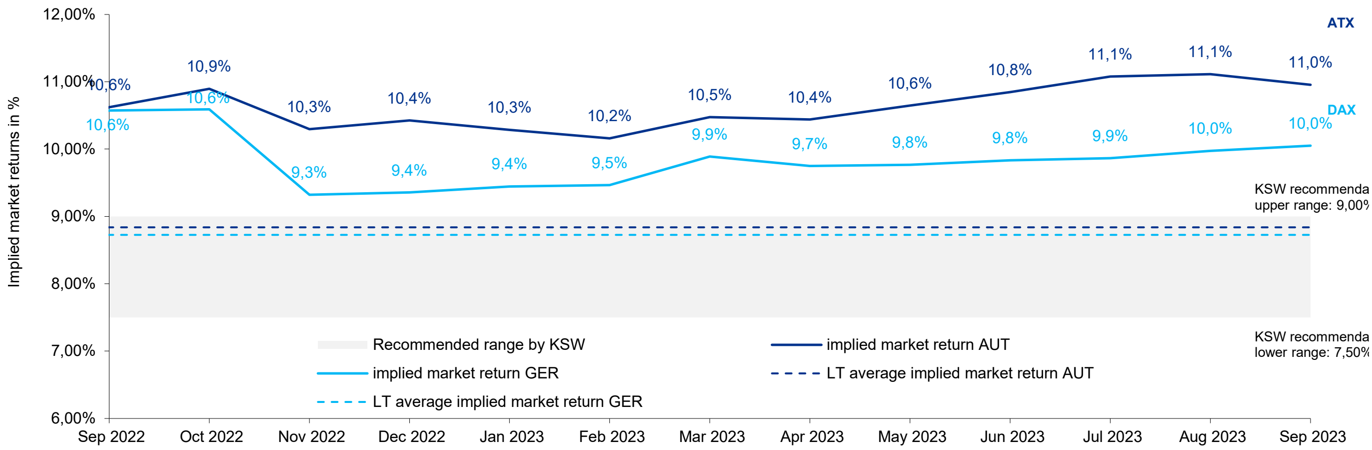
According to the recommendation of the Expert Group on Business Valuation of the Austrian Chamber of Tax Advisors and Auditors dated 28 November 2017, the market risk premium should be based on currently expected (implied) market returns and recommends a range for the expected market return between 7.5 percent and 9.0 percent. However, note that The Expert Group published a practical note dated 5 October 2022, stating that in light of the then recent capital market developments, it was seen as appropriate to apply market returns above the upper limit of the recommended range.

We built a comprehensive model and have been calculating and analyzing implied market returns for major capital markets over the past years.

The graph below summarizes the development of the above-mentioned implied market return for Austria (ATX Prime) as well as Germany (DAX) over the last months as of 30 September 2023.

Implied market returns

last 12 months as of 30 September 2023



Source: S&P Capital IQ; KPMG analysis
Note: Long-term average refers to the period 01/2017 to today
Note: For details on the methods and assumptions of our model please refer to our Valuation Newsletter 2018 Q1

Considering the current level of the implied market return for Austria and Germany in connection with the high inflation rates and uncertainties in the political and economic environment, the current level of the risk-free rate and the updated recommendation by the Expert Group, we recommend using a **market risk premium for the Austrian capital market as of 30 September 2023 of 7.00 percent.**

The table below summarizes the risk-free rate and our corresponding market risk premium for Austria for the last twelve months. These parameters might be used for valuations of companies within the Austrian market.

Recommended risk-free rate and equity risk premium

Date	Risk-free rate	Recommended MRP
Sep 30, 2022	2,07%	8,25%
Dec 31, 2022	2,36%	7,75%
Mar 31, 2023	2,29%	7,25%
Jun 30, 2023	2,45%	7,00%
Sep 30, 2023	2,96%	7,00%

Source: S&P Capital IQ, Deutsche Bundesbank; KPMG analysis

Country risk premium and inflation adjusted risk-free rates for the BRICS countries

The country risk premium is a measure of risk faced by businesses when investing in sovereign states. It reflects a number of risks including economic, financial, political and institutional. The country risk premium is effectively the risk of low probability, high impact events that could lead to significant losses in investment values. These types of risk are at the forefront of many investors' thinking now more than ever due to a number of major economic and geopolitical events such as the events in the Middle East and Eastern Europe, all of which have led to previously stable countries becoming much riskier. KPMG's valuation practice has been analyzing and measuring country risk for 15 years and covers more than 150 sovereign states in a proprietary KPMG analyst model.

Our recommendations for the risk-free rate (30-year spot rate of German zerobonds plus inflation spread of the respective country compared to Germany) and the country risk premiums for Brazil, Russia, India, China and South Africa are set out below as of 30 September 2023.

Recommended risk-free rate and country risk premium

	Inflation adjusted risk-free rate	Country risk premium
Brazil	4,06%	3,75%
Russia	4,76%	n/a
India	4,76%	3,30%
China	2,86%	1,05%
South Africa	5,26%	4,95%

Source: S&P Capital IQ; Analysis: KPMG
Note: In the light of the current political and economic developments in Russia, we cannot give a general recommendation for the Russian country risk premium

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