KPMG

Quarterly Brief

Cost of Capital parameters
as of 30 June 2023

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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 12 months as of 30 June 2023.

Risk-free rate (30y spot rate)
last 12 months as of 30 June 2023

Source: Deutsche Bundesbank; KPMG analysis

The risk-free rate (30-year spot rate of German zerobonds) as of 30 June 2023 amounts to 2.45 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.

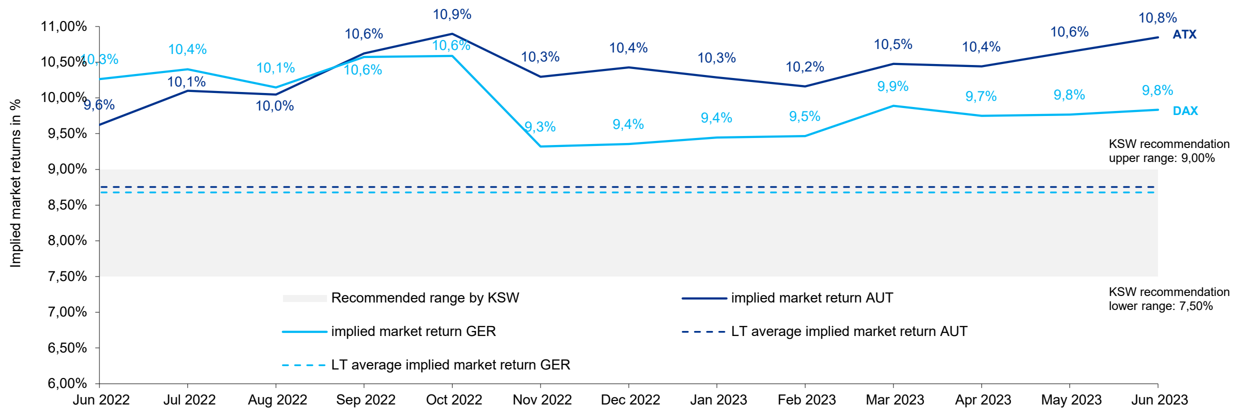
According to the recommendation of the Expert Group on Business Valuation of the Austrian Chamber of Tax Advisors and Auditors dated 28 November 2017, the market risk premium should be based on currently expected (implied) market returns and recommends a range for the expected market return between 7.5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

We built comprehensive models 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 returns for Austria (ATX Prime) as well as Germany (DAX) over the last 12 months as of 30 June 2023.

Implied market returns (Austria and Germany)

last 12 months as of 30 June 2023



Source: S&P Capital IQ; KPMG analysis.
Note: Long-term average refers to the period 01/2017 to 06/2023.
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 June 2023 of 7.0 percent.**

The adjacent table summarizes our recommendations for the risk-free rate, the corresponding market risk premium and the implied market return for the last twelve months in Austria. Here, parameters represent our recommendation for valuations within the Austrian market.

Recommended risk-free rate and market risk premium

Date	Risk-free rate	Recommended MRP
Jun 30, 2022	1,64%	8,00%
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%

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 Eurozone sovereign debt crisis and events in the Middle East and North Africa, 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 premium for Brazil, Russia, India, China and South Africa are set out below as of 30 June 2023.

Recommended risk-free rate and country risk premium

	Inflation adjusted risk-free rate	Country risk premium
Brazil	3,00%	4,05%
Russia	4,00%	n/a
India	3,80%	3,00%
China	1,25%	1,05%
South Africa	3,85%	4,80%

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 Russian crp

DACH KPI study

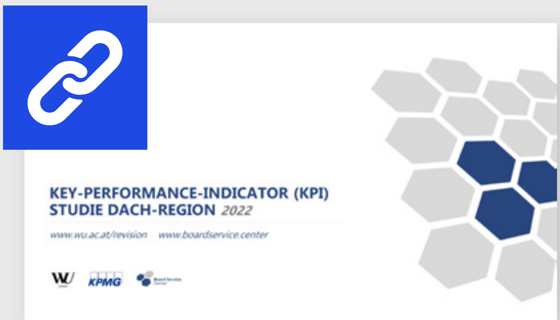
We are pleased to announce that we published our fist KPI study for the DACH region in corporation with Institute for Accounting & Auditing from the Vienna University of Economics and Business.

The study presents various financial key performance indications for 8 industries from Austria, Germany and Switzerland for the past 6 years.

The industries covered are:
- Communication Services (33 firms)
- Consumer Discretionary (75 firms)
- Consumer Staples (25 firms)
- Health Care (61 firms)
- Industrials (153 firms)
- Information Technology (75 firms)
- Materials (43 firms)
- Utilities (15 firms)

The study itself offers stakeholders the opportunity to get a picture of the current economic situation of the industries in the DACH region. Furthermore, it can be used to for benchmarking as well as for planning and budgeting purposes.

The full KPI study can be freely accessed via https://www.wu.ac.at/revision/forschung/transferstudien/kpi/



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