Quarterly Brief

Capital market data as of 31 December 2023

January 2024
kpmg.at/dealadvisory

Preface

Dear reader,

During the last quarter of 2023, the global crisis landscape has continued relatively unchanged. Military conflicts persist in Ukraine, the Gaza Strip, and Yemen. Despite the mostly global consensus on the existence of the climate crisis, there remains much disagreement on the measures necessary to tackle it. The upcoming election year around the world is adding additional political uncertainty. Amidst all the geopolitical concerns, after numerous increases to counter inflation, central banks appear to be assessing potential policy rate cuts in light of the appearance of inflation to be flattening. Equity markets worldwide experienced positive performance, some of them even reached new highs at the end of 2023, reflecting investor optimism after a rollercoaster ride in the fourth quarter. The advancements and potential applications of artificial intelligence continue to offer unprecedented opportunities for society. In this unpredictable environment, it is crucial to have well-founded value analyses that provide a solid foundation for decision-making.

In that context, we are pleased to present our Quarterly Brief, a publication that offers objective market data, which will keep readers abreast of the latest developments in the relevant financial markets.

We are confident that the Quarterly Brief will continue to be a valuable resource for valuation experts and readers alike, providing them with the necessary insights to make informed decisions in their daily activities.

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 31 December 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

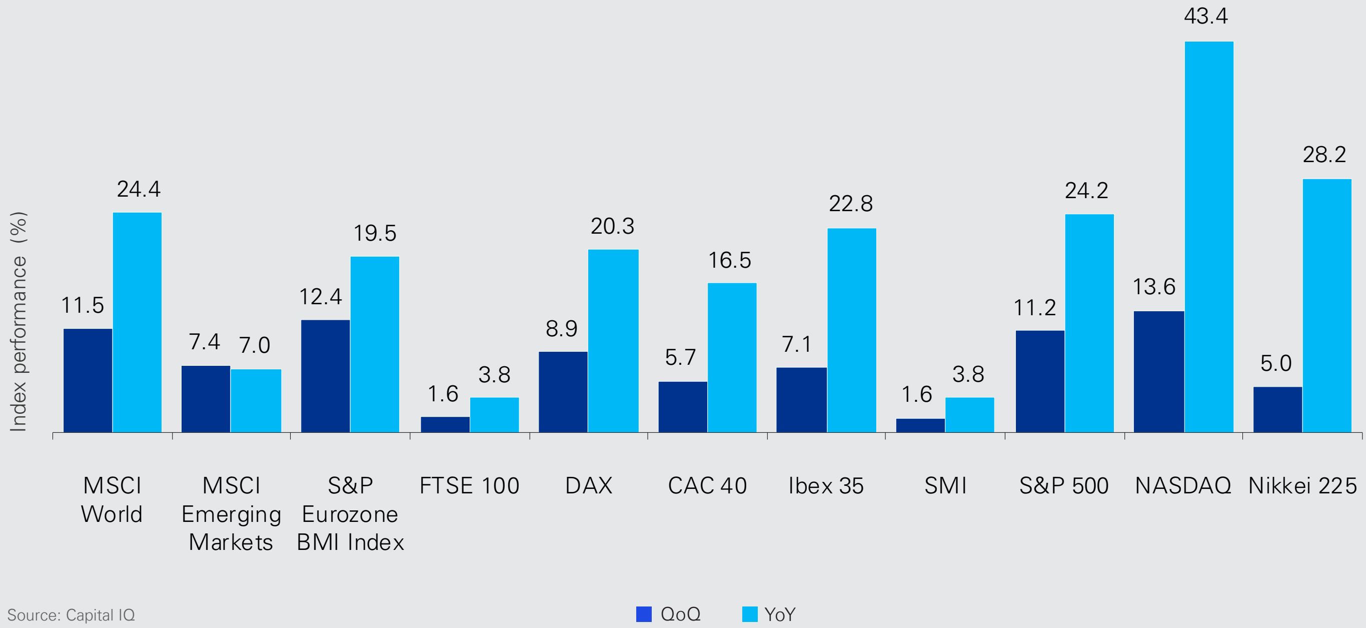
Major stock market performance: A clear recovery in the last quarter of the year

Capital markets have continued their period of growth over the past twelve months, showing double-digit growth rates for most indices since December 2022. Conversely, the MSCI Emerging Markets Index, the SMI as well as the FTSE 100 Index have demonstrated only moderate year-over-year growth rates of 7.0%, 3.8% and 3.8%, respectively.

Additionally, it is pertinent to analyze the quarter-on-quarter statistics of the listed indices, as each demonstrates momentum in improvement in comparison to the preceding quarter. Notably, the Nasdaq Index outperforms the other indices with a substantial increase of 13.6%, while the FTSE 100 Index exhibits a comparatively modest positive performance of 1.6%.

Performance of leading indices

31 December 2022 – 31 December 2023



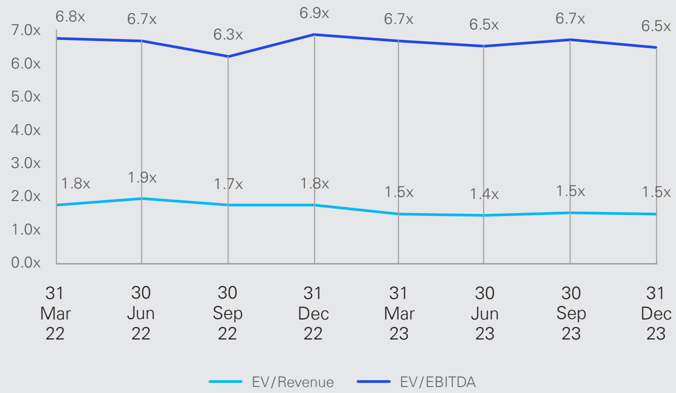
Source: Capital IQ

S&P Eurozone BMI Index sector multiples

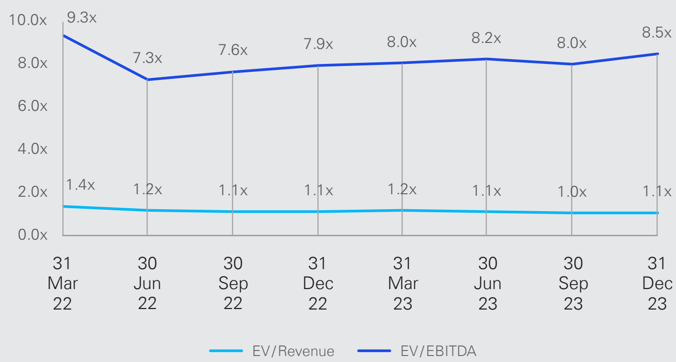
The recent performance of the indices as elaborated above is indicative of a positive trend, which is also reflected in the multiples of individual sectors. The majority of the sectors exhibits an improvement in value, measured in EV/EBITDA multiples, with Real Estate (+1.2x), Information Technology (+1.2x), and Health Care (+0.7x) sectors leading the way. Notably, the Communication Services (-0.2x) and Energy (-0.1x) sectors experience a minimal decline from the previous quarter EV/EBITDA multiples.

When compared with the EV/EBITDA multiples, the EV/revenue multiples demonstrate only minimal changes. This implies that many industries are facing high cost pressure, with expenses rising faster than revenues. A possible explanation could be the adverse impact of the emerging inflation and rising resource prices to the cost-to-income ratios of the majority of companies. From a competitive point of view, as these costs could not be passed entirely onto customers, companies may face decreased profitability.

Communication Services

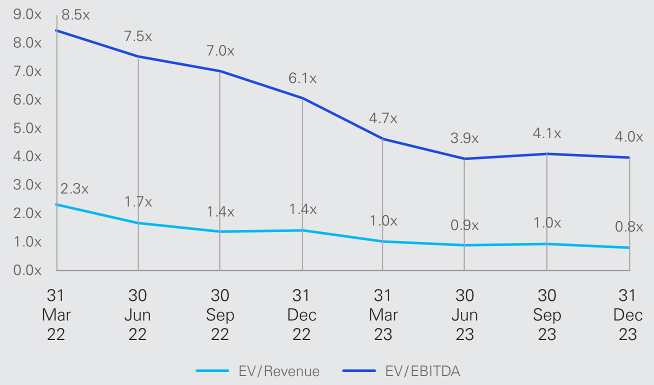


Consumer Discretionary

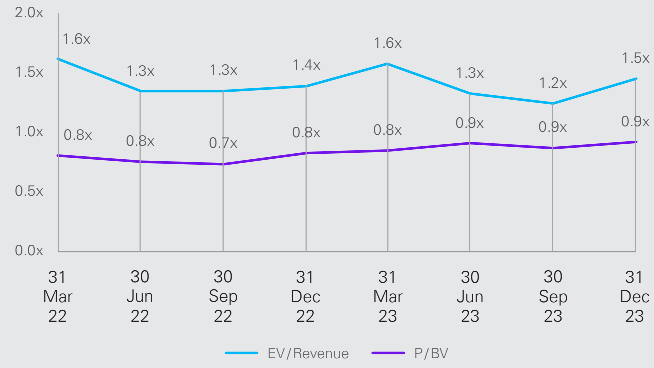


Consumer Staples

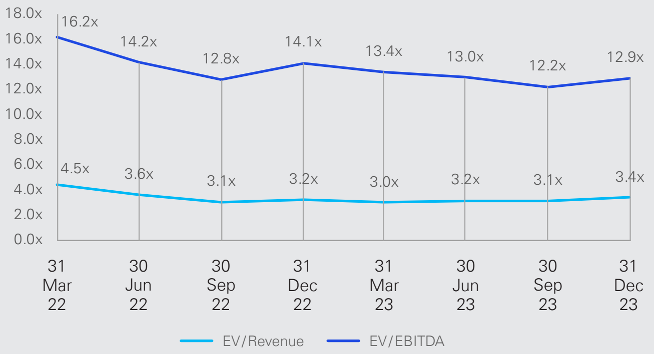
Energy



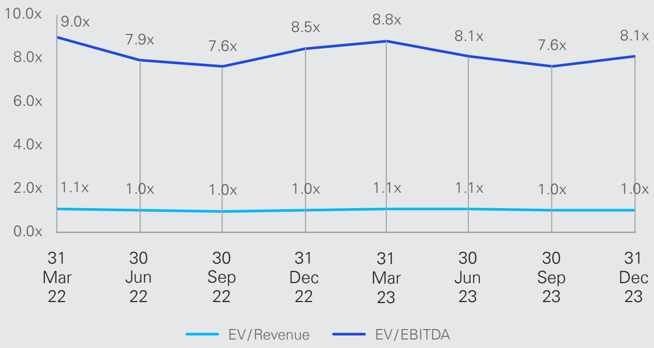
Financials



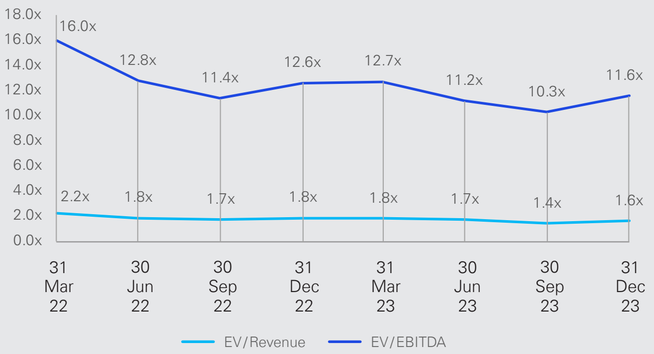
Health Care



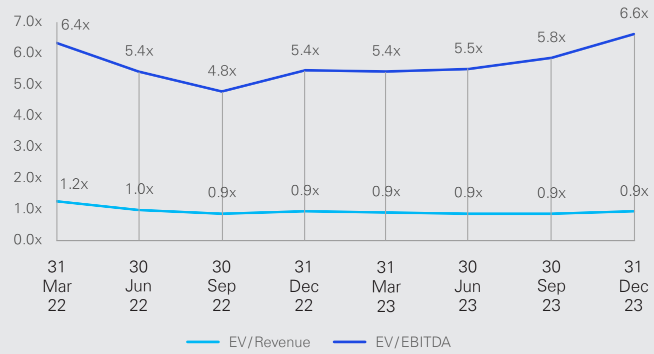
Industrials



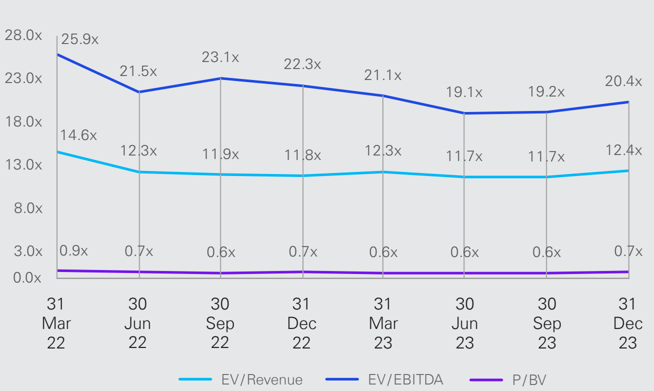
Information Technology



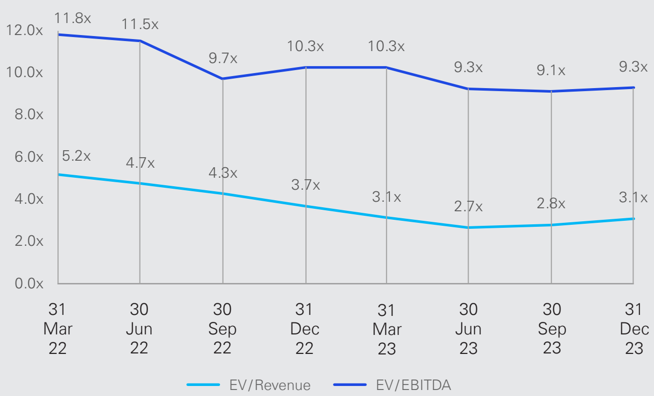
Materials



Real Estate



Utilities



Source: Capital IQ, KPMG analysis

Note: 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.

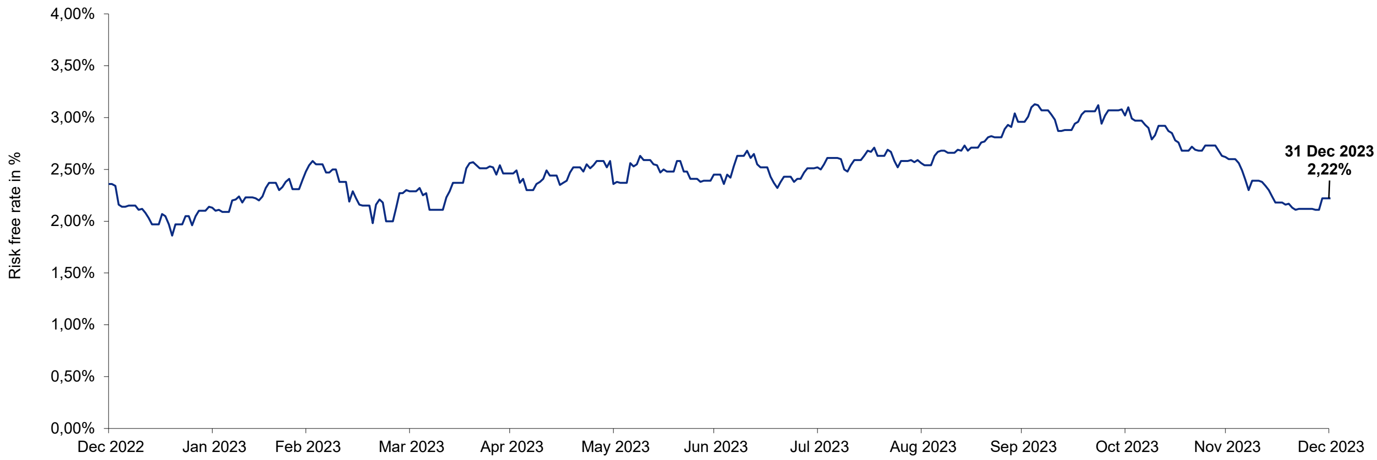
Risk-free rate for Austria

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 over the last months as of 31 December 2023.

Risk-free rate (30y spot rate)
last 12 months as of 31 December 2023



Source: Deutsche Bundesbank; KPMG analysis

The risk-free rate (30-year spot rate of German zerobonds) as of 31 December 2023 amounts to 2.22 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.

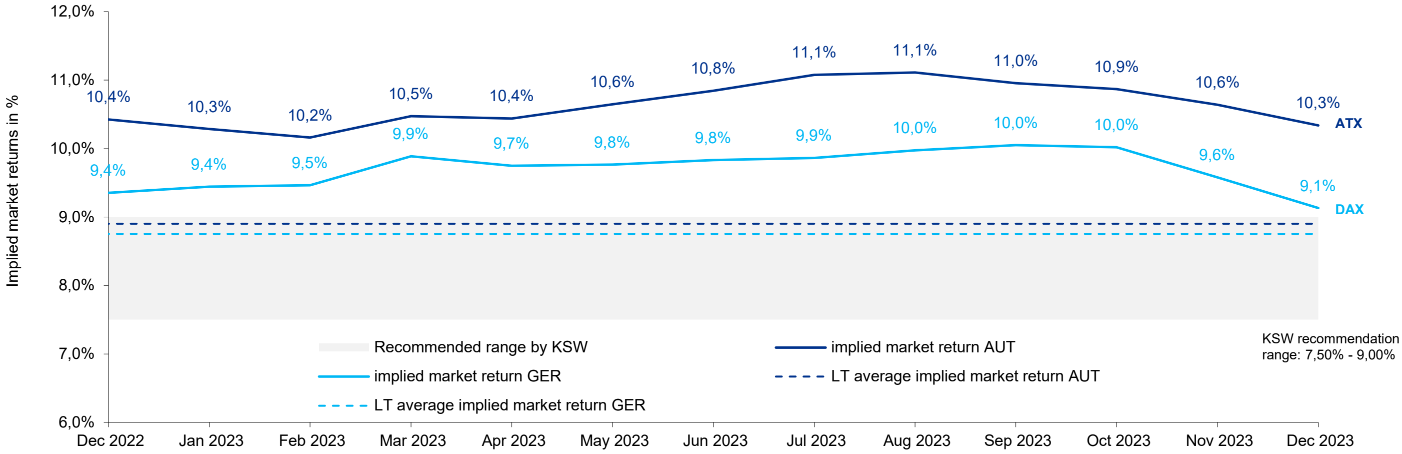
According to the recommendation of the Expert Group on Business Valuation of the Austrian Chamber of Tax Advisors and Auditors dated 28 November 2017, the market risk premium should be based on currently expected (implied) market returns and recommends a range for the expected market return between 7.5 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 31 December 2023.

Implied market returns (ATX Prime)

last 12 months as of 31 December 2023



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 31 December 2023 of 7.50 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
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%
Dec 31, 2023	2,22%	7,50%

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

Country risk premiums 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 Eastern Europe and the Middle East, 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 31 December 2023.

Recommended risk-free rate and country risk premium

	Inflation adjusted risk-free rate	Country risk premium
Brazil	3,22%	3,45%
Russia	3,02%	n/a
India	4,02%	3,45%
China	2,32%	1,05%
South Africa	4,12%	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 the Russian country risk premium.

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