European Capital Market Study

June 30, 2022

Analysis of cost of capital parameters and multiples for European capital markets

Volume 10, July 2022

Overview

Content & Contacts

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1 Preface & people

European Capital Market Study
Preface

Dear business partners and friends of ValueTrust,

We are pleased to release our tenth edition of the **ValueTrust European Capital Market Study.** With this study, we provide a data compilation of **capital market parameters** which enable an enterprise valuation in Europe. The purpose of the study is to serve as a tool and data source, as well as to show trends in the parameters analysed.

In this study, we analyse the relevant parameters used to calculate the cost of capital using the Capital Asset Pricing Model **(risk-free rate, market risk premium and beta)**. Additionally, we determine both **implied** as well as **historical market and sector returns**. Moreover, this study includes capital structure-adjusted implied sector returns, which serve as an indicator for the **unlevered cost of equity**. The **relevered cost of equity** can be calculated by **adapting the unlevered cost of equity to the company specific debt situation**. This procedure serves as an alternative to the CAPM.

Furthermore, we provide an analysis of empirical (ex-post) cost of equity in the form of **total shareholder returns,** which consist of capital gains and dividends. The total shareholder returns can be used as a plausibility check for the implied (ex-ante) returns. Lastly, **trading multiples** frame the end of this study.

We examine the before mentioned parameters for the **European capital market** (in form of the STOXX Europe 600). This index includes the countries Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland as well as the UK and has been subdivided into **ten sector indices by industry**[1)]: Financials, Basic Materials, Consumer Cyclicals, Real Estate, Industrials, Consumer Non-Cyclicals, Healthcare, Technology, Utilities and Energy.

Mostly, the historical data has been compiled from the reference dates between June 30, 2016 and June 30, 2022.

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1) Based on Thomson Reuters Business Classification.

European Capital Market Study
People

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Senior Managing Director

- Almost 30 years of experience in corporate valuation and financial advisory
- Previously Partner at KPMG and Managing Director at Duff & Phelps
- Honorary professor for "Practice of transaction-oriented company valuation and value-oriented management" at LMU Munich
- Member of the DVFA Expert Group "Fairness Opinions" and "Best Practice Recommendations Corporate Valuation“
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- More than 6 years of project experience in corporate valuation and financial advisory
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- More than 15 years of project experience in financial advisory, investment banking and investment management
- Previously with McKinsey & Company, Unicredit, C.A. Cheuvreux and B&C Industrieholding
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European Capital Market Study
Disclaimer

This study presents an empirical analysis, which serves the purpose of illustrating the cost of capital of European capital markets. Nevertheless, the available information and the corresponding exemplifications do not allow for a complete presentation of a proper derivation of costs of capital. Furthermore, the market participant has to take into account that the company specific costs of capital can vary significantly due to individual corporate situations.

The listed information is not specific to anyone and consequently, it cannot be directed toward an individual or juristic person. Although we always endeavor to present information that is reliable, accurate and current, we cannot guarantee that the data is applicable to both valuation in the present and the future. The same applies to our underlying data from the data provider S&P Capital IQ and Thomson Reuters Aggregates App.

We recommend a self-contained, technical and detailed analysis of the specific situation; we dissuade from taking action solely based on the provided information.

ValueTrust does not assume any liability for the up-to-datedness, completeness or accuracy of this study or its contents.

2 Executive summary

Executive Summary (1/2)

Cost of equity per sector according to four different methodologies

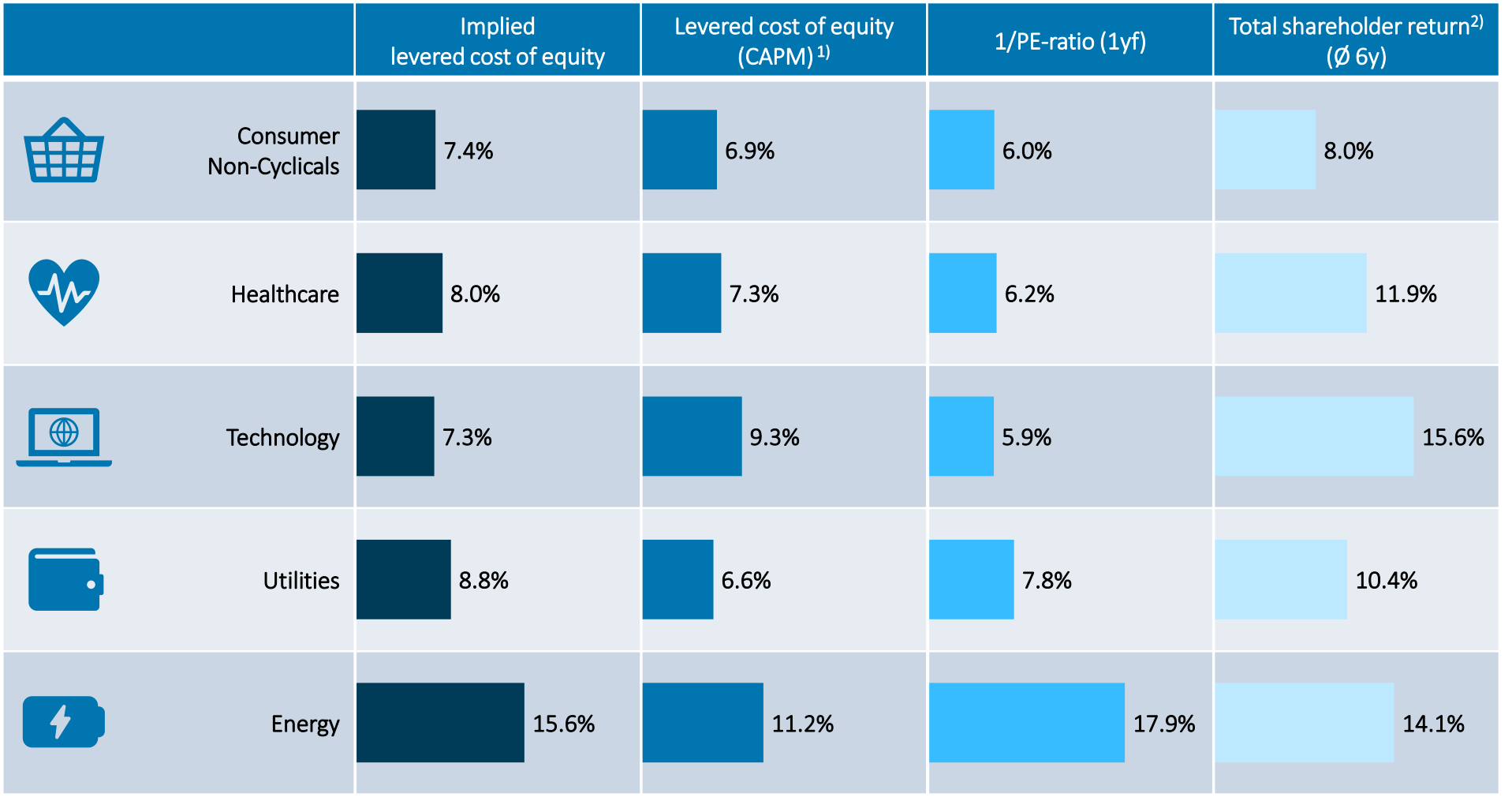
	Implied levered cost of equity	Levered cost of equity (CAPM) [1)]	1/PE-ratio (1yf)	Total shareholder return [2)] (Ø 6y)
Financials	11.8%	11.5%	12.3%	12.6%
Basic Materials	10.3%	10.2%	10.6%	16.4%
Consumer Cyclicals	10.5%	10.5%	9.3%	15.7%
Real Estate	6.4%	8.4%	7.0%	5.2%
Industrials	8.5%	10.2%	7.1%	15.6%

1) Based on 5-year sector beta, risk-free rate of 1.32% and market risk premium of 8.1% for the European market.

2) Total shareholder returns can be viewed as historic, realized cost of equity. However, it has to be considered that total shareholder returns vary widely, depending on the relevant time period.

Executive Summary (2/2)

Cost of equity per sector according to four different methodologies



1) Based on 5-year sector beta, risk-free rate of 1.32% and market risk premium of 8.1% for the European market.

2) Total shareholder returns can be viewed as historic, realized cost of equity. However, it has to be considered that total shareholder returns vary widely, depending on the relevant time period.

3 Risk-free rate

Risk-Free Rate
Background & approach

The **risk-free rate** is a return available on a security that the market generally regards as free from risk of default. It serves as an input parameter for the **CAPM** in order to determine the risk-adequate cost of capital.

The risk-free rate is a yield which is obtained from **long-term government bonds** of European countries with top-notch ratings. As of the reference date, the AAA-rated countries in the Eurozone included Germany, Luxembourg and the Netherlands. The European Central Bank (ECB) publishes – on a daily basis – the parameters needed to determine the yield curve using the **Svensson method**.[1)] By using interest rate data from different maturities, a **yield curve** can be estimated for fictitious zero-coupon bonds (spot rates) for a period of up to 30 years. Based on the respective yield curve, a **uniform risk-free rate** is derived under the assumption of present value equivalence to an infinite time horizon.

To compute the risk-free rate for a specific reference date we used an average value of the daily yield curves of the **past three months.** This method **avoids a misleading semblance of precision** and is recognized in court proceedings.[2)]

Additionally, we illustrate the monthly development of the risk-free rates since June 30, 2016 for the European capital markets.

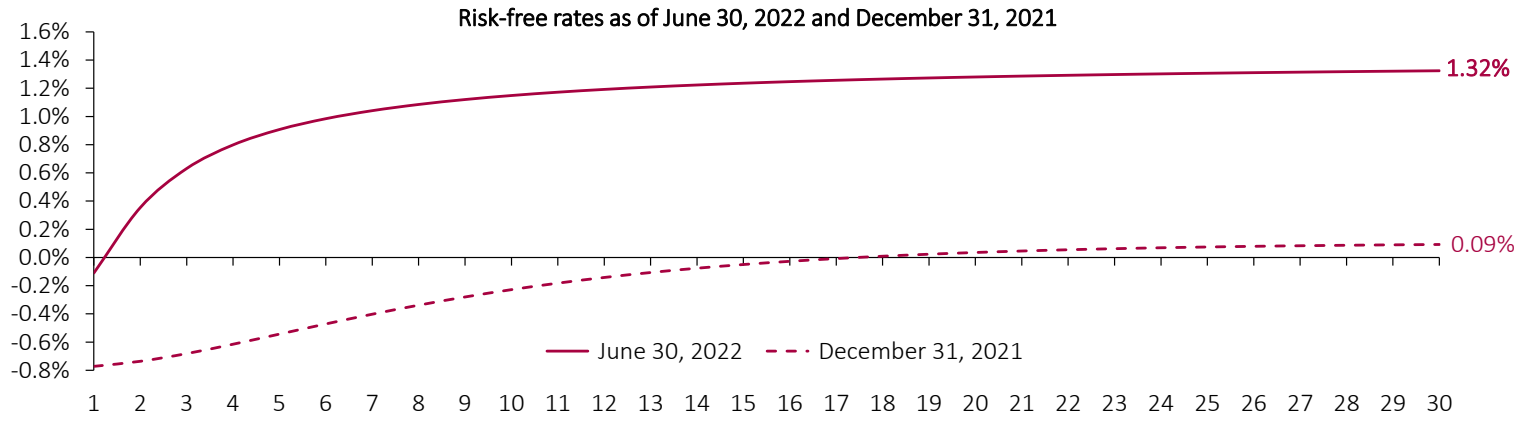
1) European Central Bank (https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/euro_area_yield_curves/html/index.en.html).

2) The Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) in Germany also recommends this approach.

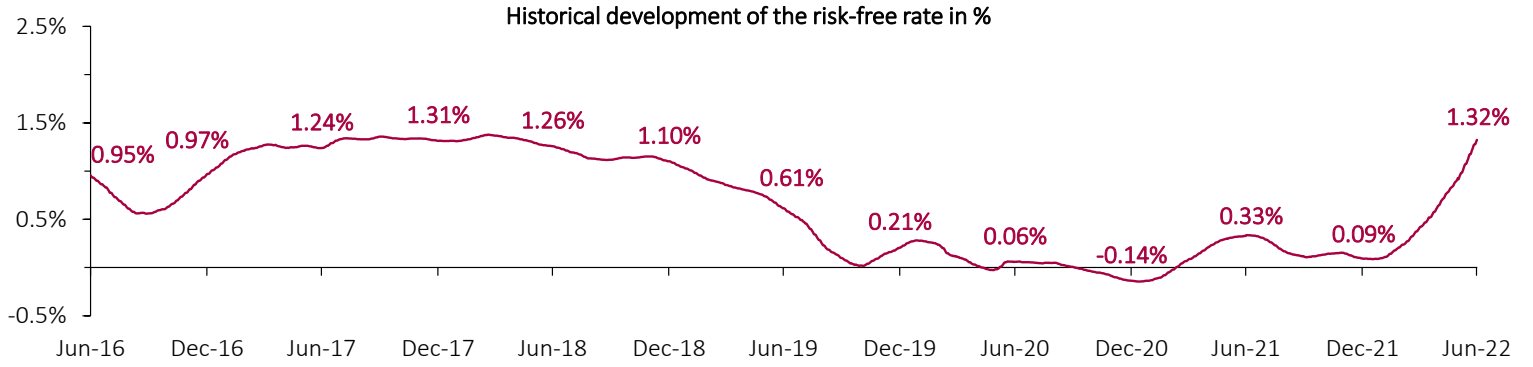
Risk-Free Rate – Europe

Interest rate curve based on long-term bonds and historical development of the risk-free rate in Europe (Svensson Method)

Interest rate curve based on long-term bonds (IDW S1)



Historical development of the risk-free rate in %



Note: Interest rate as of reference date using 3-month average yield curves in accordance with IDW S 1.

4 Market returns and market risk premium

a. Implied returns (ex-ante analysis)

Implied Market Returns and Market Risk Premium
Background & approach

The **future-oriented** computation of **implied market returns** and **market risk premiums** is based on earnings estimates for public companies and return calculations. This approach is called ex-ante analysis and allows for the calculation of the "**implied cost of capital**". It is to be distinguished from the **ex-post analysis**.

In particular, the **ex-ante method** offers an **alternative** to the **ex-post approach** of calculating the costs of capital, by means of the regression analysis through the **CAPM**. The ex-ante analysis method seeks costs of capital which represent the **return expectations of market participants**. Moreover, it is supposed that the estimates of financial analysts reflect the expectations of the capital market.

The concept of the **implied cost of capital** has gained momentum in recent years. For example, it was recognized by the German *Fachausschuss für Unternehmensbewertung* "**FAUB**".[1] It is acknowledged that the implied cost of capital captures the **current capital market situation and** thus reflect the effects of the current **low interest rate environment**.

As of the **reference date**, it offers a more insightful perspective in comparison to the exclusive use of ex-post data.

For the following analysis, we use – simplified to annually – the formula of the Residual Income Valuation Model by *Babbel*:[2]

$$r_t = \frac{NI_{t+1}}{MC_t} + \left(1 - \frac{BV_t}{MC_t}\right) * g$$

r_t = Cost of equity at time t

NI_{t+1} = Expected net income in the following time period t+1[3]

MC_t = Market capitalization at time t

BV_t = Book value of equity at time t

g = Projected growth rate

Through solving the model for the cost of capital, we obtain the implied return on equity.[4] Since *Babbel's* model does not need any explicit assumptions, except for the growth rate, it turns out to be **robust**. We source our data (i.e. the expected annual net income, the market capitalizations, and the book value of equity, etc.) of the analyzed sectors from the data supplier Thomson Reuters. Additionally, we apply the European Central Bank target inflation rate of **2% as a typified growth rate**.

Accordingly, we determine the **implied market returns** for the STOXX Europe 600. We consider this index as a valid approximation for the total European market. The result builds the starting point for the calculation of the **implied market risk premium** of the European capital market.

1) cf. Castedello/Jonas/Schieszl/Lenckner, Die Marktrisikoprämie im Niedrigzinsumfeld – Hintergrund und Erläuterung der Empfehlung des FAUB (WPg, 13/2018, p. 806-825).
2) cf. Babbel, Challenging Stock Prices: Share prices and implied growth expectations (Corporate Finance, n. 9, 2015, p. 316-323, especially p. 319).
3) Analyst consensus forecasts for the next twelve months are applied.
4) cf. Reese, 2007, Estimation of the costs of capital for evaluation purposes; Aders/Aschauer/Dollinger, Die implizite Marktrisikoprämie am österreichischen Kapitalmarkt (RWZ, 6/2016, p. 195 – 202); ValueTrust, DACH Capital Market Study December 31, 2020.

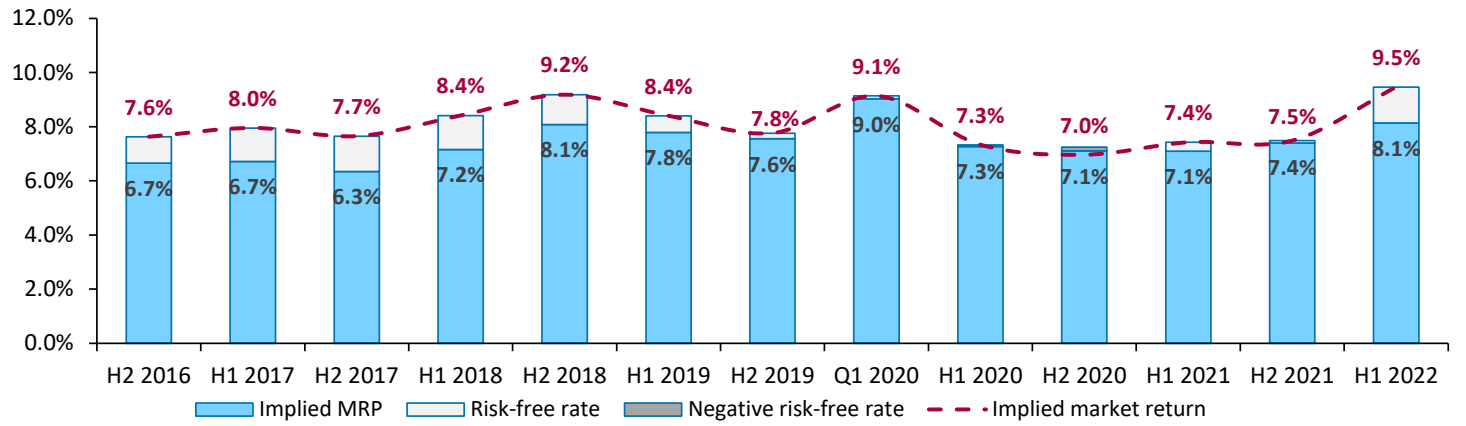
Implied Market Returns and Market Risk Premium
European Market – STOXX Europe 600

Knowing the **implied market return** and the daily measured risk-free rate of the European capital market, we can determine the implied **market risk premium**.

In the years from June 2016 to June 2022 the **implied market returns** ranged from **7.0% to 9.5%**. Subtracting the risk-free rate from the implied market return, we derive a **market risk premium** within the range of **6.3% to 9.0%.**

The **implied market return lies at 9.5%** as of the reference date June 30, 2022. Taking the **risk-free rate of 1.32%** into account, we determine an **implied market risk premium of 8.1%**. To determine the appropriate market risk premium for valuation purposes, it is important to take also the analysis of historical returns as well as volatility (see p. 18) into account. Especially in times of crisis it can make sense to apply an average market risk premium over several periods instead of a reference date value.

Implied market risk premium - Europe



4 Market returns and market risk premium

b. Historical returns (ex-post analysis)

Historical Market Returns
Background & approach

In addition to examining the implied market returns through the ex-ante analysis, we analyze **historical (ex-post) returns**. Once this analysis is performed over a **long-term observation period**, an expected **return potential** of the European capital market is assessable. Therefore, the analysis of historical returns can be used as **plausibility checks of the costs of capital**, more specifically **return requirements,** evaluated through the CAPM.

To further enable a precise analysis of the historical returns of the European capital market, we use the so-called **return triangle**.[1)] This helps to present the **annually realized returns** from **different investment periods** in a simple and coherent way. Specifically, the **different buying and selling points in time** and the different annual holding periods are illustrated comprehensively. To calculate the **average annual returns** over several years, we use both the **geometric and arithmetic means**.

In this study, we analyze the so-called **total shareholder returns,** which consists of the **returns on investments** and the **dividend yields**. For our analysis, it is necessary to focus on **total return indices** because they include both the price and dividend yields. Since the **STOXX Europe 600** is a performance index, it only includes price yields. Hence, we need its total return index. The relevant total return index for Europe is called the STOXX Europe 600 Gross Return ("**STOXX Europe 600 GR**").

The following slide serves as an introduction by showing the historical development of the **STOXX Europe 600 GR** as of **June 2016**. Additionally, the EURO STOXX 50 Volatility ("**VSTOXX**") is displayed for the same period. The VSTOXX serves as an indicator for the **stock market's expectations of volatility** and can thus be used as a risk measure. The **VSTOXX** is often named the "fear index", higher levels are typically associated with more turbulent markets.

The observation period for the total shareholder returns analysis amounts to 15 years. Therefore, the analysed data of the STOXX Europe 600 GR Return reaches back to June 30, 2007.

The following slides illustrate how the two calculation methods (arithmetic and geometric mean) differ from each other for the period between June 30, 2007 and June 30, 2022 For the longest **observation period** of **15 years** the average historical mean of the market return amounts to **5.1%.** Using geometrical averaging, we obtain a market return of **3.7%**.

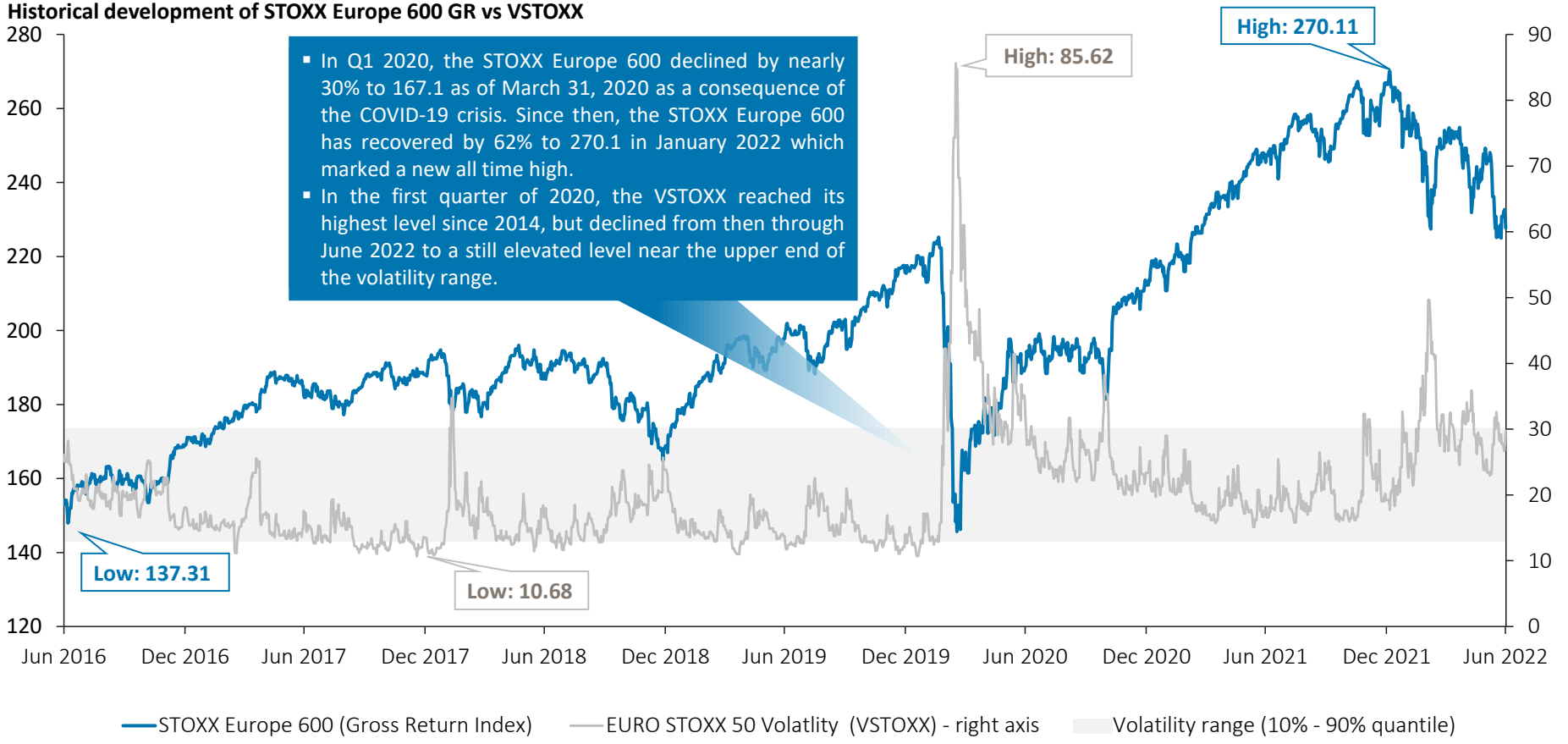
Please note that the historical market return calculations are based on actual index data points, whereas the implied market return and all sector calculations are based on the Thomson Reuters Aggregates App. Therefore, the comparability can be impeded by different aggregation and composition methodologies.

1) The German Stock Institute e.V. (DAI) developed the return triangle for DAX and EURO STOXX.

Historical Market Returns and Volatility – European Market

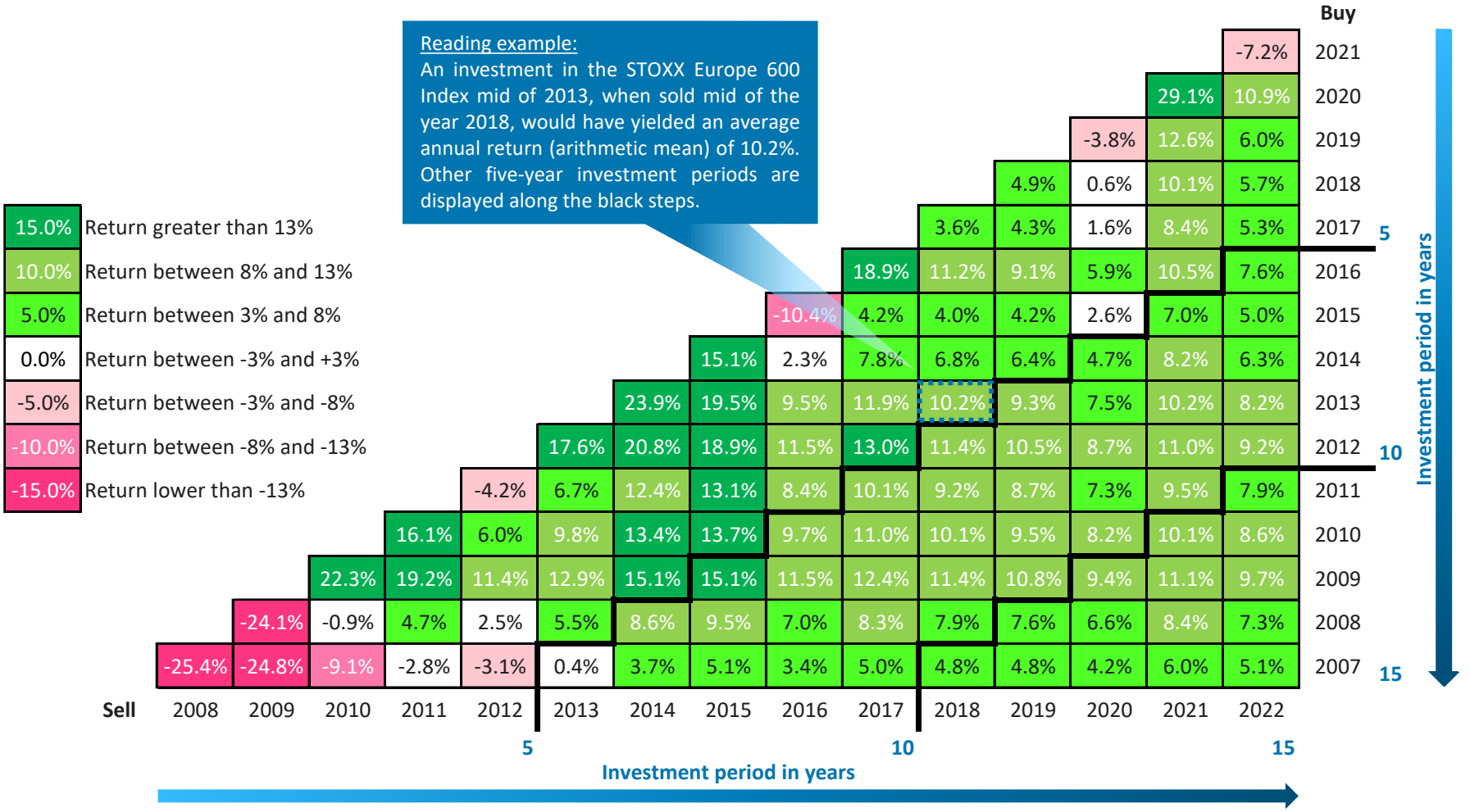
STOXX Europe 600 GR vs. VSTOXX since June 2016

Historical development of STOXX Europe 600 GR vs VSTOXX



Historical Market Returns (Arithmetic Mean) – European Market

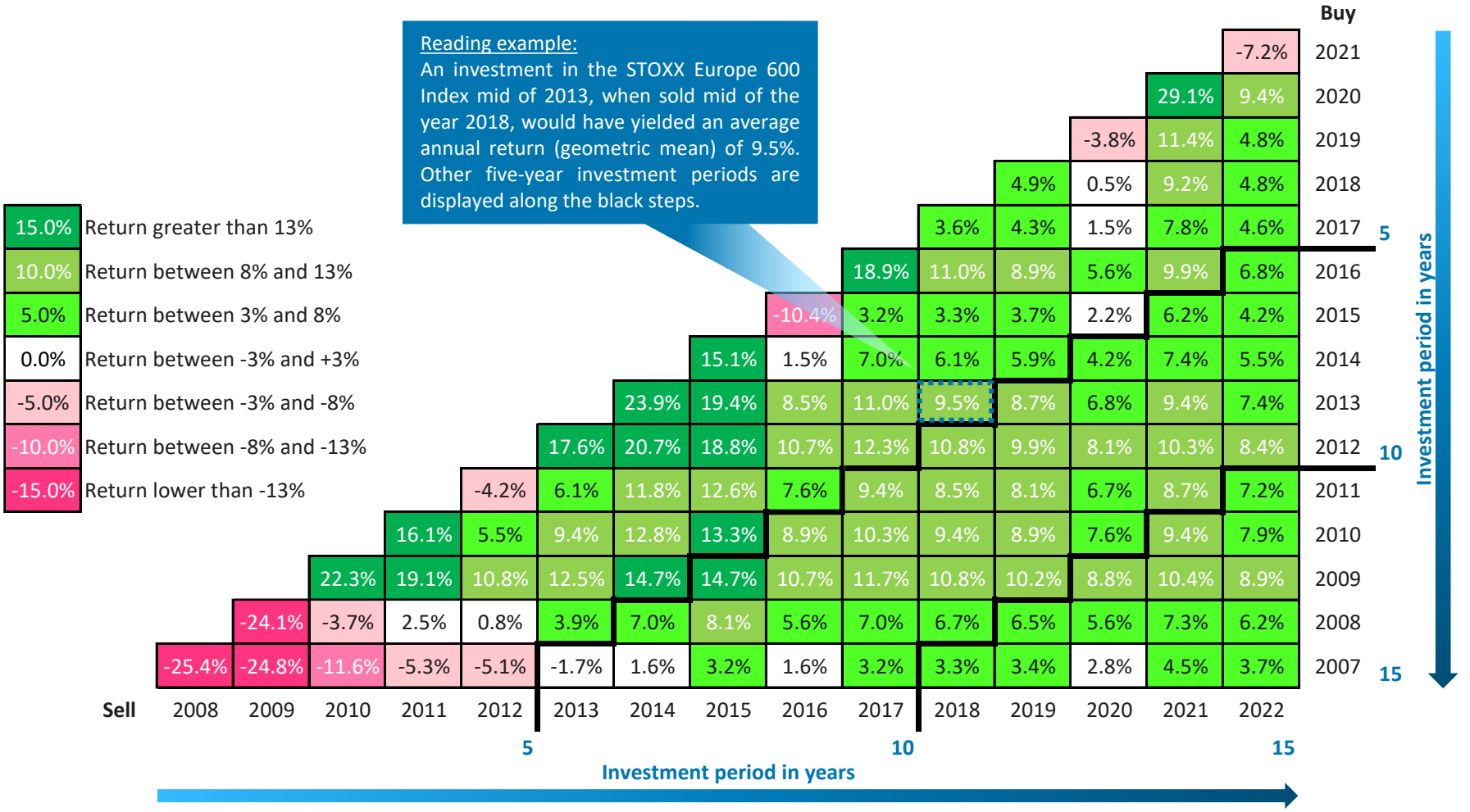
STOXX Europe 600 GR Return Triangle as of June 30, 2022



Following: https://www.dai.de/files/dai_usercontent/dokumente/renditedreieck/2015-12-31%20DAX-Rendite-Dreieck%2050%20Jahre%20Web.pdf.

Historical Market Returns (Geometric Mean) – European Market

STOXX Europe 600 GR Return Triangle as of June 30, 2022



Following: https://www.dai.de/files/dai_usercontent/dokumente/renditedreieck/2015-12-31%20DAX-Rendite-Dreieck%2050%20Jahre%20Web.pdf.

5 Sector classification of European companies

based on STOXX® industry classification

Sector Indices of the European Capital Market
Methodology & approach

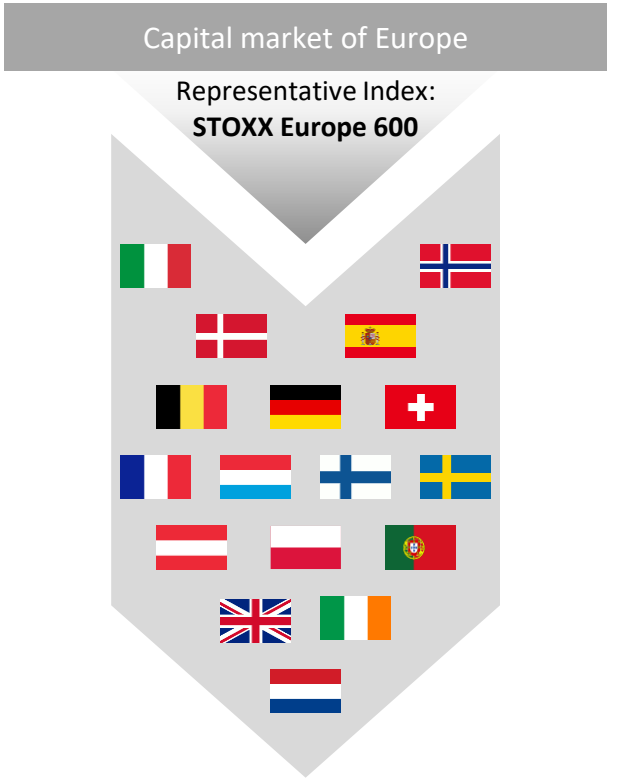
The sector indices aim to cover the **whole capital market of Europe**. Therefore, this capital market study contains all equities of the **STOXX Europe 600** as listed in the Thomson Reuters Aggregates App.[1)] The STOXX Europe 600 Index represents large, mid and small capitalization companies across **17 countries of the European region**: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

Once again our analyses were carried out in accordance with the change in the sector classification by Thomson Reuters, such that the Telecommunications sector was reclassified as part of the Technology sector and the Real Estate was set up as a separate sector of companies which were previously included in the Financials sector. Therefore, the analyses on the following slides reflect the new sector split.

The **ten sector indices** for this study are defined according to the Thomson Reuters Business Classification:

- Financials
- Basic Materials
- Consumer Cyclicals
- Real Estate
- Industrials
- Consumer Non-Cyclicals
- Healthcare
- Technology
- Utilities
- Energy

sector indices

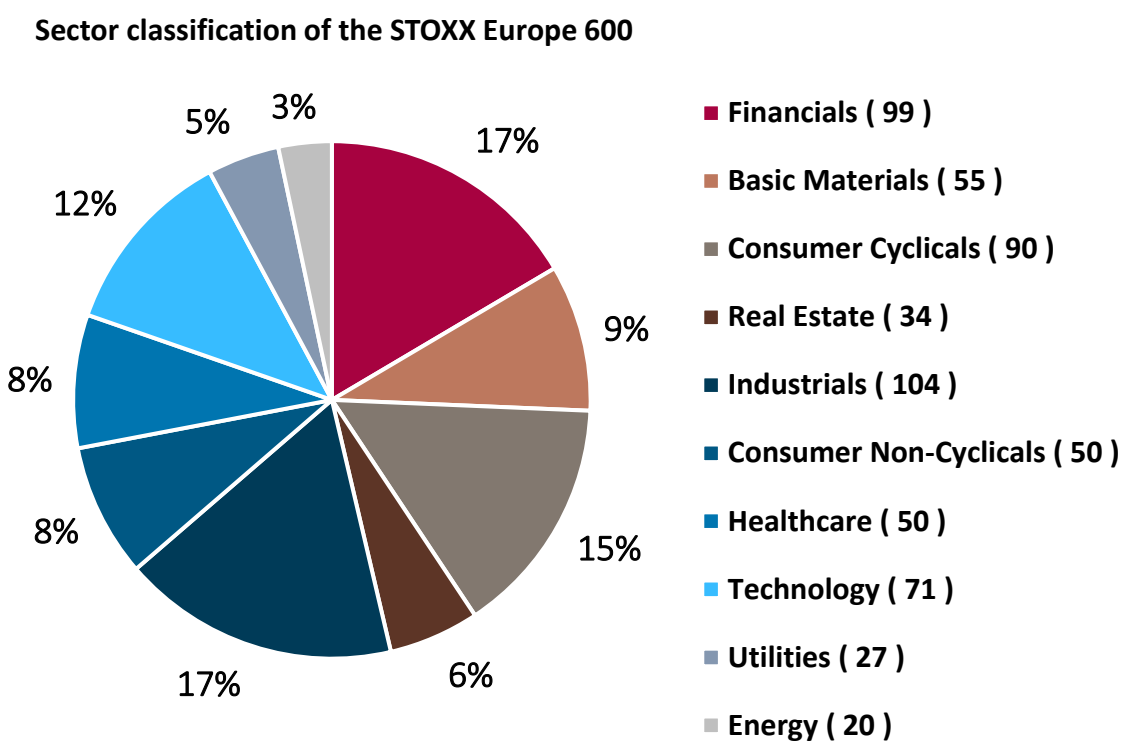


Classifies European market into 10 sector indices

1) The Thomson Reuters Aggregates App offers analyst forecasts and historical values of key financials on an aggregated sector level.

Sector Indices of Europe as of June 30, 2022

Sector distribution and number of companies



The chart shows the percentage distribution of the 600 listed companies in the 10 industries based on the STOXX Europe 600 as listed in the Thomson Reuters Aggregates App (the numerical amounts are listed behind the sector names).

The ten defined sectors can be classified in two different dimensions:

- Six different sectors represent a share of less than 10%,
- Four sectors represent a share between 10% and 20%.

Companies within the Financials and Industrials sectors represent 34% of the entire market measured by the number of companies included in the STOXX Europe 600 index.

6 Betas

Betas
Background & approach

Beta is used in the **CAPM** and is also known as the beta coefficient or beta factor. Beta is a measure of **systematic risk** of a security of a specific company (**company beta**) or a specific sector (**sector beta**) in comparison to the market. A beta less than 1 means that the security is theoretically less **volatile** than the market. A beta greater than 1 indicates that the security's price is more volatile than the market.

Beta factors are estimated on the basis of **historical returns of securities** in comparison to an **approximate market portfolio**. Since the company valuation is **forward-looking**, one must examine whether or what potential risk factors prevailing in the past could also apply for the future. By valuing non-listed companies or companies without meaningful share price performance, it is common to use a beta factor from a group of comparable companies ("**peer group beta**"), a suitable sector ("**sector beta**") or one single listed company in the capital market with a similar business model and a similar risk profile ("**pure play beta**").

The estimation of beta factors is usually accomplished through a **linear regression analysis**. Furthermore, it is important to set a time period, in which the data is collected (**benchmark period**) and whether daily, weekly or monthly returns (**return interval**) are analyzed. In practice, it is common to use **observation periods of two years** with the regression of **weekly returns** or a **five-year observation period** with the regression of **monthly returns**.

In the CAPM, company specific **risk premiums** include in addition to the **business risk** also the **financial risk**. The beta factor for levered companies ("**levered beta**") is usually higher compared to a company with an identical business model but without debt (due to financial risk). Hence, **changes in the capital structure** require an **adjustment of the betas** and therefore of the company specific risk premiums.

In order to calculate the **unlevered beta,** adjustment formulas have been developed. We prefer to use the **adjustment formula by Harris/Pringle** which assumes a value-based financing policy, stock-flow adjustments without time delay, uncertain tax shields and a so-called **debt beta**. We calculate the debt beta based on the respective sector rating through the application of the **credit spread** derived from the expected cost of debt. The **debt beta** is then derived by dividing the **sector credit spread** by the current **European market risk premium**. For simplification reasons, we do not adjust the credit spread for unsystematic risks.

In this study, we use levered sector betas as determined in the Thomson Reuters Aggregates App. Due to data availability, we only apply the five-year observation period and then calculate unlevered betas.

Betas

Sector-specific levered and unlevered betas (5-years monthly) as of June 30, 2022

Sector	Beta levered [1]	Beta unlevered
Financials	1.25	n.a.
Basic Materials	1.09	0.77
Consumer Cyclicals	1.13	0.67
Real Estate	0.87	0.57
Industrials	1.11	0.60

Sector	Beta levered	Beta unlevered
Consumer Non-Cyclicals	0.69	0.45
Healthcare	0.74	0.51
Technology	0.97	0.57
Utilities	0.65	0.38
Energy	1.22	0.82

Sector specific debt ratio, leverage and rating

		Financials [2]	Basic Materials	Consumer Cyclicals	Real Estate	Industrials	Consumer Non-Cyclicals	Healthcare	Technology	Utilities	Energy
5-years 2017-2022 monthly	Debt ratio [3]	67.4%	34.8%	48.0%	45.6%	55.5%	48.1%	40.0%	51.0%	59.0%	37.5%
	Leverage	206.9%	53.3%	92.3%	83.8%	124.7%	92.7%	66.8%	104.1%	143.9%	60.1%
	Rating	A-	BBB+	BBB+	BBB-	BBB	BBB+	BBB+	BBB+	BBB	A-

1) The levered beta of the market does empirically not necessarily exactly amount to 1.00 due to the exclusion of statistically insignificant betas. We observe a levered beta for the market of 0.98.

2) The debt illustration of the companies of the Financials sector only serves informational purposes. We will not implement an adjustment to the company's specific debt (unlevered) because a bank's indebtedness is part of its operational activities and economic risk. Therefore, a separation of operational and financial obligations is not possible. In addition, bank specific regulations about the minimum capital within financial institutions let us assume that the indebtedness degree is widely comparable. For that reason, it is possible to renounce the adaptation of levered betas.

3) The debt ratio corresponds to the debt-to-total capital ratio.

7 Sector returns

a. Implied returns (ex-ante analysis)

Implied Sector Returns
Background & approach

In addition to the future-oriented calculation of **implied market returns**, we also calculate **implied returns for sectors**. This offers an **alternative** to and a simplification of the **ex-post analysis** of the company's costs of capital via the **CAPM**. Using this approach, the calculation of sector betas via regression analyses are not necessary.

The **implied sector returns** shown on the following slides can be used as an **indicator** for the **sector specific levered costs of equity**. These already consider a **sector specific leverage**. As a result, an additional simplification is to renounce making adjustments with regards to the capital structure risk.

Comparable to the calculation of the implied market returns, the following return calculations are based on the Residual Income Valuation Model by *Babbel*.[1)] The required data (i.e. net income, market capitalization, and book values of equity) are sourced from the data provider Thomson Reuters on an aggregated sector level. Regarding the profit growth, we assume for all sectors for simplification purposes a growth rate of 2.0%.

We unlever the implied returns with the following **adjusting equation** for the **costs of equity**[2)] to take the specific leverage into account[3)]:

$$r_E^L = r_E^U + \left(r_E^U - R_f\right) * \frac{D}{E}$$

with:

r_E^L = Levered cost of equity
r_E^U = Unlevered cost of equity
R_f = Risk-free rate
$\frac{D}{E}$ = Debt[4)] -to-equity ratio

The **implied unlevered sector returns** serve as an indicator for an **aggregated** and **unlevered cost of equity** for **specific sectors**. The process of relevering a company's cost of capital to reflect a company specific debt situation (cf. calculation example on the next slide) can be calculated without using the CAPM.

1) cf. Babbel, Challenging Stock Prices: Share prices and implied growth expectations(Corporate Finance, n. 9, 2015, p. 316-323, especially p. 319); Aders/Aschauer/Dollinger, Die implizite Marktrisikoprämie am österreichischen Kapitalmarkt (RWZ, 6/2016, p. 195 – 202).

2) In situations in which the debt betas in the market are distorted, we would have to adjust these betas to avoid unsystematic risks. For simplification reasons, we deviate from our typical analysis strategy to achieve the enterprise value (Debt beta > 0) and assume that the costs of capital are at the level of the risk-free rate. This process is designed by the so-called Practitioners formula (uncertain tax shields, debt beta = 0), cf. Pratt/Grabowski, Cost of Capital, 5th ed., 2014, p. 253.

3) We assume that the cash and cash equivalents are used entirely for operational purposes. Consequently, we do not deduct excess cash from the debt.

4) "Debt" is defined as all interest-bearing liabilities. The debt illustration of the companies of the "Financials" sector only serves an informational purpose. We will not implement an adjustment to the company's specific debt (unlevered) because a bank's indebtedness is part of its operational activities and economic risk.

Implied Sector Returns

Exemplary calculation to adjust for the company specific capital structure

Calculation example:

As of the reference date June 30, 2022, we observe the sector specific, levered cost of equity of **10.3%** (market-value weighted mean) in the European Basic Materials sector. Taking the sector-specific leverage into account, we derive an unlevered cost of equity of **7.5%.** For the exemplary company X, which operates in the European Basic Materials sector, the following assumptions have been made:

- The debt-to-equity ratio of the exemplary company X: **40%**
- The risk-free rate: **1.32%**

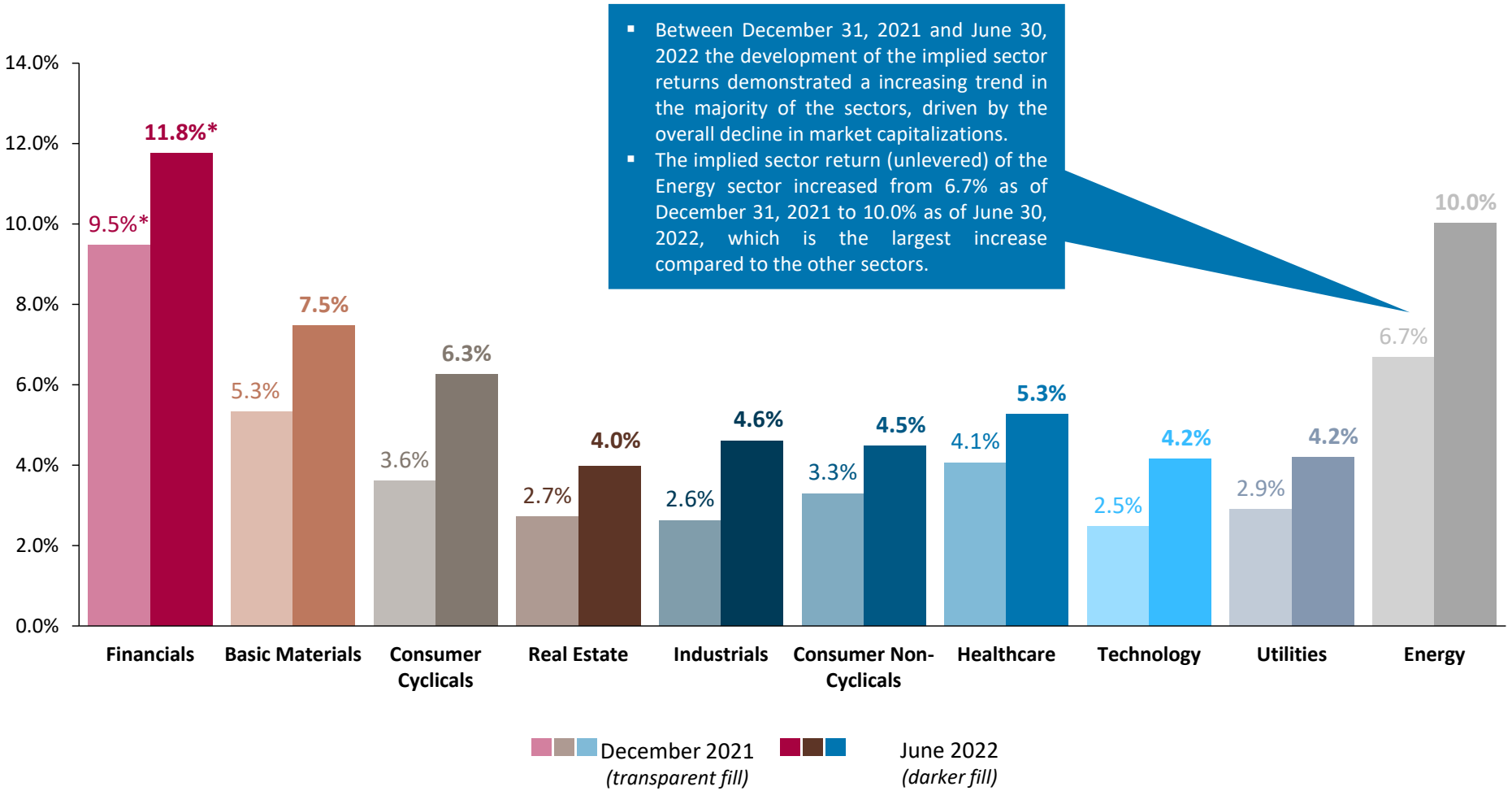
Based on these numbers, we can calculate the relevered cost of equity of company X with the adjustment formula:

$$\mathbf{r_E^L} = 7.5\% + (7.5\% - 1.32\%) * 40\% = 10.0\%$$

Thus, **10.0%** is the company's relevered cost of equity. In comparison, the levered cost of equity of the Basic Materials sector is **10.3%**, reflecting the sectors' higher average leverage.

Implied Sector Returns (unlevered)*

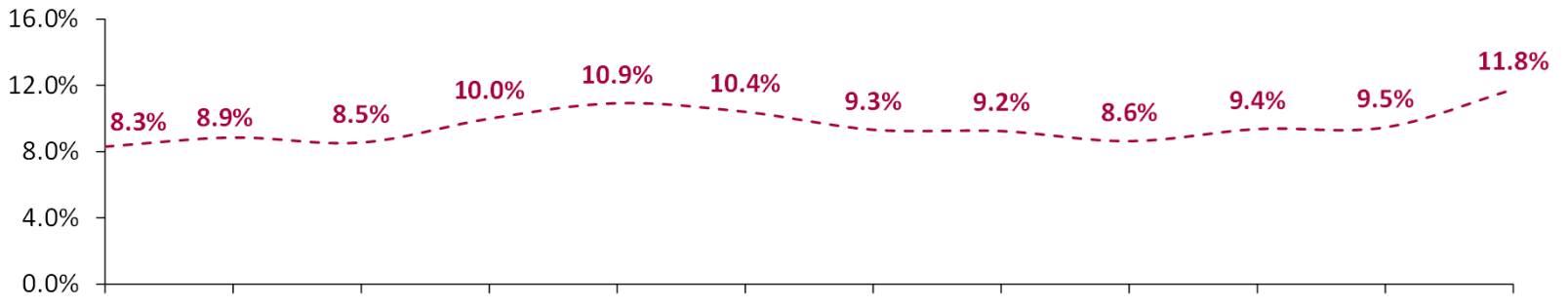
Overview as of June 30, 2022 vs. December 31, 2021



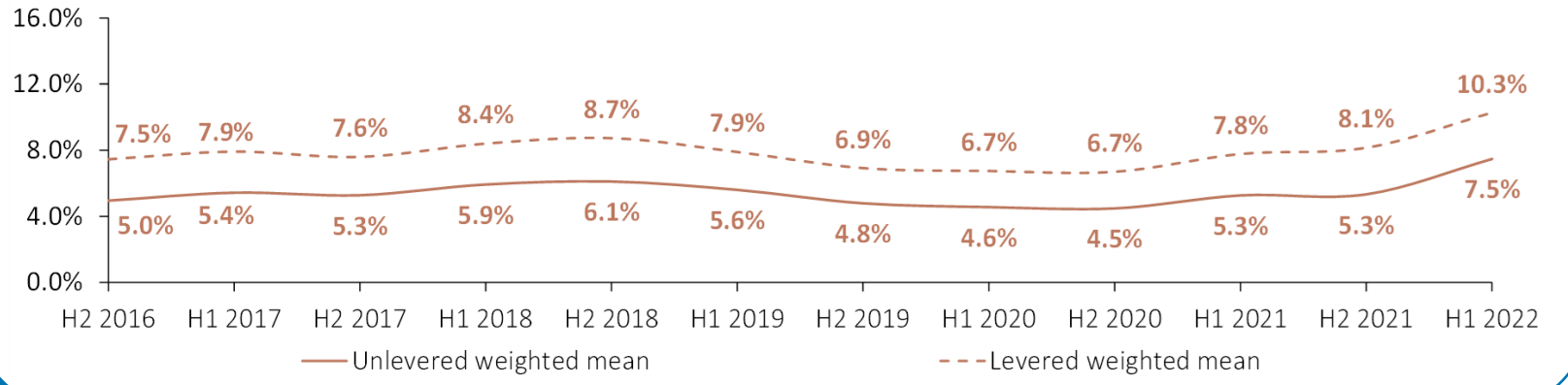
* The returns for the Financials sector refer to levered sector returns. For all other sectors unlevered returns are displayed.

Implied Sector Returns
Financials, Basic Materials

Financials

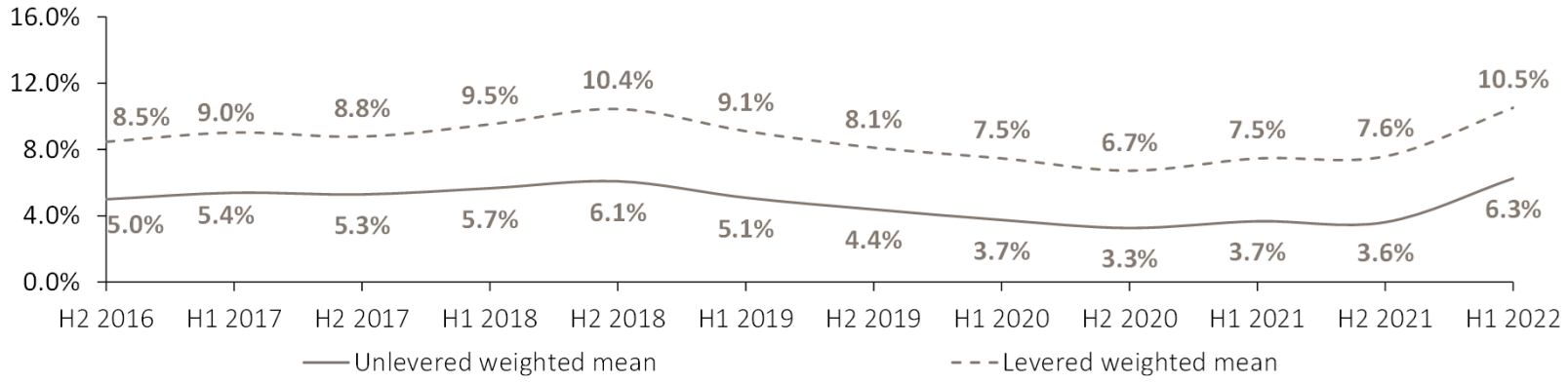


Basic Materials

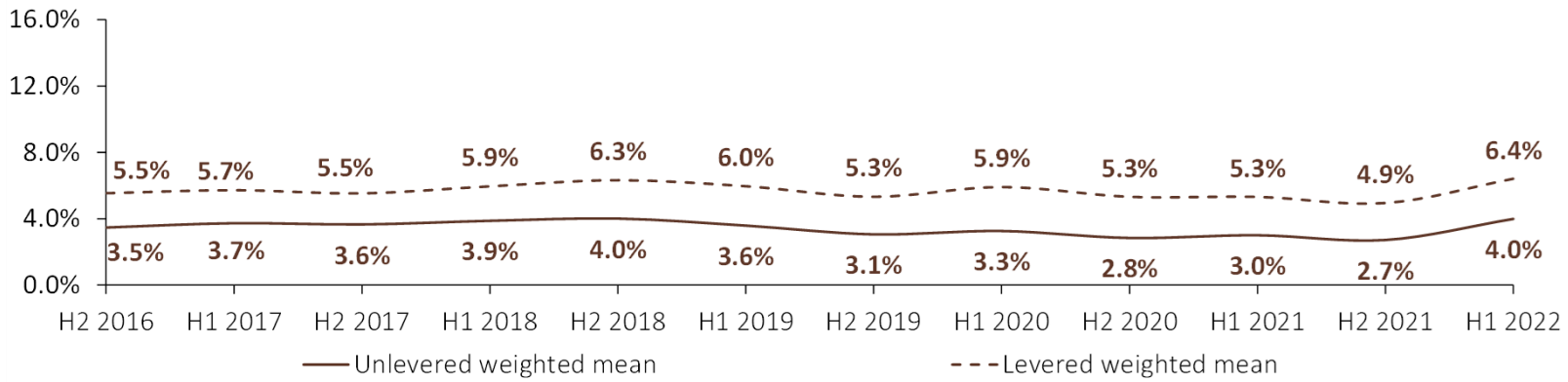


Implied Sector Returns
Consumer Cyclicals, Real Estate

Consumer Cyclicals



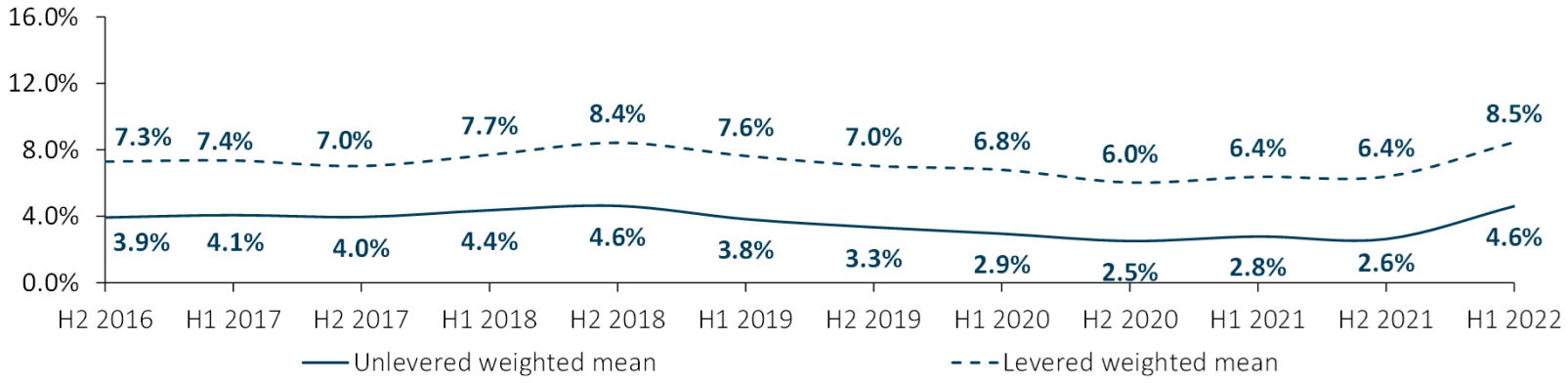
Real Estate



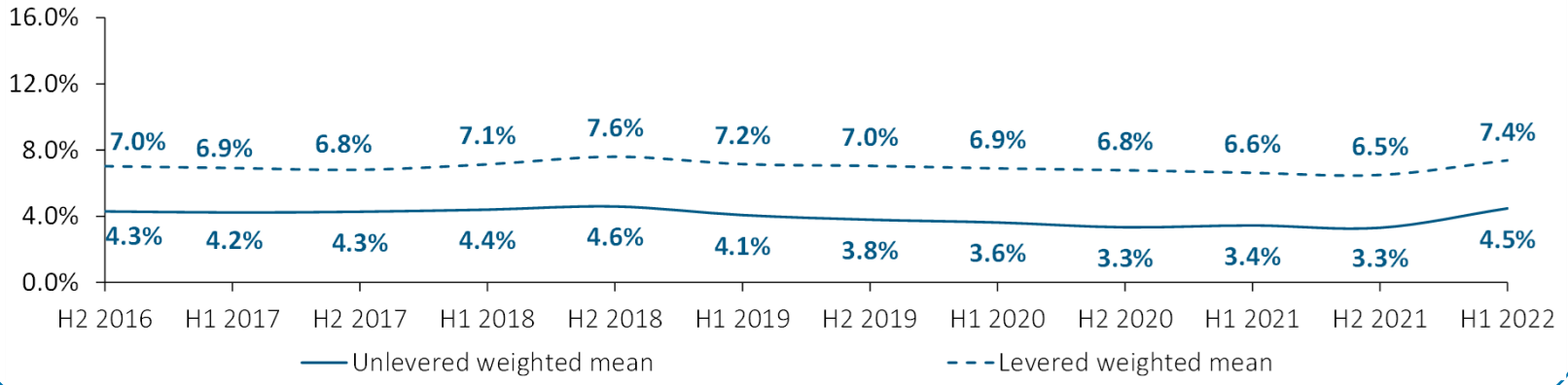
Implied Sector Returns

Industrials, Consumer Non-Cyclicals

Industrials

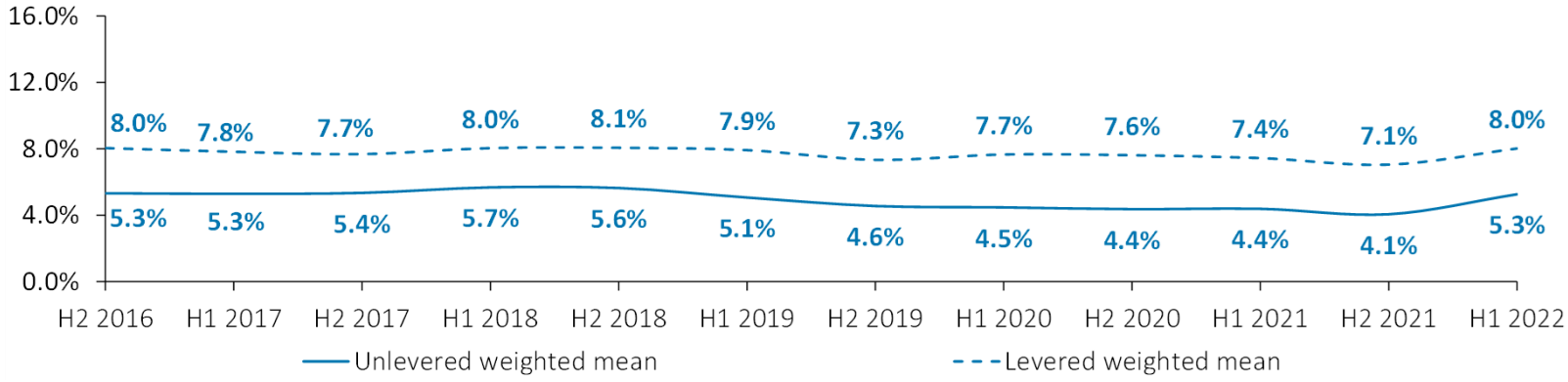


Consumer Non-Cyclicals

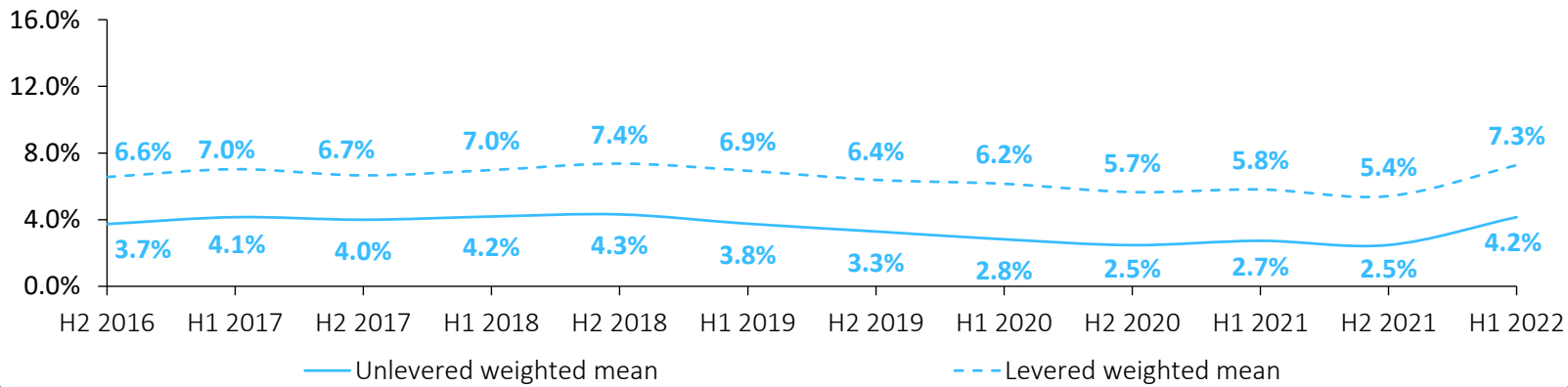


Implied Sector Returns
Healthcare, Technology

Healthcare

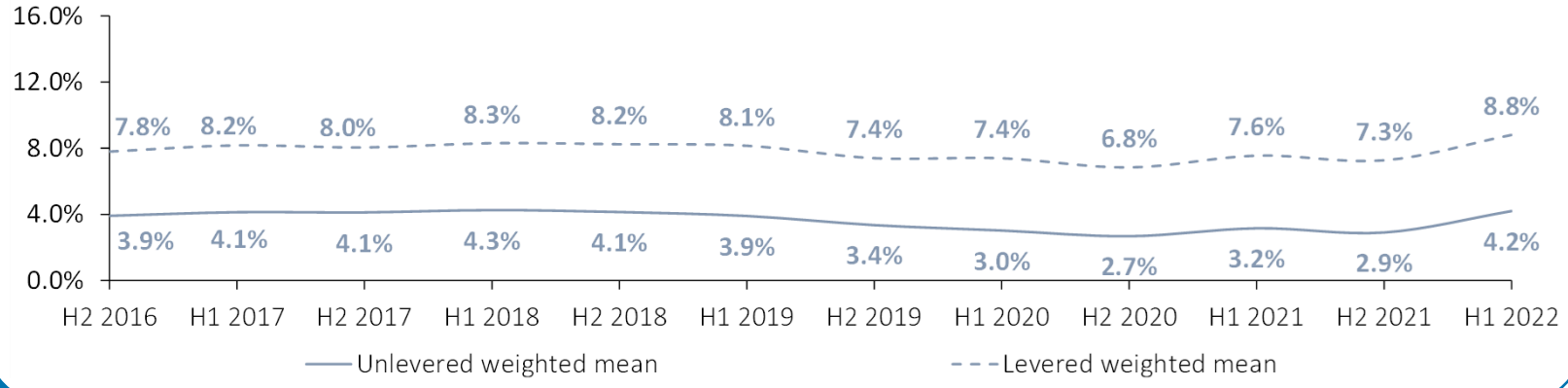


Technology

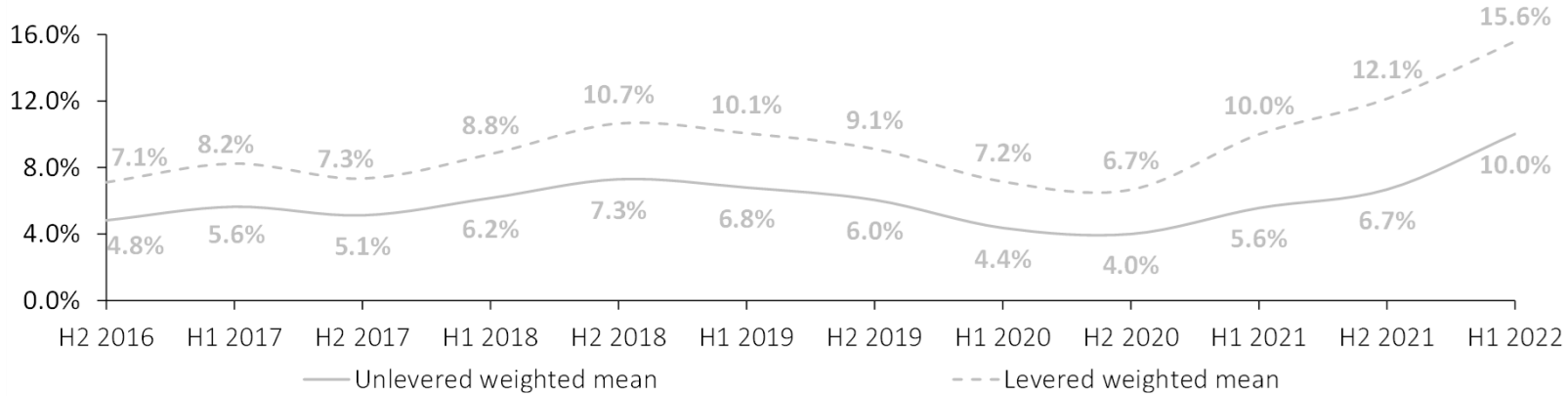


Implied Sector Returns
Utilities, Energy

Utilities



Energy



7 Sector returns

b. Historical returns (ex-post analysis)

Historical Sector Returns
Background & approach

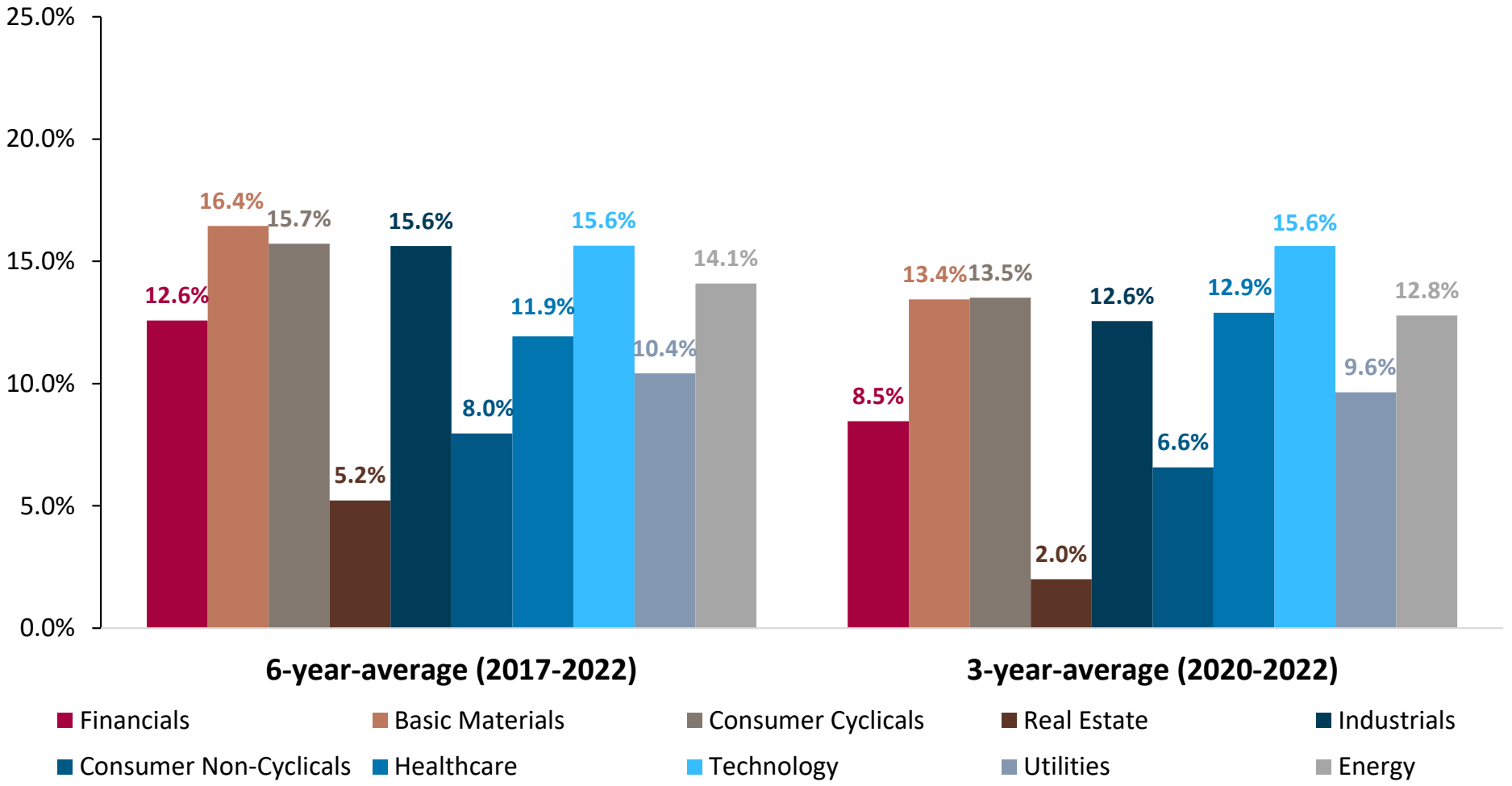
In **addition** to the **determination of historical market returns**, we calculated the **historical sector returns p.a.** This option is an **alternative approach,** like the implied sector returns, for the ex-post analysis of the determination of costs of capital based on regression analyses following the **CAPM**.

Our analysis contains so-called **total shareholder returns** (TSR) p.a. analogous to the return triangles for the European total return indices. This means, we consider the **share price development** as well as the **dividend yield**, where the share price development generally represents the main component of the total shareholder returns.

We derive the **annual total shareholder returns between June 30, 2017 and June 30, 2022** for every STOXX Europe 600 sector. Since annual total shareholder returns tend to fluctuate to a great extent, their explanatory power is limited. Therefore, we do not only calculate the 1-year market-value weighted means, additionally we calculate the 3-year (2020-2022) and the 6-year (2017-2022) averages.

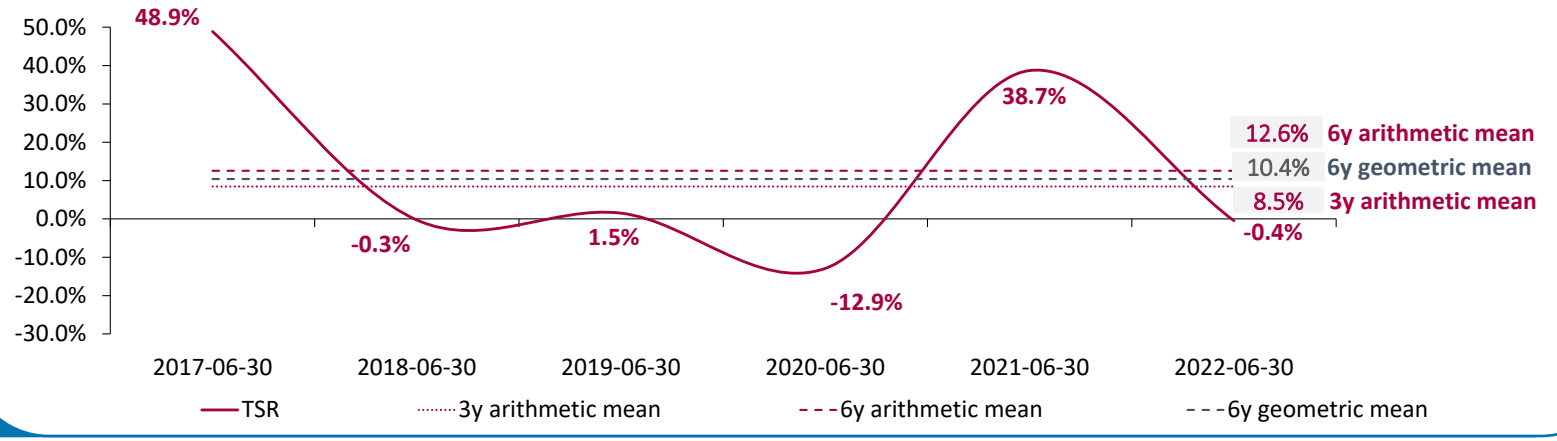
Historical Sector Returns

Average total shareholder returns as of June 30, 2022

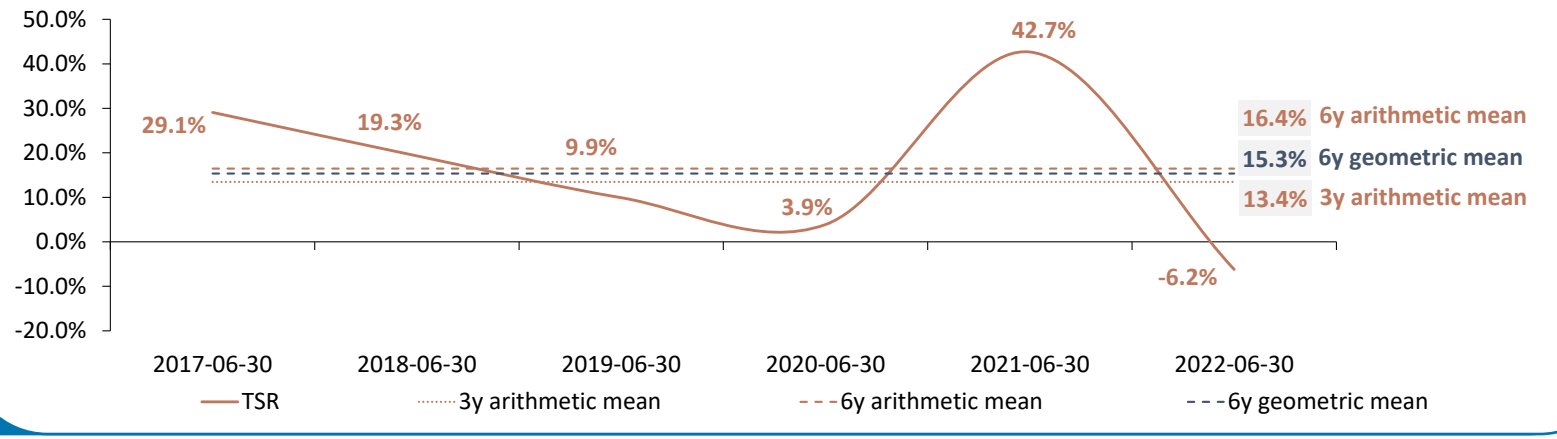


Total Shareholder Returns
Financials, Basic Materials

Financials

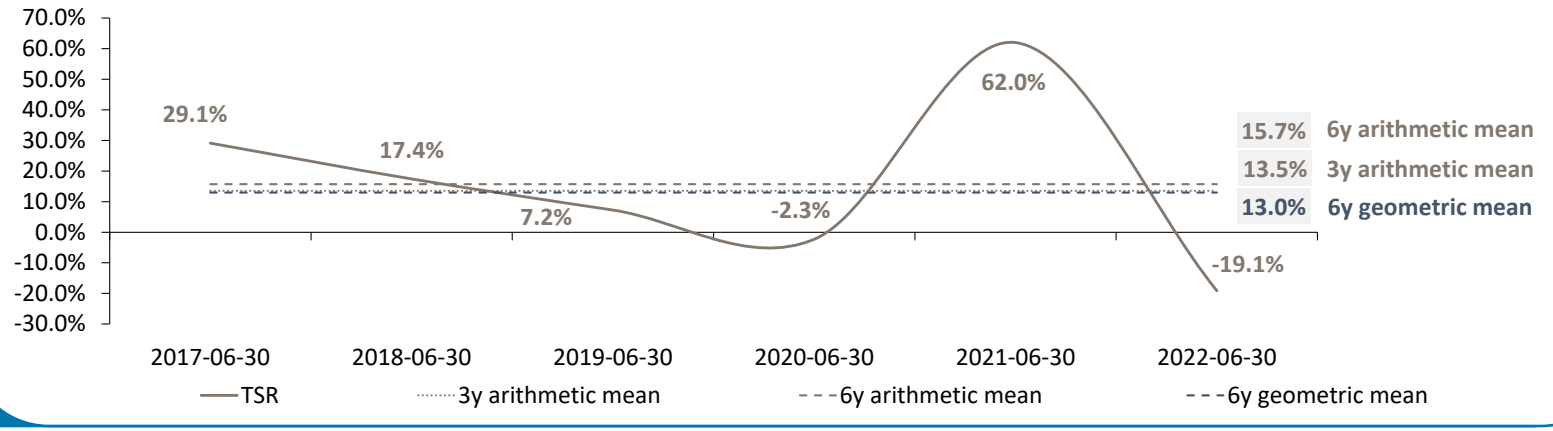


Basic Materials

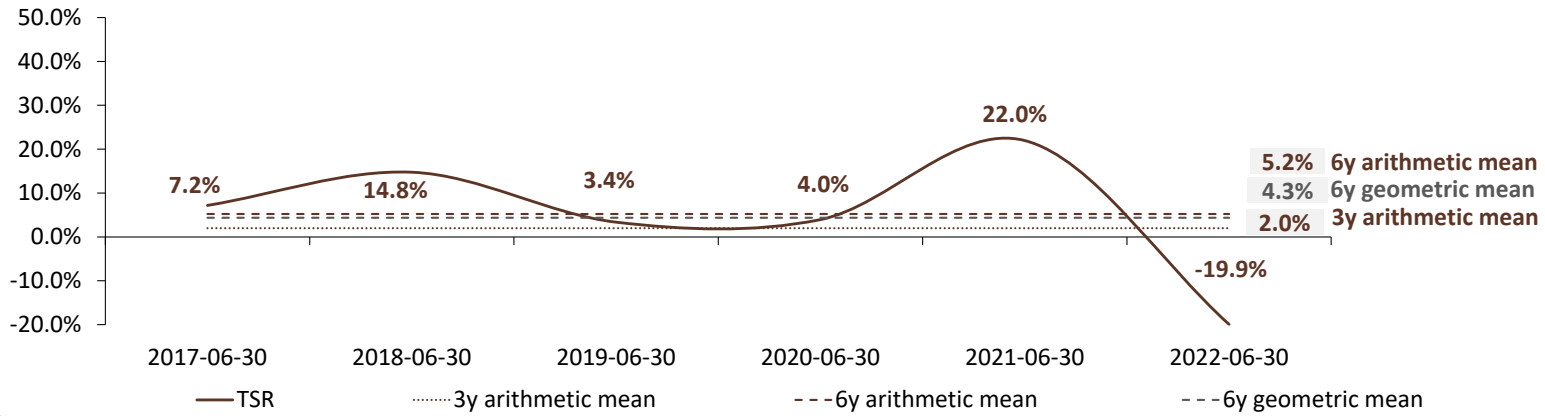


Total Shareholder Returns
Consumer Cyclicals, Real Estate

Consumer Cyclicals



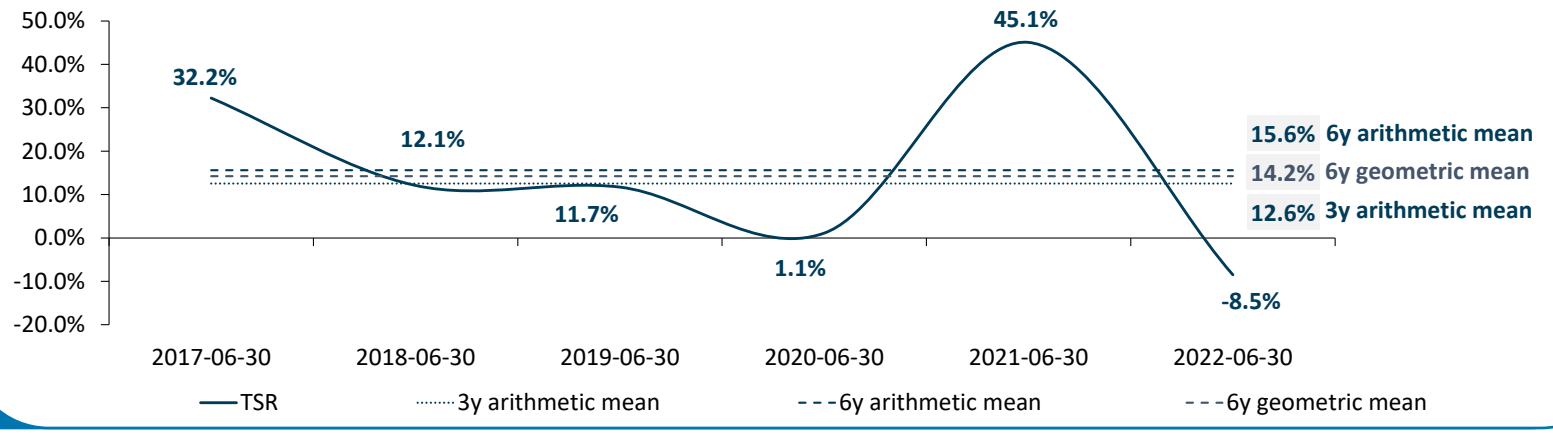
Real Estate



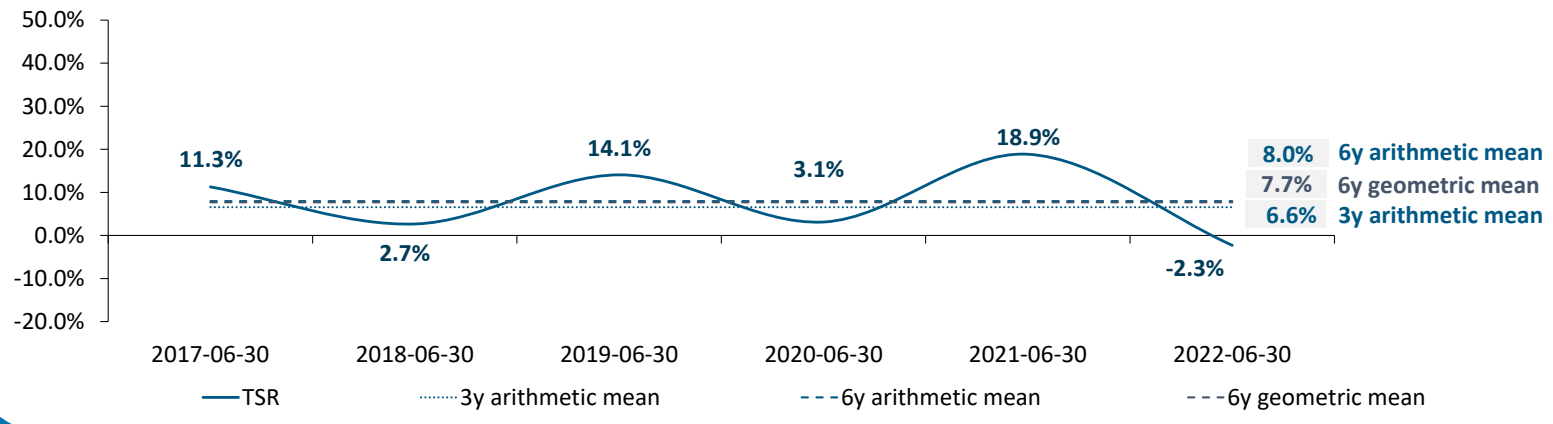
Total Shareholder Returns

Industrials, Consumer Non-Cyclicals

Industrials

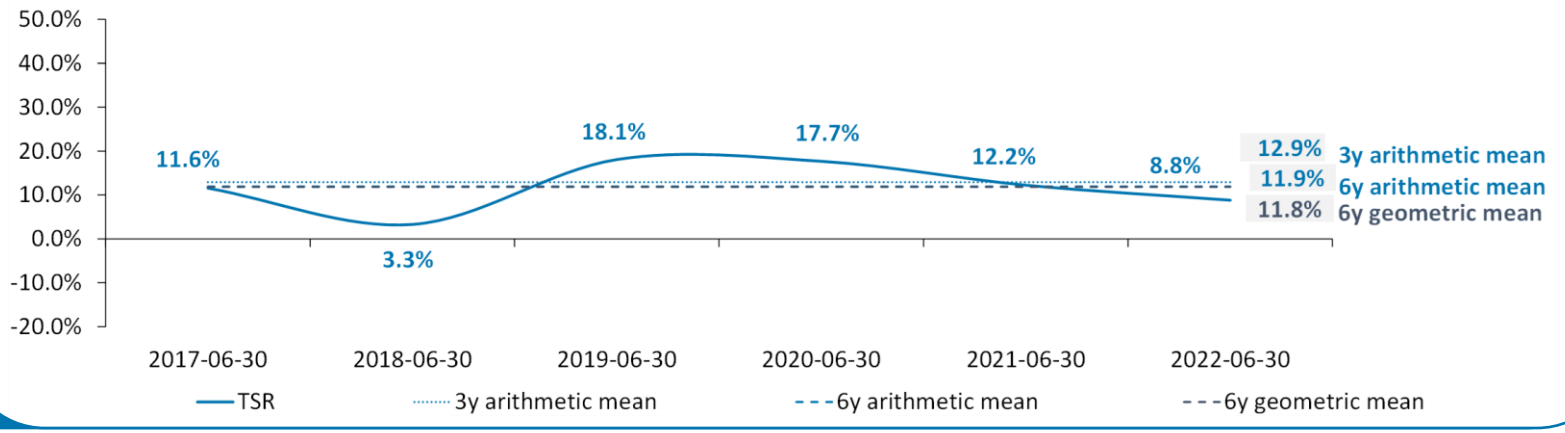


Consumer Non-Cyclicals

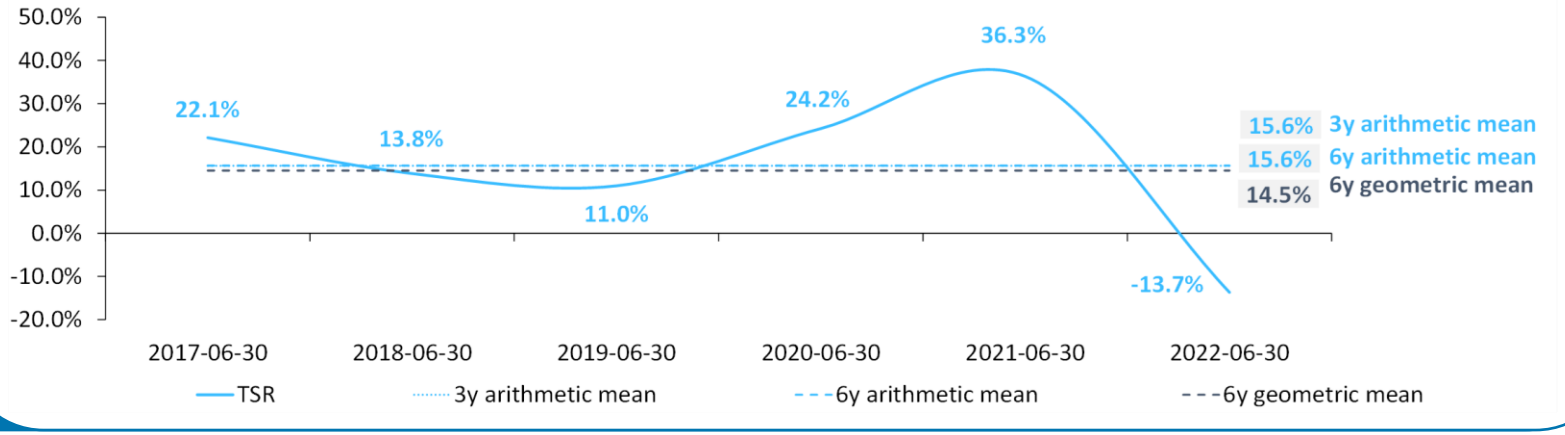


Total Shareholder Returns
Healthcare, Technology

Healthcare

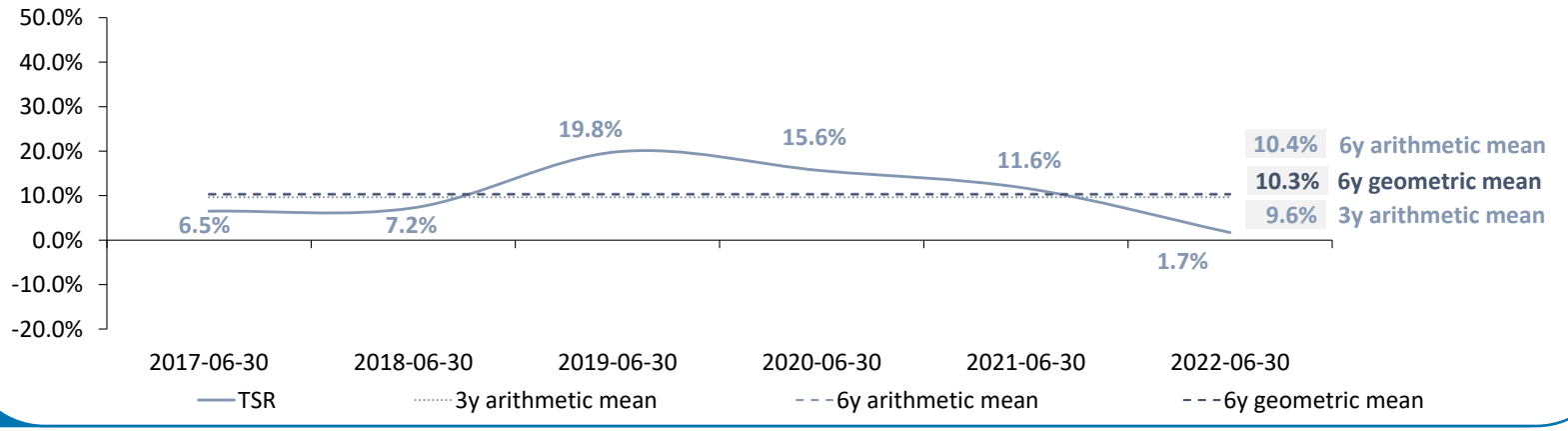


Technology

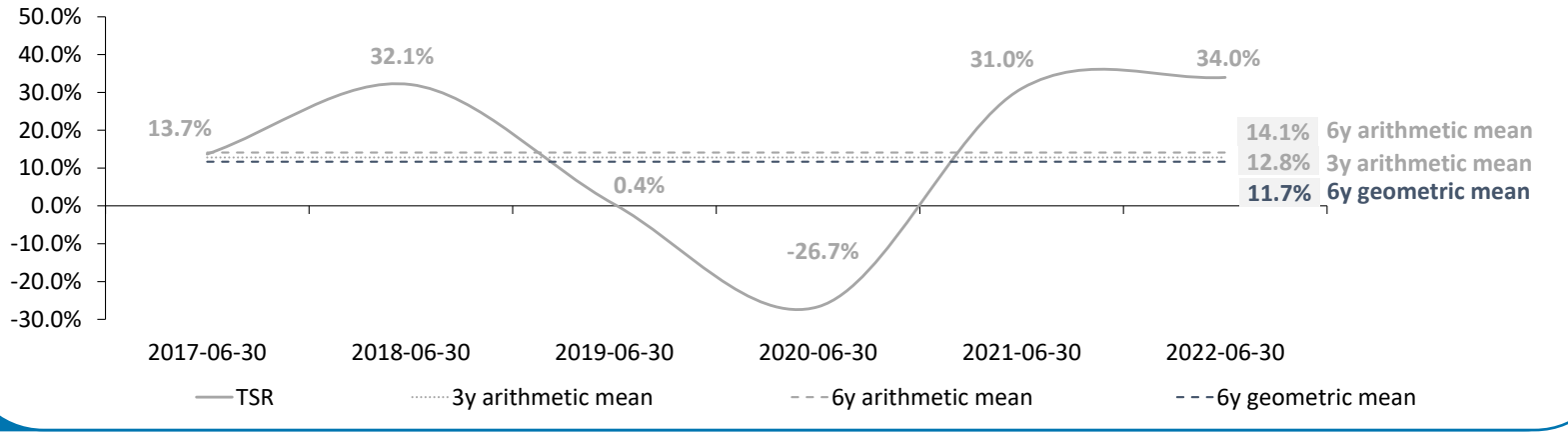


Total Shareholder Returns
Utilities, Energy

Utilities



Energy



8 Trading multiples

Trading Multiples
Background & approach

In comparison to absolute valuation models (earnings value, DCF), the **multiples approach** offers a practical method for an enterprise value estimation. The multiples method estimates a company's value **relative** to another company's value. Following this approach, the enterprise value arises from the product of a reference value (revenue or earnings values are frequently used) of the company with the respective multiples of **similar companies**.

Within this capital market study, we analyze **multiples for the STOXX Europe 600 sectors**. We will look at the following multiples:

- Revenue-Multiples ("**EV**[1]**/Revenue**")
- EBIT-Multiples ("**EV**[1]**/EBIT**")
- Price-to-Earnings-Multiples ("**P/E**")
- Price-to-Book Value-Multiples ("**EqV**[2]**/BV**")

Multiples are presented for the reference date June 30, 2022. The reference values are based on one-year forecasts of analysts (so-called **forward-multiples**, in the following "**1yf**"). Solely the Price-to-Book Value-Multiples are calculated with book values as of the reference date.

To calculate the multiples, we source data from the data provider Thomson Reuters. We provide a tabular illustration of the sector specific weighted averages of the multiples as of June 30, 2022 on the following slide.

Additionally, we present a **ranking table** of the sector multiples. First of all, the sector multiples are sorted from highest to lowest for each analyzed multiple. The resulting score in the ranking is displayed in the table and visualized by a color code that assigns a **red color** to the **highest rank** and a dark **green color** to the **lowest rank**. Thus, a red colored high rank indicates a high valuation level, whereas a green colored low rank suggests a low valuation level. Secondly, we aggregate the rankings and calculate an average of all single rankings for each sector multiple. This is shown in the right column of the ranking table. This **average ranking** indicates the overall **relative valuation levels** of the sectors when using multiples.

1) Enterprise Value.
2) Equity Value.

Trading Multiples (1/2)

Sector multiples as of June 30, 2022 and December 31, 2021 (1yf)

Sector	EV / Revenue	EV / EBIT	P / E	P / BV
Financials[1]	n.a.	n.a.	8.2x 10.4x	0.7x 1.0x
Basic Materials	1.1x 1.6x	7.9x 10.8x	9.5x 13.8x	1.6x 2.2x
Consumer Cyclicals	1.2x 1.7x	9.8x 14.1x	10.8x 15.1x	1.6x 2.5x
Real Estate[2]	15.4x 21.4x	23.2x 28.1x	14.2x 21.3x	0.7x 1.1x
Industrials	1.4x 1.9x	12.6x 17.1x	14.1x 20.5x	2.7x 4.4x

December 31, 2021 *(transparent fill)* — June 30, 2022 *(darker fill)*

Notes:

1) For companies in the Financials sector, Revenue- and EBIT-Multiples are not meaningful and thus are not reported.

2) A high positive difference between the 1yf and LTM P/E-Multiples of the Real Estate sector indicates an expected increase in earnings.

Trading Multiples (2/2)

Sector multiples as of June 30, 2022 and December 31, 2021 (1yf)

Sector	EV / Revenue	EV / EBIT	P / E	P / BV
Consumer Non-Cyclicals	2.0x 2.3x	14.8x 17.3x	16.7x 19.7x	2.9x 3.8x
Healthcare	3.5x 4.0x	14.1x 15.9x	16.1x 18.5x	3.5x 4.5x
Technology	2.6x 3.4x	15.5x 20.5x	16.8x 24.5x	2.3x 3.4x
Utilities	1.3x 1.8x	12.3x 14.5x	12.8x 16.2x	1.5x 1.9x
Energy	0.7x 0.8x	4.4x 6.5x	5.6x 8.4x	1.2x 1.3x
Europe (All)	1.6x 2.0x	10.6x 13.8x	11.4x 15.6x	1.5x 2.3x

December 31, 2021 *(transparent fill)* — June 30, 2022 *(darker fill)*

Trading Multiples

Sector multiples ranking as of June 30, 2022

	EV/Revenue 1yf	EV/EBIT 1yf	P/E 1yf	EqV/BV LTM	Ø Ranking
Financials	n.a.	n.a.	9	9	9.0
Basic Materials	8	8	8	5	7.3
Consumer Cyclicals	7	7	7	6	6.8
Real Estate	1	1	4	10	4.0
Industrials	5	5	5	3	4.5
Consumer Non-Cyclicals	4	3	2	2	2.8
Healthcare	2	4	3	1	2.5
Technology	3	2	1	4	2.5
Utilities	6	6	6	7	6.3
Energy	9	9	10	8	9.0

The Financials sector continues to have the least expensive valuation level of all sectors.

The Technology sector shows the highest multiples on average, followed by the Healthcare sector.

The EqV/BV-Multiple of the Utilities sector ranks 7th highest in a sector comparison. Overall, the average ranking of the Utilities sector is 6.3, indicating a low valuation level.

Note: Multiples are ranked from highest to lowest values: 1 – highest (red), 9/10 – lowest (dark green)).

Appendix

Composition of the sectors as of June 30, 2022

Appendix
Composition of the STOXX sectors as of June 30, 2022

Financials

3i Group PLC
ABN Amro Bank NV
Abrdn PLC
Admiral Group PLC
Aegon NV
Ageas SA
Allianz SE
Amundi SA
ASR Nederland NV
Assicurazioni Generali SpA
Avanza Bank Holding AB
Aviva PLC
AXA SA
Baloise Holding AG
Banco Bilbao Vizcaya Argentaria SA
Banco BPM SpA
Banco de Sabadell SA
Banco Santander SA
Bank of Ireland Group PLC
Bank Polska Kasa Opieki SA
Bankinter SA
Barclays PLC
BAWAG Group AG
Beazley PLC
BNP Paribas SA
Bridgepoint Group PLC
Caixabank SA
Close Brothers Group PLC
Commerzbank AG
Credit Agricole SA
Credit Suisse Group AG
Danske Bank A/S
Deutsche Bank AG
Deutsche Boerse AG
Direct Line Insurance Group PLC
DNB Bank ASA
EQT AB
Erste Group Bank AG
Eurazeo SE
Euronext NV
FinecoBank Banca Fineco SpA
Gjensidige Forsikring ASA
Groep Brussel Lambert NV
Hannover Rueck SE
Hargreaves Lansdown PLC
Helvetia Holding AG
Hiscox Ltd
HSBC Holdings PLC
IG Group Holdings PLC
Industrivarden AB
ING Groep NV
Intermediate Capital Group PLC
Intesa Sanpaolo SpA
Investec PLC
Investment AB Latour
Investor AB
Julius Baer Gruppe AG
Jyske Bank A/S
Kbc Groep NV
Kinnevik AB
Legal & General Group PLC
Lifco AB
Lloyds Banking Group PLC
London Stock Exchange Group PLC
M&G PLC
Man Group PLC
Mediobanca Banca di Credito Finanziario SpA
Muenchener Rueckversicherungsgesellschaft AG
Natwest Group PLC
NN Group NV
Nordea Bank Abp
Nordnet AB
OSB Group PLC
Partners Group Holding AG
Phoenix Group Holdings PLC
Powszechna Kasa Oszczednosci Bank Polski SA
Powszechny Zaklad Ubezpieczen SA
Prudential PLC
Raiffeisen Bank International AG
Ringkjoebing Landbobank A/S
Sampo plc
Schroders PLC
Scor SE
Skandinaviska Enskilda Banken AB
Societe Generale SA
Sofina SA
St James's Place PLC
Standard Chartered PLC
Storebrand ASA
Storskogen Group AB
Svenska Handelsbanken AB
Swedbank AB
Swiss Life Holding AG
Swiss Re AG
Tryg A/S
UBS Group AG
UniCredit SpA
Virgin Money UK PLC

Basic Materials (1/2)

Akzo Nobel NV
Anglo American PLC
Antofagasta PLC
ArcelorMittal SA
Arkema SA
Aurubis AG
BASF SE
BillerudKorsnas AB
Boliden AB
Brenntag SE
Clariant AG
Covestro AG
CRH PLC
Croda International PLC
DS Smith PLC
Ems Chemie Holding AG
Evonik Industries AG
Fuchs Petrolub SE
Givaudan SA
Glencore PLC
HeidelbergCement AG
Henkel AG & Co KGaA
Hexpol AB
Holcim AG
Holmen AB
Huhtamaki Oyj
IMCD NV
Johnson Matthey PLC
K&S AG
KGHM Polska Miedz SA
Koninklijke DSM NV
L E Lundbergforetagen AB
L'Air Liquide S.A.
Lanxess AG
Linde PLC

Appendix
Composition of the STOXX sectors as of June 30, 2022

Basic Materials (2/2)

Mondi PLC
Norsk Hydro ASA
Novozymes A/S
OCI NV
Rio Tinto PLC
SIG Group AG
Sika AG
Smurfit Kappa Group PLC
Solvay SA
Stora Enso Oyj
Svenska Cellulosa SCA AB
Symrise AG
thyssenkrupp AG
Umicore SA
UPM-Kymmene Oyj
Victrex PLC
voestalpine AG
Wacker Chemie AG
Wienerberger AG
Yara International ASA

Consumer Cyclicals

Accor SA
Adidas AG
Allegro.eu SA
Assa Abloy AB
B&M European Value Retail SA
Barratt Developments P L C
Bayerische Motoren Werke AG
Bellway PLC
Berkeley Group Holdings PLC
Bollore SE
Burberry Group PLC
Christian Dior SE
Compagnie de Saint Gobain SA
Compagnie Financiere Richemont SA
Compagnie Generale des Etablissements Michelin SCA
Compass Group PLC
Continental AG
ConvaTec Group PLC
Cts Eventim AG & Co Kg & A
Daimler Truck Holding AG
D'Ieteren Group NV
Dometic Group AB
Dufry AG
Electrolux AB
Entain PLC
EssilorLuxottica SA
Evolution AB
Exor NV
Faurecia SE
Ferguson PLC
Ferrari NV
Fluidra SA
Flutter Entertainment PLC
Future PLC
Games Workshop Group PLC
Geberit AG
Grafton Group PLC
Greggs PLC
H & M Hennes & Mauritz AB
Hermes International SCA
Howden Joinery Group PLC
Hugo Boss AG
Husqvarna AB
Inchcape PLC
Informa PLC
InterContinental Hotels Group PLC
ITV PLC
JD Sports Fashion PLC
Kering SA
Kindred Group PLC
Kingfisher PLC
Kingspan Group PLC
Koninklijke Ahold Delhaize NV
La Francaise des Jeux SA
LPP SA
LVMH Moet Hennessy Louis Vuitton SE
Marks and Spencer Group PLC
Mercedes Benz Group AG
Moncler SpA
Next PLC
Ocado Group PLC
Pandora A/S
Pearson PLC
Persimmon PLC
Porsche Automobil Holding SE
Prosiebensat 1 Media SE
Publicis Groupe SA
Puma SE
Rational AG
Renault SA
Rheinmetall AG
Rockwool A/S
SEB SA
Signify NV
Sodexo SA
Stellantis NV
Swatch Group AG
Taylor Wimpey PLC
Thule Group AB
Travis Perkins PLC
TUI AG
Valeo SE
Vistry Group PLC
Vivendi SE
Volkswagen AG
Volvo Car AB
Watches of Switzerland Group PLC
Whitbread PLC
WPP PLC
Zalando SE

Appendix
Composition of the STOXX sectors as of June 30, 2022

Real Estate

Aedifica NV
Allreal Holding AG
Aroundtown SA
Big Yellow Group PLC
British Land Company PLC
Castellum AB
Cofinimmo SA
Covivio SA
Derwent London PLC
Fabege AB
Fastighets AB Balder
Gecina SA
Inmobiliaria Colonial SOCIMI SA
Klepierre SA
Kojamo Oyj
Land Securities Group PLC
LEG Immobilien SE
Londonmetric Property PLC
MERLIN Properties SOCIMI SA
Primary Health Properties PLC
PSP Swiss Property AG
Safestore Holdings PLC
Sagax AB
Samhallsbyggnadsbolaget I Norden AB
SEGRO PLC
Swiss Prime Site AG
TAG Immobilien AG
Tritax Big Box Reit PLC
Unibail-Rodamco-Westfield SE
Unite Group PLC
Vonovia SE
Wallenstam AB
Warehouses de Pauw NV
Wihlborgs Fastigheter AB

Industrials

Aalberts NV
Abb Ltd
Acciona SA
Ackermans & Van Haaren NV
ACS SA
Addtech AB
Adecco Group AG
Aena SME SA
Aeroports de Paris SA
Airbus SE
Alfa Laval AB
Alstom SA
Andritz AG
AP Moeller - Maersk A/S
Arcadis NV
Ashtead Group PLC
Atlantia SpA
Atlas Copco AB
BAE Systems PLC
Beijer Ref AB
Belimo Holding AG
Bouygues SA
Bucher Industries AG
Bunzl plc
Bureau Veritas SA
CNH Industrial NV
Dassault Aviation SA
Deutsche Lufthansa AG
Deutsche Post AG
Diploma PLC
DKSH Holding AG
DSV A/S
Easyjet PLC
Edenred SE
Eiffage SA
Elis SA
Epiroc AB
Eurofins Scientific SE
Experian PLC
Ferrovial SA
Flughafen Zuerich AG
GEA Group AG
Georg Fischer AG
Getlink SE
Hays PLC
IMI PLC
Indutrade AB
International Consolidated Airlines Group SA
Interpump Group SpA
Interroll Holding AG
Intertek Group PLC
Iss A/S
IWG Plc
Kion Group AG
Knorr Bremse AG
Kone Oyj
Kongsberg Gruppen ASA
Kuehne und Nagel International AG
Legrand SA
Leonardo SpA
Meggitt PLC
Metso Outotec Corp
MTU Aero Engines AG
Nexans SA
Nexi SpA
Nibe Industrier AB
Poste Italiane SpA
Prysmian SpA
Randstad NV
Relx PLC
Rentokil Initial PLC
Rexel SA
Rolls-Royce Holdings PLC
Rotork PLC
Royal Mail PLC
RS Group PLC
Ryanair Holdings PLC
Saab AB
Safran SA
Sandvik AB
Schindler Holding AG
Schneider Electric SE
Securitas AB
SGS SA
Skanska AB
SKF AB
Spie SA
Spirax-Sarco Engineering PLC
SSAB AB
SSE PLC
Sweco AB
Teleperformance SE
Thales SA
Tomra Systems ASA
Trelleborg AB
Valmet Oyj
VAT Group AG
Vinci SA
Volvo AB
Weir Group PLC
Wendel SE
Wise PLC
Wizz Air Holdings PLC
Wolters Kluwer NV

Appendix
Composition of the STOXX sectors as of June 30, 2022

Consumer Non-Cyclicals

AAK AB
Anheuser-Busch Inbev NV
Associated British Foods PLC
Axfood AB
Barry Callebaut AG
Beiersdorf AG
British American Tobacco PLC
Britvic PLC
Carlsberg A/S
Carrefour SA
Chocoladefabriken Lindt & Spruengli AG
Chr Hansen Holding A/S
Coca Cola HBC AG
Danone SA
Davide Campari Milano NV
DCC PLC
Diageo PLC
Dino Polska SA
Essity AB
Galenica AG
Glanbia PLC
Heineken Holding NV
Heineken NV
Hellofresh SE
HomeServe PLC
Imperial Brands PLC
Industria de Diseno Textil SA
J Sainsbury PLC
JDE Peets NV
Jeronimo Martins SGPS SA
Kerry Group PLC
Kesko Oyj
L'Oreal SA
Melrose Industries PLC
Mowi ASA
Nestle SA
Orkla ASA
P/F Bakkafrost
Pernod Ricard SA
Reckitt Benckiser Group PLC
Remy Cointreau SA
Royal Unibrew A/S
SalMar ASA
Siemens AG
Smiths Group PLC
Swedish Match AB
Tate & Lyle PLC
Tesco PLC
Unilever PLC
Wartsila Oyj Abp

Healthcare

AddLife AB
Alcon AG
ALK-Abello A/S
Ambu A/S
Amplifon SpA
argenx SE
AstraZeneca PLC
Bachem Holding AG
Bayer AG
Biomerieux SA
Carl Zeiss Meditec AG
Coloplast A/S
Dechra Pharmaceuticals PLC
Demant A/S
DiaSorin SpA
Elekta AB
Evotec SE
Fresenius Medical Care AG & Co KGaA
Fresenius SE & Co KGaA
Genmab A/S
Genus PLC
Getinge AB
GN Store Nord A/S
Grifols SA
GSK plc
Hikma Pharmaceuticals PLC
Indivior PLC
Ipsen SA
Koninklijke Philips NV
Lonza Group AG
Merck KGaA
Novartis AG
Novo Nordisk A/S
Orion Oyj
Oxford Nanopore Technologies PLC
Qiagen NV
Recordati Industria Chimica e Farmaceutica SpA
Roche Holding AG
Sanofi SA
Sartorius AG
Sartorius Stedim Biotech SA
Sectra AB
Siegfried Holding AG
Siemens Healthineers AG
Smith & Nephew PLC
Sonova Holding AG
Straumann Holding AG
Swedish Orphan Biovitrum AB
Ucb SA
Vitrolife AB

Appendix
Composition of the STOXX sectors as of June 30, 2022

Technology

Adevinta ASA
Adyen NV
Aixtron SE
Allfunds Group PLC
Alten SA
Amadeus IT Group SA
ams OSRAM AG
ASM International NV
ASML Holding NV
Atos SE
Auto Trader Group PLC
AutoStore Holdings Ltd
Avast PLC
AVEVA Group PLC
BE Semiconductor Industries NV
Bechtle AG
BT Group PLC
Capgemini SE
Cellnex Telecom SA
Dassault Systemes SE
Delivery Hero SE
Deutsche Telekom AG
Elisa Oyj
Fortnox AB
freenet AG
Halma PLC
Hexagon AB
Infineon Technologies AG
Infrastrutture Wireless Italiane SpA
Just Eat Takeaway.com NV
Koninklijke KPN NV
Logitech International SA
Millicom International Cellular SA
Nemetschek SE
Netcompany Group A/S
Nokia Oyj
Nordic Semiconductor ASA
Orange SA
Prosus NV
Proximus NV
Reply SpA
Rightmove PLC
Sage Group PLC
SAP SE
Scout24 SE
SES SA
Simcorp A/S
Sinch AB
Softcat PLC
Soitec SA
Sopra Steria Group SA
Spectris PLC
STMicroelectronics NV
Swisscom AG
Tecan Group AG
Tele2 AB
Telecom Italia SpA
Telefonaktiebolaget LM Ericsson
Telefonica Deutschland Holding AG
Telefonica SA
Telenor ASA
Telia Company AB
Temenos AG
Ubisoft Entertainment SA
Ultra Electronics Holdings PLC
United Internet AG
Universal Music Group NV
Vantage Towers AG
Viaplay Group AB
Vodafone Group PLC
Worldline SA

Utilities

A2A SpA
Centrica PLC
Drax Group PLC
E ON SE
EDP Energias de Portugal SA
EDP Renovaveis SA
Electricite de France SA
Elia Group SA
Endesa SA
Enel SpA
Engie SA
Fortum Oyj
Hera SpA
Iberdrola SA
Italgas SpA
National Grid PLC
Naturgy Energy Group SA
Orsted A/S
Pennon Group PLC
Red Electrica Corporacion SA
RWE AG
Severn Trent PLC
Terna Rete Elettrica Nazionale SpA
Uniper SE
United Utilities Group PLC
Veolia Environnement SA
Verbund AG

Energy

Aker BP ASA
BP PLC
Enagas SA
Eni SpA
Equinor ASA
Galp Energia SGPS SA
Gaztransport et Technigaz SA
Harbour Energy PLC
Neste Oyj
OMV AG
Polski Koncern Naftowy Orlen SA
Repsol SA
Rubis SCA
Shell PLC
Siemens Energy AG
Siemens Gamesa Renewable Energy SA
Snam SpA
Tenaris SA
TotalEnergies SE
Vestas Wind Systems A/S

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