

A&M Valuation Insights

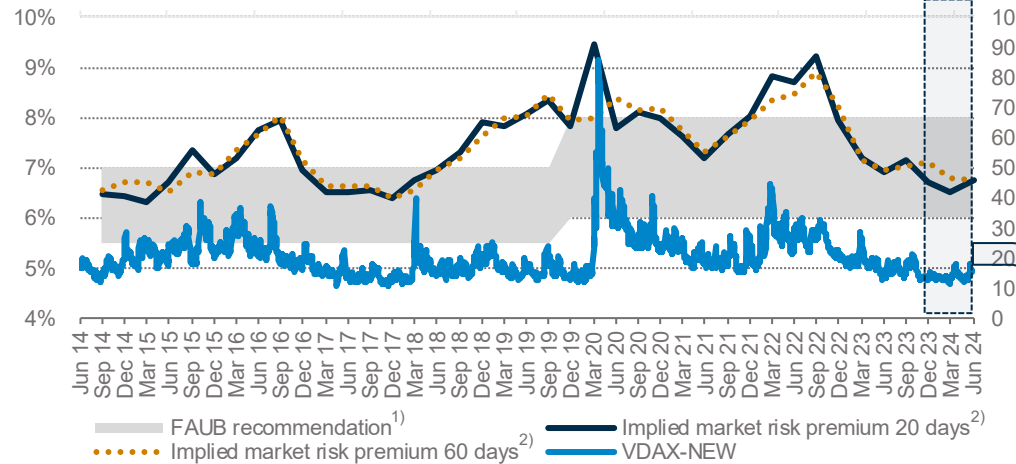
July 2024



The price for taking equity risk in Germany remained at remarkably low levels, defying geopolitical turbulences

The price for taking the risk of equity investments in Germany

The calculated German market risk premium (MRP) represents investors' current risk appetite based on German capital market data and analyst forecasts.³⁾

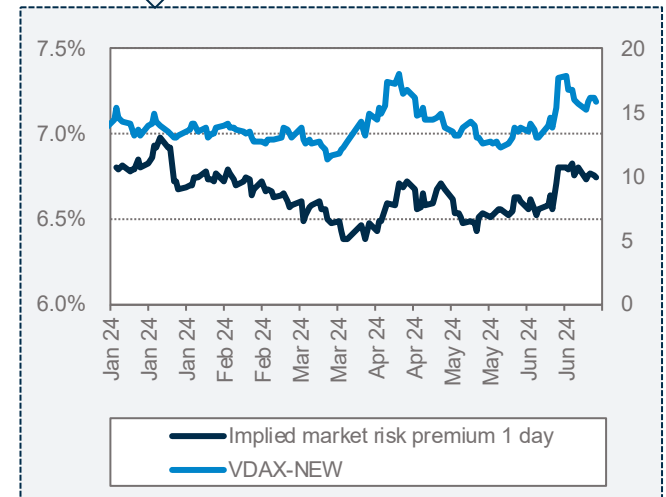
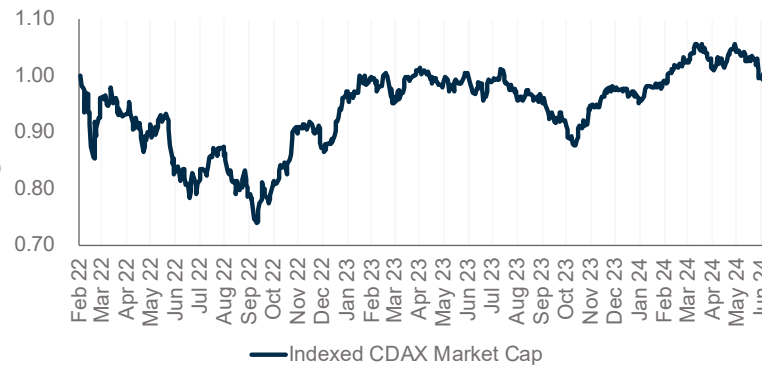


Decreasing risk indicators:

- Short-term surges in market returns sparked a fleeting rise in the MRP during the fall of 2023. However, by year's end, both market returns and the MRP plummeted once more, yet remained within the FAUB's recommended range.
- Though significantly below the last 5 years' average, the MRP has shown remarkable steadiness, hovering consistently between 6.5% and 6.75% over the past six months.
- Market volatility, as reflected by the VDAX-NEW, has echoed the downward trajectory of the MRP, maintaining a stable pattern over the past six months.

Change in CDAX market cap

Since the outbreak of the Ukraine war, stock market indices initially declined sharply but have gradually stabilized and recovered, reflecting cautious optimism amid ongoing market adjustments.



1) Fachausschuss für Unternehmensbewertung und Betriebswirtschaft (FAUB) of the German Institute of Chartered Accountants (IDW).

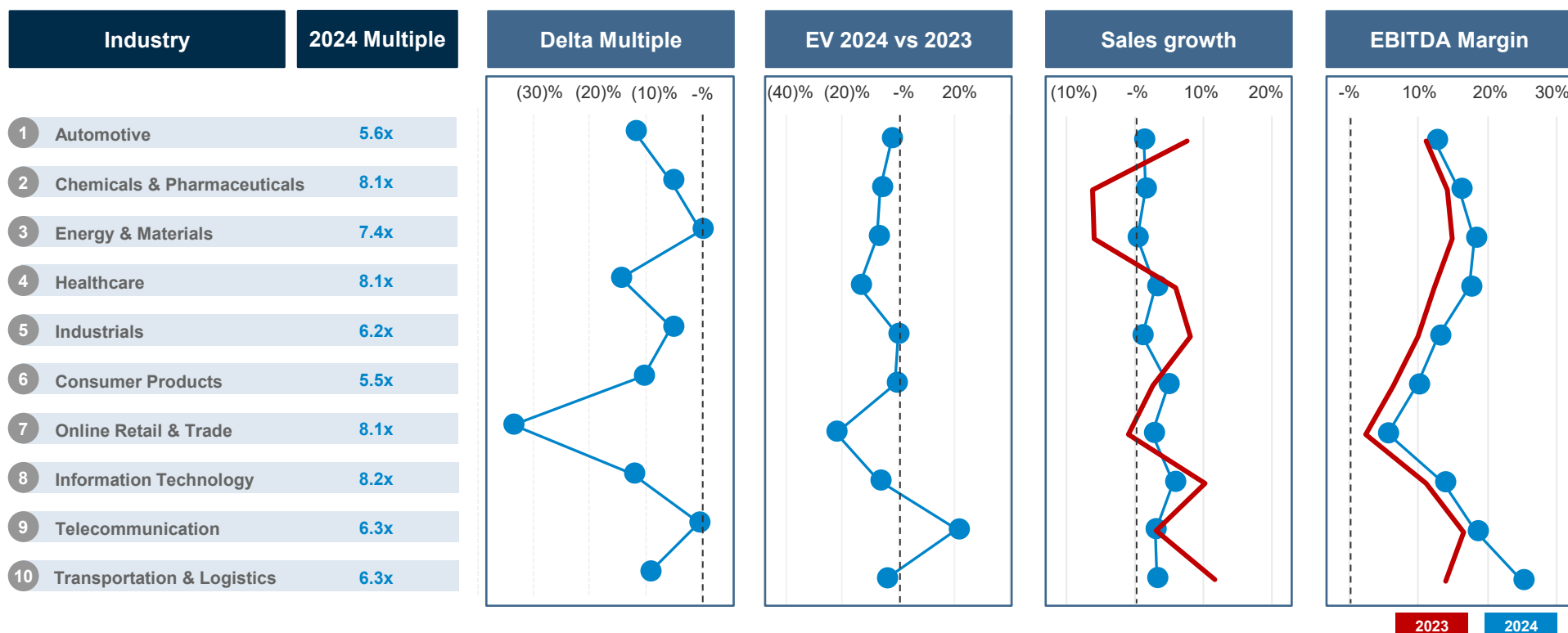
2) The MRP is calculated by relating the market capitalization of CDAX companies to analyst forecasts. Whereas stock prices are volatile, analyst forecasts are adjusted with a time lag. The A&M implied MRP model considers capital market data as well as consensus earnings estimates as of 30 June 2024 and is updated on a quarterly basis. The results might be affected by a timing lag with regards to updates of consensus estimates by the equity research community. The range of the MRP shown is derived by varying stock price data from 60 trading days to 20 trading days.

3) Results are subject to information deficiencies and capital market exaggerations.

Industry multiples are hit by higher prospects on forecasted EBITDA levels not captured (yet) by increases in EVs

One-year comparison of forward 2024 EV/EBITDA trading multiple on firm level data by industry (CDAX)

- Except for telecommunication and energy & materials, which have remained stable, forward 2024 EV/EBITDA trading multiples have decreased compared to previous year's 2023 EV/EBITDA trading multiples across all industries.
- The primary driver of this decline is a reduction in Enterprise Value (EV) in all industries, with the exception of telecommunications.
- Additionally, there has been an increase in forecasted 2024 EBITDA, attributed to higher forecasted sales growth in certain industries and elevated forecasted EBITDA margins, across all sectors.



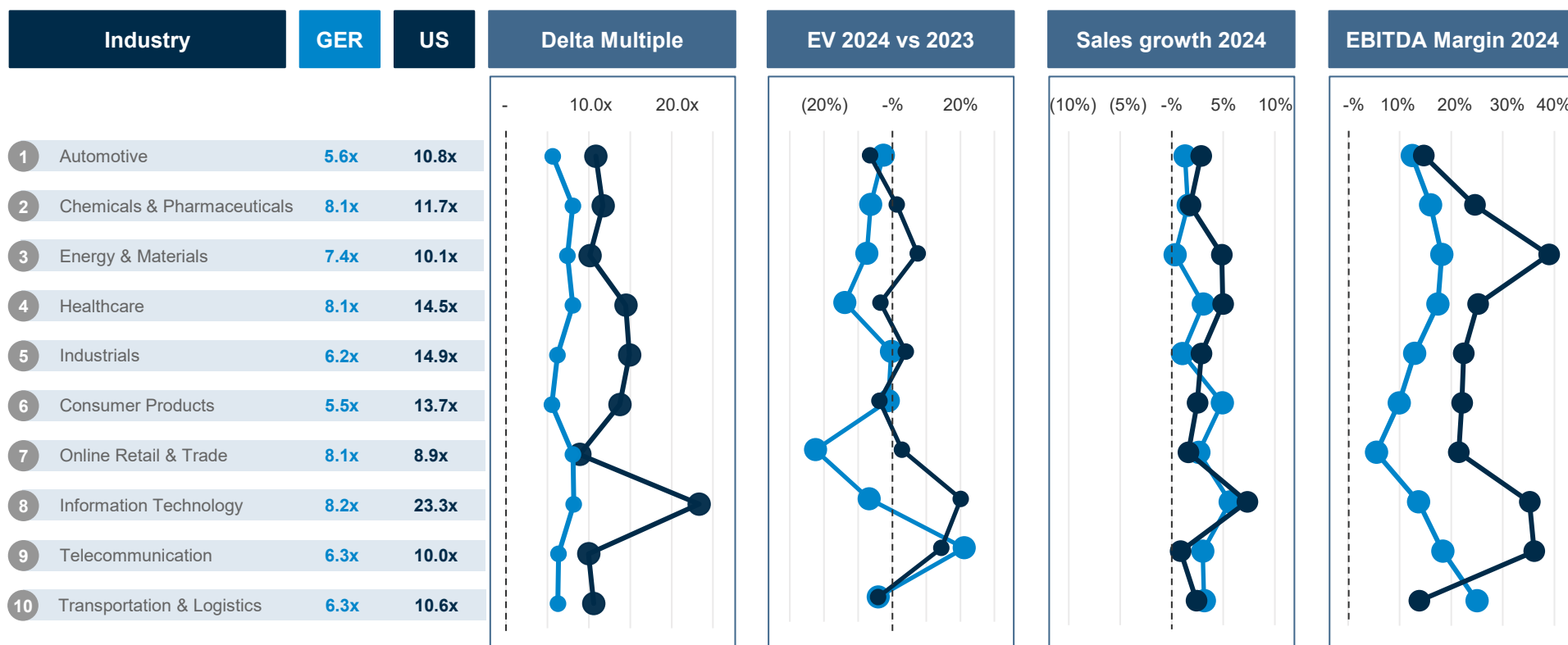
Note: The analysis of forward EV/EBITDA trading multiple levels is based on all CDAX firms and compares median EV/EBITDA trading multiple levels by industry for the year 2023 as of 30 June 2023 and for the year 2024 as of 30 June 2024. Only firm years considered for which consistent data was available across analyzed variables. Sales growth and EBITDA margin analysis compares 2023 sales growth and 2023 EBITDA margin as of 30 June 2023 with 2024 sales growth and 2024 EBITDA margin consensus as of 30 June 2024.

Source: S&P Capital IQ, A&M Analysis.

US firms command a premium over CDAX firms, mostly as US stocks benefit from brighter profitability outlooks

Forward EV/EBITDA trading multiple analysis based on firm level data of CDAX and S&P 500 firms¹

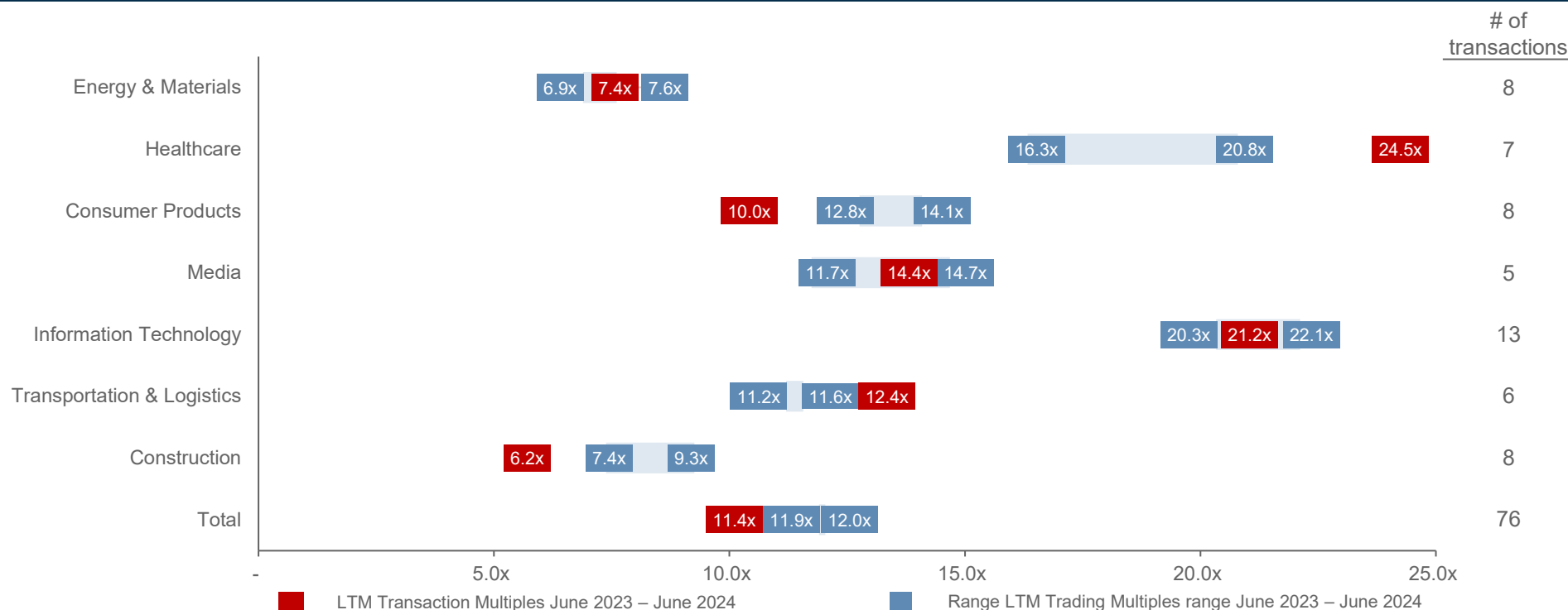
- A comparison of forward EV/EBITDA trading multiples between US (S&P500) and German (CDAX) firms reveals a dramatic disparity, with US trading premia soaring highest in Information Technology (23.3x vs. 8.2x), Industrials (14.9x vs. 6.2x), and Consumer Products (13.7x vs. 5.5x).
- The evolution of EVs diverges significantly between Germany and the US in several industries. While annual changes in sales growth projections align closely, except in Energy & Materials. However, US-listed stocks reap far greater rewards from booming profitability (EBITDA margin) compared to their German counterparts, with the exception of firms in the Automotive and Transportation & Logistics sectors.



Note: The analysis of forward EV/EBITDA trading multiple levels is based on all CDAX and S&P 500 firms and compares median EV/EBITDA trading multiple levels by industry as of 30 June 2024. Only firm years considered for which consistent data was available across analysed variables.
Source: S&P Capital IQ, A&M Analysis.

In the European M&A market, prices in Healthcare and Transport & Logistics deals outperformed trading levels

Comparison of LTM transaction and LTM trading multiple pricing levels (EV/EBITDA) by industry in Europe (S&P Europe 350)



- We compare Last-Twelve-Month (LTM) EV/EBITDA multiples paid in European M&A transactions with LTM European trading pricing levels (S&P Europe 350). The light blue bar represents the range of trading multiples during the observation period.
- Across all industries, the LTM EV/EBITDA multiples resulting from the transactions observed amount to 11.4x and are comparable to the multiples of companies comprised in the S&P Europe 350, ranging between 11.9x and 12.0x during the observation period.
- Industries with the highest price paid in relation to EBITDA were Healthcare and Information Technology at a median LTM EV/EBITDA multiple of 24.5x and 21.2x, respectively.
- The exceptionally high multiples paid for transactions within the Healthcare industry primarily relate to acquisitions of larger companies such as Philips N.V., EMIS Group plc and Ergomed plc., all with a transaction volume of c. EUR 1 bn or more.

Note: Transaction pricing levels are defined as Last-Twelve-Months (LTM) EV/EBITDA at closing and consist of all closed M&A transactions in Europe with sufficient data availability. Transactions clustered by industry for the period June 2023 to June 2024 period. Trading pricing levels are based on LTM EV/EBITDA trading multiples for all S&P Europe 350 firms, clustered by industry. The trading pricing range is comprised of the minimum and maximum value as of June 30, 2023, December 31, 2023, and June 30, 2024. Please note that only selected industries are displayed in the chart above, while the category "Total" also comprises transactions / traded companies from other industries.
Source: S&P Capital IQ, A&M Analysis.

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