

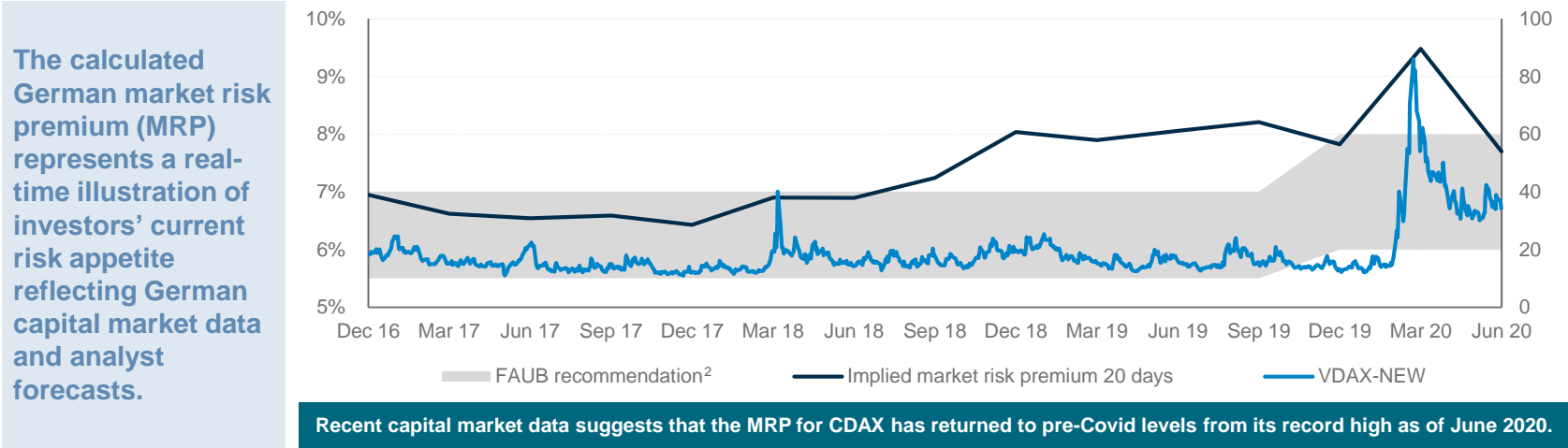
A&M's Quarterly Market Insights

August 2020



The price for taking risk drops back to its still high pre-crisis level

The price for taking the risk of equity investments in Germany is still high compared to historical levels



- Results are subject to information deficiencies and capital market exaggerations:**
- The MRP¹ 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 use of MRP in corporate valuation needs to be judged against underlying risk profiles of cash flows, the overall cost of capital applied and other methods to obtain MRP estimates.
 - Current market volatility, as measured by the VDAX-NEW index, remains at a high level, albeit to a lesser degree compared to its peak during the time of the Covid-19 outbreak.

The shift in risk perception is explained by the continued impact of lockdowns on economic activity and associated asset prices



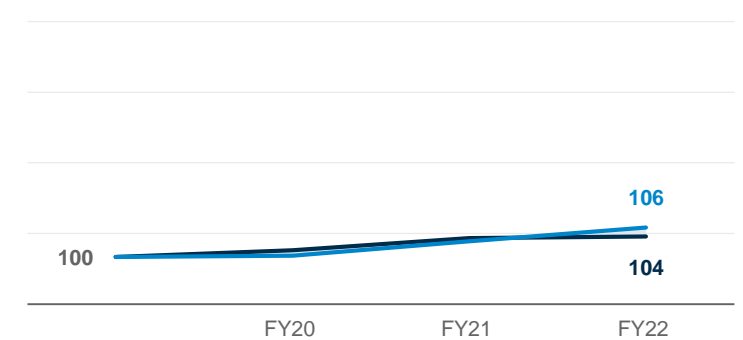
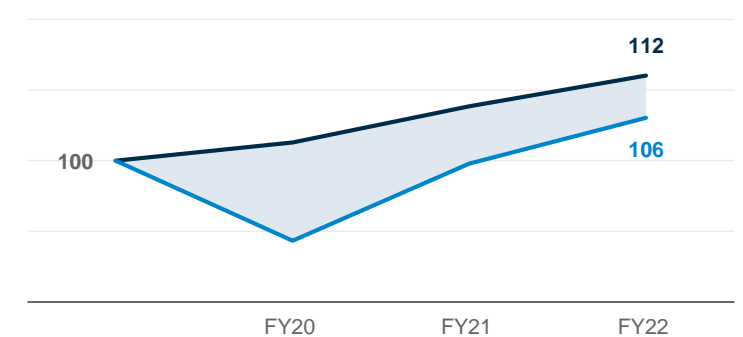
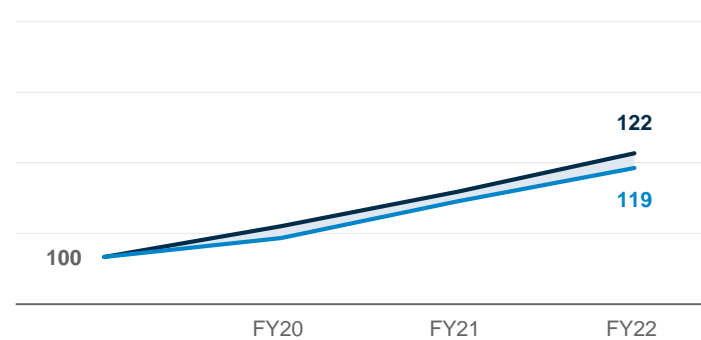
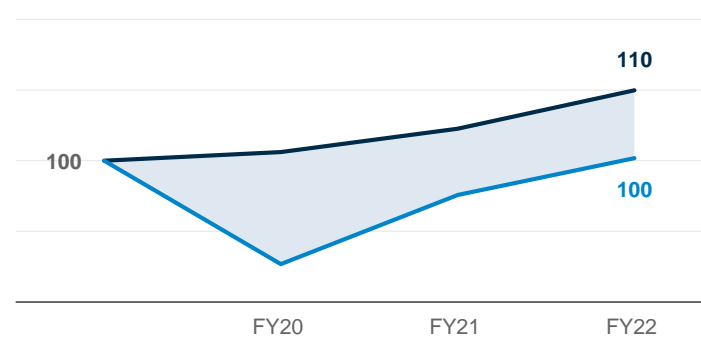
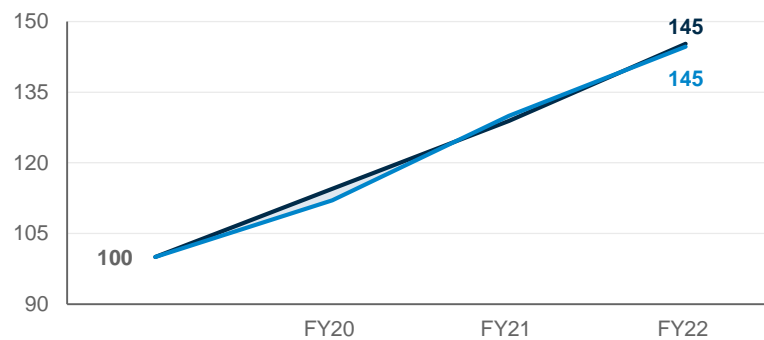
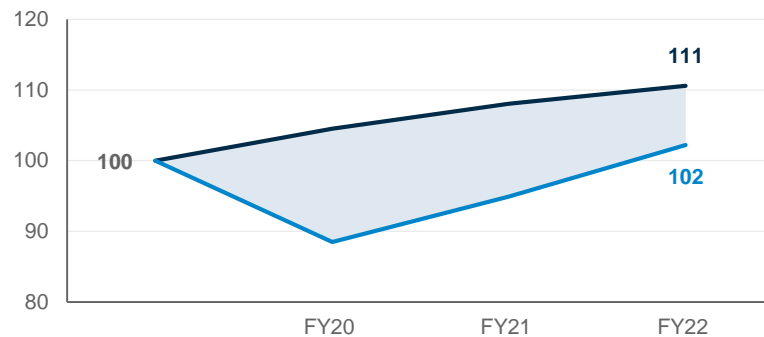
Notes: 1. The A&M implied MRP model considers capital market data as well as consensus earnings estimates as of 30 June 2020 and is updated on a quarterly basis. The results might be affected by a timing lag with regards to updates of consensus estimates by the equity research community. The range of the MRP shown is derived by varying stock price data from 60 trading days to 20 trading days.
2. Fachausschuss für Unternehmensbewertung und Betriebswirtschaft (FAUB) of the German Institute of Chartered Accountants (IDW).
3. The A&M implied MRP model generally analyses firm level data for all CDAX firms with sufficient data availability. As of 31 December 2019 (30 June 2020), about 96% (94%) of the total market cap of CDAX is covered.

Analysis of Covid-19 impact on consensus sales growth estimates by industry (CDAX)

Even for industries hit most by the pandemic, analysts forecast a recovery to pre-crisis sales levels until 2022.

Resilience levels of firms drive the impact of the pandemic on analyst forecasts: The industries Transportation and Logistics – consisting of companies like Lufthansa, Fraport and Sixt – as well as Automotive seem to be hit severely by the pandemic. As opposed to three months ago, analysts now forecast sales to reach pre-crises levels until 2022. However, for these industry the old growth path is history.

Changes in consumer behavior and a tendency to more local production footprints remain major explanatory factors in industry growth prospects. In the Automotive industry structural problems already present before the crisis continue to suppress faster recovery.



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

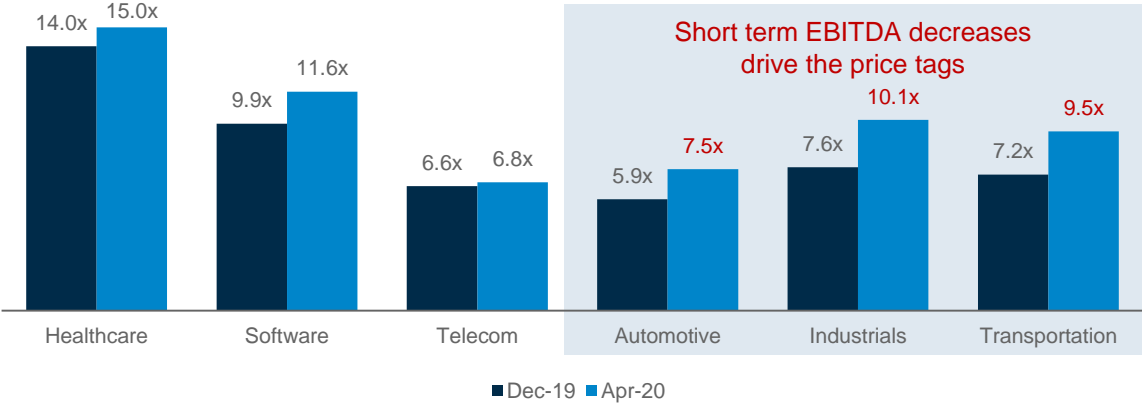
Note: The analysis of the Covid-19 impact on consensus sales growth estimates is based on all CDAX firms and compares average consensus sales growth estimates as of 31 December 2019 and 30 June 2020. The graphs above show indexed growth patterns: Starting with an index value of 100, yearly consensus growth estimates are applied to the previous year's index value.

Analysis of Covid-19 impact on EV/EBITDA trading multiple levels by industry (CDAX)

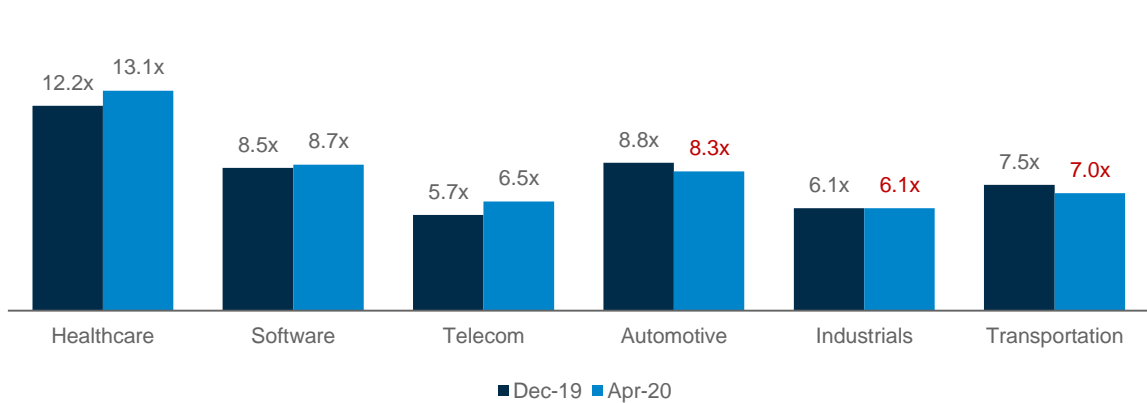
Short term EBITDA decreases still drive the multiples up; long term EBITDA multiples expected to reach at least pre-crisis pricing levels.

- Valuations based solely on EBITDAC (EBITDA before Corona) are likely to point to misleading value conclusions as there are too many earnings distortions within industries at present times.
- For Forecast FY 2022 EBITDA, EV/EBITDA trading multiple levels are expected to reach at least pre-crises price levels for most industries, reflecting assumed recoveries in risk/reward-profiles.

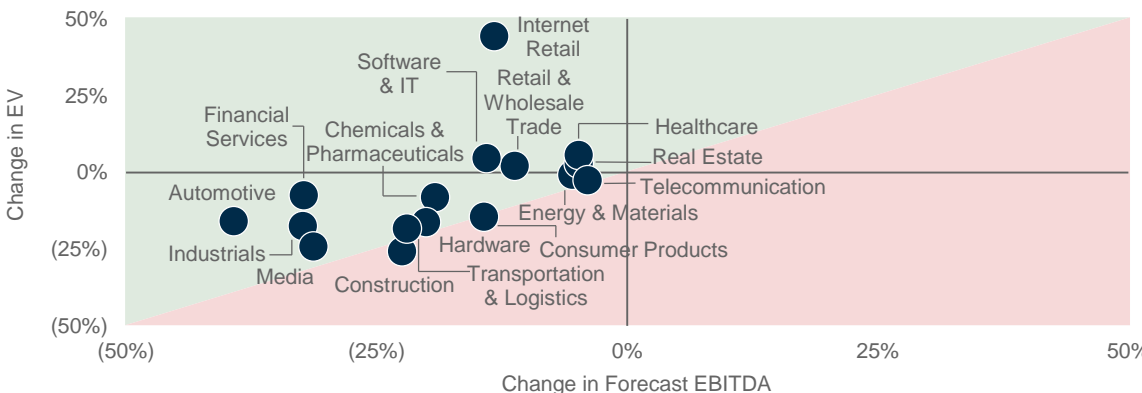
Forecast 2020 – Change in EV/EBITDA Trading Multiples



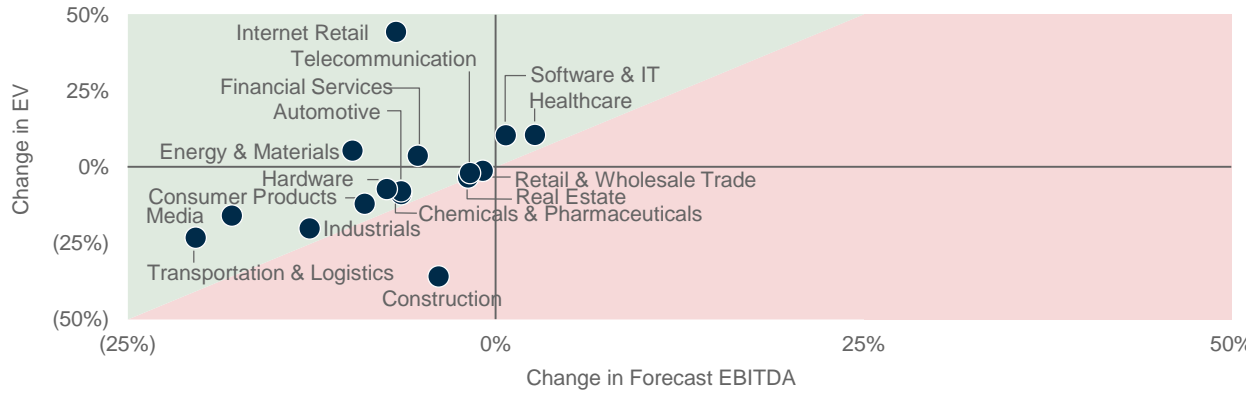
Forecast 2022 – Change in EV/EBITDA Trading Multiples



Forecast 2020 – Change in EV and EBITDA



Forecast 2022 – Change in EV and EBITDA



Note: The analysis of the Covid-19 impact on EV/EBITDA trading multiple levels is based on all CDAX firms and compares average EV/EBITDA trading multiple levels by industry as of Dec. 31, 2019 and Jun. 30, 2020 for the years 2020 and 2022.
Source: S&P Capital IQ, A&M Analysis.

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