

A&M Quarterly Market Insights

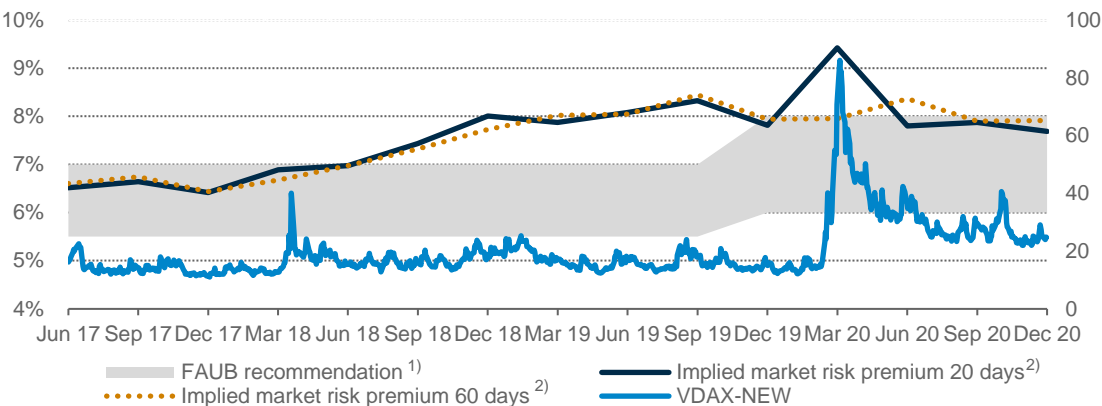
Q1 2021



The price for taking risk remains high albeit asset prices recovered since March 2020 and earnings estimates dropped even further

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

The calculated German market risk premium (MRP) represents a real-time illustration of investors' current risk appetite reflecting German capital market data and analyst forecasts.



Results are subject to information deficiencies and capital market exaggerations:

- 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 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 outbreak.

Risk perception is ambivalent: the recovery in asset prices since March 2020 is not backed by an uplift in earnings estimates which remains out of sight

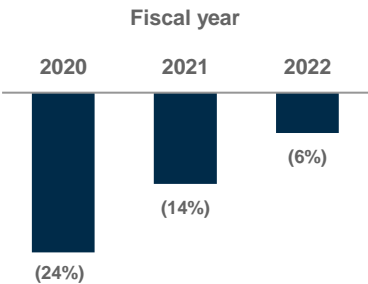
CDAX | Mar 2020 vs Dec 2020

Equity markets recovered to pre-Covid levels since March 2020.

Change in covered market cap³⁾
35%

EPS Forecast | Mar 2020 vs Dec 2020

Consensus earnings estimates dropped even further from March 2020.



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

2) The A&M implied MRP model considers capital market data as well as consensus earnings estimates as of 31 December 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.

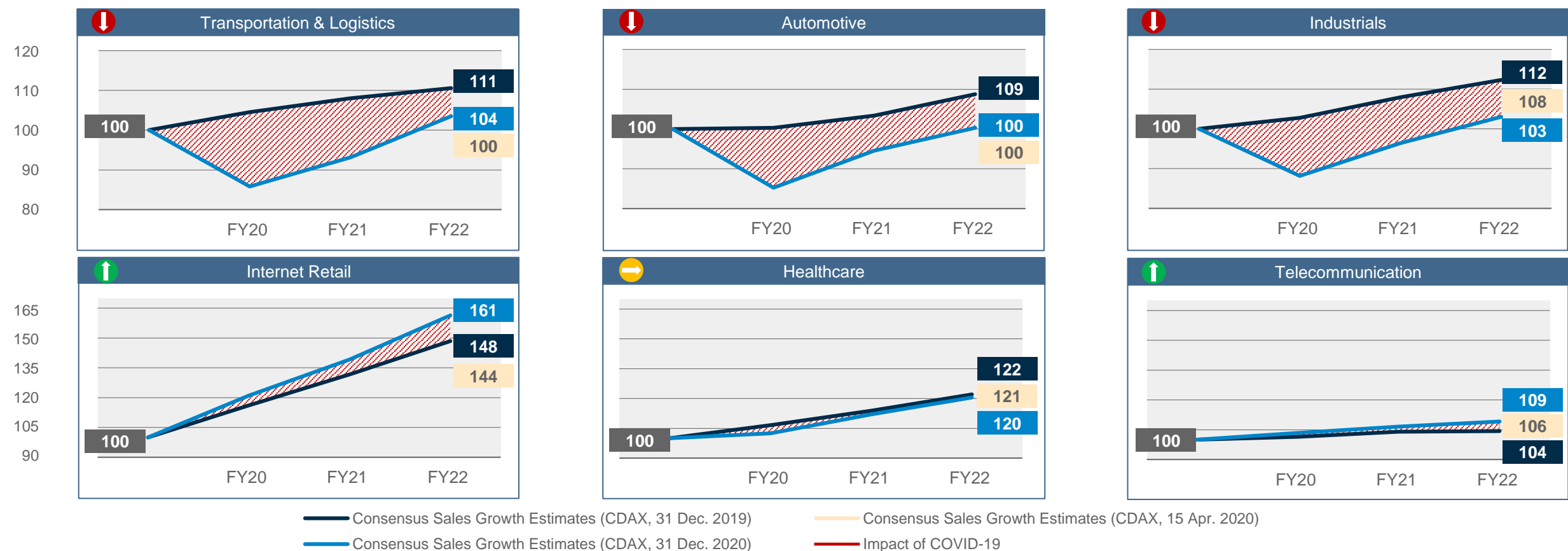
3) The A&M implied MRP model generally analyses firm level data for all CDAX firms with sufficient data availability. As of 31 Mar 2020 (31 Dec 2020), about 94% (97%) of the total market cap of CDAX is covered.

Sales levels forecasted to recover to pre-crisis levels until 2022 – resilience levels among industries gain traction

Analysis of Covid-19 impact on consensus sales growth estimates by industry (CDAX)¹

Resilience levels of firms drive the impact of the pandemic on analyst forecasts: The industries Transportation & Logistics, Automotive and Industrials seem to be hit severely by the pandemic. However, analysts still forecast sales to reach at least pre-crisis levels until 2022.

Over time resilience levels seem to be factored in more systematically in predicting growth paths: As opposed to the first lockdown in March 2020, analysts reduced the outlook for Industrials and lifted sales prospects significantly for Internet Retail and moderately for Telecommunication. Sales outlook for Healthcare remains rather stable.

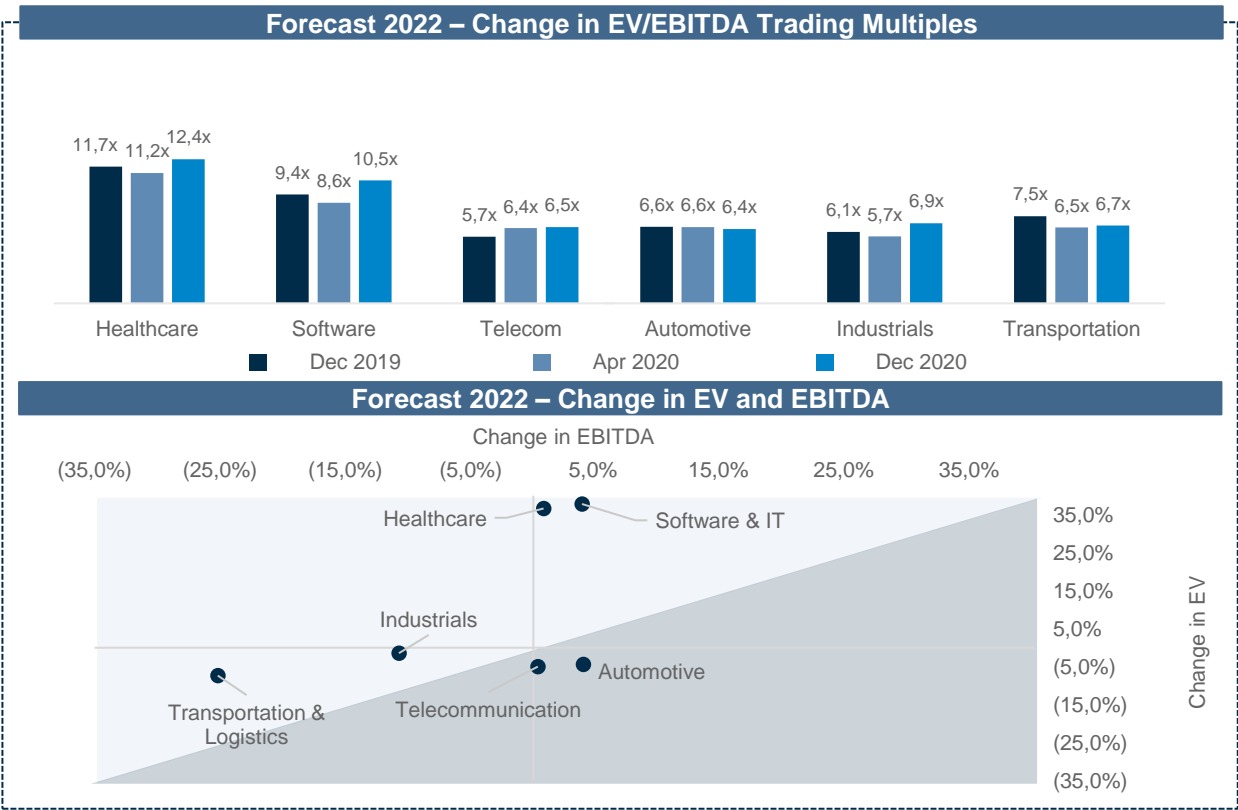
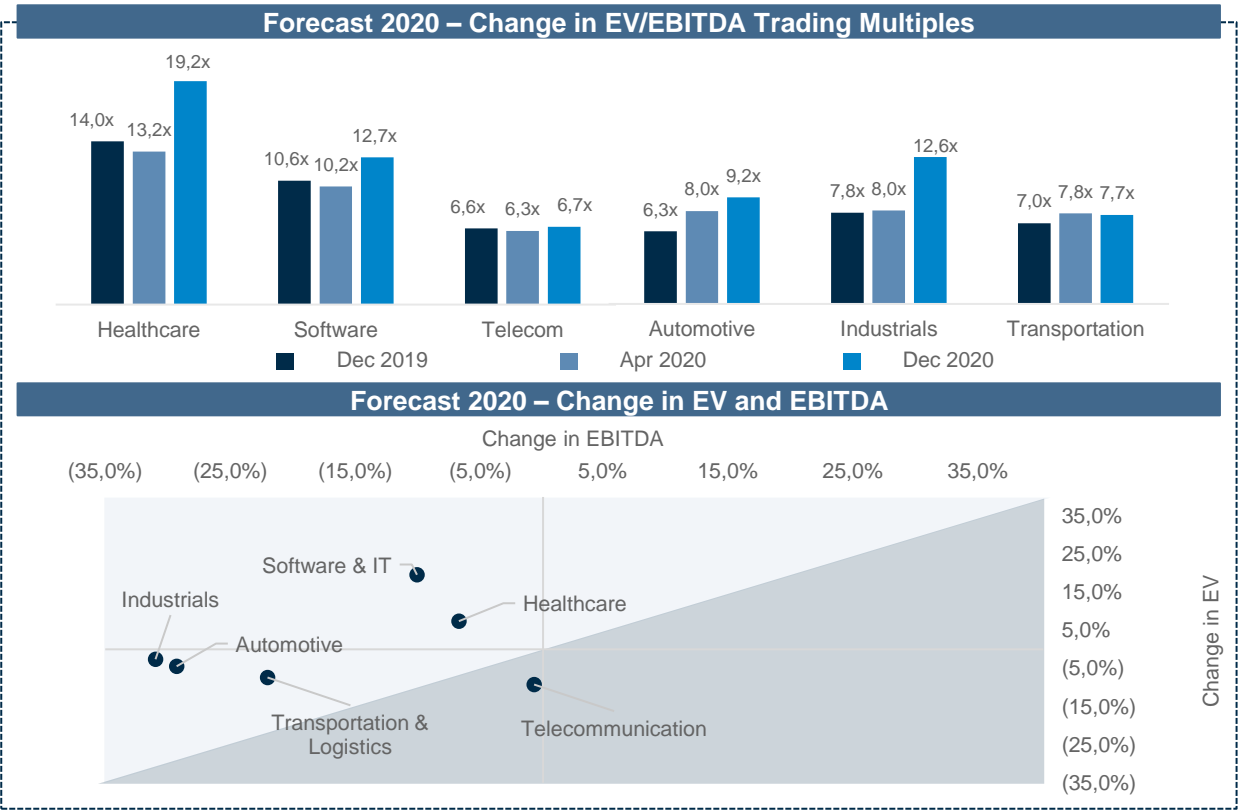


1) The analysis of the Covid-19 impact on consensus sales growth estimates is based on all CDAX firms and compares average consensus sales growth estimates as of Dec. 31, 2019 and Dec. 31, 2020. The graphs above show indexed growth patterns: Starting with an index value of 100, yearly consensus growth estimates are applied to the previous year's index value. Source: S&P Capital IQ, A&M Analysis.

Recovery in asset prices at reduced earnings levels drive short-term price tags further up – LT multiples reach pre-crisis levels

Analysis of Covid-19 impact on EV/EBITDA trading multiple levels by industry (CDAX)¹

- 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.
- With a recovery in asset prices to pre-crisis levels, continued short term EBITDA decreases drive 2020 multiples up even further since March 2020.
- For Forecast FY 2022 EBITDA, EV/EBITDA trading multiple levels are expected to reach at least pre-crisis price levels for most industries, reflecting assumed recoveries in risk/reward-profiles and associated earnings levels.



1) 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, Apr. 15, 2020 and Dec. 31, 2020 for the years 2020 and 2022. Source: S&P Capital IQ, A&M Analysis.

YOUR CONTACTS



DR. TIM LAAS
Managing Director
+49 171 176 7507
tlaas@alvarezandmarsal.com



DR. CHRISTIAN BÜCHELHOFFER
Senior Director
+49 160 9922 4024
cbuechelhofer@alvarezandmarsal.com

