



Survey Report

COVID-19 One Year Later

Impact on Cost of Capital

July 2021

DUFF & PHELPS
A **KROLL** BUSINESS

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Polling Results of May 20, 2021 Webinar:
“COVID-19 One Year Later – Impact on Cost of Capital and Related Valuation Issues”

On May 20, 2021, Duff & Phelps, A Kroll Business' Carla S. Nunes, CFA (Managing Director) and James P. Harrington (Director) discussed the impact of COVID-19 on global financial markets and cost of capital assumptions one year after the outbreak before a live audience of **730 participants**.*

Throughout the webinar, they polled the attendees on valuation and cost of capital related topics.

In the following slides, you will find the results of these polling questions.

*Out of 730 live attendees, 17% were Duff & Phelps employees and 83% were external/third-party participants

01

In which country/region are your valuations primarily focused?

02

Which methods/data sources do you use as the equity (market) risk premium (ERP) input in your cost of equity estimates?

03

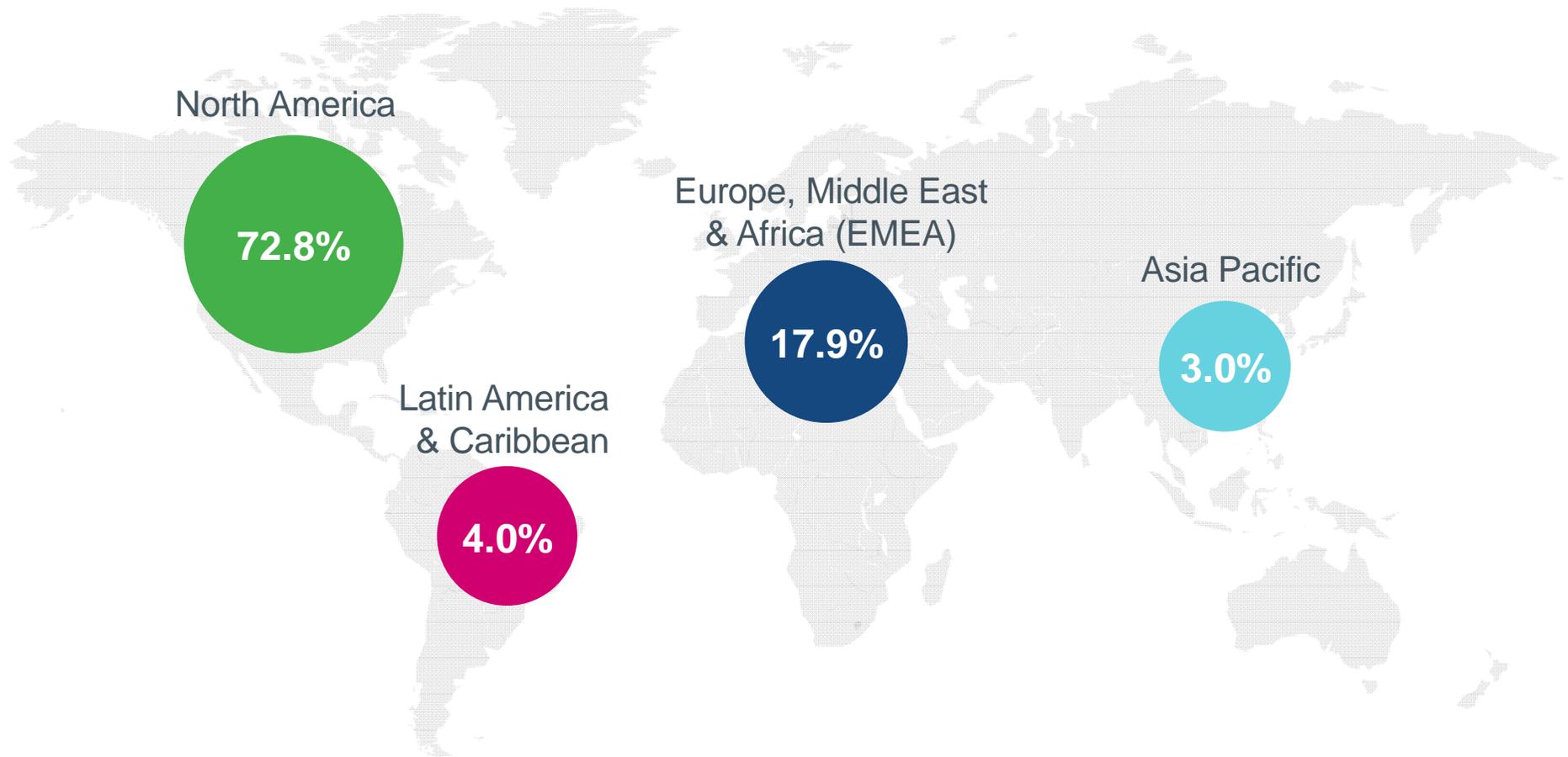
What equity risk premium assumption are you currently using for your EUR-denominated valuation projects?

04

Do you typically incorporate country risk adjustments in your valuation analyses?

In which country/region are your valuations primarily focused?

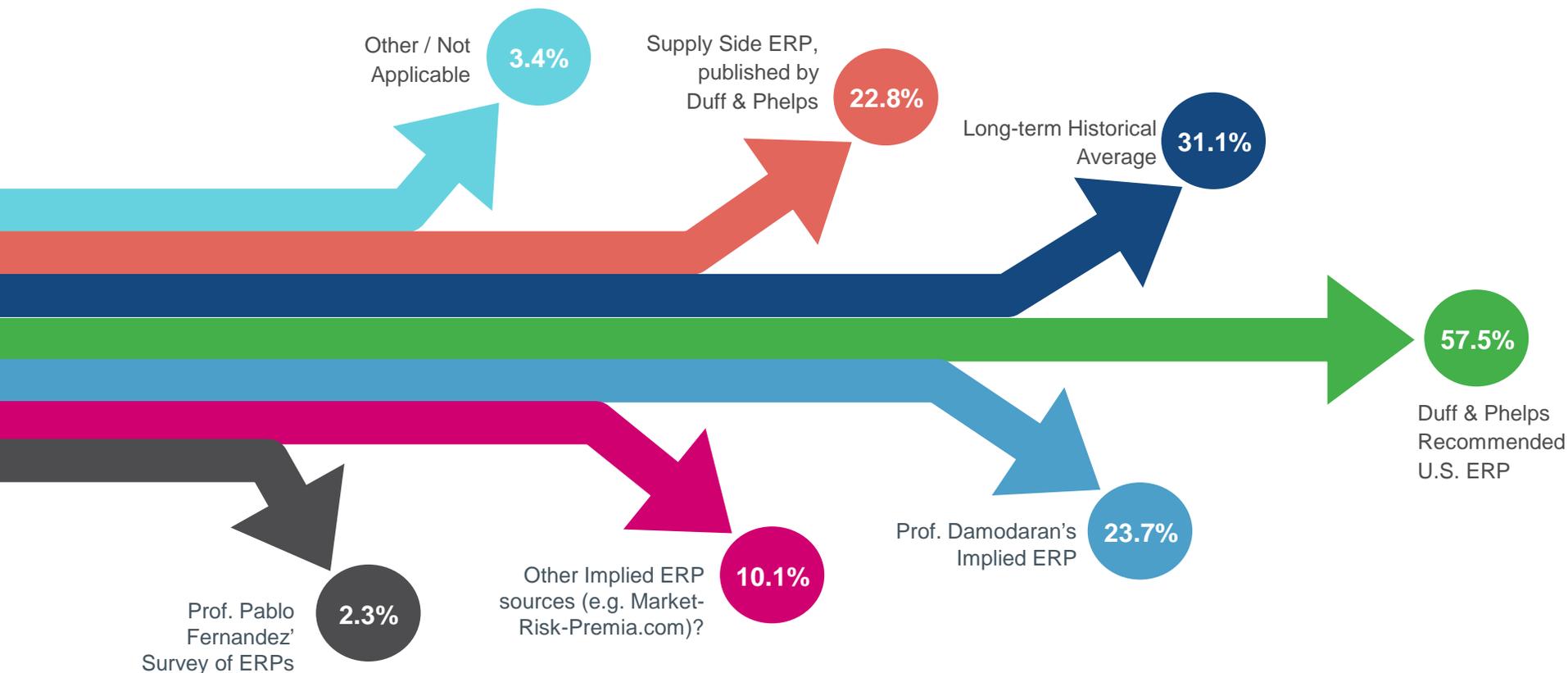
72.8% of survey participants conducted valuations primarily based in North America.



Note: 2.3% - Other / Not Applicable

Which methods/data sources do you use as the equity (market) risk premium (ERP) input in your cost of equity estimates?

The great majority of survey participants relies on the Duff & Phelps Recommended U.S. ERP. Close to a third of participants also uses Long-term Historical Averages as a basis to estimate ERPs, while approximately 23% utilizes the Supply Side ERP published by Duff & Phelps. Almost a quarter of the audience also takes into consideration Professor Damodaran's Implied ERP.*



*This was a multiple-choice question with respondents having the ability to select multiple answers.

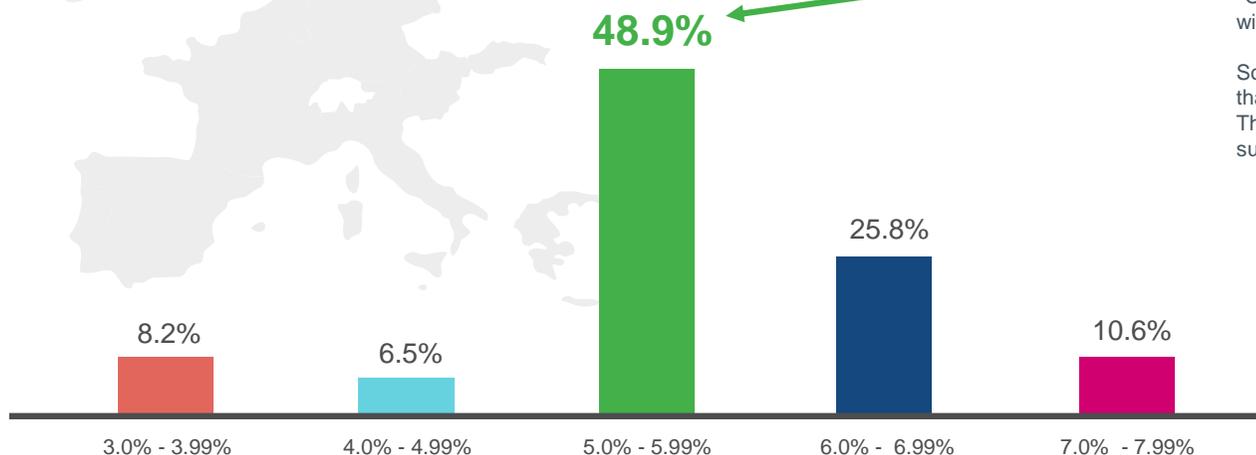
What equity risk premium assumption are you currently using for your EUR-denominated valuation projects?

A majority of respondents conducting valuations in euros (€) were using an ERP in the range of **5.0% - 5.99%**, in line with the newly-published Duff & Phelps Recommended Eurozone Equity Risk Premium.*



**Duff & Phelps' Recommended Eurozone Equity Risk Premium
– German Investor Perspective applied to EUR-Denominated Projections***

December 2019	March 2020	April 2021
4.5% to 5.0%	5.5% to 6.0%	5.5% to 6.0%



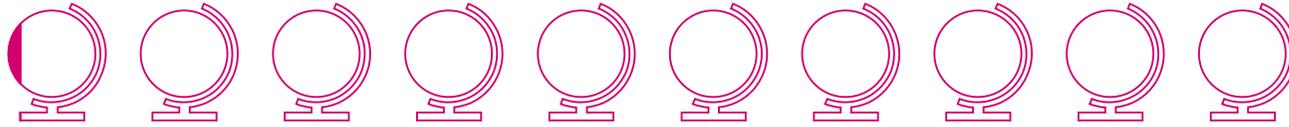
*Our recommendation is developed in conjunction with a German Normalized Risk-free Rate of 2.0%.

Some countries may have regulations or guidelines that preclude the use of normalized risk-free rates. The Duff & Phelps' approach does not supersede such local guidance.

*58.5% of the audience noted that they do not perform EUR-denominated valuation projects

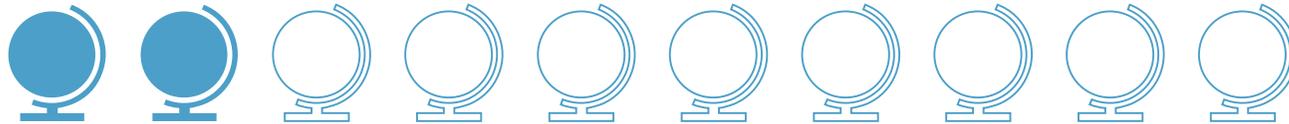
Do you typically incorporate country risk adjustments in your valuation analyses?

Almost half of the respondents incorporate country risk adjustments directly in their discount rate estimates.



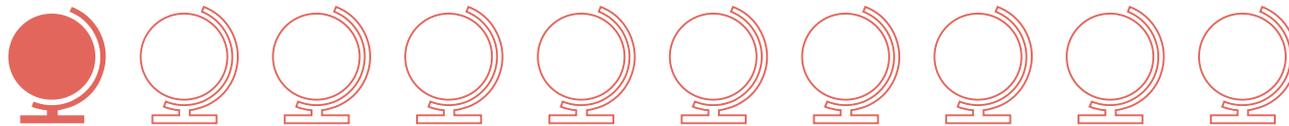
0.7%

I do not believe global investors demand an incremental premium for country risk



18.7%

I do not perform valuations in countries where country risk is an issue



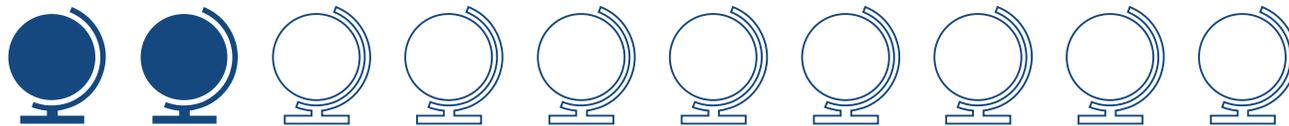
8.5%

I typically incorporate country risk directly in projected cash flows, when appropriate



49.3%

I typically adjust my cost of capital estimates (discount rates) for country risk, when appropriate



22.9%

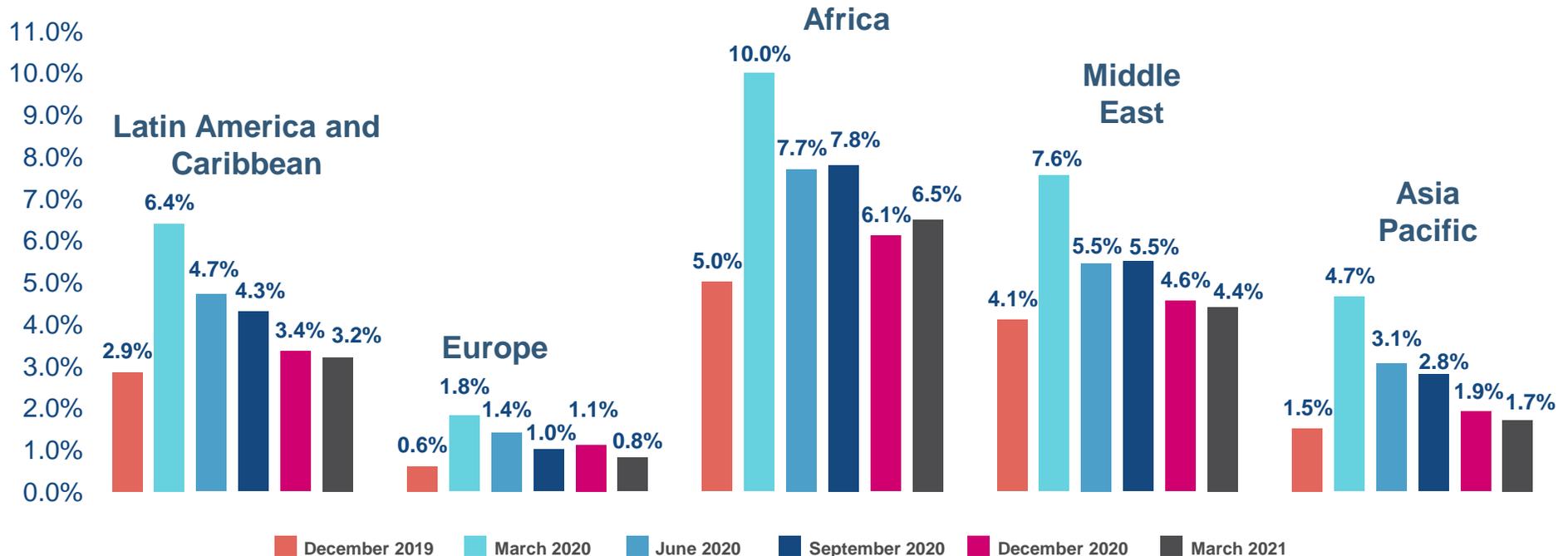
Other / Not Applicable

Impact of COVID-19 on Discount Rates and Country Risk

Data from the Cost of Capital Navigator – International Cost of Capital Module

The outbreak of COVID-19 had a significant impact on country risk perceptions across the globe. This graph shows how country risk has fluctuated across different geographic regions since December 2019. **Although country risk has subsided since the height of the crisis, the level of risk continues to be elevated when compared to December 2019, with Africa being particularly affected.** These and more statistics can be found in the International Cost of Capital Module in the Cost of Capital Navigator.

Country Yield Spread Model from a United States (USD) investor perspective*



*Based on the median country risk premia within each geographic region as classified by Euromoney. In total, it captures 175+ countries.