



Quarterly newsletter Review of the multiples of entities listed on the Warsaw Stock Exchange

Q2 2024





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**Tomasz
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Partner,
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He has over 25 years of experience in the field.

He currently leads a team of business valuation specialists at KPMG in the CEE region.

He provides expert guidance on value-based management and business valuations for transactions or in accordance with accounting standards.

He is a member of ACCA (Association of Chartered Certified Accountants) and CBV (Chartered Business Valuation) Institute.

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He has expertise in business valuation and financial modeling. He provides financial consulting services to startups and mature companies.

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He has over 20 years of experience in the field.

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His experience also includes a significant number of M&A and investment projects, particularly in the energy sector.

Graduate of the Warsaw School of Economics and member of the CBV (Chartered Business Valuation) Institute.

He regularly lectures at Warsaw's leading economic universities.





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Foreword

Dear All,

We are pleased to present you with another edition of the KPMG in Poland report: „Review of the multiples of entities listed on the WSE”

We analyzed more than 170 companies listed on the Warsaw Stock Exchange, as in previous issues of our quarterly publication. Data through Q2 2024 was included in the current edition of the report. Again, we have not included dual-listed companies in the report¹.

The Q2 2024 saw the continuation of the bull market on the WSE. By the end of June, the WIG Index had reached a value of over 88,000 points. It should be noted that in the second half of May, the Index even approached the record level of 90,000 points. The broad market index has already appreciated by almost 100% as part of its current upward trajectory, which commenced in late 2022. In the second quarter of this year, the Index saw another increase in value, amounting to approximately 7%.

Following subsequent meetings of the Monetary Policy Council, there has been no breakthrough as economists had anticipated. Consequently, the benchmark rate has remained at 5.75% and there are currently no prospects for rate cuts before the end of this year.

Conversely, Poland's risk-free rate increased by approximately 5% on a quarterly basis, driven in part by a gradual decline in foreign capital interest in the Polish sovereign bond market. The Polish sovereign bond market is facing challenges in competing with the yields of bonds in developed markets due to the relatively high, nominal interest rates currently in place in those markets.

We hope you enjoy reading our publication!

¹ For companies listed on the WSE on a dual-listing basis whose main exchange is located abroad, comparison of market multipliers is not a viable option. However, the pharmaceutical sector is subject to a unique set of circumstances, as a result of the significant weight of two foreign entities operating in the CEE region in the value of that sector index.

Sector indices under review and number of companies in each index

	Sector	No. of entities
	Banks	11
	Construction	36
	Chemicals	4
	Energy	13
	Games	5
	Basic Materials	4
	IT	27
	Medicine	8
	Media	13
	Moto	4
	Developers	20
	Clothes	13
	Oil&Gas	2
	Food	15



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Market multiples





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Market multiples²

The bull market on the Warsaw Stock Exchange has continued uninterrupted since Q4 2022. The value of the WIG index was 88,614 points at the end of June, representing an increase of more than 7% in Q2 2024 compared to 82,746 points at the end of March. The bullish market on the WSE was driven in the last quarter by the mining sector (+26%), the apparel sector (+22%), the food sector (+17%), and other sectors as well. At the opposite end of the spectrum was the WIG-Chemicals index, which has already experienced a decline of approximately one-quarter of its value from the level in early 2023. In the second quarter of this year, other sector indices also saw declines, with the WIG-Media index falling by 9% and the WIG-Moto index by 3%.

With regard to changes in sector multipliers, there was once again a considerable degree of variation in performance. However, the majority of multipliers continued to show an increase in Q2 2024. The most notable increases were seen in the price-to-earnings (P/E) multiplier for the chemical and oil&gas sectors.



Tomasz Wiśniewski
Partner in Deal Advisory
Department,
Head of the Valuation
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the CEE region

„The WIG index saw a further 7% increase in value during Q2 2024, approaching the 90,000-point ceiling. This marks the continuation of the bull market on the WSE, which has been in place for over a year and a half. The extent of this uptrend, as measured by the percentage change from the lowest point, is approaching the value gain achieved during the previous bull market associated with the post-Covid recovery.

The broad market benefited most strongly in Q2 from gains in the mining sector (+26%) and the apparel sector (+22%). The growth drivers of both sectors were KGHM Polska Miedz (WIG-Basic Materials) and CCC together with LPP (WIG-Clothes), respectively. In terms of changes in market multiples, the food sector stood out (EV/EBITDA multiplier up 13% and EV/S multiplier up 47%). Other valuation leaders included the chemical sector (P/E multiplier up 64%) and the oil&gas sector (P/E multiplier up 99%). In both cases, the significantly underperforming net profit/loss results of the constituent components of these indices were a contributing factor.”

It is worth noting that the chemical sector is facing a distinctive challenge, with only one of the four companies in the index currently generating profits. In contrast, the WIG-Basic Materials index saw the most significant decline in valuation multiples during the second quarter, with a -57% change in the EV/EBITDA multiplier and a -72% change in the P/E multiplier.

² KPMG's own analysis based on data from S&P Capital IQ, KPMG Digital Valuation tools and other publicly available databases. The methodology used to aggregate the multiples of the companies included in each sector index is to separately add the components of the multiples of all companies within a given sector and then divide the two totals by each other. The aggregation method described above tends to "smooth out" the sector results more than calculations based on the arithmetic average of the multipliers of individual participants in a given index, especially for indices consisting of a small number of entities.





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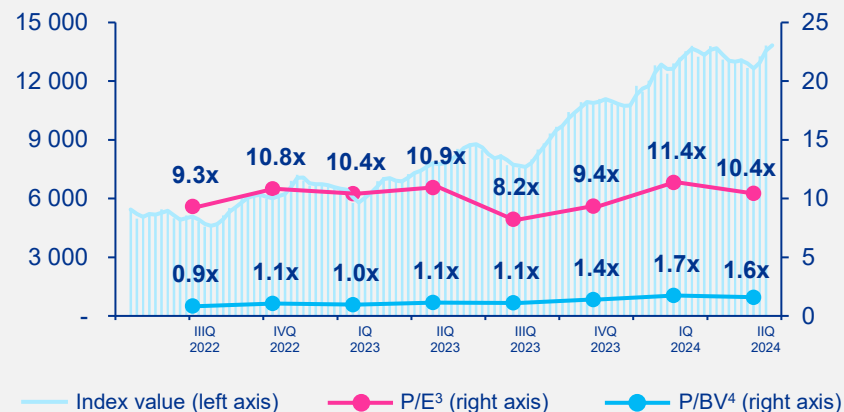
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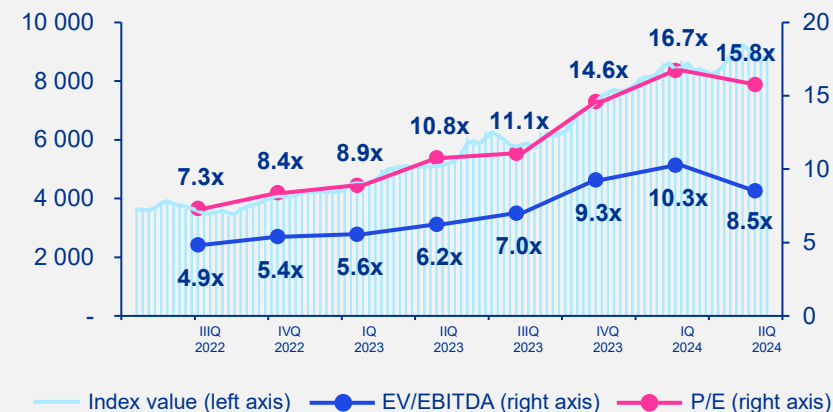
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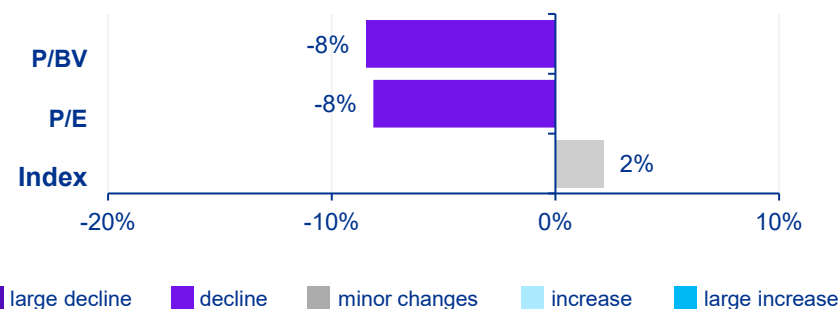
WIG-Banks



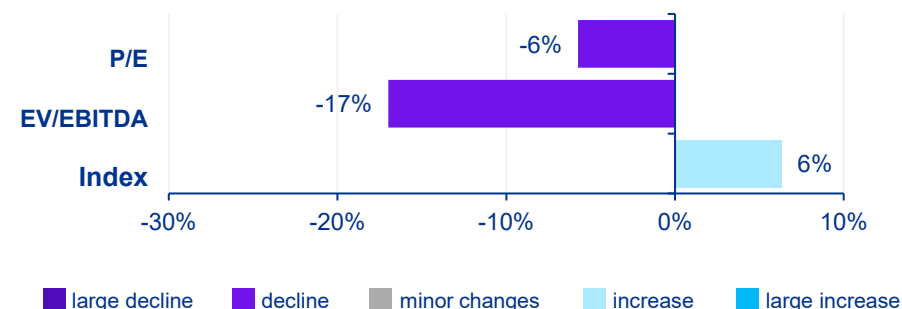
WIG-Construction



Q/Q changes



Q/Q changes



³ The P/E (price-to-earnings) ratio reflects the relationship between a company's earnings per share and its stock price. The ratio is based on the last twelve months' diluted earnings per share.

⁴ The P/BV (price-to-book value) ratio provides insight into the cost of one unit of a company's net assets.



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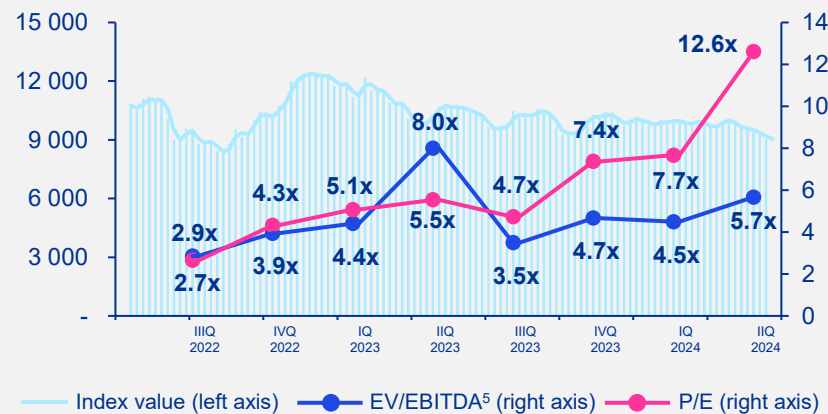
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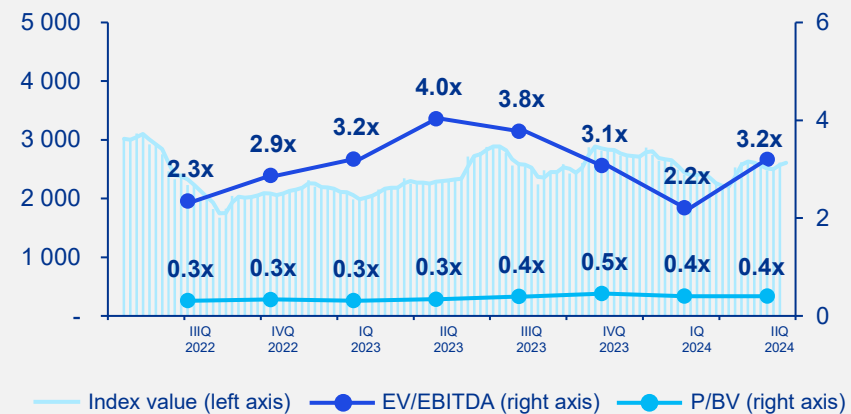
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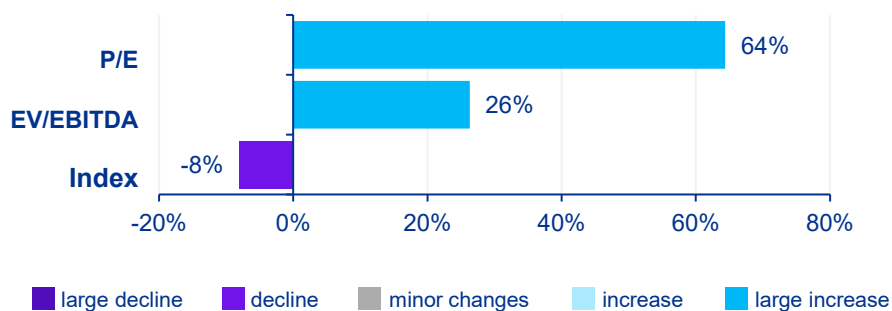
WIG-Chemicals



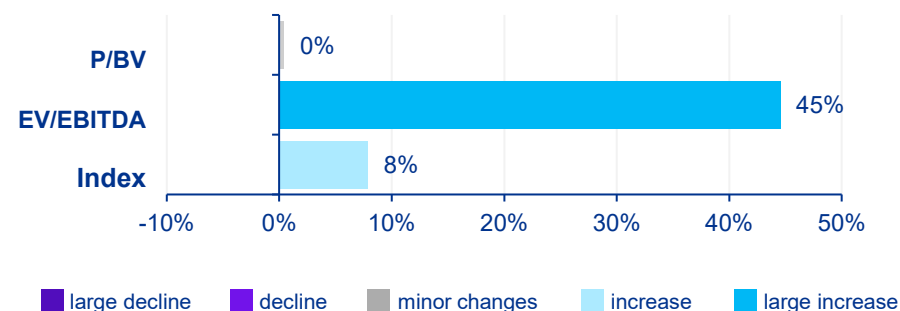
WIG-Energy



Q/Q changes



Q/Q changes



⁵ The EV/EBITDA (Enterprise Value/EBITDA) ratio is a measure of a company's total value, taking into account both its equity and debt capital, relative to its EBITDA, which gauges a company's financial health and profitability. The ratio is based on trailing earnings plus interest on loans, taxes, and depreciation and amortization over the past 12 months.



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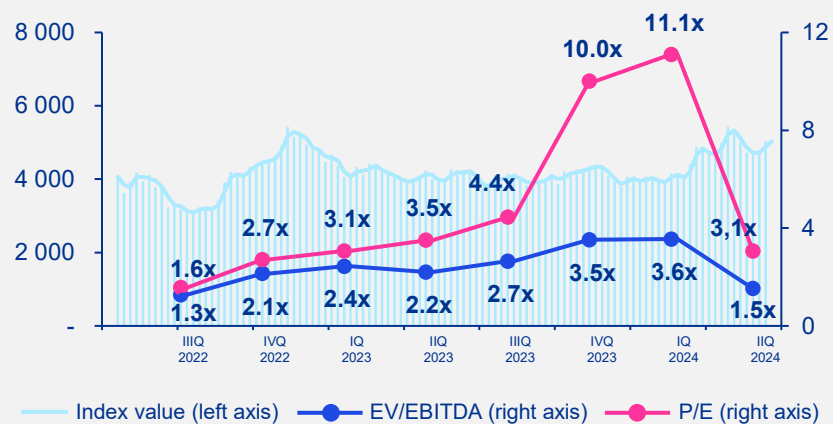
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WIG-Basic Materials



Q/Q changes

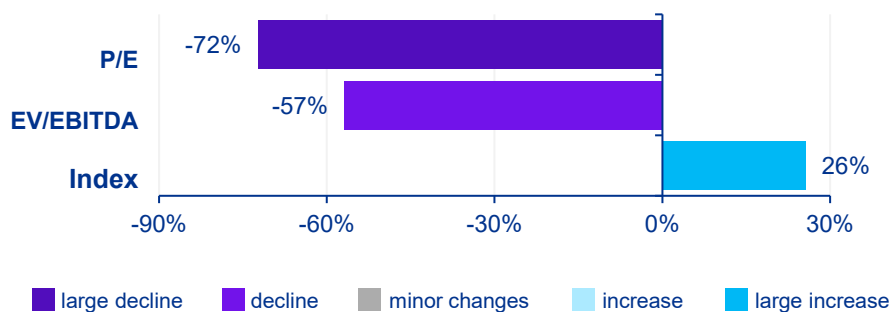




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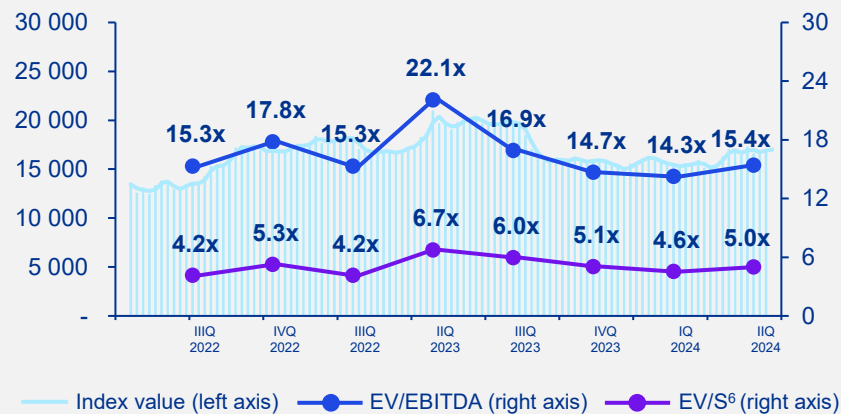
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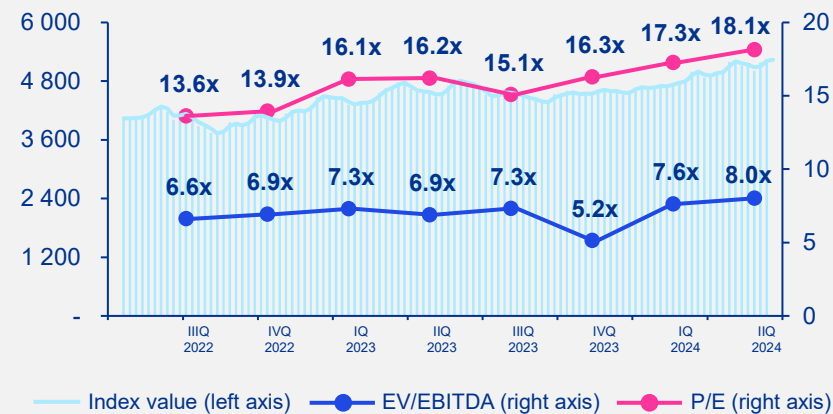
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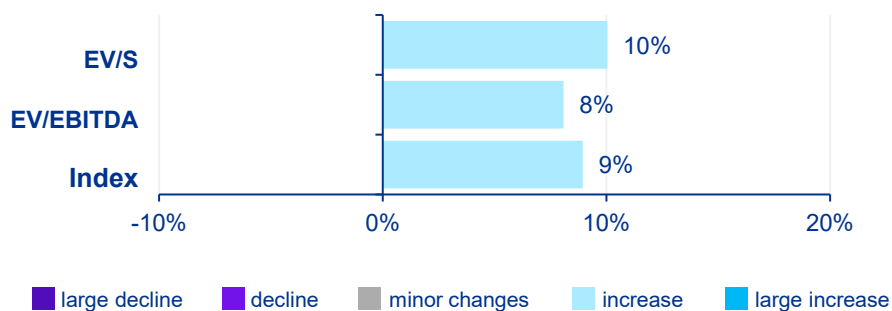
WIG-Games



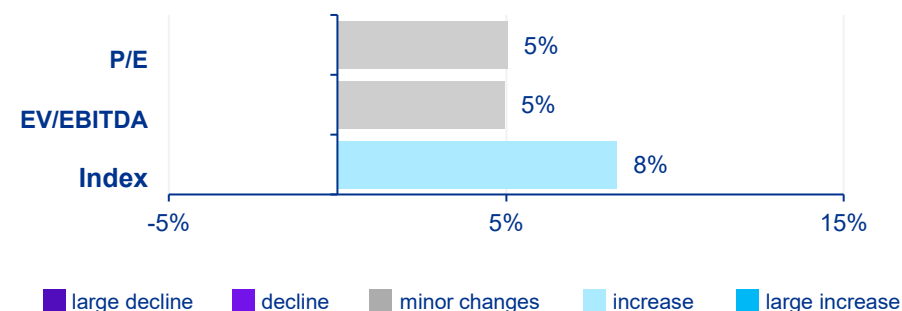
WIG-IT



Q/Q changes



Q/Q changes



⁶ The EV/S (Enterprise Value/Sales) multiplier is a financial ratio that represents the total value of a company resulting from the use of both equity and debt capital, relative to the value of its sales revenue. It is calculated based on trailing revenues over the past 12 months (LTM Total Revenue).



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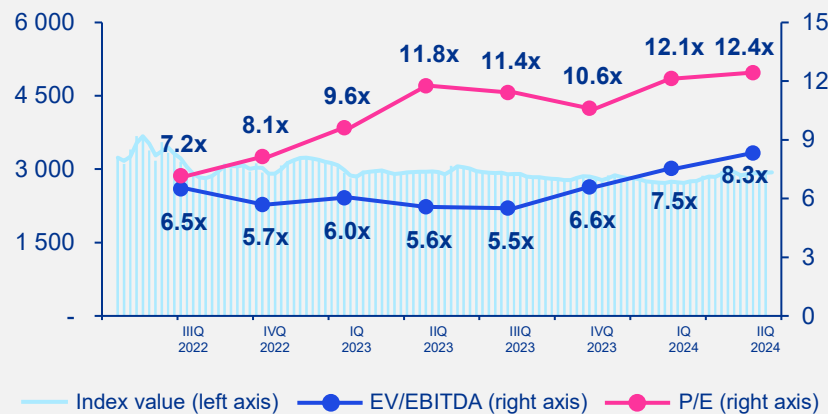
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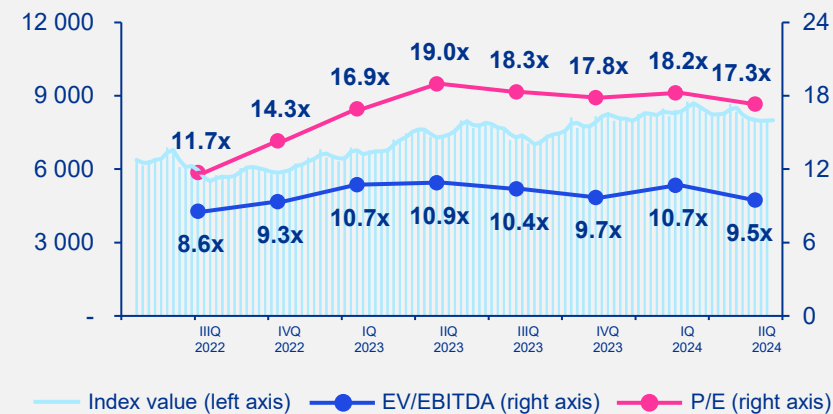
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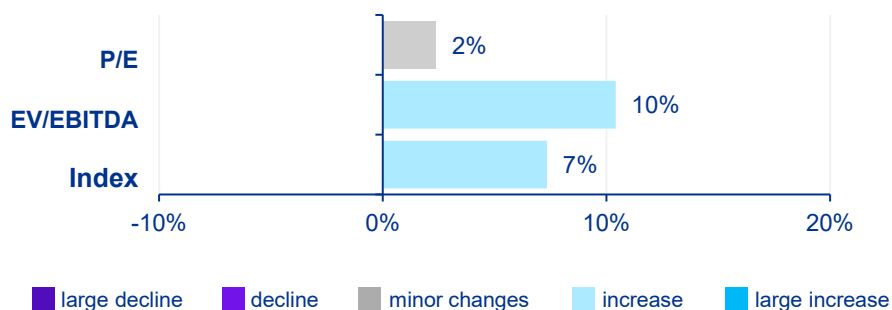
WIG-Medicine



WIG-Media



Q/Q changes



Q/Q changes

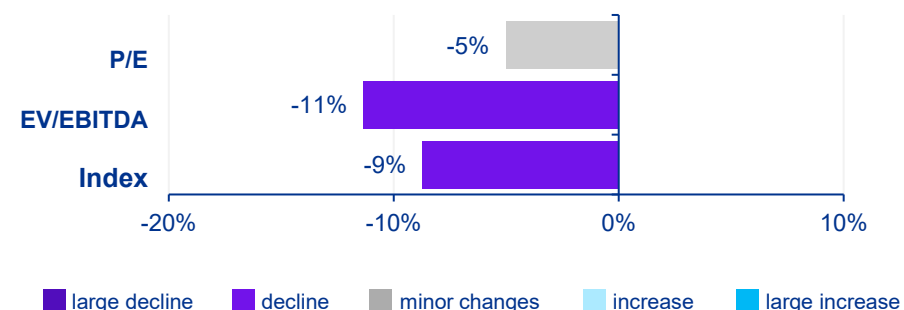




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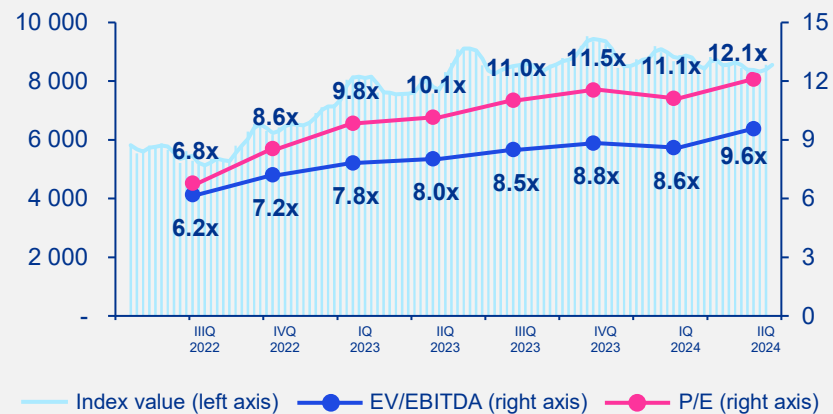
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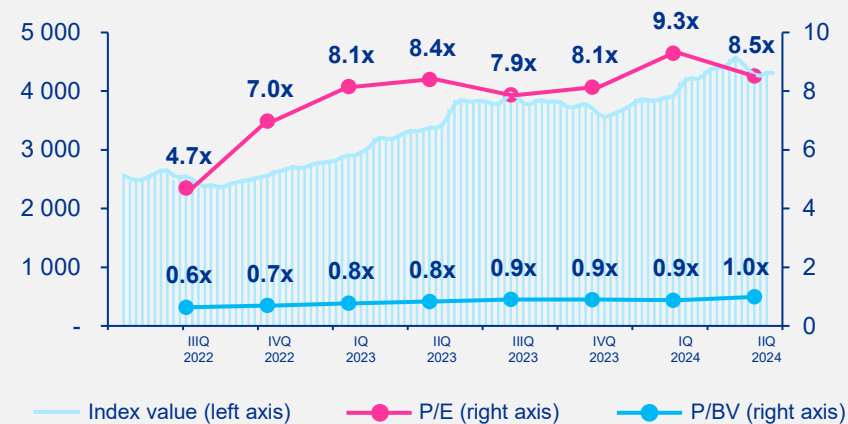
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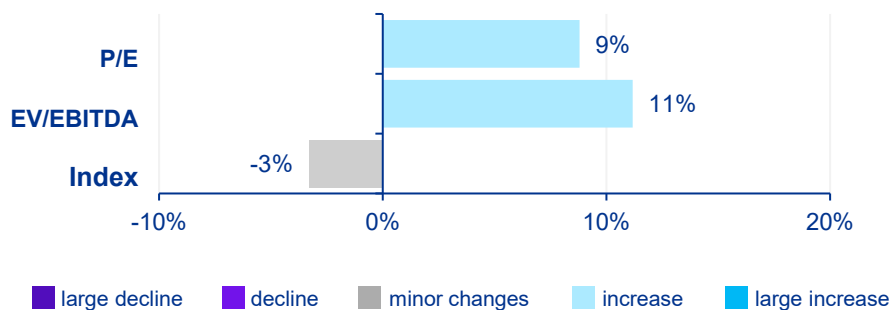
WIG-Moto



WIG-Developers



Q/Q changes



Q/Q changes

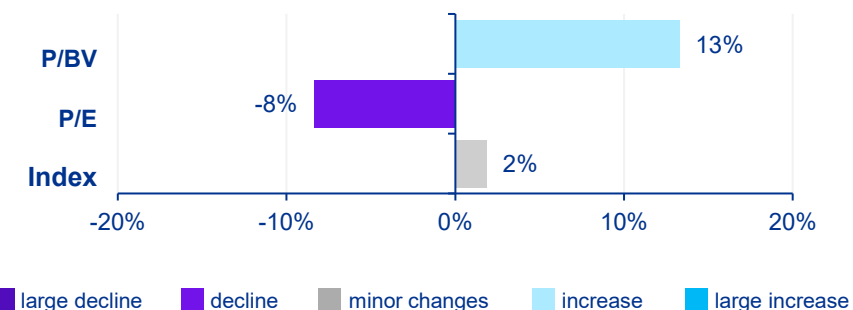




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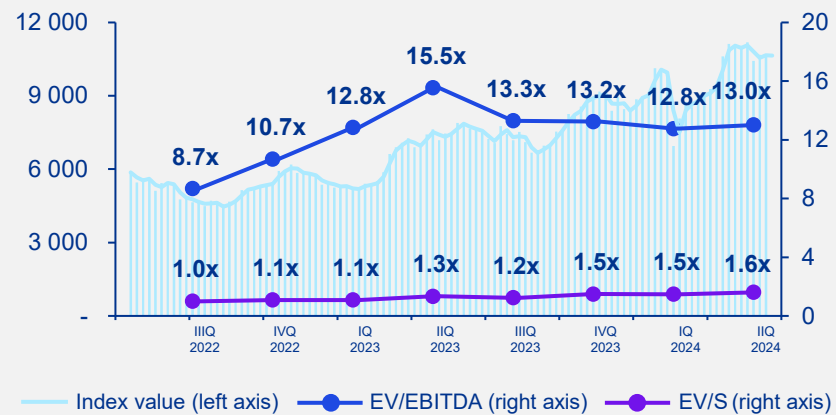
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WIG-Clothes



Q/Q changes

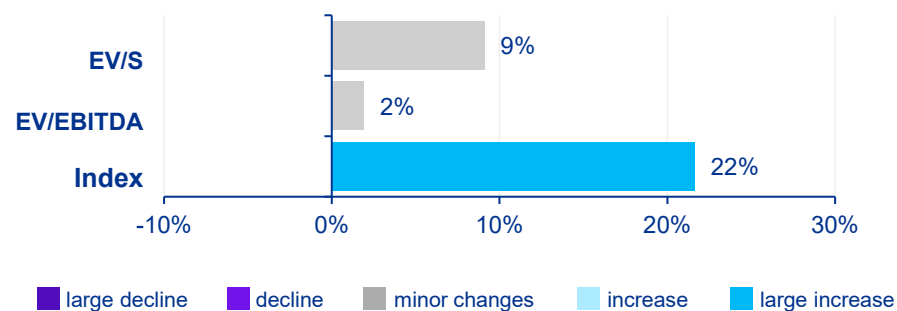




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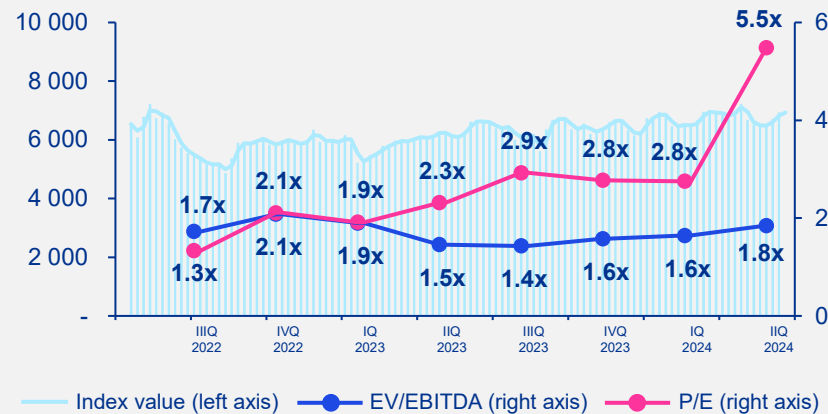
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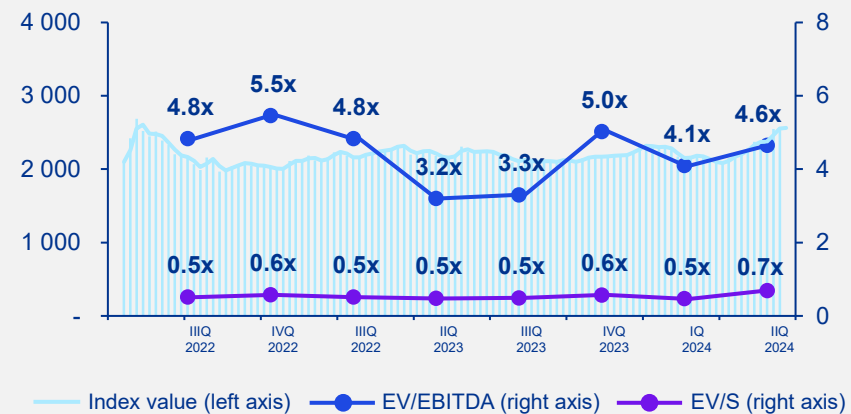
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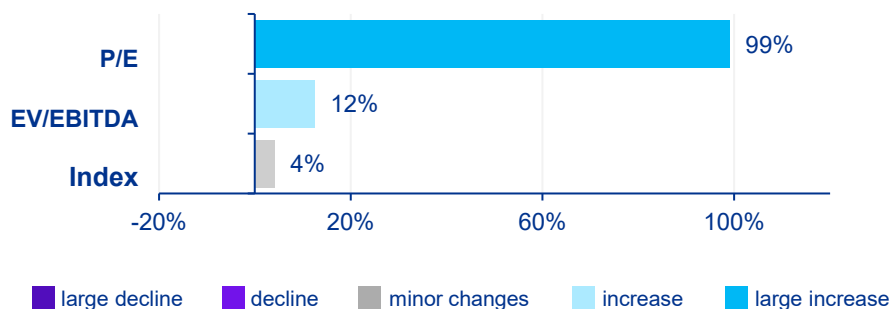
WIG-Oil&Gas



WIG-Food



Q/Q changes



Q/Q changes

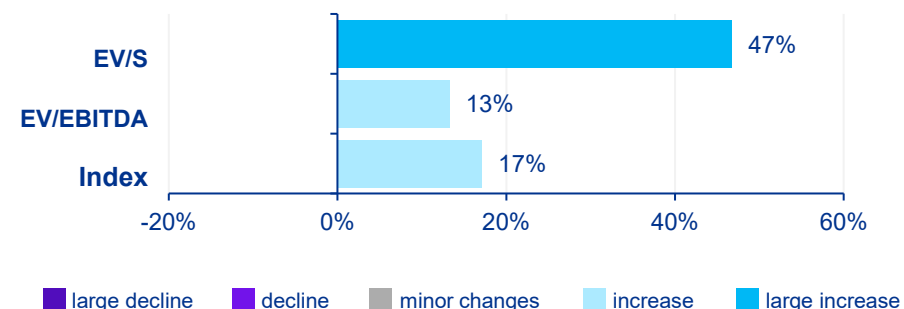




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Beta Coefficient



Beta Coefficient⁷ (1/2)

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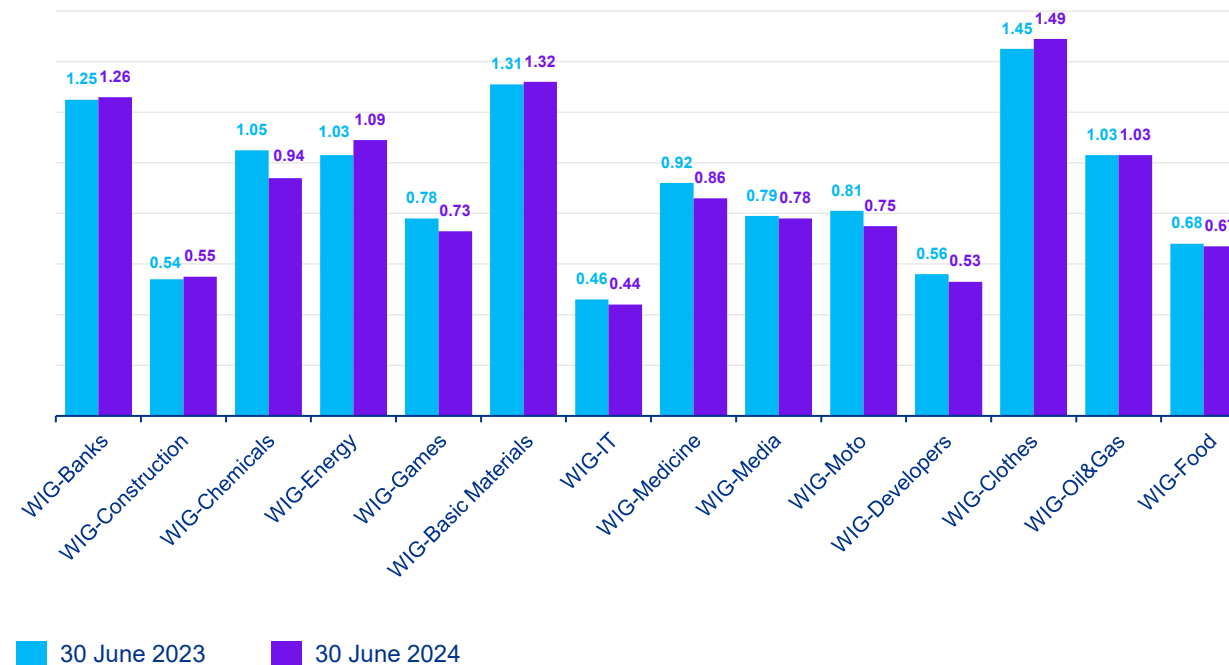
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In nominal terms, the Beta coefficient for 5 of the 14 sector indices analyzed was higher at the end of mid-year compared to the value at the end of June 2023. Beta of the remaining indices, with the exception of the Beta of the WIG-Oil&Gas index (no change), was lower at the end of June 2024 compared to the value of the coefficient at the end of the second quarter of last year.

In the second quarter of 2024, 13 of the 14 sector indices showed a lower correlation of investment returns to the broad market (WIG index) than in the second quarter of 2023. The exception was the construction sector. Both the WIG-Energy and WIG-Moto indices have become the most divergent from the broad market. Investments in the apparel sector continue to carry the greatest market risk (Beta = 1.49), while the WIG-IT index remains the least sensitive to market changes (Beta = 0.44). The largest annual change occurred in the chemical sector (Beta coefficient decrease of 0.11).

Beta of the selected indices



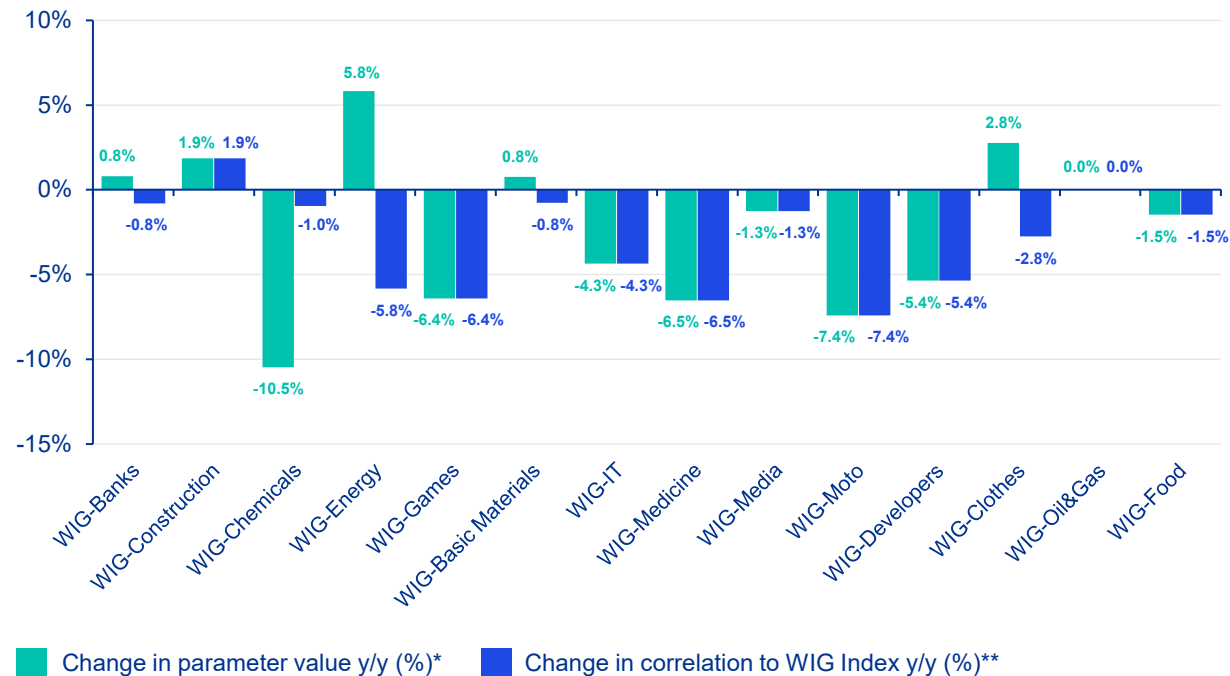
Source: KPMG's own analysis based on publicly available market data.

⁷ The Beta coefficient expresses the degree of correlation between the rates of returns of an investment in a particular stock or index and the returns of a general market index (in this case, the WIG index). It is one of the components of the discount rate. For the purposes of this report, Beta has been estimated on the basis of weekly changes in the index values for a period of 5 years from the date of analysis, i.e. 30 June 2024.

Beta Coefficient (2/2)

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Percentage change in Beta parameter (Q2 2024 vs. Q2 2023)



Source: KPMG's own analysis based on publicly available market data.

* positive change represents a nominal increase in the value of the Beta y/y, and a negative change represents a nominal decrease in the value.

** positive change is an increase in correlation to the WIG Index (the value has moved closer to 1), and a negative change is a decrease in correlation (the value has moved away from 1).





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Risk-free rate



Risk-free rate⁸ (1/2)

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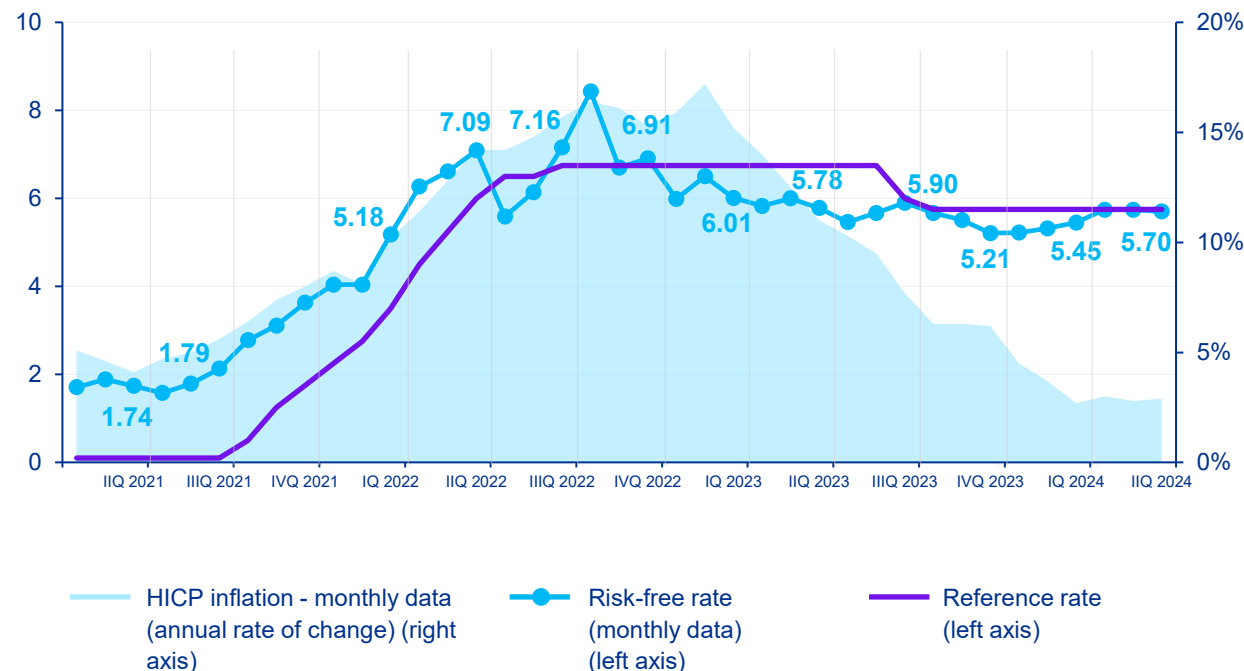
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The disinflationary trend in the Polish economy has entered a decelerating phase. Moreover, the recent HICP print (in Q2), which measures the annual rate of change in consumer prices, showed the first m/m increase since January 2023. In terms of monetary policy, the second quarter of this year did not bring any breakthroughs. The prospect of a rate cut is fading – economists do not expect the Monetary Policy Council to make such a move this year. As a result, the reference rate remains at 5.75 at the end of June.⁹

In contrast, the risk-free rate increased from 5.45% at the end of the first quarter to 5.70% at the end of June this year. The spike in yields on Polish Treasury bonds was driven by a number of factors, including changes in the US sovereign debt market. A further factor was the waning interest in Polish government bonds by foreign capital, driven by intensifying competition with the relatively high (nominal) yields of U.S. and Eurozone sovereign bonds.

10-year risk-free rate versus inflation and reference rates in Poland



Source: KPMG's own analysis based on data taken from Digital Valuation tools and Eurostat database.

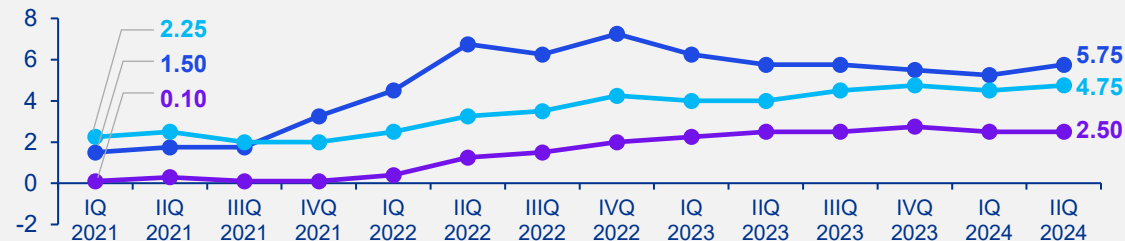
⁸ The risk-free rate under consideration in the KPMG analysis is based on yields on Polish 10-year sovereign bonds.

⁹ Between the end of the second quarter of 2024 and the date of publication of the report, the Monetary Policy Council made no changes to reference rates.

Risk-free rate (2/2)

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Poland's 10-year risk-free rate compared to rates in other countries*



Source: KPMG's own analysis based on data taken from Digital Valuation tools.

* The risk-free rates have been smoothed, including the averaging of three months of data and rounding the results to 0.25% (for values above 1%) and to 0.1% (for values below 1%) for comparison purposes.



Tomasz Regulski
Partner Associate
in the Deal Advisory
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of the Valuation Team
at KPMG in Poland

„The annual rate of change in consumer prices in Poland has reached a level between the midpoint and upper limit of the NBP's inflation target, indicating a stabilization in inflation dynamics. This is the result of the exhaustion of the effect of the high reference base, which drove the disinflationary trend in the first quarter of this year. At the end of June, the HICP inflation print (annual rate of change) was 2.9%, which is close to the EU average of 2.6%. Economists remain skeptical about possible rate cuts this year, and the Monetary Policy Council shares these concerns. As a result, the last three meetings have yielded no breakthrough, and the reference rate has been maintained at 5.75.

The lack of a decision on rate cuts in Poland had an indirect effect on the market's perception of investment risk, as Poland's risk-free rate rose again and reached 5.7% at the end of June. This spike in the Polish risk-free rate corresponded with the rise in the U.S. risk-free rate. At the same time, the spread of Polish sovereign bonds yields to German Bunds increased in Q2. One of the factors contributing to the rise in Polish bond yields is the intense competition in the debt market from foreign issuers (such as the United States or Eurozone countries) offering historically high yields with reduced risk compared to Polish sovereign bonds.”



- Risk-free rate in Poland (quarterly data)
- Risk-free rate in USA (quarterly data)
- Risk-free rate in Germany (quarterly data)



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Digital Valuation

The material was created using data and analyses from KPMG's innovative valuation tool, Digital Valuation, which is now also available to you on a paid subscription basis.





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Digital Valuation

Valuation Apps – Digital Valuation

In response to the ever-increasing pace of the business world around us, we present a product that consists of a suite of applications accessible via the cloud, available on a **monthly subscription basis**.

Our digital tools provide support at every stage of the transaction-related process. Decisions that have a direct impact on the growth and future success of a business are made easier and faster with our solutions. The applications offer a rapid and straightforward estimation of enterprise value, an intuitive cost of capital calculator, preliminary analysis of the effects of M&A transactions, and management of startup finances, among other capabilities.

E-mail contact:

digital_valuation@kpmg.pl



Areas of support:



Financial reporting



Making investment decisions



Mergers and Acquisitions



Tax analyses



Purchase Price Allocation



Corporate financial management

Apps:

Valuation Data Source – cost of capital calculator

Access to a global database of cost of capital parameters, including the risk-free rates or market and country risk premiums.

Handy WACC (weighted average cost of capital) or cost of equity calculator.

Multiples – market approach valuation

Access to market multiples with customizable parameters, including: EV/EBITDA, price-to-earnings, and price-to-book value.

A database of comparable companies for 13,500 companies from approximately 75 countries.

Pre-Deal PPA – purchase price allocation

Calculation and visualization of the effects of the transaction before its finalization.

Estimating the value of intangible and tangible assets and liabilities, as well as derivation of goodwill.

Startup Finance – financial management

Preparation of an integrated business plan consisting of an income statement, balance sheet, and cash flow statement.

Integrated financial planning calculations wsparte kompleksowymi analizami - finansowymi i scenariuszy.



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