KPMG

Cost of Capital Study 2025

Between Past and Future: Bridging Empirical Yields with Return and Growth Expectations

This study is an empirical investigation aimed at analyzing management practices.
The information and explanations provided by the study are not sufficient for deriving financial forecasts or costs of capital, or taking appropriate action or interpretating requirements for impairment tests, other accounting-related questions or conducting business valuations for accounting, tax or other purposes. As the study relies on retrospective empirical data, the information and explanations provided are not applicable for future-oriented valuation purposes.

When considering the following analyses, please note that the company data presented stems from companies in different countries, some with different currencies and at varying points in time. Furthermore, it should be noted that not all participants answered all questions in the study.

We emphasize that adjustments to the industry classification may result in deviations as compared to 2023/2024. However, these deviations are considered immaterial to the overall results.

The data presented in this study do not necessarily reflect KPMG's views on future-oriented assessments or on the cost of capital during the survey period.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Preface

Dear Readers,

We are delighted to present the results of the 20th anniversary edition of our Cost of Capital Study. On the occasion of this anniversary, we would like to thank all our loyal participants and readers for their support over the years.

With around 300 companies taking part, we have once again achieved a remarkable level of engagement. We extend our deepest gratitude to all the companies that participated in this year's study. Your continued support and involvement highlight the continued relevance and importance of this study in your valuation practice. We hope you find this year's anniversary edition and its key topics both insightful and valuable.

The expectations of market participants regarding the magnitude, timing, and risk profile of future returns remain central to asset pricing and valuation models. However, rising geopolitical tensions, mounting fiscal pressures, and the transformative impact of technologies such as AI are introducing new layers of complexity. These factors challenge traditional assumptions and necessitate a more nuanced approach to forecasting and estimating cost of capital. Accordingly, we have titled this year's Cost of Capital Study "Between Past and Future: Bridging Empirical Yields with Return and Growth Expectations".

In the current issue, we analyze the relationship between historical and implied returns, focusing in particular on how growth expectations influence implied market risk premiums, while taking into account the implied return requirements of the various markets. In this context, the current issue of the study focuses on the following subjects:

- Europe under pressure: Central bank autonomy, debt and AI innovation will shape the continent's economic trajectory.
- Empirical returns: Do regional differences persist in the long run?
- Estimating implied returns: Are differences driven by risk or growth expectations?

The empirical data collected from participants is based on impairment testing in accordance with the International Financial Reporting Standards (IFRS), which are mandatory for all users of IFRS.

We hope that this year's edition of the Cost of Capital Study meets your expectations and offers valuable insights for your work. Our team would be happy to discuss the findings with you in person. Please feel free to reach out to us at any time if you have any questions or feedback.

Best regards,

Heike Snellen
Director
Deal Advisory, Valuation
KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Andreas Tschöpel
Partner
Deal Advisory, Valuation
KPMG AG
Wirtschaftsprüfungsgesellschaft

The previous editions of KPMG's Cost of Capital Study

Download the study here

2021

- The impact of ESG on valuations in the consumer markets sector.
- Essential changes to ESG reporting.
- Making sound ESG decisions.

Download the study here

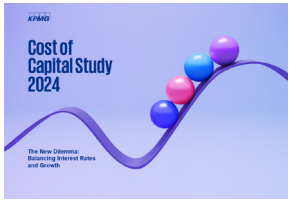
2022

- Enhancing value through inflation?
- Disruptive times in the energy sector: What impact will inflation and the cost of capital have?
- Inflation is back – and what about the cost of capital?

Download the study here

2023

- Growing divergence? Hypotheses on the differing development of global economic areas.
- Inflation unleashed? The interaction between central banks and capital markets.
- Navigating increasing uncertainty? How are market return expectations developing in turbulent times?



Download the study here

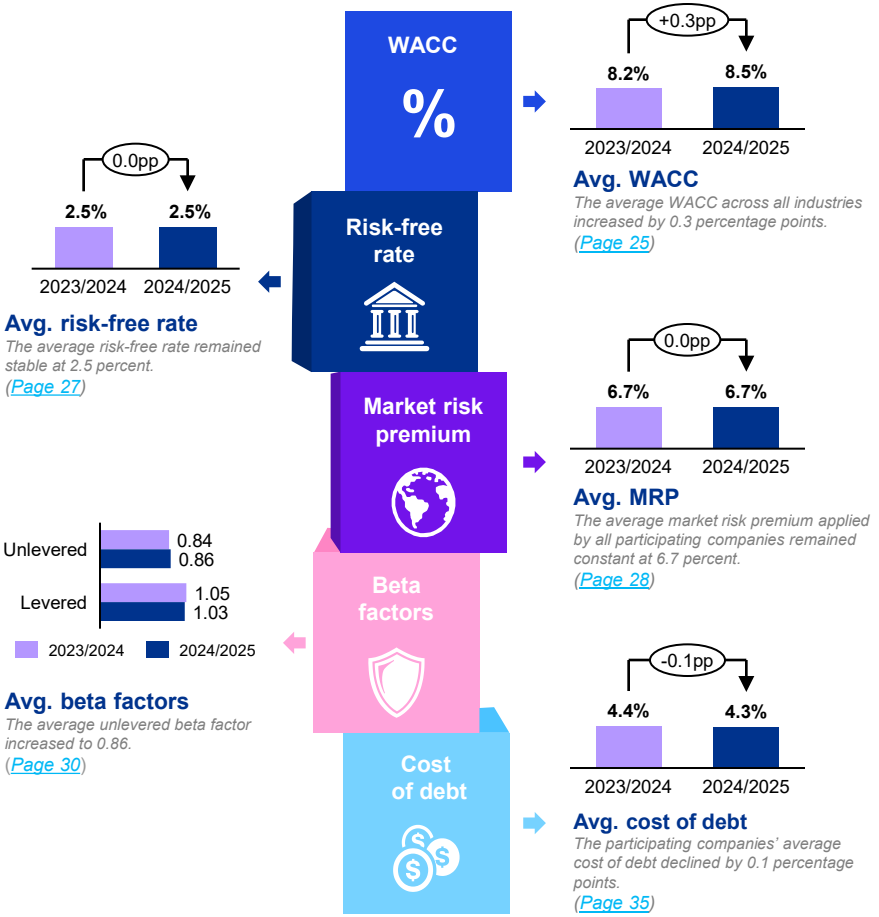
2024

- Market dynamics unveiled: The impact of divergence, resilience and inflation on return expectations.
- Inflation defeated? Inflation again proves particularly persistent toward the end of inflationary periods.
- Growth or stagnation? The coming years will reveal whether Europe's anemic growth is cyclical or structural.

2025

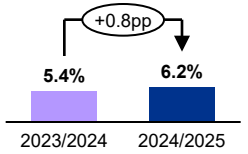
- Europe under pressure: Central bank autonomy, debt and AI innovation will shape the continent's economic trajectory.
- Empirical returns: Do regional differences persist in the long run?
- Estimating implied returns: Are differences driven by risk or growth expectations?

Summary of Findings



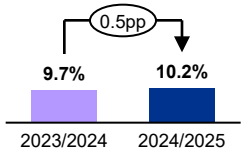
Sales growth

Forecast sales growth increased by 0.8 percentage points, likely due to a recovery in consumer demand and strategic investments in these sectors. (Page 15)



EBIT growth

In line with forecast sales growth, EBIT growth increased on average by 0.5 percentage points. (Page 15)



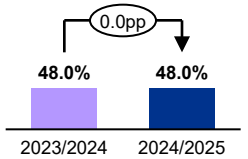
Planning uncertainty

Top risks reported by participating companies:
- General economic risks (macroeconomic)
- Customer-side risks (microeconomic)

(Page 20)

Impairment test

The number of participating companies recognizing an impairment has remained at 48 percent. (Page 43)



Megatrends

Most relevant megatrends across the analyzed sectors:
- Artificial Intelligence (AI)
- Digitalization
- Environmental, Social and Governance (ESG)

(Page 50)

1 Introduction

1.1 Overview of Participating Companies

Study participants

As in previous years, the Cost of Capital Study has once again attracted a substantial number of participants. This year, the study encompasses a total of 301 companies (previous year: 296), including 236 companies from Germany, 22 from Austria and 43 from Switzerland.

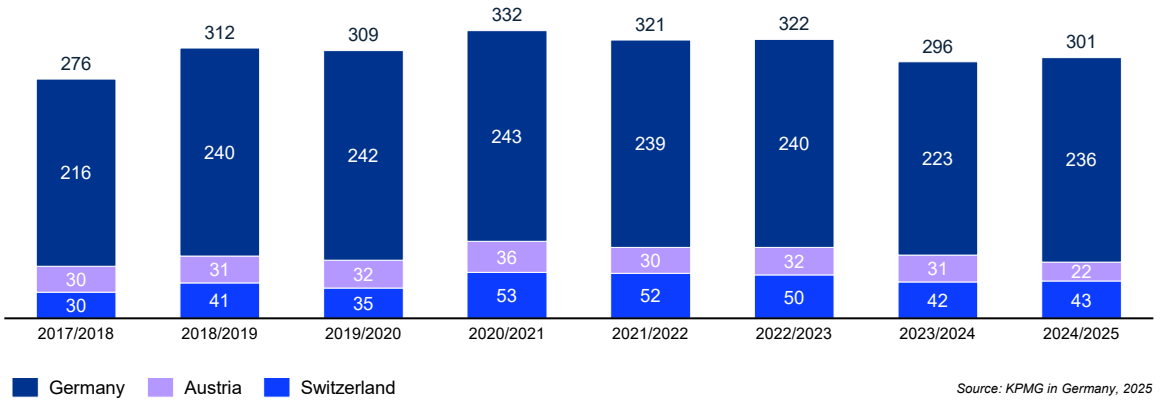
Among the DAX-40 companies, the response rate slightly decreased by 13 percentage points compared to the previous year, reaching 65 percent, equating to 26 companies. Conversely, the participation rate of companies listed on the MDAX increased to 42 percent compared to the previous year. With a participation rate of 29 percent, SDAX participants maintained their response rate at the same level as in 2023/2024.

The response rate for ATX-listed companies remained at 40 percent, while the response rate for SMI-listed companies increased by one company, reaching 45 percent.

Survey period

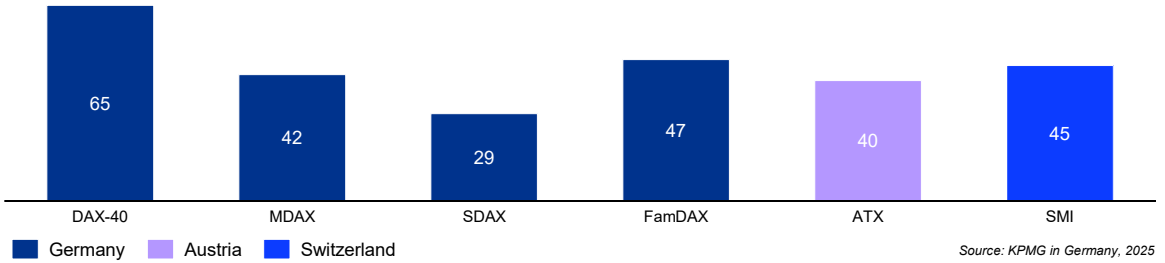
Participating companies had the opportunity to respond to the survey for this year's study between April and July 2025. This period encompasses the reporting dates of the companies' consolidated financial statements between 31 March 2024 and 31 March 2025.

Figure 01:
Participants by country
Total



Source: KPMG in Germany, 2025

Figure 02:
Participation rates by market index
(in percent)



Source: KPMG in Germany, 2025

Analyses

The companies participating in the Cost of Capital Study were asked to classify themselves into specific sectors based on their operational activities. In terms of the relevant parameters for financial forecasting and cost of capital, this facilitates both the differentiation and comparison of these sectors.

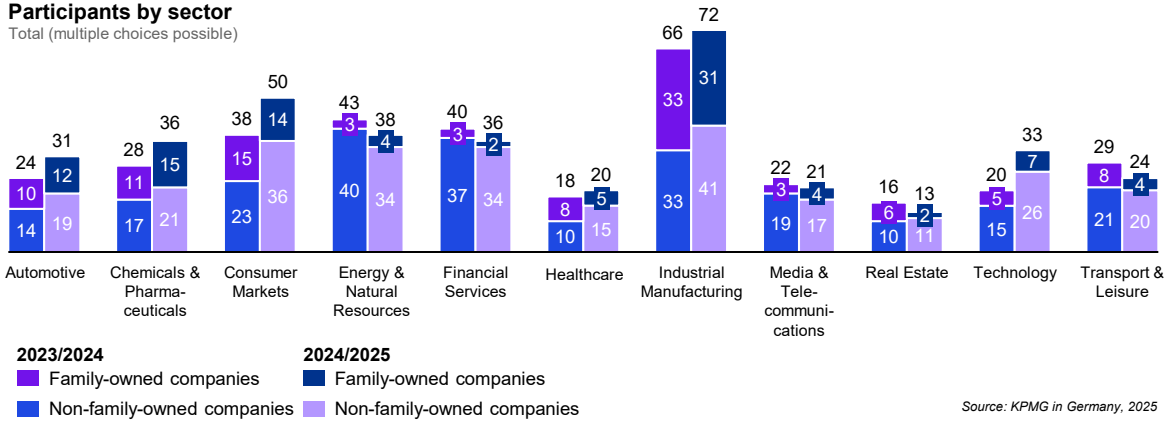
Participation increased significantly over the previous year in the following sectors: Automotive, Chemicals & Pharmaceuticals, Consumer Markets, Technology and Industrial Manufacturing.

Conversely, the most significant decline in participation was observed in the Energy & Natural Resources, Financial Services and Real Estate sectors.

The Industrial Manufacturing sector remains the most represented in the survey.

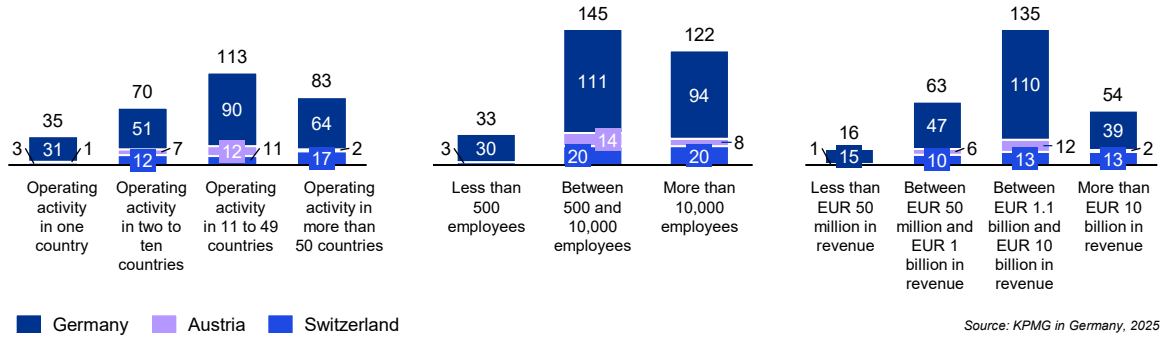
Most participants in the Cost of Capital Study were medium- to large-sized companies, operating in over ten countries, employing more than 500 employees, and generating revenues in excess of EUR 1 billion.

Figure 03:
Participants by sector
Total (multiple choices possible)



Source: KPMG in Germany, 2025

Figure 04:
Participation by number of countries where respondents operate, by number of employees and by revenue
Total



Source: KPMG in Germany, 2025

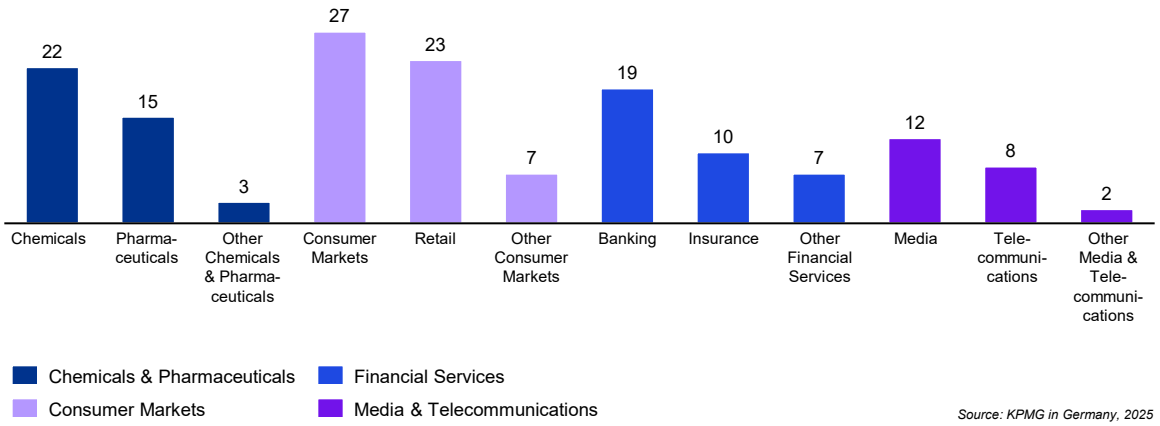
1.2 Sub-Sector Analyses

Sub-Sector Analyses

Participants from the Chemicals & Pharmaceuticals, Consumer Markets, Financial Services, and Media & Telecommunications sectors were given the opportunity to further specify the sub-sector in which they operate. The participation rates for each sub-sector are presented in the graph to the right.

Notable developments within the sub-sectors are highlighted at various points throughout this study.

Figure 05:
Participation by sub-sector
Total (multiple choices possible)



Source: KPMG in Germany, 2025

Europe under pressure: Central bank autonomy, debt and AI innovation will shape the continent's economic trajectory

The expectations of market participants regarding the magnitude, timing, and risk profile of future returns remain central to asset pricing and valuation models. However, rising geopolitical tensions, mounting fiscal pressures, and the transformative impact of technologies such as AI are introducing new layers of complexity. These factors challenge traditional assumptions and necessitate a more nuanced approach to forecasting and estimating cost of capital.

1) Independence Under Pressure: Central Banks and the Risks of Politicization

Central bank independence has long been considered a fundamental prerequisite for stable price development and economic reliability. It allows their committees to act independently of short-term political interests, focusing instead on long-term macroeconomic stability. Over the past few decades, central bank independence has generally increased worldwide.

However, recent developments in the United States – and the trend of recent years – demonstrate how fragile this principle can be. For example, political actors attempting to influence the Federal Reserve by appointing loyal allies to governor positions threaten the autonomy of monetary policy and thereby the institution's credibility. In Europe, rising public debt is also putting political pressure on the European Central Bank (ECB).

This becomes particularly critical when political interference occurs during periods of economic instability. A scenario of stagnant growth and declining employment alongside high inflation – a situation known as stagflation – would force the Federal Reserve to pursue conflicting objectives. For example, if it were pressured to focus on specific goals due to high public debt and thereby keep interest rates artificially low, an inflationary spiral could ensue. This could erode market confidence in monetary policy, leading to rising bond yields and thus higher financing costs despite low key interest rates.

Such developments would have far-reaching consequences: In addition to destabilizing financial markets, the rising cost of capital could negatively affect long-term investment decisions. The coming months will therefore be crucial in determining whether the Federal Reserve can maintain its role as an independent anchor of stability – a matter of central importance for investors and capital market participants.

2) Households Under Pressure: Public Debt in Europe – Reform Gridlock and Political Incentives Threaten Fiscal Sustainability

Public debt in Europe is on a worrying trajectory. Despite a return to moderate economic growth, debt ratios continue to rise in many countries. France and Italy in particular are projected to reach record levels of 140% of GDP. Germany is also expected to exceed a debt ratio of 90% within the next decade, although it currently remains below the Maastricht criteria.

A key driver of this development – alongside increased defense spending – is the persistent reform gridlock in many EU member states. Rather than addressing structural challenges in pension, healthcare and tax policy, these issues are being masked by debt-financed transfer payments. The political logic behind this approach is dangerous: short-term voter approval is secured through generous spending, while long-term fiscal stability is sacrificed. Given the rise of political extremism in many European countries, this strategy is proving to be ineffective. Furthermore, high transfer payments divert the financial resources required for vital growth investments. Economic growth remains the most effective way to tackle the growing debt problem.

This dynamic is further exacerbated by rising interest rates. Refinancing old debt becomes more expensive, thereby increasing the interest burden on public budgets, and while the current interest rate level is not historically high, it is still below long-term averages. Without decisive countermeasures, a gradual erosion of debt sustainability looms, particularly in highly indebted countries such as Italy and France. Pressure on the ECB to intervene through bond purchases is growing, which could also jeopardize monetary policy independence in Europe.

For investors and businesses, this means increasing uncertainty when assessing sovereign creditworthy-ness and rising yield requirements for government bond investments. This may also affect the corporate cost of capital.

3) Europe Under Pressure: Artificial Intelligence as a Growth Driver – Europe's Opportunity in Global Competition

AI is considered a key technology for economic development in the coming decade. Capital markets indicate extreme growth expectations in the valuation of certain companies. As with previous industrial revolutions, temporary misallocations and sharp initial corrections are possible, without necessarily jeopardizing the long-term success of the new technology.

The United States has gained a significant lead thanks to massive investments, an innovation-friendly ecosystem and a concentration of leading tech companies. However, this lead is not insurmountable, especially given the growing political uncertainty in the country and the accelerating brain drain from Silicon Valley.

This opens a strategic window of opportunity for Europe. However, it requires a clear political commitment to reform: Bureaucratic hurdles, fragmented data spaces and a lack of venture capital currently hinder the scaling of innovative AI applications. At the same time, targeted measures to integrate international talent are lacking – a crucial factor in addressing the skills shortage in the high-tech sector.

If Europe succeeds in creating innovation-friendly regulatory frameworks, actively integrating foreign talent and simultaneously strengthening its own research capacities, the continent could catch up in the global AI race. This would not only boost productivity, but also sustainably enhance the competitiveness of European companies, with positive effects on growth and employment.

The coming years will be decisive. Europe faces a choice: either to become a digital laggard or to take a leading role in the AI economy through targeted structural reforms and investments in education and infrastructure, returning to historically comparable growth trajectories.

2

Derivation of Cash Flows

2.1 Preparation of the Financial Forecasts

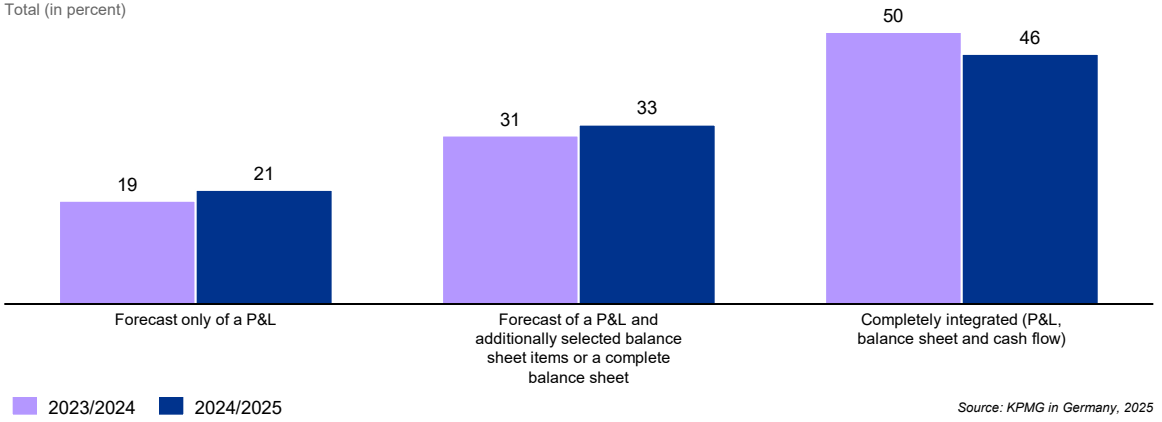
Predicting future economic growth is limited by the ongoing high level of uncertainty. As a result, financial forecasts naturally involve a degree of planning uncertainty. To enhance the accuracy of forecasts, it is essential to carefully consider expectations regarding operational performance and risk factors. Another key element for improving accuracy is the integrated, detailed preparation of planning figures.

Most study participants continue to provide a high level of detail in their financial forecasts, likely due to persistently high levels of uncertainty. Nonetheless, fewer participants are using a fully integrated financial forecast compared to last year.

Scenario analyses, such as Monte Carlo simulations, are useful for predicting potential variations in a company's performance. They offer a suitable framework for incorporating uncertainty into company valuations. In order to accurately address cash flow sensitivities, the cost of capital must be adjusted at the same time. Without this adjustment, there is no risk equivalence between the numerator and denominator, which can lead to skewed valuation results.

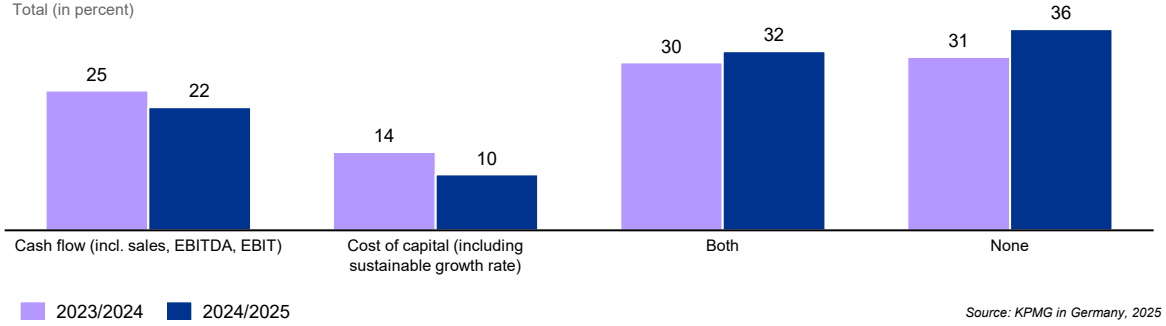
The study results indicate that, compared to the previous year, participants are increasingly conducting scenario analyses for both cash flow and cost of capital. However, a growing proportion of participants are not conducting any scenario analyses, reversing the previous year's trend.

Figure 06:
Degree of detail in the financial forecast
Total (in percent)



Source: KPMG in Germany, 2025

Figure 07:
Consideration of scenarios
Total (in percent)



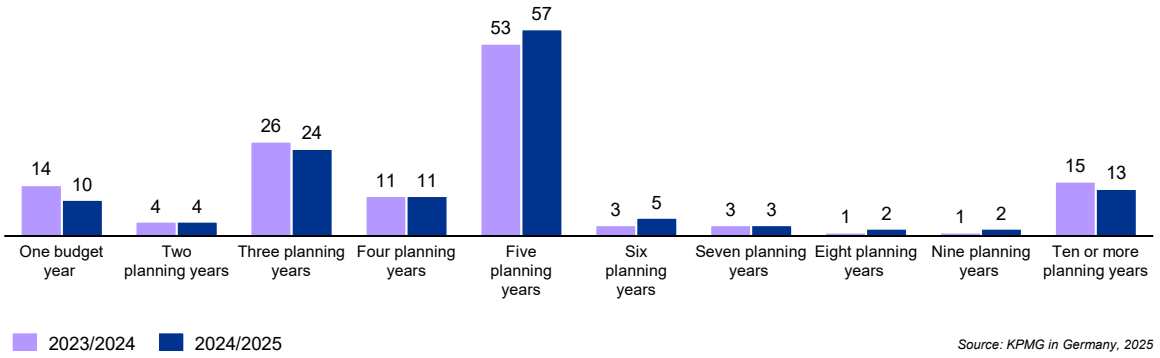
Source: KPMG in Germany, 2025

Choosing the right planning horizon is crucial for accurate valuation, yet the process presents a paradox. While extending the planning horizon can increase uncertainty, a horizon that is too short might overlook key elements, such as investment cycles, product lifespans, and long-term industry trends when making financial forecasts. This oversight can lead to inaccurate company valuations and potentially affect decision-making adversely.

Compared to last year's study, there is a clear trend toward adopting a medium-term planning horizon of five years. Companies are increasingly moving away from one-year and three-year horizons in favor of five-year plans. At the same time, fewer respondents are opting for ten-year horizons, indicating a reduction in long-term planning. This shift may reflect a more cautious outlook for the short to medium term, with expectations stabilizing from year five onward – reducing the perceived need for longer-term projections that could introduce greater uncertainty.

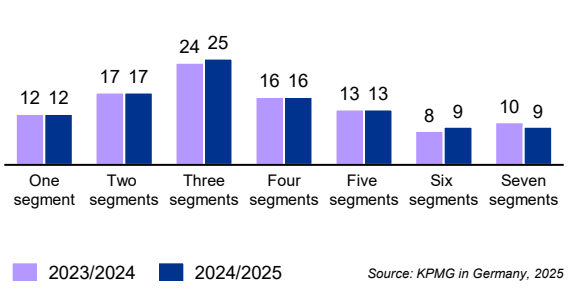
The number of segments and cash-generating units (CGUs) reported by participating companies remains quite consistent compared to the previous year – three segments and two to three CGUs are most common.

Figure 08:
Planning horizon
Total (in percent, multiple choices possible)



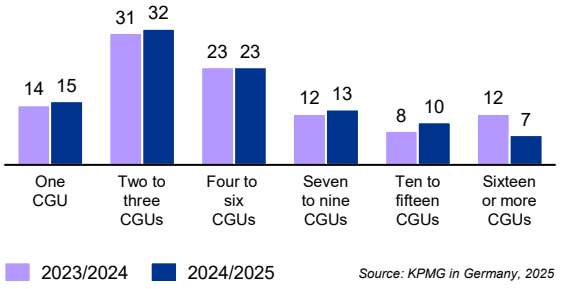
Source: KPMG in Germany, 2025

Figure 09:
Number of segments
Total (in percent)



Source: KPMG in Germany, 2025

Figure 10:
Number of CGUs
Total (in percent)



Source: KPMG in Germany, 2025

2.2 Growth Expectations

Current growth expectations are significantly shaped by a range of geopolitical and economic uncertainties that have persisted beyond the Covid-19 pandemic. These include Russia's war of aggression against Ukraine, conflicts in the Middle East, as well as the rising uncertainties due to upcoming changes to existing customs regimes. These factors could lead to increased trade restrictions and tariffs, which would exert pressure on companies, but could also attract domestic enterprises through new incentives.

Average expected revenue growth has risen by 0.8 percentage points compared to the previous year. The most substantial increases are in the Energy & Natural Resources sector (1.7 percentage points), followed by Industrial Manufacturing (1.3 percentage points) and Real Estate (1.1 percentage points). This upward trend could be attributed to recovering consumer demand and strategic investments in these sectors, which are driving growth despite broader economic uncertainties.

Similarly, the expected EBIT growth rate increased by an average of 0.5 percentage points. This rise is particularly pronounced in the Automotive and Chemicals & Pharmaceuticals sectors, both recording a rise of 1.9 percentage points.

Figure 11:
Forecast revenue growth by sector
(in percent)

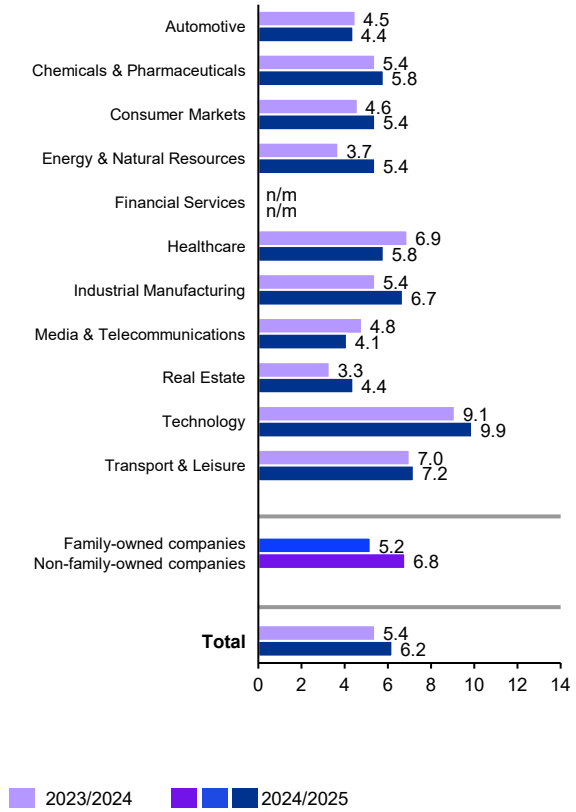
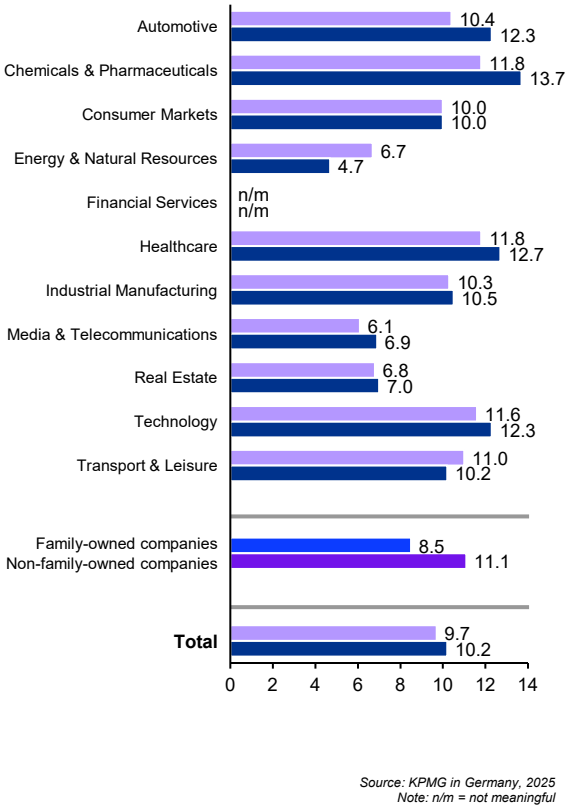


Figure 12:
Forecast EBIT growth by sector
(in percent)



Source: KPMG in Germany, 2025
Note: n/m = not meaningful

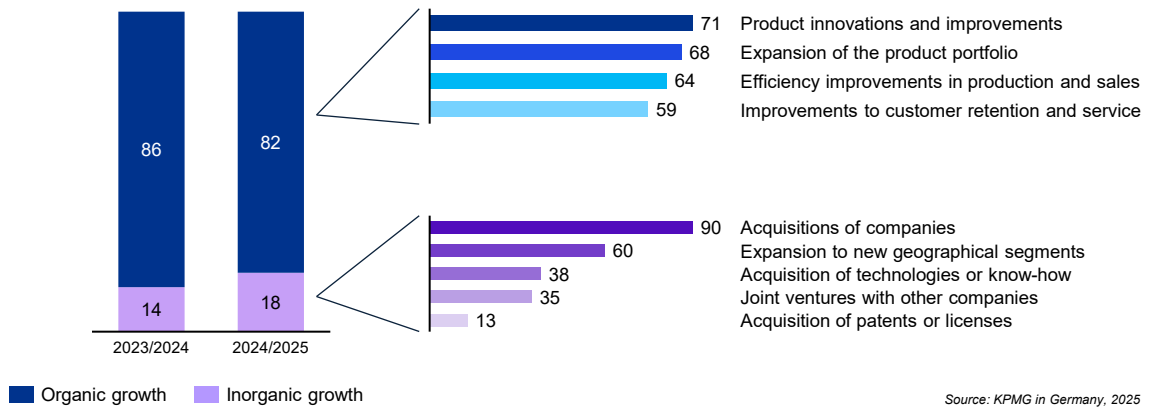
Companies generally pursue growth through different strategies, which can be divided into two main types: organic growth and inorganic growth. Organic growth focuses on utilizing internal resources, while inorganic growth involves incorporating external resources into the business.

This year saw 82 percent of participating companies experience growth primarily through organic methods. This represents a decrease of four percent from the previous year's 86 percent. Organic growth is largely driven by product innovations, enhancements, and expansion of the product portfolio. Moreover, a significant number of companies also leverage efficiency improvements and customer retention strategies to bolster their organic growth.

By contrast, the proportion of participating companies reporting growth through inorganic methods increased by four percentage points this year, reaching 18 percent in 2024/25. These companies mainly expand through acquisitions and entry into new markets. After years of decline, this may indicate a rebound in transaction markets.

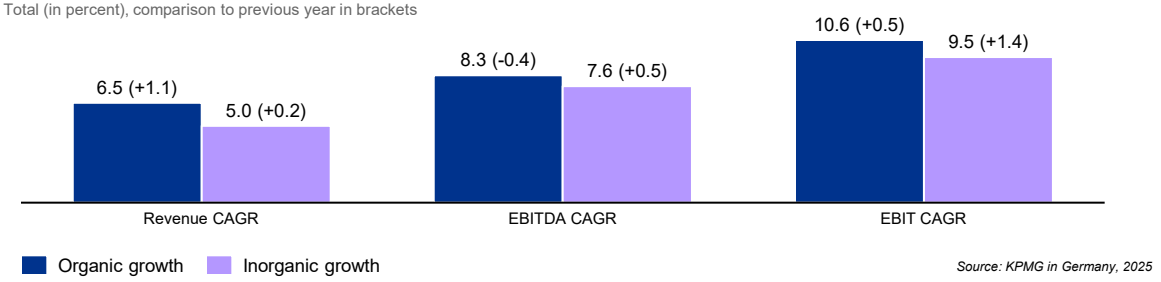
Companies embracing organic growth strategies anticipate higher compound annual growth rates (CAGRs) for revenue, EBITDA and EBIT than those focusing on inorganic growth. Notably, participants that primarily pursue organic growth have achieved higher revenue CAGR this year as compared to the last year, whereas those relying on inorganic growth have seen little change in this metric.

Figure 13:
Growth strategies
Total (in percent, multiple choices possible)



Source: KPMG in Germany, 2025

Figure 14:
Growth strategies in relation to planned CAGRs
Total (in percent), comparison to previous year in brackets



Source: KPMG in Germany, 2025

2.3 Inflation Expectations

The majority of the participating companies foresee short-term, company-specific inflation rates ranging from 2.01 percent to 3.00 percent. The highest short-term inflation rates are expected in the Real Estate, Consumer Markets and Transport & Leisure sectors (with rates above 4.00 percent), followed by the Automotive sector (with rates above 3.00 percent). The lowest are expected in the Healthcare and Financial Services sectors with more than one-third of participating companies expecting a rate below 2.01 percent.

As in last year's study, most companies expect mid- to long-term company-specific inflation (from the third planning year onward) of between 1.01 percent to 3.00 percent. However, an overall decline in inflation expectations is evident. The study's results reflect the current downward trend in inflation.

The majority of participating companies identified central bank monetary policies and geopolitical crises as the primary drivers of the future interest rate level. Additionally, almost half of the companies highlighted increasing public debt as a relevant driver in the future interest rate level. Furthermore, around one-third of participating companies perceived higher energy prices, the price-wage spiral, and scarcity of resources as relevant factors.

Figure 15:
Short-term company-specific inflation expectations
(in percent)

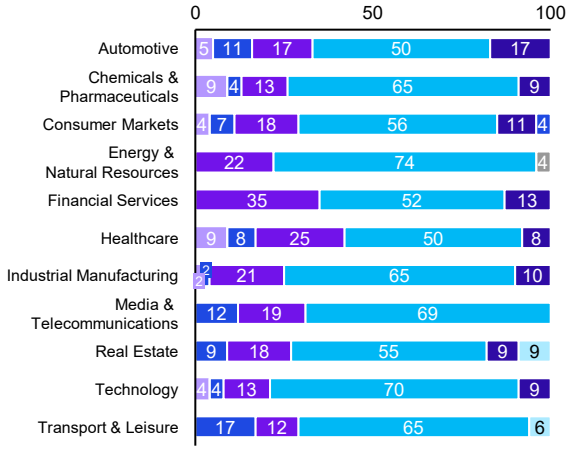
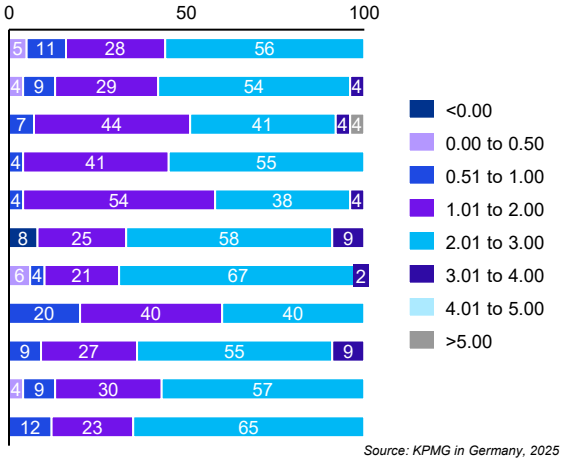
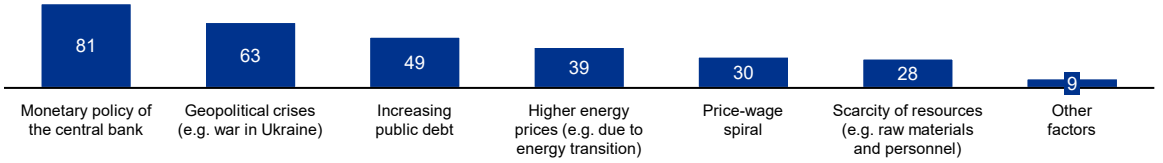


Figure 16:
Mid/Long-term company-specific inflation expectations
(in percent)



Source: KPMG in Germany, 2025

Figure 17:
Main drivers of the future interest rate level
Total (in percent, multiple choices possible)



Source: KPMG in Germany, 2025

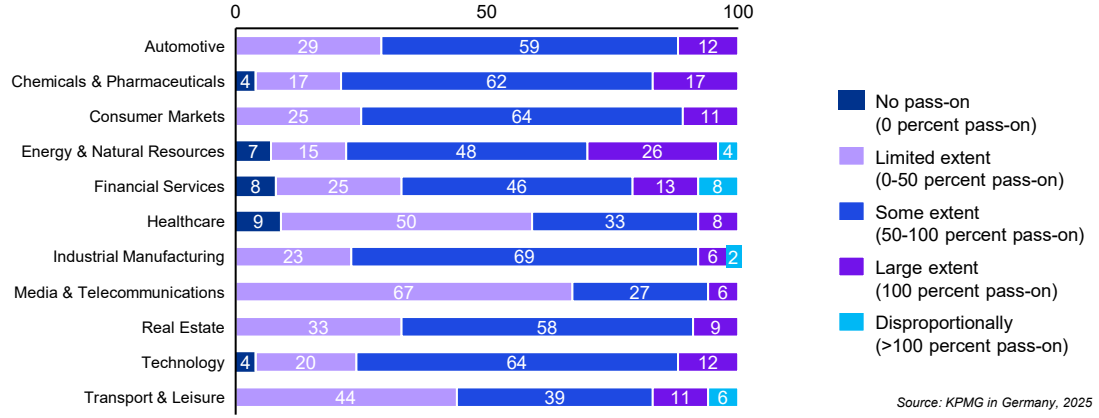
A company's ability to pass on cost increases due to inflation to its (end) customers significantly influences how inflation affects the company. Most companies reported that they are able to pass on some of these inflationary cost increases (50-100 percent pass-on).

However, the ability to pass on these costs to customers differs across sectors. Companies in the Media & Telecommunications sector have the greatest difficulty transferring these costs. In contrast, those in the Energy & Natural Resources, Financial Services, Transport & Leisure and Chemicals & Pharmaceuticals sectors are better able to pass on these costs to their customers.

Furthermore, a company's ability to pass on inflation-related cost increases is vital in determining how inflation affects its valuation.

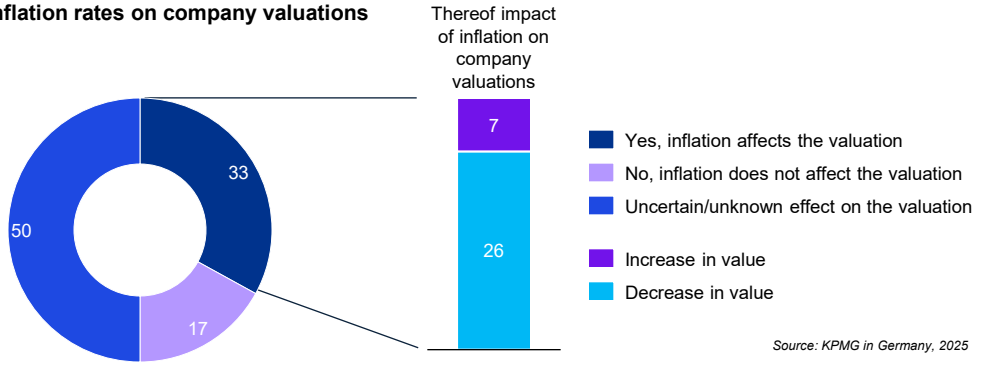
Among the participating companies, 33 percent recognize the effect of increasing inflation rates on company valuations. Of these, 7 percent foresee a positive impact on their company's valuation, whereas 26 percent predict a decrease. A significant portion of companies are still uncertain as to how rising inflation rates will affect valuations, a trend that has increased over the last year.

Figure 18:
Ability to pass on inflation-related cost increases to customers
(in percent)



Source: KPMG in Germany, 2025

Figure 19:
Impact of rising inflation rates on company valuations
Total (in percent)



Source: KPMG in Germany, 2025

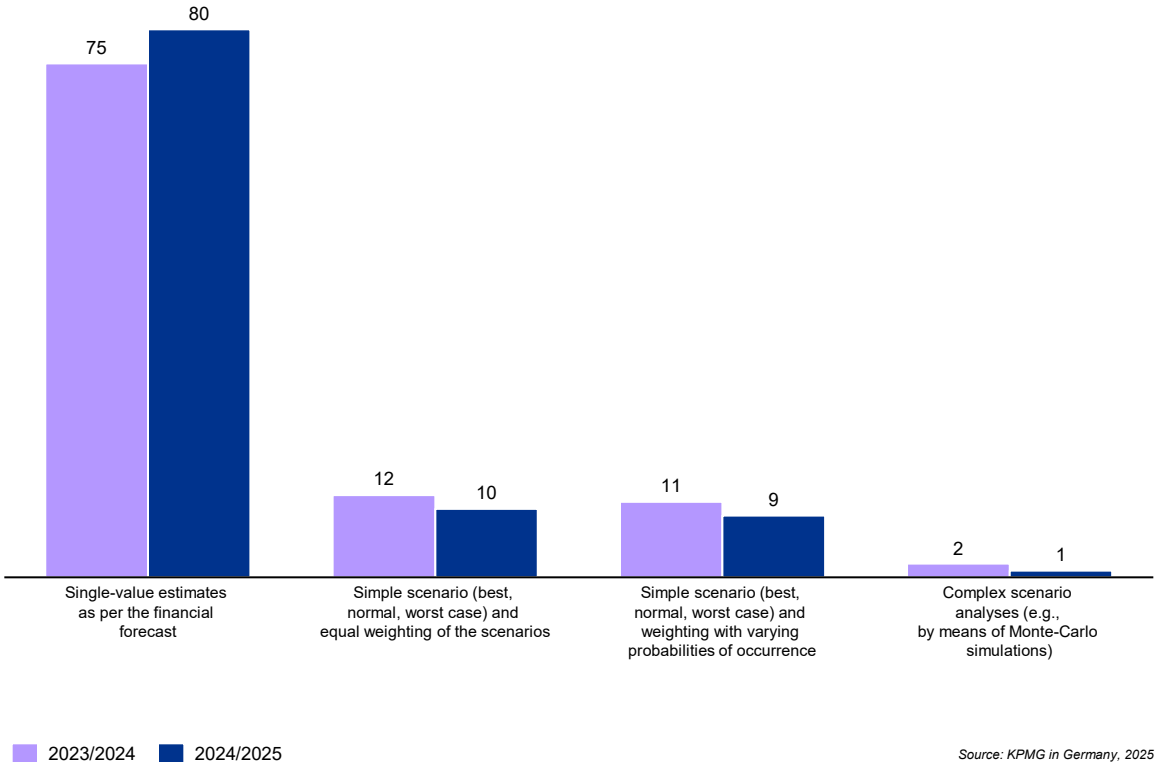
2.4 Determination of Expected Values

In the past, single-value estimations of future cash flows were sufficient for long-established companies operating in stable environments. However, during periods of significant uncertainty, this approach is limited.

In such economic conditions, multi-valued estimations using scenarios and simulations are essential. This method enables a systematic and transparent evaluation of performance and risk factors, which is vital given the challenges in accurately predicting macroeconomic and microeconomic trends, as well as short-term disruptions that can greatly affect business models.

Despite these challenges, the majority of participating companies continue to rely on single-value estimates when forecasting future cash flows, with an even greater percentage doing so than last year. This approach suggests that alternative scenarios, as well as potential shifts in future performance and risk factors affecting the current business model, are not being sufficiently considered when determining expected values.

Figure 20:
Measurement of expected values
Total (in percent)



Source: KPMG in Germany, 2025

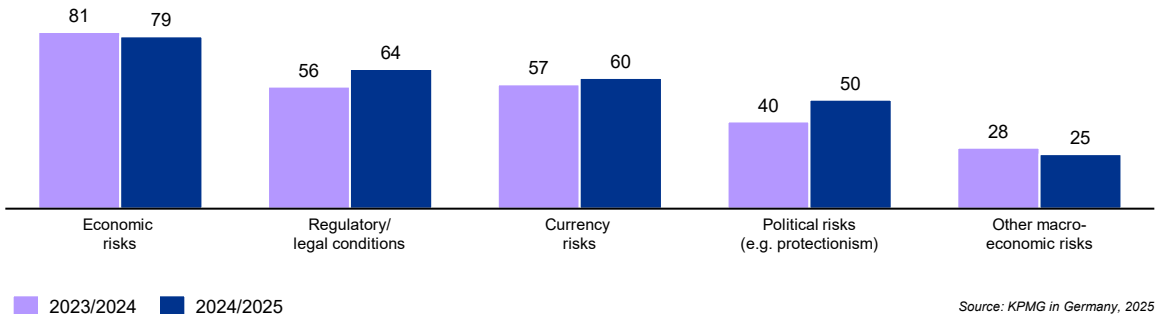
2.5 Consideration of Risks

Given the uncertainty surrounding future cash flows, these should be determined based on their expected value. In order to improve the accuracy of these expected values, it is essential to consider all relevant opportunities and risks relating to the operating business when preparing financial forecasts. These opportunities and risks can be macroeconomic or microeconomic in nature.

With regard to macroeconomic risk factors, most participating companies continue to account for economic risks in their financial forecasts. In addition, an increasing number of companies are considering regulatory and legal conditions, as well as currency and political risks, in their financial forecasts, a trend that has intensified since last year.

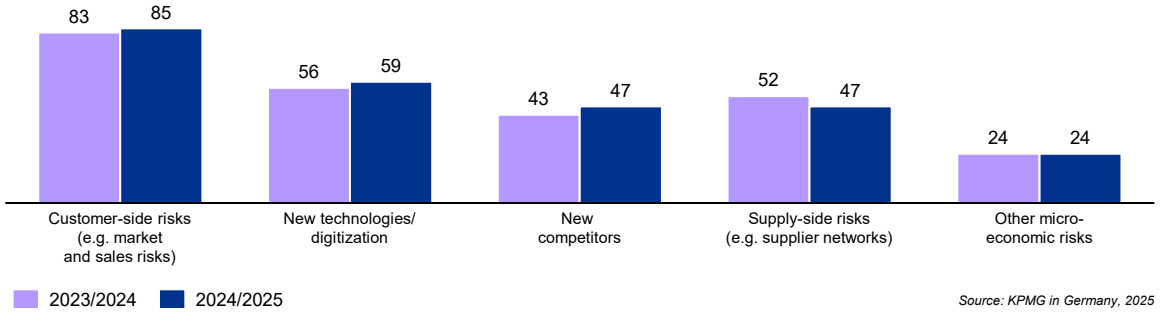
From a microeconomic perspective, most companies still consider customer-side risks, followed by risks associated with new technologies and digitalization, as well as supply-side risks. Compared to the previous year, the responses from participating companies have changed only slightly.

Figure 21:
Consideration of risks in the financial forecast – macroeconomic risks
Total (in percent, multiple choices possible)



Source: KPMG in Germany, 2025

Figure 22:
Consideration of risks in the financial forecast – microeconomic risks
Total (in percent, multiple choices possible)



Source: KPMG in Germany, 2025

2.6 Dealing with Uncertainty

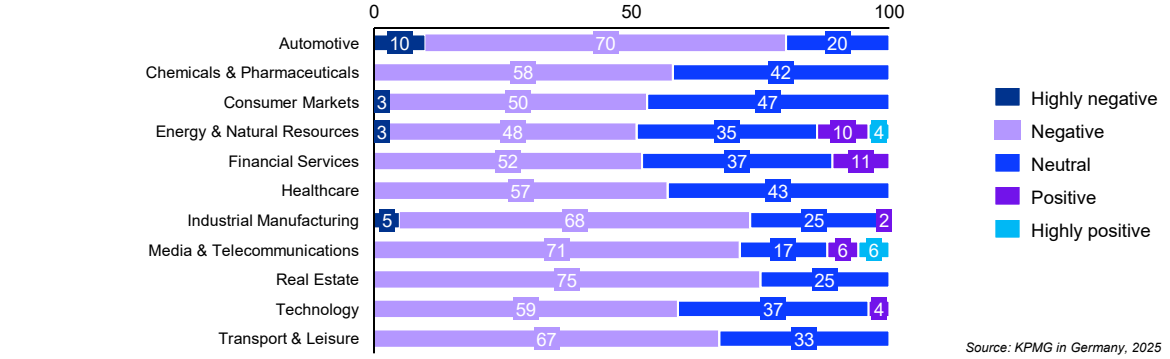
The sequence of increasingly short-term crises and their negative economic consequences has persisted beyond the pandemic, exacerbated by ongoing global uncertainty. Notable examples include Russia's war of aggression against Ukraine, the conflicts in the Middle East, and rising uncertainty surrounding intended changes to existing customs regimes.

This year's study reveals that 63 percent of participating companies report that uncertainty has a (highly) negative impact on their business plans, which is lower than last year's findings.

Additionally, a cross-industry comparison shows that, for some companies, particularly those in the Energy & Natural Resources, Financial Services and Media & Telecommunications sectors, uncertainty has had a positive or even highly positive impact on business plans.

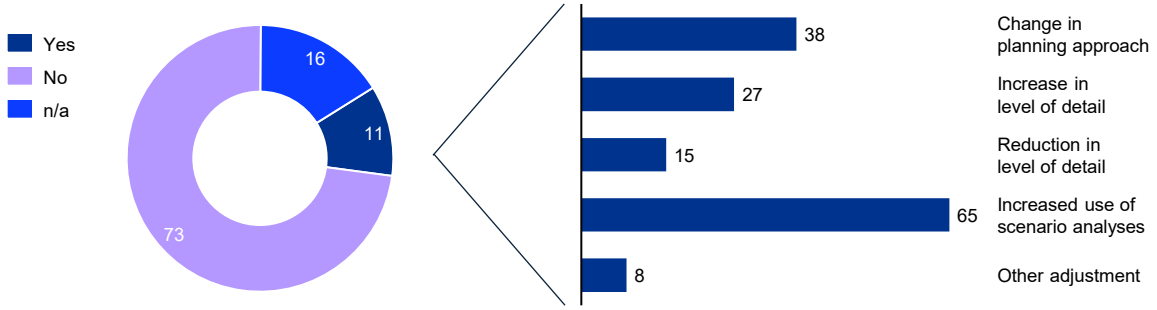
Despite most companies recognizing the negative impact of uncertainty on their business plans, the majority have not altered their planning processes. Of the 11 percent of companies indicating a need to adjust their planning due to uncertainty, 65 percent report an increased use of scenario analyses. Furthermore, more companies are now considering a change in their planning approach as an appropriate adjustment compared to last year.

Figure 23:
Impact of uncertainty on companies' business plans
(in percent)



Source: KPMG in Germany, 2025

Figure 24:
Need and level for adjustment of planning process due to uncertainty
Total (in percent, level for adjustment, multiple choices possible)



Empirical returns: Do regional differences persist in the long run?

Empirical Observations vs. Theoretical Models

When determining alternative returns for deriving the cost of equity in business valuation, empirically observed capital market returns for equity investments (in the form of stock portfolios) are typically employed as a starting point. The underlying rationale is that a shareholder who, based on their individual risk preferences, is willing to invest in a risky asset, such as the company being valued, will also be willing to invest in other equity holdings with a comparable risk profile as a risk-equivalent alternative investment.

These returns compensate investors for deferring current consumption, future monetary depreciation (inflation), and for assuming entrepreneurial risk, since investing in companies and equity shares is inherently uncertain. The total return can therefore be broken down into two components: the risk-free rate, which compensates for the time value of money, and the risk premium demanded by shareholders for bearing entrepreneurial risk. Capital market theory models, such as the Capital Asset Pricing Model (CAPM), are used for this purpose.

These models make simplifying assumptions and remove the complexity of real capital markets. However, they have the advantage of providing suitable comprehensible foundations, parameters, and benchmarks for determining the required cost of capital.

Despite the widespread acceptance and use of theoretical capital market models for deriving cost of capital, it is important to recognize that these models are intended to explain empirically observed phenomena, not replace them. The results of theoretical models must be measured against empirical observations and the return expectations of market participants (i.e. total returns).

Pluralistic Approach

In valuation practice, the estimation of the required (future) return expectations for equity cost purposes is carried out using various approaches. The most well-established methods include analyzing historical returns and risk premiums, as well as implied (forward-looking) returns and risk premiums. Each approach has its own strengths and weaknesses. Combining both methods in a pluralistic approach offers many advantages.

In this context, historical returns and risk premiums serve as guardrails for a historically substantiated and realistic range of outcomes. Implied returns and risk premiums – typically derived from current market data – can be used to determine a point estimate at a specific valuation date within this historical range. The calculation of implied returns is based on solving the present value formula for the cost of capital.

If the results of implied (model-based) calculations and historical analyses diverge, it is important to critically assess whether the individual model components of the present value formula were derived consistently and in accordance with the model on the relevant valuation date. Incompatibility between empirical capital market data and the theoretical model should be avoided in favor of a holistic and economically sound view of total return expectations.

Recently, there have been increasing indications of apparent discrepancies between historically observed returns and risk premiums, and implied returns and risk premiums derived from mathematical models. This topic will be examined in more detail as part of this year's thematic focus (see implied returns on page 39).

Historical Returns and Risk Premiums

Valuation practice typically starts with empirical (historical) data as a reliable data basis for deriving the (future) return expectations required by valuation theory. This is based on the assumption that the average macroeconomic conditions observed in the past – taking into account long-term trends – can be extrapolated into the future. To eliminate the effects of inflation, nominal and real returns are usually analyzed together. Historical market risk premiums can also be derived from historical returns by subtracting the risk-free rate.

In principle, both historical real returns and historical market risk premiums can be projected into the future.

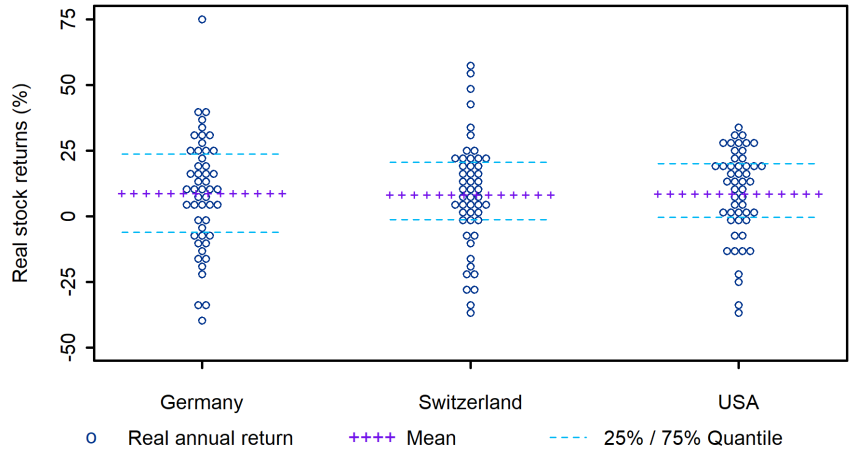
When analyzing historical data, particularly relevant are the capital market, the time period, and the method of averaging returns. Regarding the time period, the general rule is to use the longest possible time horizon. However, this is limited by the point in time from which a functioning capital market can be assumed, the availability of reliable data and extraordinary events that could significantly distort the analysis, such as the two World Wars.

With respect to averaging methods, there continues to be a debate over whether to use the geometric mean or the arithmetic mean due to the unknown empirical return distribution. In recent years, the arithmetic mean has gained broader support.

First, we analyzed and compared the historical returns of different regions to identify any similarities or differences in long-term returns across geographic economic areas. The time period from 1960 to 2023 was used for the regions Germany, Switzerland and the USA. We focused on real annual equity returns to eliminate differences in inflation levels. The results are shown in the adjacent figure.

It becomes evident that across the three capital markets considered, very similar real returns of approximately 7.5 percent p.a. have been achieved on average since 1960. Any outperformance of individual regional capital markets – such as the U.S. market compared to the German market in recent years – is therefore temporary and tends to even out in long-term analyses. If this finding can be transferred to the future, it will provide valuable insights for estimating the required (future) return expectations.

Figure 25:
Empirically Observed Real Stock Returns



Source: KPMG in Germany: based on data from Stehle/Schmidt, 2016, German Central Bank, Shiller, 2000, 2005, and 2015, Ibbotson (2003), FED (2025), Pictet (2024), SNB 2025), and German Federal Statistical Office (2025)

3

Determination of the Cost of Capital Parameters

3.1 WACC Overview

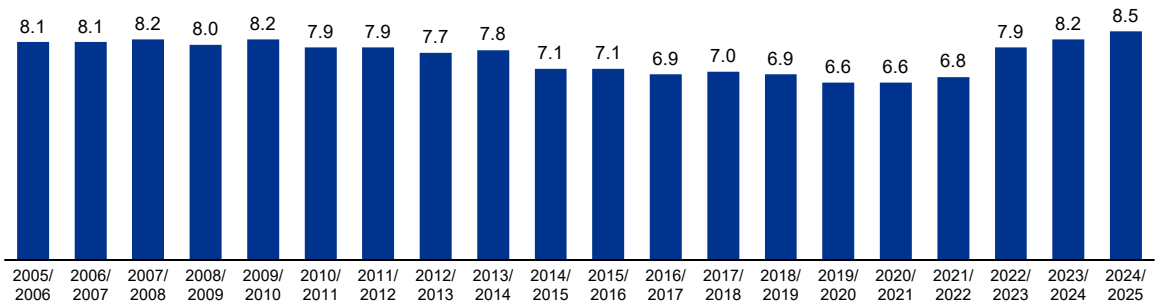
The most widely applied discounted cash flow (DCF) method for determining a company's enterprise value is the Weighted Average Cost of Capital (WACC) approach. Under this methodology, future cash flows are discounted using the WACC, which is calculated by weighting the cost of equity and the cost of debt according to their respective proportions of the total capital (entity value), based on market values.

This year's study indicates an increase in the average WACC, rising from 8.2 percent in the previous year to 8.5 percent. This continues the upward trajectory observed over the past three years, reaching its highest level recorded in twenty years.

Although consistent principles should ideally be applied across different valuation contexts, many of respondents reported not aligning the cost of capital used for M&A transactions with that used for investment decision-making.

The decisive factor when deriving the cost of capital is not consistency on a value basis, but rather ensuring methodological coherence across different valuation scenarios.

Figure 26:
WACC (after corporate taxes)
Total (in percent)



Source: KPMG in Germany, 2025

Relevant cost of capital parameters at a glance

In times of uncertainty, it is more important than ever for companies to keep an eye on cost of capital parameters in order to be prepared for changing market conditions and to protect their companies against losses. But how can companies keep track of their most important capital market data? The KPMG Valuation Data Source collates relevant cost of capital parameters and guides users through deriving their individual WACC or the cost of equity relevant for the financial sector. The user simply specifies the preferred reporting date, the relevant country, currency and peer group and selects the desired settings for the calculations. The KPMG Valuation Data Source provides access to cost of capital parameters from more than 150 countries and peer group-specific data from over 17,500 companies worldwide. Historical cut-off dates are available from 2012 to the present day.

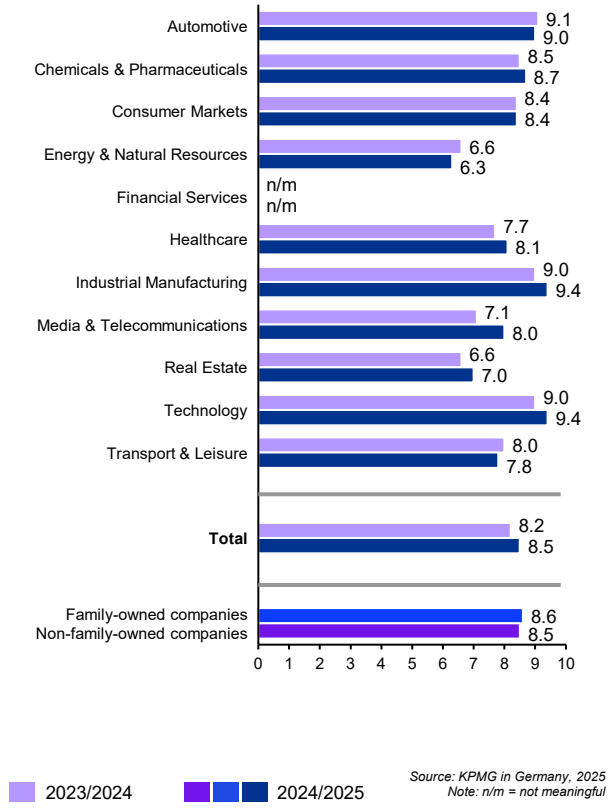
For further information see **KPMG Valuation Data Source**.

The overall increase in the WACC observed this year is primarily attributable to sector-specific developments, which exhibit considerable variation. The most pronounced increases were recorded in the following sectors: Media & Telecommunications (7.1 percent to 8.0 percent), Healthcare (7.7 percent to 8.1 percent), Industrial Manufacturing (9.0 percent to 9.4 percent), Real Estate (6.6 percent to 7.0 percent) and Technology (9.0 percent to 9.4 percent).

While the majority of sectors reported an upward trend in WACC, a few sectors experienced a decline. The most notable reduction was observed in the Energy & Natural Resources sector (6.6 percent to 6.3 percent). A decline in the WACC was also reported in the Transport & Leisure sector (8.0 percent to 7.8 percent) as well as in the Automotive sector (9.1 percent to 9.0 percent).

On average, non-family-owned companies applied a lower WACC (8.5 percent) compared to family-owned companies, which applied a WACC of 8.6 percent.

Figure 27:
WACC (after corporate taxes) by sector
(in percent)



Source: KPMG in Germany, 2025
Note: n/m = not meaningful

Chemicals & Pharmaceuticals

Compared to last year's study, the WACC in the Chemicals & Pharmaceuticals sector saw a slight increase. This upward trend is more pronounced within the individual sub-sectors: the WACC in the Chemicals sub-sector rose significantly from 7.9 percent to 8.8 percent, surpassing the 8.6 percent observed in the Pharmaceuticals sub-sector.

Consumer Markets

While the overall WACC in the Consumer Markets sector remained unchanged compared to the previous year, the sub-sectors show more distinct developments. The WACC in the Consumer Markets sub-sector rose slightly from 8.1 percent to 8.2 percent, whereas the WACC in the Retail sub-sector declined significantly from 8.6 percent to 7.5 percent.

3.2 Risk-free Rate

Theoretical capital market models – most notably the CAPM – are widely used as the foundation for determining the cost of equity. Under the CAPM framework, the cost of equity is composed of a risk-free rate and a risk premium that compensates investors for the specific risks associated with their investment.

To ensure term equivalence, the risk-free rate should be derived from the relevant central bank's yield curve when calculating the cost of capital.

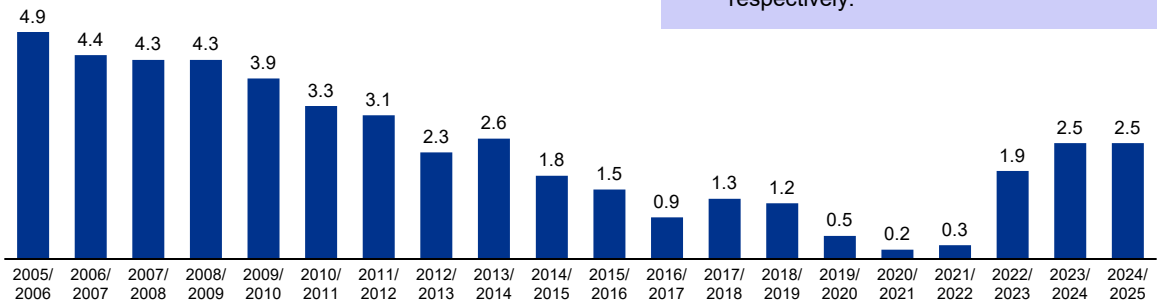
To mitigate short-term market volatility and reduce estimation uncertainty – particularly for long-term return assumptions – it is advisable to base the risk-free rate on the average of the three months preceding the valuation date.

Following last year's increase, the average risk-free rate has remained stable at 2.5 percent, largely driven by persistently high inflation.

A cross-country comparison reveals divergent developments: While the risk-free rate applied in Germany and Austria declined slightly from 2.6 percent to 2.5 percent, Switzerland experienced a notable increase from 1.8 percent to 2.6 percent.

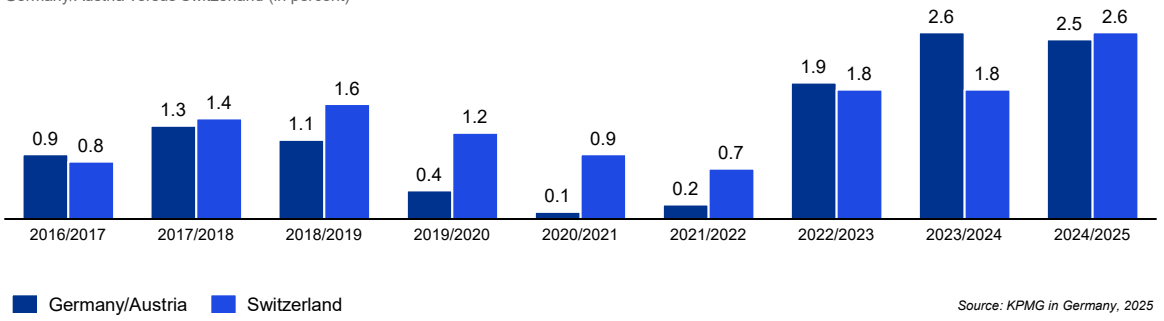
Figure 28:
Average risk-free rate applied
Total (in percent)

As of September 2025, the risk-free rate in Germany was 3.25 percent. In Austria and Switzerland, this amounted to 3.31 percent and 0.40 percent, respectively.



Source: KPMG in Germany, 2025

Figure 29:
Average risk-free rate applied
Germany/Austria versus Switzerland (in percent)



Source: KPMG in Germany, 2025

3.3 Market Risk Premium

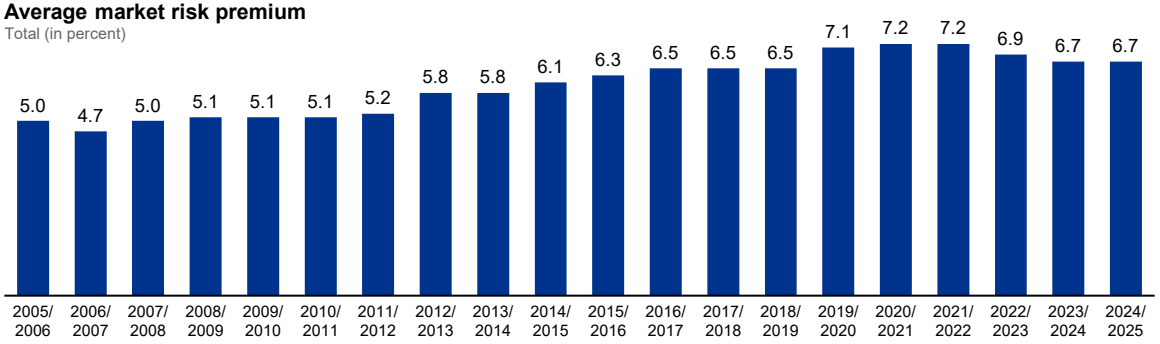
The market risk premium is a parameter not directly observable in capital markets and is typically derived by subtracting the risk-free rate from the expected total market return.

In September 2025, the Technical Committee for Business Valuation and Economics (FAUB, Fachausschuss für Unternehmensbewertung) of the Institute of Public Auditors in Germany (IDW, Institut der Wirtschaftsprüfer) issued an updated recommendation for the appropriate range of the market risk premium. This revision was prompted by recent developments in capital markets. As a result, the recommended range for the market risk premium in Germany was adjusted to between 5.25 percent and 6.75 percent.

In Austria, the Council of Experts for Business Administration (KFS/BW, Fachsenat für Betriebswirtschaft) of the Chamber of Tax Advisors and Auditors (KSW, Kammer der Steuerberater und Wirtschaftsprüfer) recommended a nominal market return of 7.5 percent to 9.0 percent as of the end of 2017. However, by the end of 2022, the Council acknowledged that evolving market conditions – including geopolitical tensions and inflationary pressures – meant it was appropriate to assume market returns exceeding this range.

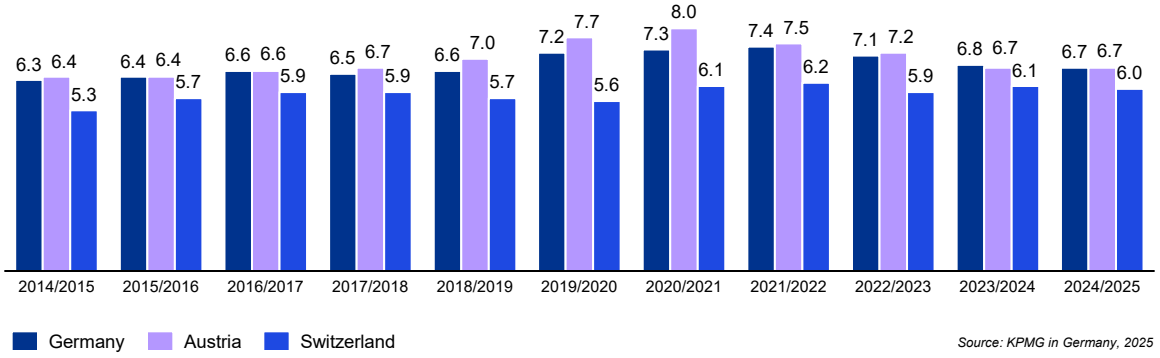
Individual analyses to determine the market risk premium should always be conducted based on the aforementioned ranges recommended by the standard-setting bodies.

Figure 30:
Average market risk premium
Total (in percent)



Source: KPMG in Germany, 2025

Figure 31:
Average market risk premium
Germany versus Austria versus Switzerland (in percent)



Source: KPMG in Germany, 2025

A notable decline was observed in the number of German companies applying a market risk premium within the ranges of 6.76 percent to 7.00 percent and 7.01 percent to 7.25 percent, compared to the previous year. Furthermore, the trend from last year, where participants largely reduced the application of market risk premiums exceeding 7.50 percent, continued. This year, only one percent of the respondents reported using a premium in the range of 7.76 percent to 8.00 percent.

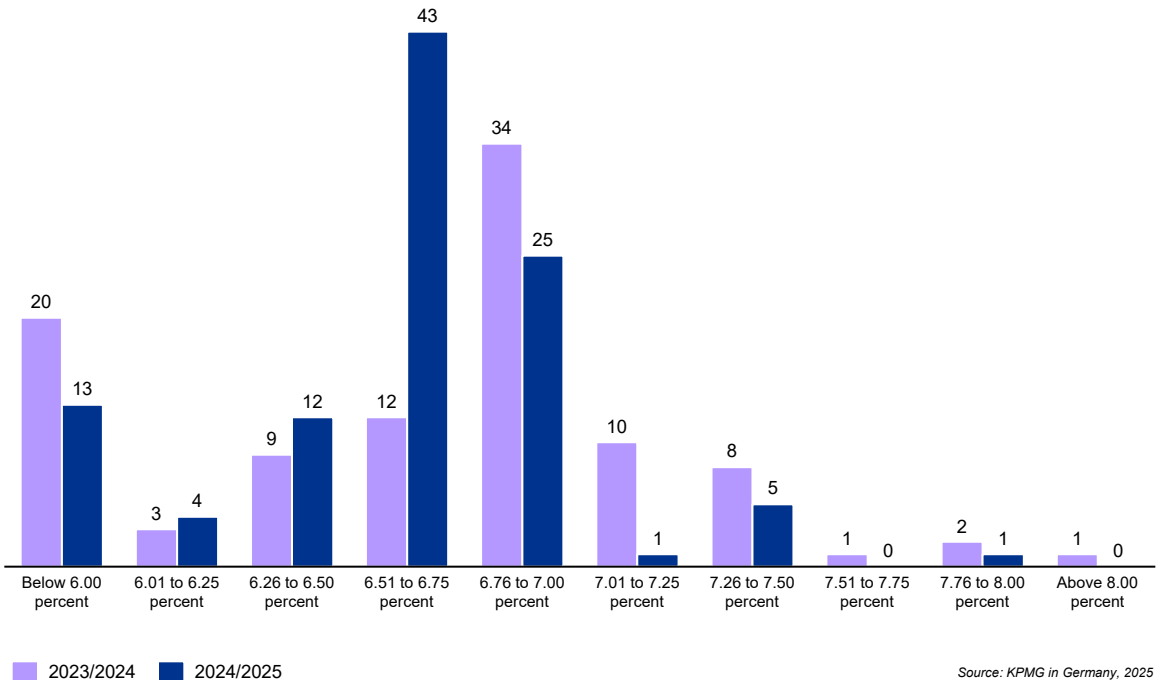
Conversely, there was a significant increase in the number of companies applying a market risk premium of between 6.51 percent and 6.75 percent.

Overall, the data reflects a clear tendency among participants to concentrate on market risk premiums predominantly within the range of 6.26 percent to 7.00 percent.

By definition, the market risk premium is an industry-independent parameter. Accordingly, the market risk premiums applied by the study participants were within a narrow range, with no material deviations observed across individual industry sectors.

Figure 32:
Distribution of the market risk premiums of German companies
Total (in percent)

As of September 2025, the market risk premium for German companies amounted to 5.75 percent according to KPMG's analysis.



Source: KPMG in Germany, 2025

3.4 Beta Factor

The beta factor serves as a quantitative measure of a company's operational risk by capturing the volatility of an individual security relative to the overall market portfolio. Although intended to reflect future risk in comparison to general market movements, the beta factor is typically derived from historical data due to the absence of robust alternative methodologies.

As beta factors are observable only for publicly listed companies, they are often estimated by benchmarking against comparable entities within a defined peer group. In cases where emerging business models lack a sufficient number of listed peers, developing innovative estimation approaches may be necessary.

The unlevered beta factor reflects a company's operational risk independent of its capital structure, whereas the levered beta factor incorporates the impact of financial leverage, thereby representing the systematic risk borne by equity investors.

In comparison to the previous year, the average unlevered beta factor has increased to 0.86. The most notable sector-specific changes were observed in Consumer Markets (rising from 0.77 to 0.84), Media & Telecommunications (rising from 0.72 to 0.79), and Technology, which saw the most significant shift (declining from 1.10 to 0.99).

Figure 33:
Average unlevered beta factors by sector

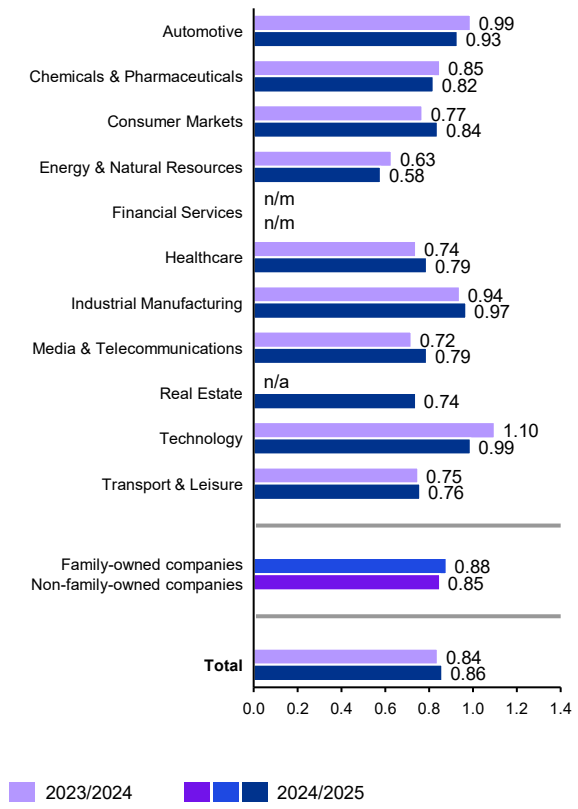
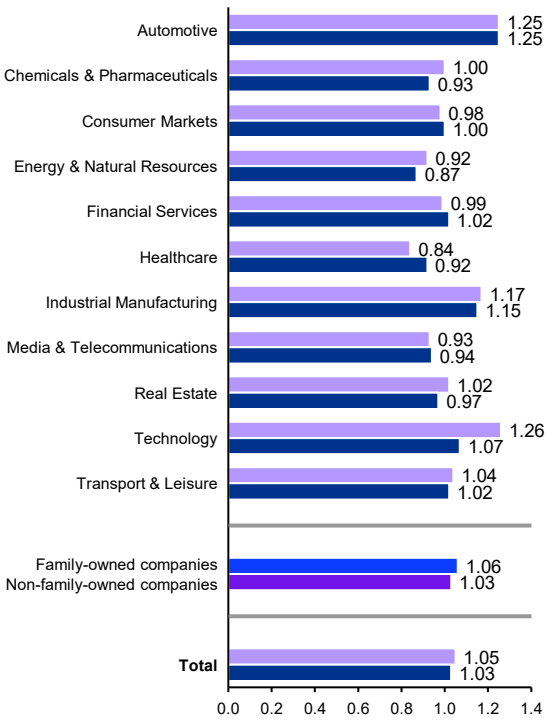


Figure 34:
Average levered beta factors by sector



Source: KPMG in Germany, 2025
Note: n/m = not meaningful
n/a = not available

3.5 Cost of Equity

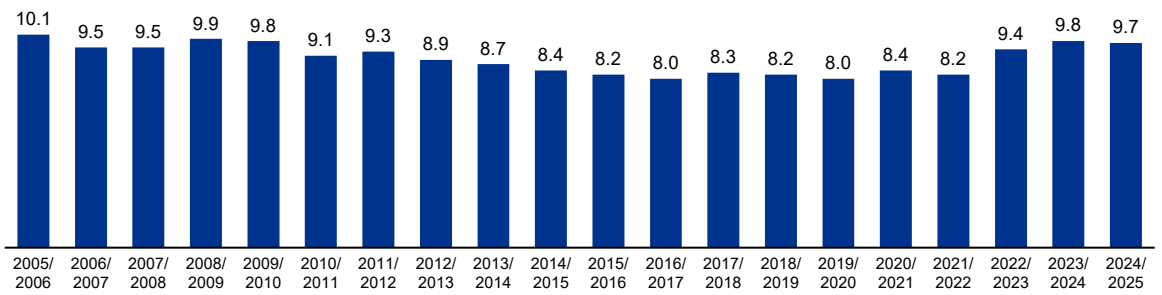
The levered cost of equity is derived using the CAPM, which incorporates the risk-free rate, the company-specific levered beta factor, and the market risk premium.

Compared to the previous year, the average levered cost of equity applied by participating companies declined slightly, from 9.8 percent to 9.7 percent.

A cross-country comparison across Germany, Austria and Switzerland indicates a consistent downward trend. In Germany, the average levered cost of equity decreased from 10.0 percent to 9.8 percent, in Austria from 9.9 percent to 9.7 percent, and in Switzerland from 9.0 percent to 8.6 percent, marking the most pronounced reduction among the DACH countries.

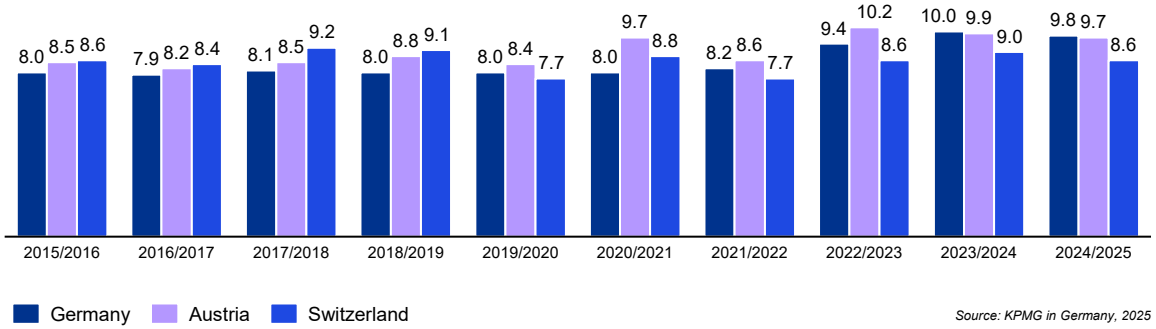
The comparatively lower average levered cost of equity in Switzerland, as compared to Germany and Austra, is primarily attributable to the country's lower market risk premium.

Figure 35:
Average levered cost of equity
Total (in percent)



Source: KPMG in Germany, 2025

Figure 36:
Average levered cost of equity
Germany versus Austria versus Switzerland (in percent)



Source: KPMG in Germany, 2025

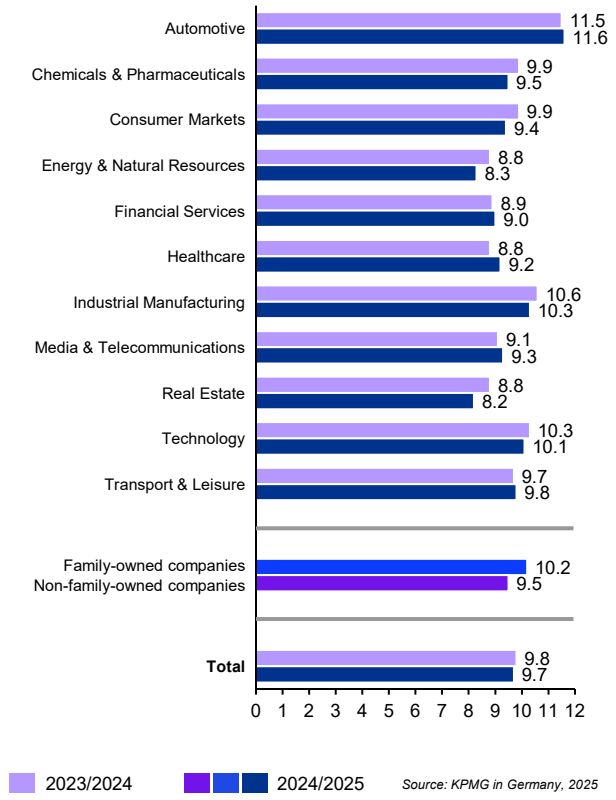
Following an upward trend in the previous year's Cost of Capital Study, the current year has seen a decline or stabilization in the average levered cost of equity across most industry sectors. Notable increases of more than 0.1 percentage points were observed exclusively in the Healthcare and Media & Telecommunications sectors.

Despite these developments, the average levered cost of equity remains elevated across all industries, ranging from 8.2 percent to 11.6 percent. This is primarily attributable to continued high expectations for total market returns, driven by a consistently high risk-free rate – largely influenced by ongoing inflation – and a stable average market risk premium throughout the surveyed period. As a result, the average levered cost of equity remains broadly in line with the levels reported in the previous year.

A sector-specific analysis reveals that the most pronounced increase occurred in the Healthcare sector, where the average levered cost of equity rose from 8.8 percent to 9.2 percent. In contrast, the Real Estate sector experienced the most significant decline, decreasing from 8.8 percent to 8.2 percent.

Furthermore, family-owned companies reported an average levered cost of equity of 10.2 percent, which is 0.7 percentage points higher than that of non-family-owned companies. This is a trend consistent with the findings of the previous year.

Figure 37:
Average levered cost of equity by sector
(in percent)



Source: KPMG in Germany, 2025

Consumer Markets

Compared to the previous year's study, the levered cost of equity in the Consumer Markets sector decreased from 9.9 percent to 9.4 percent. By contrast, the levered cost of equity in its sub-sector Retail decreased from 9.0 percent to 8.2 percent. Within the Consumer Markets sub-sector, the levered cost of equity increased from 8.4 percent to 9.7 percent.

Chemicals & Pharmaceuticals

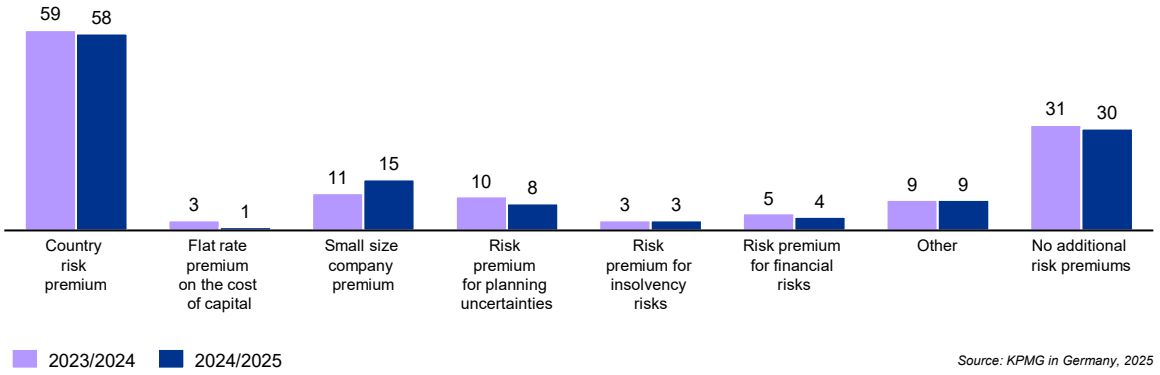
Compared to the previous year's study, the decrease in the levered cost of equity in the Chemicals & Pharmaceuticals sector is primarily attributable to the Chemicals sub-sector, where the levered cost of equity decreased from 10.4 percent to 9.6 percent. By contrast, the levered cost of equity in the Pharmaceuticals sub-sector increased by 0.3 percentage points to 8.9 percent.

3.6 Other Risk Premiums

Given the inherent challenges in accurately forecasting future developments, particularly future cash flows, it is imperative to acknowledge the associated uncertainties and risks, and to appropriately reflect these factors in the expected value and cost of capital. In addition to adjusting cash flows for risk, specific risk premiums – incorporated as components of the cost of capital – may be applied to account for such uncertainties.

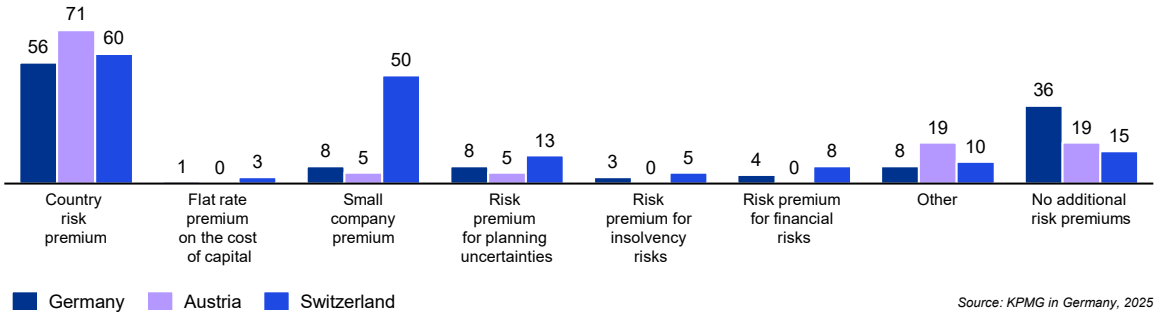
Consistent with the prior years' findings, the country risk premium remains the most widely applied supplementary risk premium. This trend is also evident in the cross-country comparison of Austria, Germany and Switzerland. Notably, almost half of the Swiss participants apply a small company premium, whereas a significantly higher proportion of German companies do not use any additional risk premiums compared to their Austrian and Swiss counterparts.

Figure 38:
Other risk premiums: 2023/2024 versus 2024/2025
Total (in percent, multiple choices possible)



Source: KPMG in Germany, 2025

Figure 39:
Selected other risk premiums: 2024/2025
Germany versus Austria versus Switzerland (in percent, multiple choices possible)



Source: KPMG in Germany, 2025

3.7 Perspective used to derive Cost of Capital

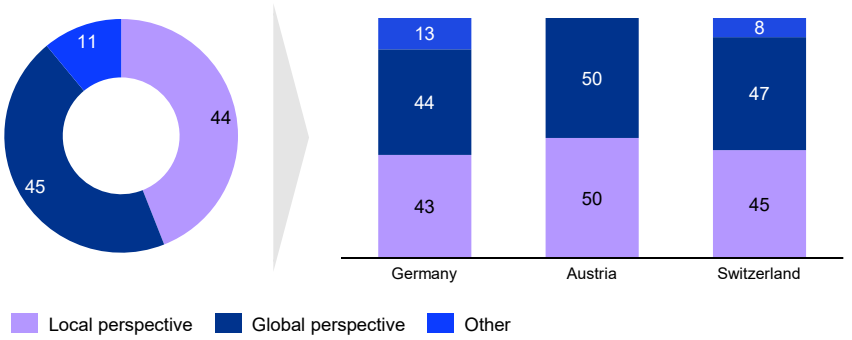
Cost of capital parameters may be derived from a global or a local perspective. The global approach assumes full integration of regional capital markets and relies on global indices to determine the market risk premium and the beta factor. In contrast, the local approach presumes the segmentation of capital markets and utilizes regional indices for the derivation of these parameters.

In reality, capital markets are neither fully integrated nor fully segmented. Accordingly, both approaches are commonly used in practice, as this year's study confirms.

The critical factor is not the choice of perspective, but rather the consistent application of the chosen methodology when determining cost of capital parameters, such as the risk-free rate, the market risk premium and the beta factor. Provided that consistency is maintained in the derivation process, the choice between a global or local perspective does not significantly affect the resulting cost of capital.

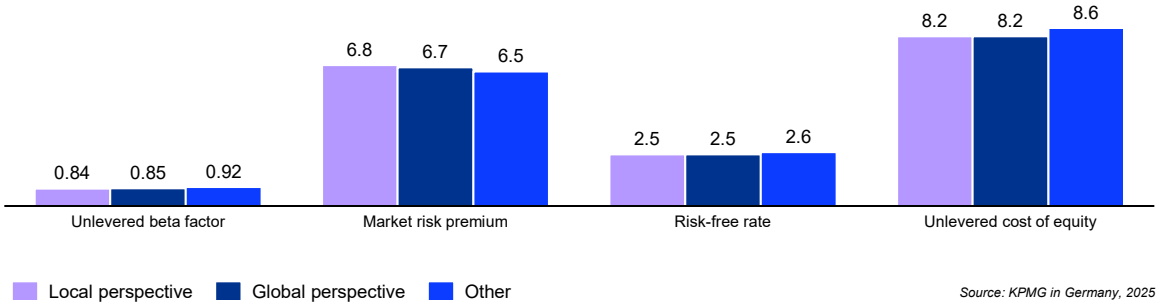
Empirical evidence from German companies indicates that, on average, there is no significant difference in cost of capital parameters between those applying a global versus a local perspective.

Figure 40:
Perspective used to derive cost of capital
Total (in percent), Germany versus Austria versus Switzerland (in percent)



Source: KPMG in Germany, 2025

Figure 41:
Average of cost of capital parameters based on perspective (Germany only)
Total (in percent)



Source: KPMG in Germany, 2025

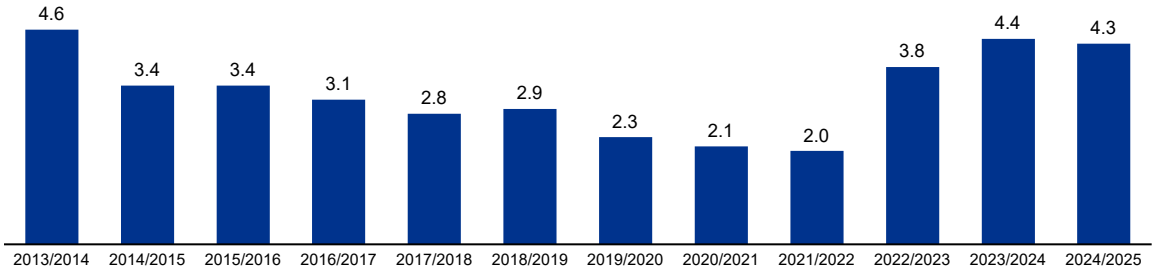
3.8 Cost of Debt and Debt Ratio

The second key component in the determination of the WACC is the cost of debt and the debt ratio. The cost of debt reflects the expected return required by debt providers, while the debt ratio is defined as the proportion of the market value of net debt relative to the total market value of total capital (enterprise value).

Following a notable increase in the previous year, the average cost of debt reported by companies participating in this year's study declined slightly to 4.3 percent. A cross-country comparison indicates a downward trend in the cost of debt across Germany, Austria and Switzerland, albeit in varying degrees. Austria and Switzerland experienced more pronounced declines of 4.4 percent to 4.1 percent and 3.8 percent to 3.5 percent, respectively. In contrast, Germany saw a marginal decrease from 4.5 percent to 4.4 percent, therefore remaining relatively stable.

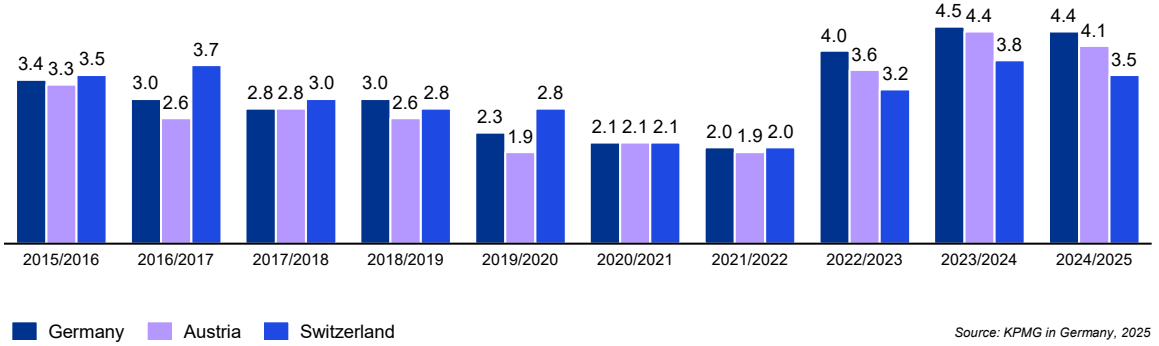
These variations reflect differences in the prevailing risk-free rates across the respective regions during the surveyed period. Notably, despite a significant increase in the risk-free rate in Switzerland, rising from 1.8 percent to 2.6 percent, the cost of debt still declined from 3.8 percent to 3.5 percent. This suggests a substantial decrease in credit spreads.

Figure 42:
Average cost of debt
Total (in percent)



Source: KPMG in Germany, 2025

Figure 43:
Average cost of debt
Germany versus Austria versus Switzerland (in percent)



Source: KPMG in Germany, 2025

Following a consistent increase in the cost of debt across almost all industries last year, we are now observing a partial reversal in some sectors, with the exception of Automotive, Healthcare, Industrial Manufacturing and Media & Telecommunications. The most pronounced reduction was reported in the Technology sector, followed by Real Estate and Transport & Leisure.

Family-owned companies reported an average cost of debt of 4.2 percent, which is 0.1 percentage points lower than that of non-family-owned companies.

This downward trend in the cost of debt was accompanied by a decline in the average debt ratio, which fell by 5.0 percentage points to 23.5 percent. However, sector-specific variations were notable. The most substantial reductions in debt ratios were observed in the Real Estate sector (from 35.1 percent to 21.7 percent) and the Transport & Leisure sector (from 31.9 percent to 21.2 percent).

In contrast, the Healthcare sector recorded the most significant increase, with its debt ratio rising from 18.5 percent to 21.0 percent.

Figure 44:
Average cost of debt by sector
(in percent)

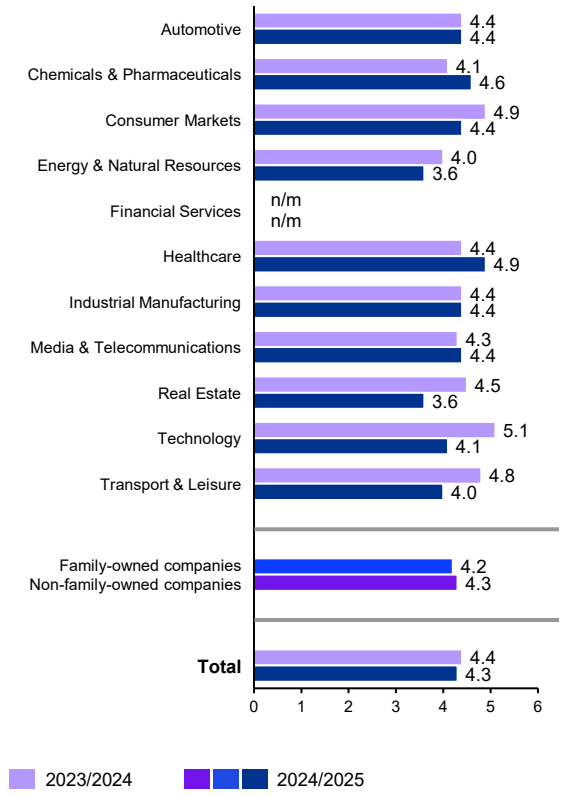
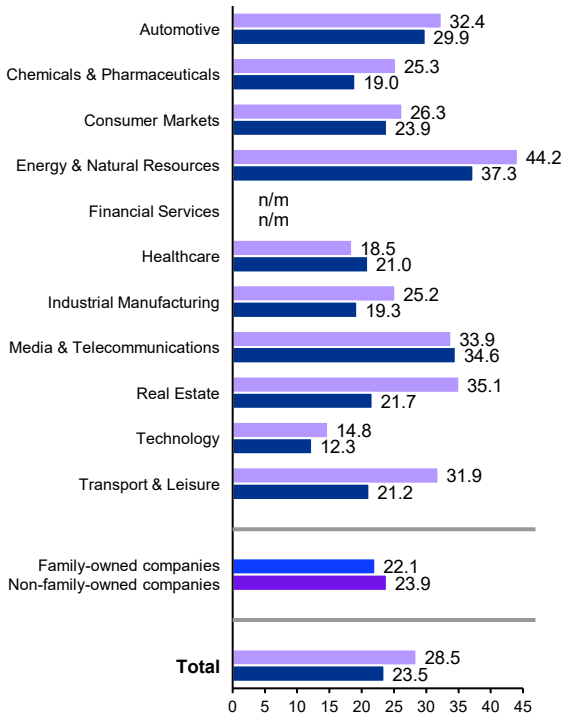


Figure 45:
Average debt ratio by sector
(in percent)



Source: KPMG in Germany, 2025
Note: n/m = not meaningful

3.9 Terminal Value & Sustainable Growth Rate

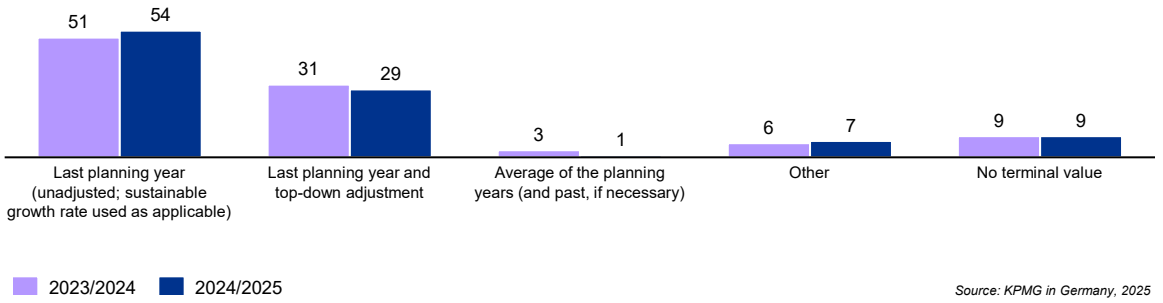
Under the perpetuity assumption, the terminal value typically represents the most significant component of an enterprise's overall valuation. However, its determination presupposes that the company has reached a sustainable state of equilibrium, which is generally not attained by the end of the explicit planning period. Given the critical influence of the terminal value, identifying the appropriate year of sustainability should ideally be based on scenario-driven methodologies, such as Monte Carlo simulations. Nevertheless, the majority of participating companies continue to rely on the final year of the planning horizon – without adjustment – as the basis for calculating terminal value.

A key input in determining terminal value is the sustainable growth rate, which reflects company-specific inflationary growth in a steady-state environment.

Although this rate should ideally be derived from a detailed analysis of the company's operational characteristics, most study participants estimate it using simplified methods, e.g. by applying 50 percent of the general consumer inflation rate.

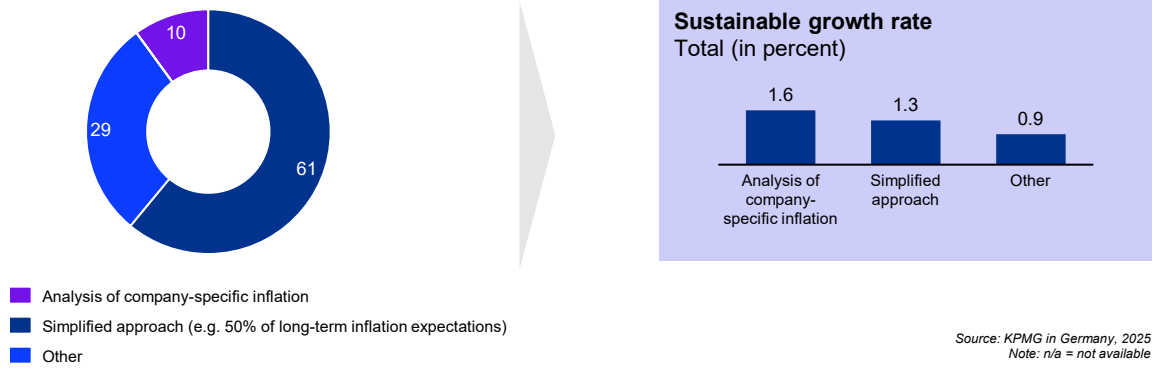
Comparative analysis indicates that companies employing simplified estimation techniques tend to apply slightly lower sustainable growth rates on average than those conducting more comprehensive assessments.

Figure 46:
Determination of the terminal value
Total (in percent)



Source: KPMG in Germany, 2025

Figure 47:
Measurement of the sustainable growth rate
Total (in percent)



Source: KPMG in Germany, 2025
Note: n/a = not available

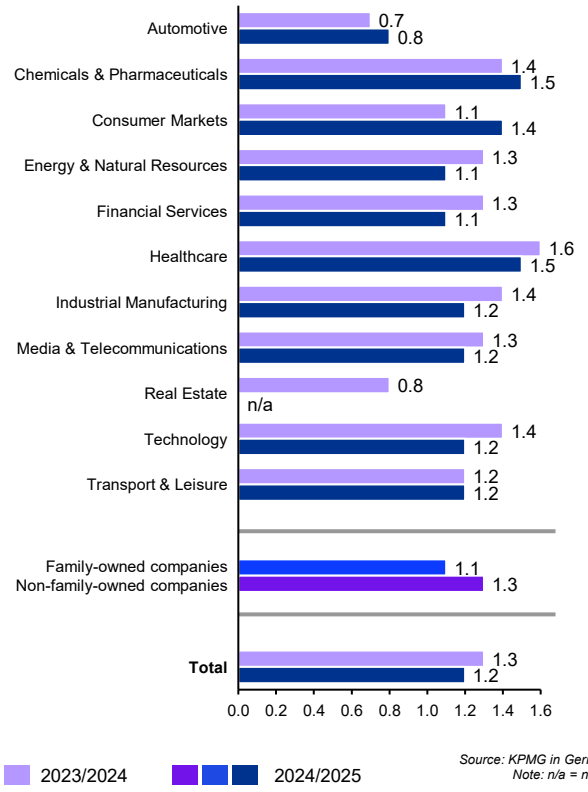
In comparison to the previous year's study, the overall average sustainable growth rate among participating companies has marginally declined from 1.3 percent to 1.2 percent. This downward trend is relatively consistent across sectors, with the exception of the Automotive, Chemicals & Pharmaceuticals and Consumer Markets sectors, which reported increases in their average sustainable growth rates. Among these sectors, Consumer Markets recorded the most significant increase, with the average sustainable growth rate rising from 1.1 percent to 1.4 percent.

The most notable declines were observed in the Energy & Natural Resources, Financial Services, Industrial Manufacturing and Technology sectors, each of which experienced a reduction of 0.2 percentage points compared to the prior year.

This overall decline is also reflected at the country level within the DACH region. Participants in Germany and Austria each reported a decrease of 0.1 percentage points, bringing their average sustainable growth rates to 1.2 percent and 1.1 percent, respectively. Switzerland experienced a more pronounced decline of 0.2 percentage points, resulting in an average of 1.3 percent.

When interpreting the applied sustainable growth rates, it is important to consider the length of the detailed planning horizon, and the growth assumptions embedded within it.

Figure 48:
Average sustainable growth rate by sector
(in percent)



Source: KPMG in Germany, 2025
Note: n/a = not available

Consumer Markets

In contrast to last year's study, the Consumer Markets sector experienced an increase in the average sustainable growth rate by 0.3 percentage points. This increase was driven by the Consumer Markets sub-sector, as the sustainable growth rate for this sub-sector increased from 0.8 percent to 1.7 percent. In contrast, the sustainable growth rate in the Retail sub-sector increased from 1.1 percent to 1.2 percent.

Financial Services

The growth rate in the Financial Services sector decreased slightly from 1.3 percent to 1.1 percent. In line with this trend, the Banking sub-sector reported a decrease in the sustainable growth rate from 1.2 percent to 1.0 percent.

Estimating implied returns: Are differences driven by risk expectations or growth expectations?

In addition to using historical data to calculate returns and the associated risk premiums, valuation practice usually involves deriving implied returns and risk premiums. This approach uses current stock prices and forward-looking earning estimates provided by market participants, such as financial analysts.

As implied models are increasingly used to estimate the expected returns required for business valuation and to derive cost of capital, the perceived differences in absolute return levels and resulting market risk premiums across different economic regions or capital market indices are being increasingly discussed. As shown on page 22, empirically observed real returns across various economic regions have historically been almost identical. These observations, alongside the current debate on implied returns, highlight a discrepancy between historically observed returns and risk premiums, and (mathematically derived) implied returns and risk premiums.

A date-specific derivation of implied returns and risk premiums allows for a forward-looking estimation of expected returns, which is closer to the theoretical ideal. Furthermore, this method enables the analysis of changes over time.

The derivation of implied returns is based on a valuation model that is solved for the return. This is analogous to the application of the same model in business valuation. As with valuation itself, the relationships between the planning period, perpetuity and sustainable growth rate must be considered. By solving the valuation model for the (implied) return, the chosen growth rate becomes a central element. Depending on the selected expected growth rate, the (calculated) implied return and the resulting (calculated) implied market risk premium will vary.

The quality of the (calculated) results depends on the quality of the earning estimates, the underlying stock prices and the appropriate analysis of sustainable growth expectations. A cumulative analysis of implied returns and risk premiums across a broad set of companies – e.g. using broad stock indices instead of individual stock returns – results in more robust results.

We analyzed the current implied returns and risk premiums for various regions, initially using three years of analyst estimates and uniform, typified inflation-related sustainable growth assumptions for each region. The analysis revealed significant differences in the outcomes for implied returns and risk premiums across individual regions. Additionally, regional differences emerged when the calculated results were compared with historical ranges. In some regions, the implied (real) returns and risk premiums fell within historical (real) return ranges, while in others, they fell outside of these historical ranges.

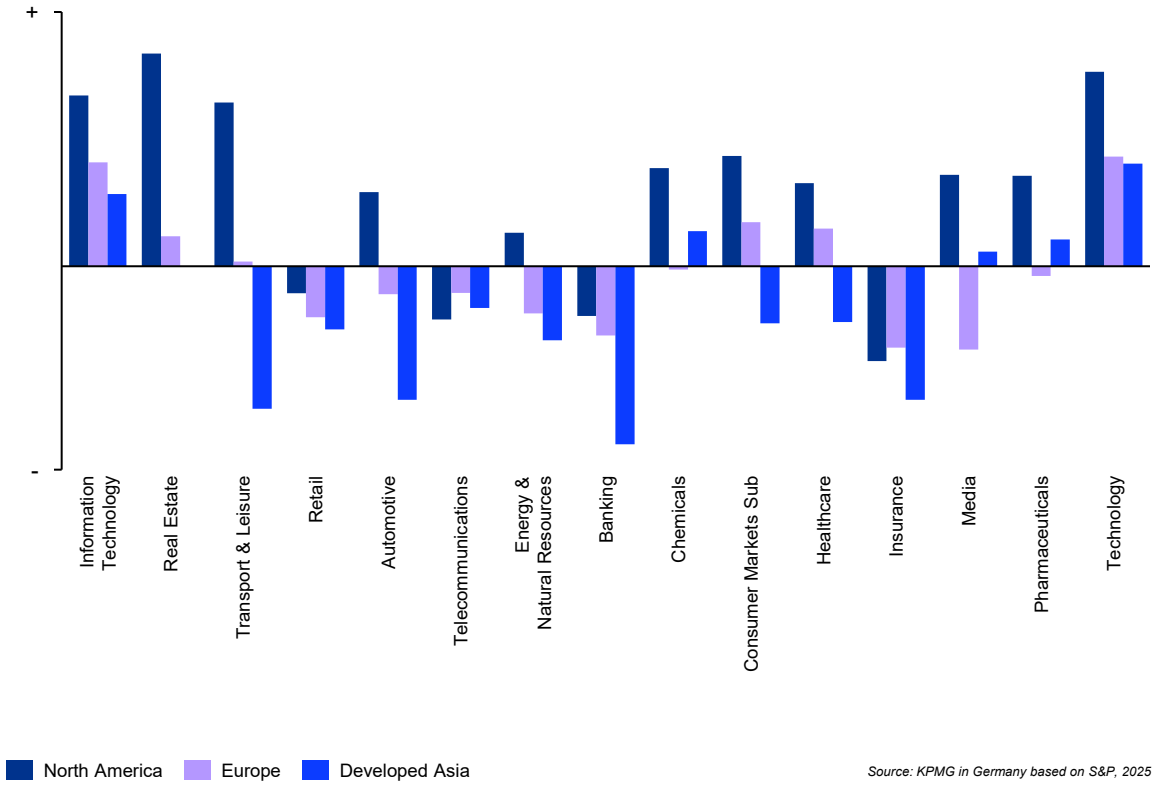
As the results obtained from the applied theoretical valuation model and the historical ranges sometimes diverge significantly, it is important to critically assess whether the individual input parameters – such as future earnings estimates and other components of implied returns – were derived consistently and in accordance with the model on the respective valuation date. It is here that the strengths of a pluralistic approach become evident.

An analysis of growth expectations by region and industry revealed not only the expected differences in future business model-specific industry growth, but significant regional differences in growth expectations[1], which is much more relevant for deriving implied market risk premiums.

Since the regions analyzed have different industry focuses, their overall growth prospects differ accordingly.

When these regional differences in growth expectations are considered in the derivation of implied returns, the results – compared to historical long-term return comparisons across regions – become significantly more consistent. The previously large differences in calculated results are substantially reduced, with the derived implied (real) returns and risk premiums falling within historical and comparable ranges of (real) returns and risk premiums.

Figure 49:
Median of Operative Growth Rate based on Income Multiples

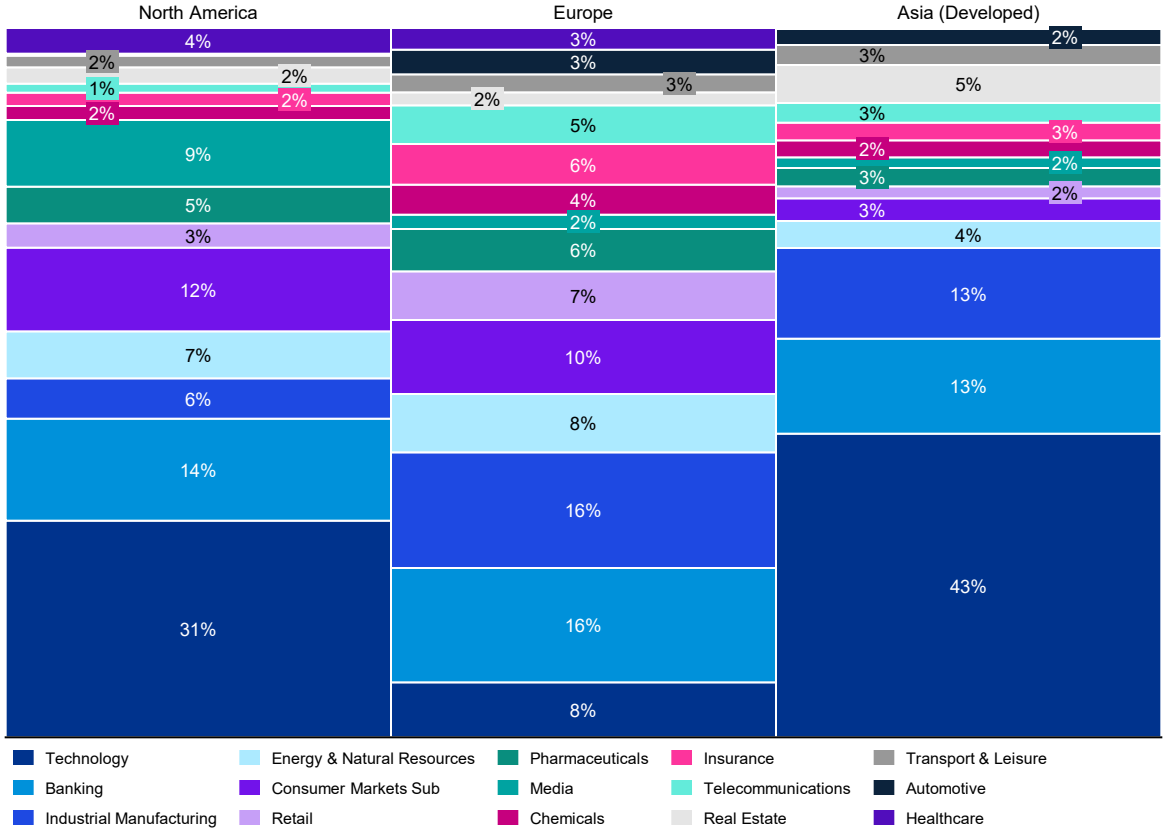


Source: KPMG in Germany based on S&P, 2025

1) Unlike in valuation models, a separate derivation of a sustainable earnings figure was not conducted in this case. Therefore, the calculated implied growth rates presented also include a potentially necessary adjustment effect to the sustainable earnings level. However, the focus here is primarily on the regional relationships, whose significance remains largely unaffected by this.

Given these circumstances, the significant structural differences and changes, as well as the resulting regional variations in growth expectations, must be consistently considered when deriving implied returns and risk premiums. This can be achieved by using longer estimation horizons, or by using differentiated sustainable growth rates that reflect the effects of volume- and inflation-driven growth.

Figure : 50
Implied Returns by Region and Industry



Source: KPMG in Germany based on S&P, 2025

Note: Figures presented above are rounded. Since the calculations have been based on the exact figures, additions may lead to differences compared to total lines.

4

Impairment Test

4.1 Recognition of an Impairment

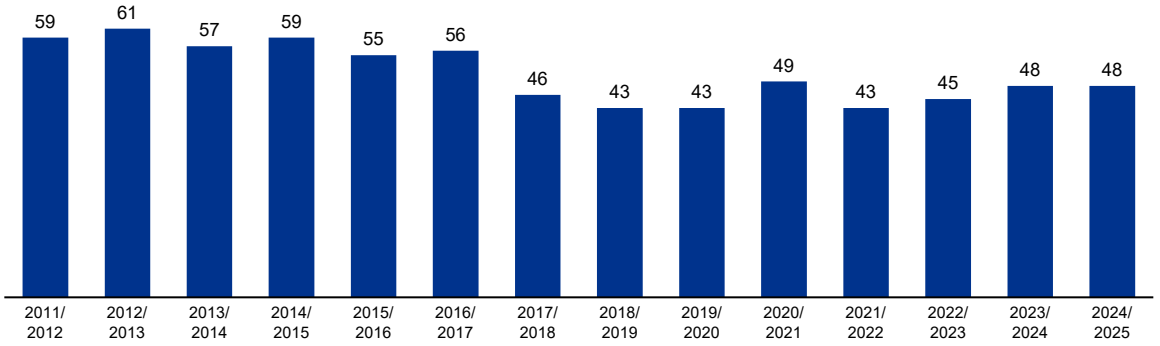
In this year's study, 48 percent of participating companies reported recognizing an impairment – almost matching the level from during the COVID-19 pandemic (49 percent in 2020/2021).

Compared to the previous year, this figure remained stable, likely reflecting ongoing economic challenges across industries, driven by persistent geopolitical crises and emerging uncertainties.

As in previous years, asset impairments remain the most frequently recognized type. The proportion of companies reporting asset impairments increased slightly, rising from 34 percent to 35 percent, while goodwill impairments increased from 20 percent to 22 percent.

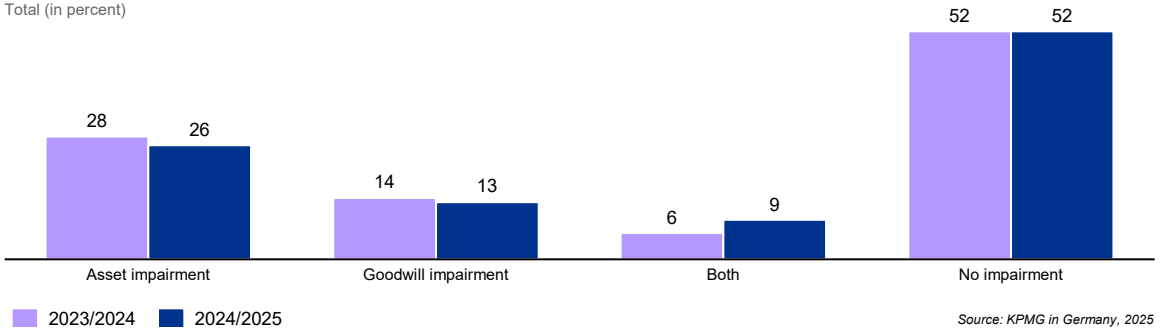
Overall, 52 percent of companies did not recognize an impairment, a figure that has remained unchanged year on year.

Figure 51:
Recognition of an impairment over time
Total (in percent)



Source: KPMG in Germany, 2025

Figure 52:
Recognition of an impairment
Total (in percent)



Source: KPMG in Germany, 2025

4.2 Triggering Event

According to IAS 36.10(b), goodwill reported on the balance sheet as part of the annual financial statements must be tested for impairment at least annually.

In addition, IAS 36.9 stipulates that entities must assess at the end of each reporting period whether any indicators of impairment – referred to as triggering events – are present.

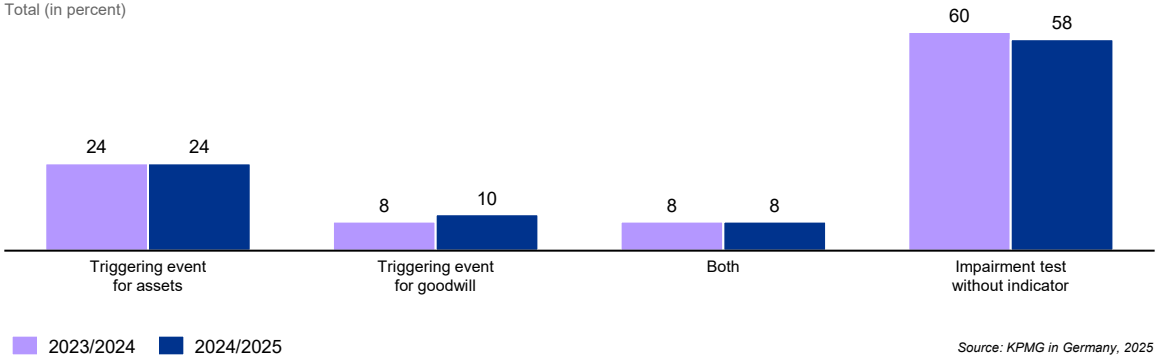
Compared to the previous year, the proportion of respondents who conducted an impairment test due to such triggering events increased by 2 percentage points, reaching 42 percent.

As in previous years, the most frequently cited reasons for triggering events were a decline in long-term expectations and other contributing factors.

Notably, the proportion of participants identifying lower long-term expectations as the cause of a triggering event has increased significantly, rising from 46 percent last year to 57 percent in the current year. This shift may reflect the economic impact of ongoing geopolitical crises and the unfolding effects of recessionary trends in the DACH region, particularly in Germany.

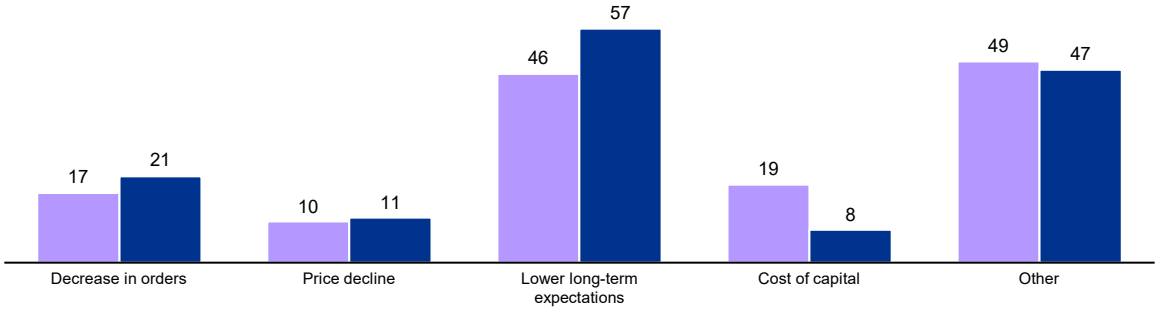
Interestingly, despite the rise in the WACC reported in this year's study, the percentage of respondents who attributed the triggering event to increased cost of capital decreased notably, from 19 percent to 8 percent.

Figure 53:
Triggering event
Total (in percent)



Source: KPMG in Germany, 2025

Figure 54:
Cause of the triggering event
Total (in percent, multiple choices possible)



Source: KPMG in Germany, 2025

4.3 Plausibility – Market Capitalization and Multiples

The concept of fair value less costs of disposal focuses on the exit price, which primarily reflects the expectations of potential buyers. Under IAS 36, there is no explicit requirement to perform a plausibility assessment of the resulting valuation.

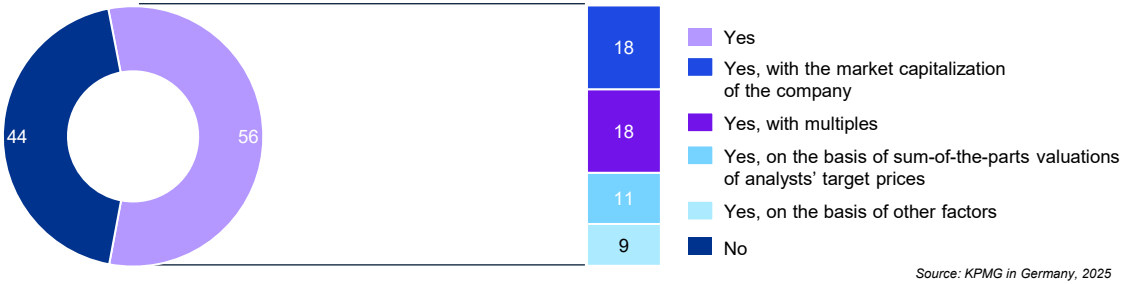
Nevertheless, when performing an impairment test, we recommend conducting a plausibility assessment against prevailing market expectations, in order to ensure the risk equivalence of the cost of capital.

In accordance with IDW RS HFA 40 paragraph 13, the application of this approach is also advisable. However IDW RS HFA 40 recommends more stringent analysis for the concept of fair value less costs of disposal than for value in use.

In line with the previous year, most participating listed companies carried out a plausibility assessment of their valuation results.

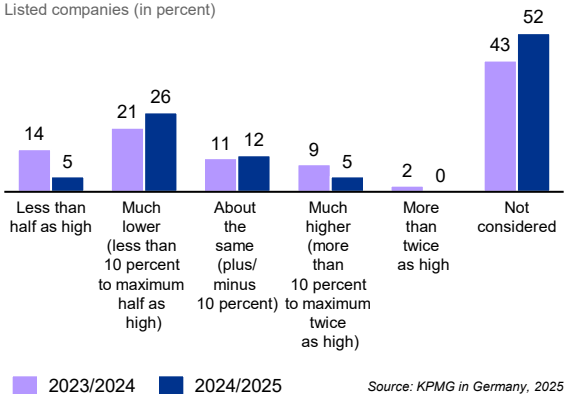
In 2024/2025, significantly fewer companies had a market capitalization of less than half of the fair value less cost of disposal and the value in use as compared to 2023/2024. For the fair value less cost of disposal, the proportions classified as “much higher” and “more than twice as high” also declined compared to the prior year. However, for value in use, the proportions classified as “much higher” and “more than twice as high” increased.

Figure 55:
Plausibility of the valuation results
Listed companies, total (in percent, multiple choices possible)



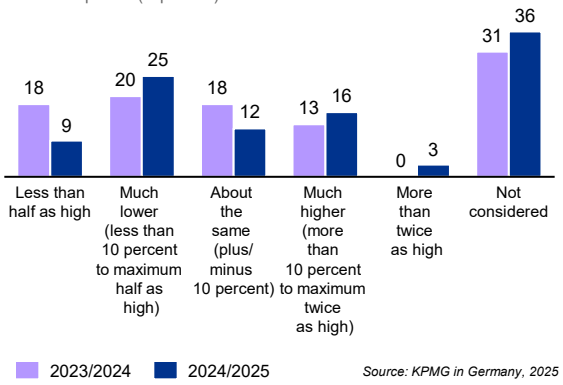
Source: KPMG in Germany, 2025

Figure 56:
Comparison of market capitalization to fair value less cost of disposal
Listed companies (in percent)



Source: KPMG in Germany, 2025

Figure 57:
Comparison of market capitalization to value in use
Listed companies (in percent)



Source: KPMG in Germany, 2025

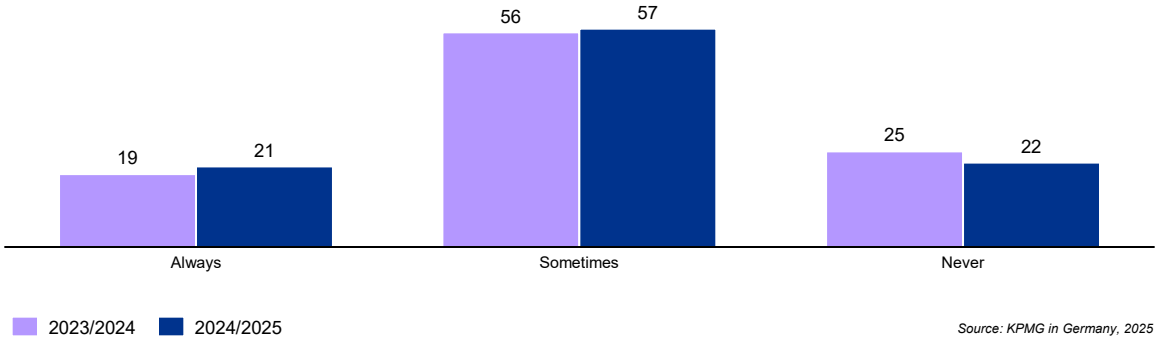
One commonly applied method for validating valuation results is the multiples approach, which aligns with capital market-oriented valuation practices. This method involves applying a valuation multiple – such as EBITDA, EBIT, or, in certain cases, revenue – to derive a simplified estimate of a company's value.

By analyzing capital market data based on comparative pricing, such as peer group benchmarks, appropriate multiples are identified and subsequently applied to the entity under valuation.

In this year's study, 78 percent of participating companies reported using multiples-based plausibility assessments (e.g. in general valuation contexts), while only 21 percent regarded them as a core component of their valuation process. Among the various multiples used, EBITDA multiples were the most prevalent, followed by EBIT and revenue multiples. While the overall trend has remained consistent in recent years, this year saw a greater number of participants opting for EBIT multiples over revenue multiples.

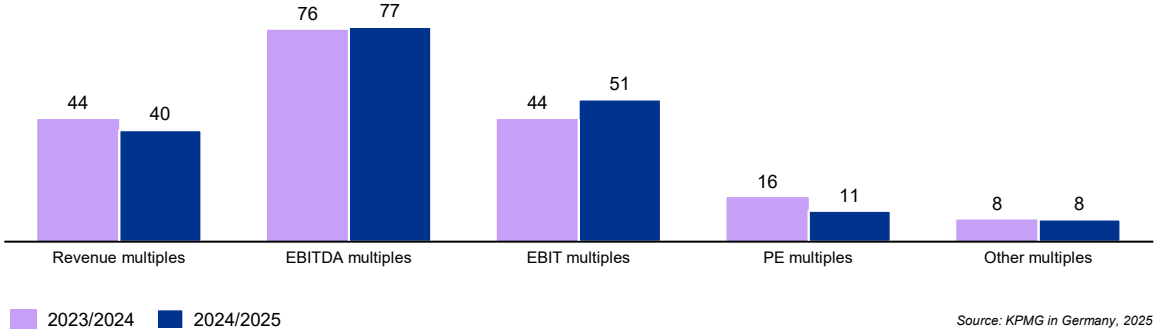
To assist in price determination, **KPMG Multiples** offers insights into valuable benchmark data. The tool offers quick access to up-to-date market multiples.

Figure 58:
Application of multiples
Total (in percent)



Source: KPMG in Germany, 2025

Figure 59:
Type(s) of multiples used for plausibility testing valuation results or other valuation considerations
Total (in percent, multiple choices possible)



Source: KPMG in Germany, 2025

5

Relevance of Value and Value Enhancement

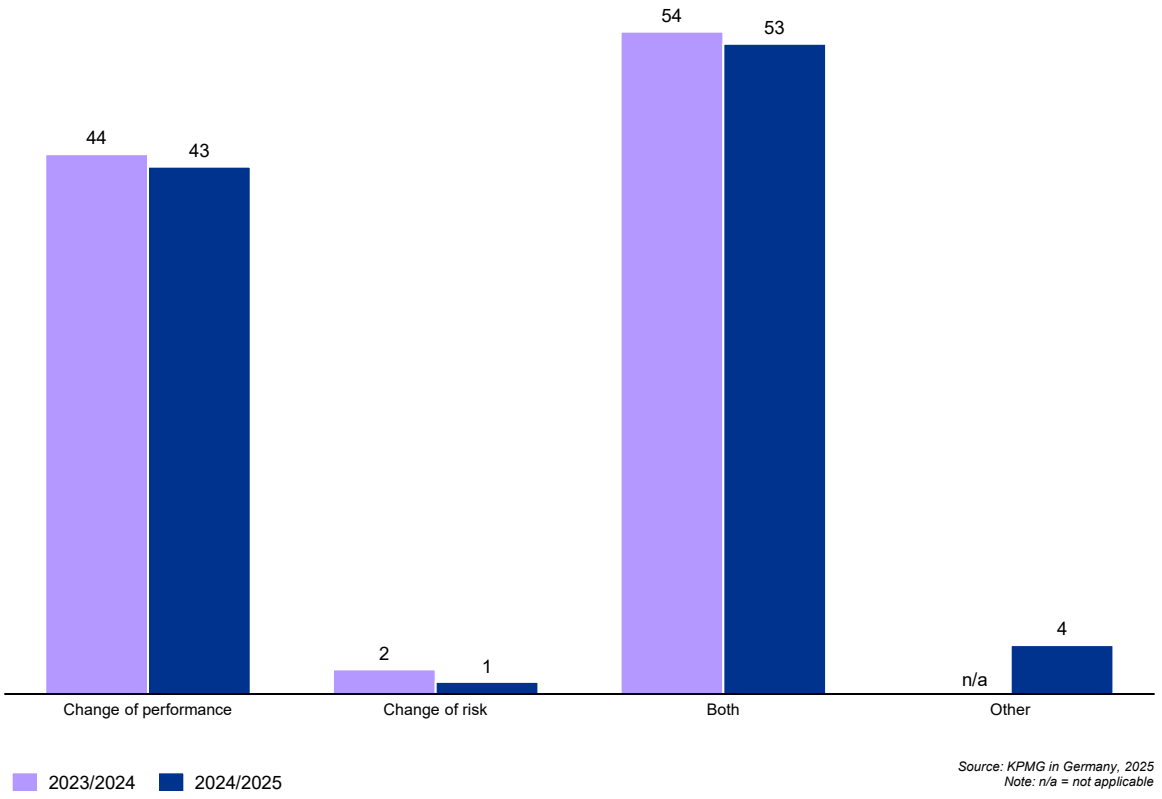
5.1 Monitoring Value Enhancement

A company's future value is greatly influenced by its investment decisions. In order to protect against potential losses in value amid constantly changing market dynamics, it is crucial to consistently monitor risk and performance trends. By thoroughly analyzing past investments, companies can significantly improve their decision-making processes for future investment strategies.

Just over half of the participating companies actively monitor changes in performance and fluctuations in risk. Almost all of the remaining companies focus solely on tracking performance changes. This distribution has remained largely consistent with the previous year.

In an era where impactful megatrends are reshaping industries, the fact that over half of the companies monitor both performance and risk indicates a balanced approach to understanding their business environment. By tracking both aspects, these companies may be better placed to anticipate and respond to challenges and opportunities, and gain a more comprehensive view of their operational health.

Figure 60:
Monitoring of value enhancement
Total (in percent)



Source: KPMG in Germany, 2025
Note: n/a = not applicable

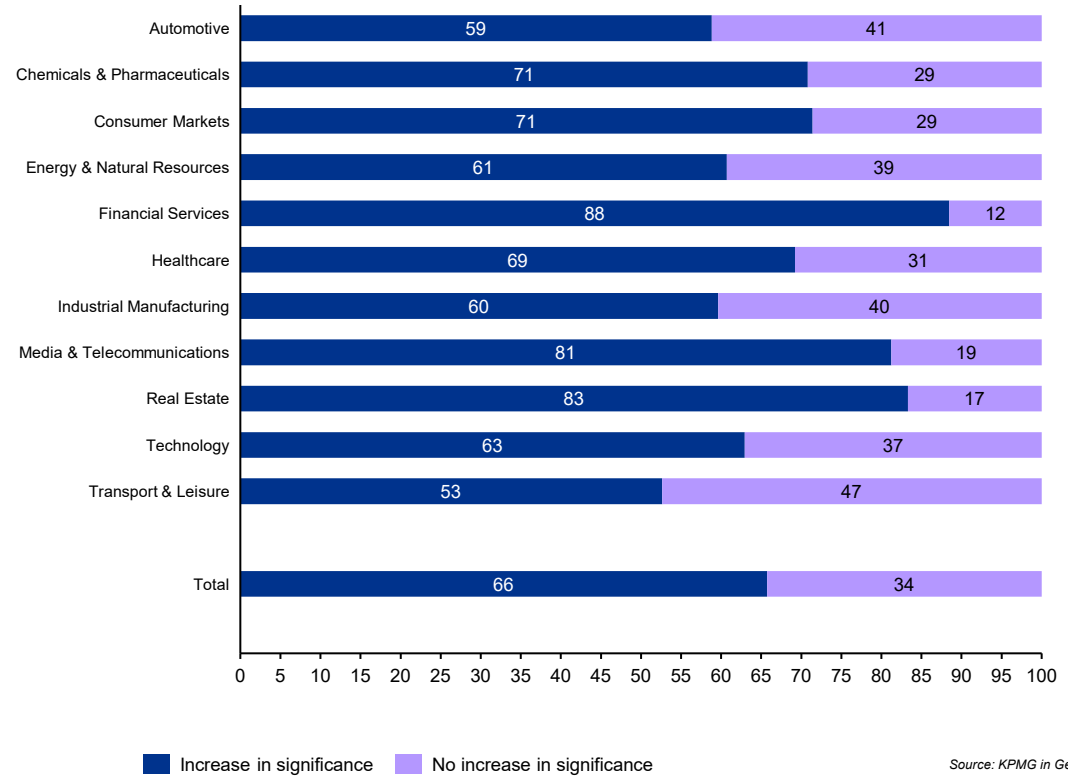
5.2 Relevance of Megatrends

Across all sectors, at least half of the participating companies recognize that megatrends have intensified over time and will transform business models significantly, thereby highlighting their growing influence. While the overall percentage of companies perceiving an increase in significance has remained consistent with last year's study, there have been some shifts in perception across different sectors.

Companies in the Financial Services, Real Estate and Media & Telecommunications sectors particularly recognize the growing importance of megatrends.

Notably, two sectors have significantly increased their recognition of the impact of megatrends compared to last year's study: Chemicals & Pharmaceuticals and Consumer Markets. This suggests a heightened awareness of how these trends are reshaping their business models. Conversely, the Automotive and Media & Telecommunications sectors have reported the greatest decrease in the perceived intensification of megatrends impacting their business models, indicating a shift in focus or adaptation strategies within these industries.

Figure 61:
Intensification of megatrends with impact on business model
Total (in percent)



Source: KPMG in Germany, 2025

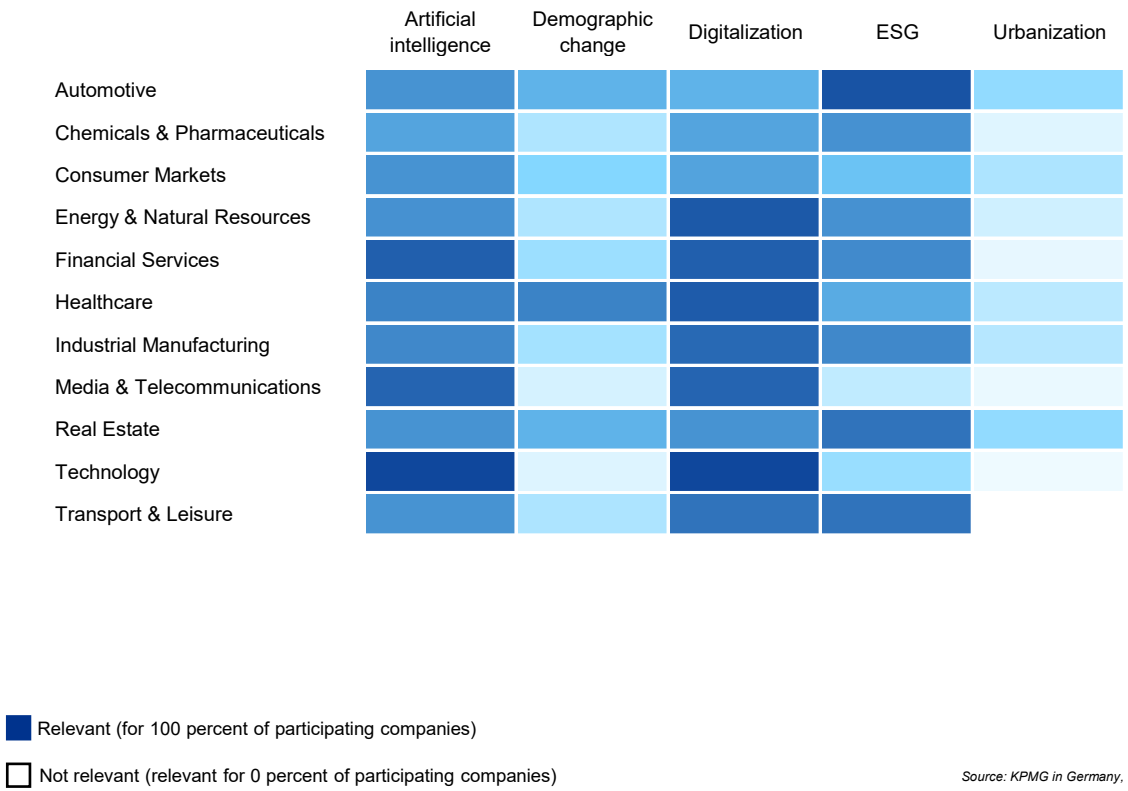
Our study reveals that AI, digitalization and ESG are the most impactful megatrends across various sectors.

AI, despite its relatively recent emergence, is already impacting a wide range of companies, especially those in data-centric industries, such as Technology, Media & Communications and Financial Services.

Digitalization is having a significant impact on nearly all industries, particularly Technology, Energy & Natural Resources, Financial Services and Healthcare. This trend enhances operational efficiency, drives innovation, and improves customer experience.

ESG is particularly influential in transportation and mobility-focused sectors, such as Automotive and Transport & Leisure, as well as in Real Estate. These sectors face stringent regulations and societal expectations regarding environmental sustainability, social responsibility and governance practices, making ESG a critical consideration.

Figure 62:
Relevance of megatrends by sector
Total (in percent, multiple choices possible)



Source: KPMG in Germany, 2025

6

Further Information

6.1 Latest KPMG Insights

Results from the Cost of Capital Study 2025, as well as from previous years, can be accessed via the following link: **KPMG Cost of Capital Study**

The linked website provides selected analyses of key cost of capital parameters, including industry-specific ranges for the WACC, beta factor, cost of debt, and other metrics. It also presents essential findings related to the performance of impairment tests.

Further capital markets data related to valuation multiples and cost of capital parameters can be accessed via the following link: **Multiples and Cost of Capital Parameters**

This freely accessible data extract from the KPMG Valuation Data Source provides historic, current, and forward-looking, industry-specific trading multiples and cost of capital parameters, such as the risk-free rate, the market risk premium and country risk premia. This data is updated on a quarterly basis.

Figure 63:
KPMG Cost of Capital Study Website

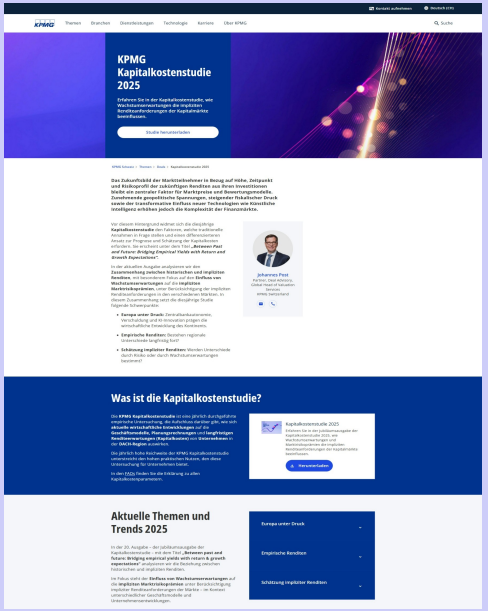
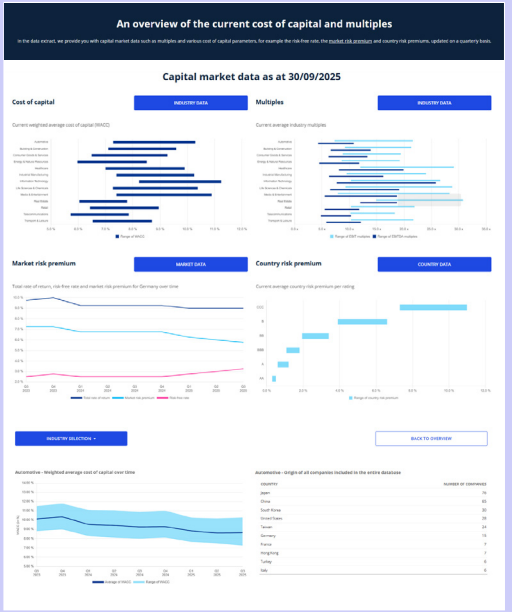


Figure 64:
Overview of current cost of capital and multiples



6.2 KPMG Digital Solutions

In addition to the Cost of Capital Study, KPMG Valuation in Germany offers a range of digital solutions. Our offerings seamlessly combine our transaction expertise with the technological know-how of our global network. This enables you to effectively overcome challenges related to transactions and business valuations, and ultimately make more informed decisions.

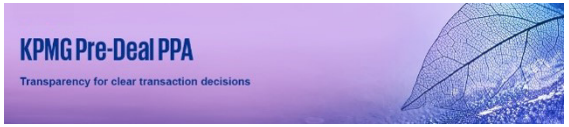
For more information, please visit:
KPMG Deal Advisory Digital Products

- Ready-to-use solutions
- Global availability
- Access at any time
- Download functionality
- Developed by our valuation and technology experts

Figure 65:
Additional KPMG tools for self-use

- All relevant parameters available from a single data source (risk-free interest rate, market and country risk premium, inflation spread, tax rate, beta coefficients, credit spread, gearing)
- WACC and cost of equity calculation based on your individual peer group
- Monthly update of quality-assured data
- Access to more than 150 countries and 17,500 companies

- Individual and industry-specific Trading and Transaction Multiples at the desired reporting date
- Data and value derivation based on consistent KPMG valuation standards
- Monthly updated database with > 17,500 companies and > 65,000 transactions worldwide
- Calculation of company value incl. AI-assisted support to enhance result quality



- Purchase price analysis: attribution of success/risk potentials to relevant assets or debt
- Analysis and consideration of attributable synergies and dyssynergies and their impact on purchase price
- Impact of transaction on asset, financial and profit position
- KPMG PPA benchmark data and sector expertise to support the validation and categorization of results

- Performance of impairment tests in accordance with IAS 36 and IDW RS HFA 10 (HGB)
- Integrated business planning and direct cost of capital derivation in the tool
- Analysis options for impairment, value drivers, sensitivities, etc., in one dashboard
- Collaborative authorization management for productive cooperation

6.3 KPMG Valuation Publications

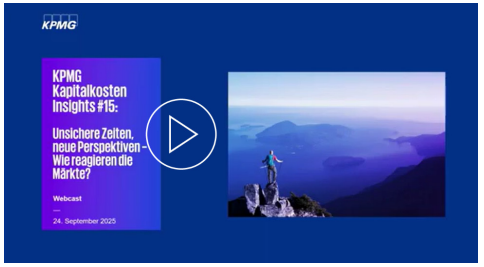
KPMG in Germany has been publishing its Valuation News for over 15 years. This online newsletter is published three times a year and provides updates on current topics related to company and asset valuation. The latest edition, released in September 2025, offers an early preview of the main topics featured in this year's Cost of Capital Study. It also explores digital valuation approaches and evaluation of market-based compensation under IDW ES 17. The newsletter can be accessed via the following link: Valuation News - September 2025 - KPMG in Deutschland

The second edition of the book Praxiswissen Unternehmensbewertung was released in December 2020. It provides explanations and assistance on various topics related to the valuation of companies and assets, it is divided into the following sections:

- Regulatory-driven valuations
- Company valuations in the context of transactions and other decision-making processes (value-based management)
- Company valuations for tax purposes
- Accounting-driven valuations
- Industry- and company-specific valuation issues
- Valuations of individual assets
- Determination of the cost of capital

In addition, our webcast "KPMG Cost of Capital Insights" regularly offers the opportunity to engage in analyses of current capital market developments. Our experts provide guidance on how these developments may affect cost of capital and company valuations.

Figure 66:
KPMG Valuation publications



List of Abbreviations

AG	Aktiengesellschaft
AI	Artificial Intelligence
ATX	Main Austrian stock exchange
CAGR	Compound annual growth rate
CAPM	Capital Asset Pricing Model
CGU	Cash-generating unit
DACH	Germany, Austria, Switzerland
DAX-40	The 40 largest blue chip companies on the main German stock exchange
Debt ratio	Ratio of market value of (net) debt to market value of total capital (entity value)
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortization
ECB	European Central Bank
ESG	Environmental, Social and Governance
EU	European Union
EUR	Euro
FamDAX	DAXplus Family 30 Index, consists of the 30 largest and most liquid family-owned businesses
FAUB	"Fachausschuss für Unternehmensbewertung und Betriebswirtschaft des IDW": Technical Committee for Business Valuation and Economics of the IDW
GDP	Gross Domestic Product
HFA	Hauptfachausschuss (IDW)
HGB	Handelsgesetzbuch
IAS	International Accounting Standards
IDW	"Institut der Wirtschaftsprüfer in Deutschland e.V.": Institute of Public Auditors in Germany, Incorporated Association
IFRS	International Financial Reporting Standards
KFS/BW	"Fachsenat für Betriebswirtschaft in Österreich des KSWÖ": Council of Experts for Business Administration
KSW	"Kammer der Steuerberater und Wirtschaftsprüfer in Österreich": Chamber for Tax Advisors and Auditors in Austria
M&A	Mergers & Acquisitions
MDAX	German mid-cap stock index
MRP	Market risk premium
P&L	Profit & Loss
PPA	Purchase Price Allocation
SDAX	Small caps, the companies following the MDAX in terms of market capitalization and exchange turnover
SMI	Main Swiss stock exchange
U.S.	United States
USA	United States of America
WACC	Weighted Average Cost of Capital

Your Industry Specialists

KPMG in Germany

Automotive
Oliver Dickmann
Partner
Head of Valuation Germany
+49 711 90604-1818
odickmann@kpmg.com

Automotive
Dr. Fabian Bähr
Partner
+49 40 32015-5142
fbaehr@kpmg.com

Consumer Markets
Retail
Karen Ferdinand
Partner
+49 69 9587-6500
kferdinand@kpmg.com

Consumer Markets
Retail
Stephan Fetsch
Partner
+49 221 2073-5534
stephanfetsch@kpmg.com

Building & Construction
Industrial Products
Michael Hahn
Director
+49 711 90604-1163
michaelhahn@kpmg.com

Transport & Infrastructure
Christoph Hille
Partner
+49 40 32015-5332
christophhille@kpmg.com

Financial Services
Gudrun Hoppenburg
Director
+49 351 494-4473
ghoppenburg@kpmg.com

Insurance
Christian Kern
Director
+49 69 9587-3524
christiankern@kpmg.com

Energy & Natural Resources
Michael Killisch
Partner
+49 251 59684-7117
mkillisch@kpmg.com

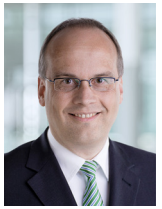
Chemicals & Pharmaceuticals
Healthcare
Christian Klingbeil
Partner
+49 89 9282-1284
cklingbeil@kpmg.com

Chemicals & Pharmaceuticals
Healthcare
Patrick Klingshirn
Director
+49 89 9282-4594
pklingshirn@kpmg.com

Technology
Media & Telecommunications
Private Equity/Venture Services
Dr. Michael Kramer
Partner
+49 89 9282-4213
michaelkramer@kpmg.com

Your Industry Specialists

Technology
Telecommunications
Dr. Gunner Langer
Director
+49 69 9587-2830
glanger@kpmg.com



Consumer Markets
Telecommunications
Transport & Infrastructure
Stefan Schöniger
Partner
+49 40 32015-5690
sschoeniger@kpmg.com

Private Equity/Venture Services
Christian Weidinger
Partner
+49 89 9282-1694
cweidinger@kpmg.com

Financial Services
Rudolf Maurer
Director
+49 89 9282-1348
rudolfmaurer@kpmg.com

Industrial Manufacturing
Dr. Jakob Schröder
Partner
+49 89 9282-1471
jakobschroeder@kpmg.com

Chemicals & Pharmaceuticals
Dr. Annette Witzleben
Partner
+49 89 9282-3877
awitzleben@kpmg.com

Retail
Stephan Pastusiak
Director
+49 221 2073-1923
spastusiak@kpmg.com

Media
Heike Snellen
Director
+49 211 475-7062
hsnellen@kpmg.com

Industrial Manufacturing
Ralf Weimer
Director
+49 89 9282-1150
rweimer@kpmg.com

Automotive
Jens Schmoll
Partner
+49 89 9282-4297
jschmoll@kpmg.com

Public Sector
Transport & Infrastructure
Dr. Andreas Tschöpel
Partner
+49 30 2068-1488
atschoepel@kpmg.com

Financial Services
Frieder Zschiesche
Partner
+49 711 9060-43797
fzschiesche@kpmg.com

Your Industry Specialists

KPMG in Austria

Dr. Klaus Mittermair
Partner
Deals & Strategy Austria
+43 732 6938-2151
kmittermair@kpmg.at

Dr. Victor Purtscher
Partner
Head of Valuation
Services Austria
+43 1 31332-3700
vpurtscher@kpmg.at

Mag. Vincent Hruška
Partner
Deals & Strategy Austria
+43 1 31332-3328
vhruska@kpmg.at

KPMG in Switzerland

Johannes Post
Partner
Deal Advisory
Global Head of Valuation Services
+41 58 249 35 92
jpost@kpmg.com

Simon Laval
Partner
+41 58 249 46 30
slaval@kpmg.com

Rolf Langenegger
Director
+41 58 249 42 71
rlangenegger@kpmg.com

Contact
KPMG in Germany

Overall responsibility

Heike Snellen
Director
Deal Advisory, Valuation
+49 211 475-7062
hsnellen@kpmg.com

KPMG AG
Wirtschaftsprüfungsgesellschaft
Tersteegenstraße 19–23
40474 Düsseldorf

Dr. Andreas Tschöpel
Partner
Deal Advisory, Valuation
+49 30 2068-1488
atschoepel@kpmg.com

KPMG AG
Wirtschaftsprüfungsgesellschaft
Heidestraße 58
10557 Berlin

kpmg.ch