Survey Report

Higher for Longer? Cost of Capital in the Current Environment

November 2023
On September 28, 2023, Kroll Managing Director Carla S. Nunes, CFA, and Director Jim Harrington discussed current and projected global economic conditions, financial market performance, as well as trends in risk-free rates, equity risk premium, cost of debt, and country risk premium assumptions before a live audience of 706 participants.*

Throughout the webinar, they polled the attendees on valuation and cost of capital-related topics, including the interaction between ESG factors and valuation.

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

*Out of 706 live attendees, 15% were Kroll employees and 85% were external/third-party participants.

1. In which country/region are your valuations primarily focused?
2. Do you believe an economic recession is imminent in the country you are located?
3. Which methods/data sources do you use as the equity (market) risk premium (ERP) input in your cost of equity estimates? [Select ALL that apply]
4. Do you typically incorporate environmental, social and governance (ESG) adjustments in your valuation analyses? [Select ALL that apply]
5. Do you typically incorporate country risk adjustments in your valuation analyses?
QUESTION 1

In which country/region are your valuations primarily focused?

78.4% of survey participants conducted valuations primarily based in North America.

Note: 0.8% - Other/Not Applicable
Do you believe an economic recession is imminent in the country you are located?

43.3% of survey participants anticipate a recession will occur in 2024 in their home country.

Note: Responses may not add to 100% due to rounding.
QUESTION 3

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

Almost 60% of survey participants rely on the Kroll-Recommended U.S. ERP. More than a third of participants also use a Long-Term Historical Average as a basis to estimate ERPs, while approximately 22% utilize the Supply-Side ERP, both published by Kroll. Almost a quarter of the audience also takes into consideration Professor Aswath Damodaran’s Implied ERP.*
QUESTION 4

Do you typically incorporate ESG adjustments in your valuation analyses?

- I typically incorporate ESG risks and opportunities directly in projected cash flows, when appropriate. 38.0%
- I typically adjust my cost of capital estimates (discount rates) for ESG risks, when appropriate. 26.0%
- I do not currently incorporate ESG factors in valuations, but plan on considering ESG factors in my valuations. 12.1%
- I do not believe global investors demand an incremental premium or discount for ESG factors. 12.9%
- Other/Not Applicable 11.0%

38% of survey participants are planning to start considering ESG factors in their valuations.

*This was a multiple-choice question with respondents having the ability to select multiple answers.
Do you typically incorporate country risk adjustments in your valuation analyses?

3.8% I do not believe global investors demand an incremental premium for country risk.

24.5% I do not perform valuations in countries where country risk is an issue.

8.8% I typically incorporate country risk directly in projected cash flows, when appropriate.

50.8% I typically adjust my cost of capital estimates (discount rates) for country risk, when appropriate.

12.1% Other/Not Applicable
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