

# Convergence

Tarifs : Adhérent : 40 € / Non-adhérent : 60 €  
Février 2021

HORS SÉRIE / N°8  
(Vendu seul)

## HORS-SÉRIE

### OBSERVATOIRE DES VALORISATIONS 2021

### TAUX D'ACTUALISATION ET DÉCOTES DE MULTIPLES DE VALORISATION



Coordinatrice des travaux : Maud BODIN-VERALDI

En collaboration avec : Zoé CONSTANTIN, Olivier GRIVILLERS,  
Teddy GUERINEAU, Etienne LANGER, Joëlle LASRY-SITBON,  
Michel TERNISIEN

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**CCEF**  
Compagnie des Conseils  
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## **CCEF survey 2021**

### **Discount rate and valuation multiples for non-listed companies**

The Compagnie des Conseils et Experts Financiers (CCEF) working group has recently published the discount rates for 2021 to be used for the valuation for unlisted companies, as well as the discounts of valuation multipliers by size and sector.

### **The cost of capital for French stock market and its components**

The cost of capital for 2021 has been estimated by the CCEF at 8.0 %, which is the same level as 2020 despite the ongoing health crisis that is having a major impact on the global economy.

This rate of 8 % was calculated using a financial model which has the following various characteristics:

- The model relies on listed companies included in the CAC 40 index (the most significant French companies), excluding firms in the banking and insurance sector.
- The composition of the CAC 40 index is a result of two main factors: the availability of detailed forecast information for each company and the level of liquidity of its shares.
- The model estimates for each company the forecasted free cash flows to equity. The cumulative future free cash flows are subject to market capitalization while the cost of equity is the rate that allows for these two elements to be jointly considered.
- The cost of equity is weighted by the market capitalization.
- The median of the weighted cost of equity of each firm constitutes the cost of capital for the stock market as a whole.

Using the Capital Assets Pricing Model (CAPM), the cost of capital is made up of two set of data:

- The first is risk-free rate given by the 10-year financial instrument issued by the French government to finance its budget deficit. This risk-free rate for 2021 is -0.4 %.
- The second is the Market Risk Premium (MRP) which is the difference between the cost of equity and the risk-free rate. For 2021, the MRP rate is set at 8.34 %.

### **The levels of risk by industry**

The CCEF working group also publishes the level of risk by industry, giving beta coefficients excluding the debt impact (it is called “Unlevered Beta”). The unlevered beta coefficient represents the volatility of stocks in a particular sector compared to the entirety of the financial market.

The French economy has been divided into 17 sectors and in each sector a panel of representative companies has been set up for calculating the unlevered beta.

For instance, the unlevered beta for the “Automobile and Parts” sector is at a high level (1.18) due to the industry downturn since the start of the health crisis.

### **The additional rate for Small and Medium-Sized Enterprises (SMEs)**

SMEs have their own unique set of risks (size, lack of marketability, vulnerability, etc.) that must appear in the cost of capital; thus, the CCEF has developed a formula that provides an additional rate to the cost of capital. For instance, if a small company has an EBIT of 2 M€, the additional rate to the cost of capital would be an additional 4.53 %. This additional rate moves inversely to the size of the company (measured by the amount of EBIT in M€), meaning that the rate decreases as the size of a company increases and vice versa.

### **The discounted multiples valuation**

Finally, the CCEF working group gives a valuation multiplier for an unlisted company according to the activity and the size of the company; again, measured by the amount of EBIT (in M €).

For example, if a small company were to operate in the technology sector with an EBIT of 1 M€, the multiplier would be around 8.6 times the EBIT.

This multiplier assigned by the CCEF is generally considered to be a guide or reference and should be regarded as the starting point in the discussion which will then take place between the buyer and the seller.

The data published each year by the CCEF working group is considered by many professionals in France as an important benchmark in an economic environment deeply affected by uncertainty.

CCEF – 6 Avenue Mac Mahon 75017 Paris  
Review Convergence : February 2021  
Phone Number : (+33) 1 44 94 27 70  
Mail : [ccef@ccef.net](mailto:ccef@ccef.net)

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et Experts Financiers