The Cost of Capital Navigator
Enhancing Cost of Capital Estimates with Industry Benchmarks
Duff & Phelps is the global advisor that protects, restores and maximizes value for clients in the areas of valuation, corporate finance, investigations, disputes, cyber security, compliance and regulatory matters, and other governance-related issues. We work with clients across diverse sectors, mitigating risk to assets, operations and people.

- **3,500+** Total Professionals Globally
- **More Than 15,000** Engagements Performed in 2018
- **7,500** Clients including nearly 50% of the S&P 500

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- **2,000+** Professionals

**Europe and Middle East:**
- **1000+** Professionals

**Asia Pacific:**
- **500+** Professionals
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- Alternative Asset Advisory
- Real Estate Advisory
- Tax Services
- Transfer Pricing
- Fixed Asset Management and Insurance Solutions

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Objective guidance to management teams and stakeholders throughout restructuring, financing and M&A transactions, including independent fairness and solvency opinions

- M&A Advisory
- Fairness Opinions
- Solvency Opinions
- Transaction Advisory
- ESOP and ERISA Advisory
- Commercially Reasonable Debt Opinions
- Distressed M&A and Special Situations

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- Disputes
- Cross-Border Restructuring
- Cyber Risk
- Legal Management Consulting
- Security Risk Management
- Compliance Risk and Diligence
- Compliance and Regulatory Consulting
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James P. Harrington

James P. Harrington is a Director at Duff & Phelps.

James is a leading contributor to Duff & Phelps’ efforts in the development of studies, surveys, online content and tools, firm-wide valuation models, data distribution platforms, and published thought leadership. Previously, James was director of valuation research in Morningstar’s Financial Communications Business.

James is a co-author of the Duff & Phelps “Valuation Handbook” series along with colleagues Roger Grabowski and Carla Nunes. These annual books include:

  (starting in 2018, the data from this book is available exclusively in the Cost of Capital Navigator at dpcostofcapital.com)
- Valuation Handbook – International Industry Cost of Capital

James is a contributing author to:

- Cost of Capital: Applications and Examples, 5th ed.

James is a Duff & Phelps Contributor to:

- Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook
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Duff & Phelps
www.dpcostofcapital.com
CostofCapital.Support@DuffandPhelps.com
The Cost of Capital Navigator
The Online Resource for Estimating Cost of Capital

For detailed descriptions: Appendix B in this slide deck, or visit dpcostofcapital.com
The Cost of Capital Navigator
The Online Resource for Estimating Cost of Capital

Cost of Capital Navigator
Replaced U.S. Guide to Cost of Capital
2018

U.S. Cost of Capital and Industry Data

International Cost of Capital and Industry Data
The Cost of Capital Navigator
The Online Resource for Estimating Cost of Capital

Cost of Capital Navigator
Replaced U.S. Guide to Cost of Capital

2018

2019

2020

U.S. Cost of Capital and Industry Data

International Cost of Capital and Industry Data

Duff & Phelps
Today’s Agenda

• How can you use the *U.S. Valuation Handbook – Industry Cost of Capital*?

• Using the Cost of Capital Navigator to estimate cost of capital for a smaller company.

• Summary

• Q&A
How can you use the Valuation Handbook – U.S. Industry Cost of Capital?
How can you use the *Valuation Handbook – U.S. Industry Cost of Capital*?

**Reason 1:** Information & Inputs

**Reason 2:** Think “Benchmarking”
How can you use the Valuation Handbook – U.S. Industry Cost of Capital?

Reason 1: Information & Inputs

Reason 2: Think “Benchmarking”
How can you use the *Valuation Handbook – U.S. Industry Cost of Capital*?

Benchmarking is important because:

- It can **support** and **strengthen** your own custom analysis.
- Benchmarking can also **uncover possible errors** in your analysis.

Company ABC

**WACC**  9%
How can you use the *Valuation Handbook – U.S. Industry Cost of Capital*?

Benchmarking is important because:

- It can **support** and **strengthen** your own custom analysis.
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<table>
<thead>
<tr>
<th>Company 1</th>
<th>Company 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company 2</td>
<td>Company 7</td>
</tr>
<tr>
<td>Company 3</td>
<td>Company 8</td>
</tr>
<tr>
<td>Company 4</td>
<td>Company 9</td>
</tr>
<tr>
<td>Company 5</td>
<td>Company 10</td>
</tr>
</tbody>
</table>

- **Average WACC** 9.5%
- **Median WACC** 8.5%

**Company ABC**

- **WACC** 9%
How can you use the Valuation Handbook – U.S. Industry Cost of Capital?

Benchmarking is important because:

- It can support and strengthen your own custom analysis.
- Benchmarking can also **uncover possible errors** in your analysis.

| Company 1 | Company 6 |
| Company 2 | Company 7 |
| Company 3 | Company 8 |
| Company 4 | Company 9 |
| Company 5 | Company 10 |

| Average WACC | 15% |
| Median WACC  | 16% |

WACC 9%
Using the Cost of Capital Navigator to estimate cost of capital for smaller companies
Subject Company Characteristics

Subject Company
Jim’s Gadgets

Valuation Date
December 31, 2017

Industry
SIC 36
Electronic and Other Electrical Equipment and Components, Except Computer Equipment

Subject Company Size Characteristics

<table>
<thead>
<tr>
<th>Size Measure</th>
<th>Value ($Millions)</th>
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<tbody>
<tr>
<td>Market Value of Equity</td>
<td>$12</td>
</tr>
<tr>
<td>Book Value of Equity</td>
<td>$10</td>
</tr>
<tr>
<td>5-year Average Net Income</td>
<td>$1</td>
</tr>
<tr>
<td>Market Value of Invested Capital</td>
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</tr>
<tr>
<td>Total Assets</td>
<td>$20</td>
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<td>Sales</td>
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<td>Number of Employees</td>
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</tr>
</tbody>
</table>

Actual Number (not in millions!)
Case Study
Industry Book Inputs Used
Industry Book Inputs Used

Data Updated Through December 31, 2017

36
Number of Companies: 86
Electronic and Other Electrical Equipment and Components, Except Computer Equipment

Small Composite Sum Beta

<table>
<thead>
<tr>
<th>Betas (Levered)</th>
<th>Raw (OLS)</th>
<th>Blume Adjusted</th>
<th>Peer Group</th>
<th>Vassickek Adjusted</th>
<th>Sum</th>
<th>Downside</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median</td>
<td>1.18</td>
<td>1.12</td>
<td>1.21</td>
<td>1.19</td>
<td>1.24</td>
<td>1.60</td>
</tr>
<tr>
<td>SIC Composite</td>
<td>1.19</td>
<td>1.13</td>
<td>1.21</td>
<td>1.20</td>
<td>1.15</td>
<td>1.32</td>
</tr>
<tr>
<td>Large Composite</td>
<td>1.19</td>
<td>1.13</td>
<td>1.21</td>
<td>1.20</td>
<td>1.14</td>
<td>1.40</td>
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<tr>
<td>Small Composite</td>
<td>1.23</td>
<td>1.15</td>
<td>1.21</td>
<td>1.23</td>
<td>1.32</td>
<td>1.25</td>
</tr>
<tr>
<td>High Financial Risk</td>
<td>1.87</td>
<td>1.56</td>
<td>1.21</td>
<td>1.83</td>
<td>2.21</td>
<td>1.87</td>
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</table>

1.32
### Industry Book Inputs Used

**Data Updated Through December 31, 2017**

36

**Number of Companies:** 86

**Electronic and Other Electrical Equipment and Components, Except Computer Equipment**

### Small Composite Debt/Total Capital

<table>
<thead>
<tr>
<th>Leverage Ratios (%)</th>
<th>Debt/MV Equity</th>
<th>Debt/Total Capital</th>
<th>Cost of Debt (%)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Latest</td>
<td>5-Yr Avg</td>
<td>Latest</td>
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<tr>
<td>Median</td>
<td>10.6</td>
<td>10.3</td>
<td>9.6</td>
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<tr>
<td>SIC Composite</td>
<td>12.2</td>
<td>11.6</td>
<td>10.9</td>
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<tr>
<td>Large Composite</td>
<td>12.1</td>
<td>11.5</td>
<td>10.8</td>
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<tr>
<td>Small Composite</td>
<td>7.6</td>
<td>15.5</td>
<td>7.0</td>
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<tr>
<td>High Financial Risk</td>
<td>47.7</td>
<td>58.7</td>
<td>32.3</td>
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</table>

---

**13.4%**
## Industry Book Inputs Used

**Data Updated Through December 31, 2017**

### Number of Companies: 86
Electronic and Other Electrical Equipment and Components, Except Computer Equipment

#### Small Composite Cost of Debt

<table>
<thead>
<tr>
<th>Leverage Ratios (%)</th>
<th>Cost of Debt (%)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<tr>
<td><strong>Debt/MV Equity</strong></td>
<td><strong>Cost of Debt</strong></td>
</tr>
<tr>
<td>Latest</td>
<td>Latest</td>
</tr>
<tr>
<td>10.6</td>
<td>5.4</td>
</tr>
<tr>
<td>12.2</td>
<td>3.9</td>
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<tr>
<td>12.1</td>
<td>3.7</td>
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<td>11.5</td>
<td></td>
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<tr>
<td>15.5</td>
<td></td>
</tr>
<tr>
<td>58.7</td>
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</tbody>
</table>

**Latest Small Composite Cost of Debt: 4.4%**
Industry Book Benchmarks Used
Cost of Equity Benchmarks

Cost of Equity Capital Conclusion – Jim’s Gadgets

Average Cost of Equity

<table>
<thead>
<tr>
<th></th>
<th>Levered</th>
<th>Unlevered</th>
<th>Relevered</th>
<th>High Financial Risk</th>
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</thead>
<tbody>
<tr>
<td>Cost</td>
<td>14.99%</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
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</table>

Median Cost of Equity

<table>
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<tr>
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<th>Levered</th>
<th>Unlevered</th>
<th>Relevered</th>
<th>High Financial Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>14.98%</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
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</table>

Cost of Equity Capital (%)

<table>
<thead>
<tr>
<th></th>
<th>CAPM</th>
<th>CRSP Deciles</th>
<th>Risk Premium Report</th>
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<tr>
<td></td>
<td></td>
<td>CAPM</td>
<td>Build-Up</td>
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<tr>
<td></td>
<td></td>
<td>+Size Prem</td>
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<td>9.7</td>
<td>13.3</td>
<td>14.6</td>
</tr>
</tbody>
</table>

13.2%  14.6%  14.9%
WACC Benchmarks

WACC Conclusion – Jim’s Gadgets

13.45%

Weighted Average Cost of Capital

<table>
<thead>
<tr>
<th>Weighted Average Cost of Capital (WACC) (%)</th>
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</thead>
<tbody>
<tr>
<td><strong>CAPM</strong></td>
</tr>
<tr>
<td>Median</td>
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<tr>
<td>Small Composite</td>
</tr>
</tbody>
</table>

12.5%  13.8%  14.1%
New enhancements: Excel Add-in

Instructions for enabling in Appendix A of this PowerPoint presentation.
Updates to dpcostofcapital.com

- New Look
- Accounts will not change
- More resources in one place
- Logging in

Cost of Capital Navigator
The Duff & Phelps Cost of Capital Navigator guides you through the process of estimating the cost of capital, a key component of any valuation analysis.

Choose Your Subscription

Or log into your Navigator account.

The online tool includes all the critical equity risk premium data and information from the Duff & Phelps Valuation Handbook - U.S. Guide to Cost of Capital that you have used and trusted for years.
Questions and Answers

Market Results Through March 2019

Valuation H A N D B O O K

2019

U.S. Industry Cost of Capital

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CostofCapital.Support@DuffandPhelps.com
Appendix A: Cost of Capital Navigator Excel Add-in: Enable Instructions
Cost of Capital Navigator Excel Add-in - How it Works

See how the Excel Add-in Works by watching the following video:
Cost of Capital Navigator Excel Add-in: Enable Instructions

Follow the below instructions on how to enable the Excel Add-in*

Instructions to Enable the Add-in
1. Open Microsoft Excel
2. Go to the "Insert" tab
3. Click on "Get Add-ins"
4. Search "Cost of Capital"
5. Click on "The Cost of Capital Navigator"
6. Click on “Add” to enable the Cost of Capital Navigator - Excel Add-in
7. Click on “Cost of Capital Navigator” in your Excel ribbon
8. Click on the “Cost of Capital Navigator - Launch” button to open
9. Login to the Excel Add-in using your Cost of Capital Navigator credentials
10. Click on the “Demo – Launch” button to watch an instructional video on the Excel Add-in

*Note: Users must have Microsoft Excel 2016 (Microsoft 365) or higher to access the Navigator Add-in.

Screen shots of these steps are on the following slides.
1. Open Microsoft Excel
2. **Go to the "Insert" tab**
3. Click on "Get Add-ins"
4. Search "Cost of Capital"
5. Click on "The Cost of Capital Navigator"
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Appendix B: Cost of Capital Resources
What is the new Duff & Phelps Cost of Capital Navigator?

The *Valuation Handbook – U.S. Guide to Cost of Capital* is the book that many Analysts are most familiar. This book is where the (i) size premia (two valuation data sets: (1) CRSP Deciles Size Study (the former Ibbotson/Morningstar *SBBI Valuation Yearbook* data) and (2) Risk Premium Report - Size Study; (ii) industry risk premia; (iii) equity risk premia (ERPs); (iv) risk-free rates; and (v) other risk premia (Risk Premium Report - Risk Study) are found that Analysts have used and trusted for years to develop cost of capital estimates for us companies.


Note: Starting in 2018, the information and valuation data from the Valuation Handbook – U.S. Guide to Cost of Capital is available exclusively in the online Cost of Capital Navigator platform. A physical book that includes the data exhibits is not commercially available.

To learn more about the online Cost of Capital Navigator, visit: dpcostofcapital.com.

The Valuation Handbook – U.S. Guide to Cost of Capital was published as a hardcover book from 2014–2017, and included the U.S. cost of capital data inputs (equity risk premia, size premia, industry risk premia, risk premia over the risk-free rate, risk-free rates) that were previously published in the Ibbotson Associates/Morningstar Stocks, Bonds, Bills, and Inflation® (SBBI®) Valuation Yearbook and the Duff & Phelps Risk Premium Report. This data can be used to develop cost of equity capital estimates (using both the build-up method and CAPM) for an individual business, business ownership interest, security, or intangible asset. Starting in 2018, the essential valuation data previously published in the Valuation Handbook – U.S. Guide to Cost of Capital will be available exclusively in the new online Cost of Capital Navigator platform. The 2019 Cost of Capital: Annual U.S. Guidance and Examples is a companion publication (sold separately) available to licensees of the Cost of Capital Navigator.

To be clear, the 2019 Cost of Capital: Annual U.S. Guidance and Examples:

• Includes the content, examples, frequently asked questions (FAQs), and methodology previously published in the Duff & Phelps Valuation Handbook – U.S. Guide to Cost of Capital, updated through December 31, 2018.
• Does not include the data exhibits previously published in the Valuation Handbook – U.S. Guide to Cost of Capital, which are available exclusively in the online Cost of Capital Navigator platform starting in 2018.
• Is provided as a reference book and teaching aid only.

The two valuation data sets previously published in the Valuation Handbook – U.S. Guide to Cost of Capital and now available exclusively in the online Cost of Capital Navigator are: (i) the CRSP Deciles Size Study (the former Ibbotson Associates/Morningstar SBBI® Valuation Yearbook data), and (ii) the Risk Premium Report Study. As of the initial launch of the online Cost of Capital Navigator platform, both the CRSP Deciles Size Study and the Risk Premium Report Study are available online for all years from 1999–present.1

1 There are two Cost of Capital Navigator subscription levels: (i) the “Basic” annual subscription includes the two most recent years of valuation data; and (ii) the “Pro” annual subscription includes all years of data from 1999–present. As of the initial launch of the Cost of Capital Navigator in February 2018, the “two most recent years” are 2017 and 2018 data, with data through December 31, 2016 and December 31, 2017, respectively. As of the initial launch of the Cost of Capital Navigator in February 2018, “1999–present” is all years from 1999 through 2018. To learn more, please visit dpcostofcapital.com.
The Valuation Handbook Series (soft-cover) & SBBI® Yearbook available:

To purchase any soft-cover book from the Valuation Handbook Series or the 2019 SBBI® Yearbook, please visit: duffandphelps.onfastspring.com/books.
To learn more, please visit: dpcostofcapital.com.
The Valuation Handbook Series (soft-cover)


<table>
<thead>
<tr>
<th>Valuation Handbook</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation Handbook – U.S. Guide to Cost of Capital</td>
<td>Data available exclusively online in the Cost of Capital Navigator platform</td>
<td>Data available exclusively in the Cost of Capital Navigator platform</td>
</tr>
<tr>
<td>Valuation Handbook – International Industry Cost of Capital</td>
<td>Printed as book</td>
<td>Data available exclusively in the Cost of Capital Navigator platform</td>
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</table>
Note: The Valuation Handbook – U.S. Industry Cost of Capital will be printed and distributed as a physical book one final time in 2019, but the information and data from this book will be added to the Cost of Capital Navigator later in 2019 and 2020.


This annual book provides industry-level cost of capital estimates (cost of equity capital, cost of debt capital, and weighted average cost of capital, or WACC), plus detailed industry-level statistics for sales, market capitalization, capital structure, various levered and unlevered beta estimates (e.g., ordinary-least squares (OLS) beta, sum beta, peer group beta, downside beta, etc.), valuation (trading) multiples, financial and profitability ratios, equity returns, aggregate forward-looking earnings-per share (EPS) growth rates, and more. Over 300 critical industry-level data points are calculated for approximately 180 U.S. industries (depending on data availability). Industries are organized by standard industrial classification (SIC) code.

The Valuation Handbook – U.S. Industry Cost of Capital can be used to benchmark, augment, and support the analyst's own custom analysis of the industry in which a subject business, business ownership interest, security, or intangible asset resides.

The Valuation Handbook – U.S. Industry Cost of Capital has been published since 2014, and is updated annually with data through March 31 of the current year (e.g., the 2014 Valuation Handbook – U.S. Industry Cost of Capital is “data through” March 31, 2014; the 2015 Valuation Handbook – U.S. Industry Cost of Capital is “data through” March 31, 2015, etc.). This book includes three intra-year quarterly updates (June, September, and December).
Note: The Valuation Handbook – International Guide to Cost of Capital will be printed and distributed as a physical book one final time in 2019, but the information and data from this book will be added to the Cost of Capital Navigator later in 2019 and 2020.


This annual book provides country-level equity risk premia (ERPs), relative volatility (RV) factors, and country risk premia (CRPs). This book can be used to estimate country-level cost of equity capital globally, for up to 188 countries, from the perspective of investors based in any one of up to 56 countries (depending on data availability).

The Valuation Handbook – International Guide to Cost of Capital has been published since 2014, and is updated annually with data through December of the previous year and March of the current year (e.g., the 2014 Valuation Handbook – International Guide to Cost of Capital is “data through” December 31, 2013 and March 31, 2014; the 2015 Valuation Handbook – International Guide to Cost of Capital is “data through” December 31, 2014 and March 31, 2015, etc.). This book includes one semi-annual update with data through June and September.

“Measuring the impact of country risk in determining the international cost of capital is one of the most vexing issues in finance. Any company doing international cost of capital estimation must, at minimum, consult the Valuation Handbook – International Guide to Cost of Capital”.
– Campbell R. Harvey, Professor of International Business at the Fuqua School of Business, Duke University
Note: The Valuation Handbook – International Industry Cost of Capital will be printed and distributed as a physical book one final time in 2019, but the information and data from this book will be added to the Cost of Capital Navigator later in 2019 and 2020.

To learn more about the Valuation Handbook – International Industry Cost of Capital, visit: duffandphelps.onfastspring.com/books.

This annual book provides the same type of rigorous industry-level analysis published in the U.S.-centric Valuation Handbook – U.S. Industry Cost of Capital, on a global scale.

This book includes industry-level analyses for four global economic areas: (i) the “World”, (ii) the European Union, (iii) the Eurozone, and (iv) the United Kingdom.\(^1\)\(^2\) Industries in the book are identified by their Global Industry Classification Standard (GICS) code. Each of the four global economic area’s industry analyses are presented in three currencies: (i) the euro (€ or EUR), (ii) the British pound (£ or GBP), and (iii) the U.S. dollar ($ or USD).

This annual book provides industry level cost of capital estimates (cost of equity capital, cost of debt capital, and weighted average cost of capital, or WACC), plus detailed industry-level statistics for sales, market capitalization, capital structure, various levered and unlevered beta estimates (e.g., ordinary-least squares (OLS) beta, sum beta, peer group beta, downside beta, etc.), valuation (trading) multiples, financial and profitability ratios, equity returns, aggregate forward-looking earnings-per share (EPS) growth rates, and more. Over 300 critical industry-level data points are calculated for each industry (depending on data availability). Industries are organized by global industry classification standard (GICS) code.

The Valuation Handbook – International Industry Cost of Capital can be used to benchmark, augment, and support the analyst's own custom analysis of the industry in which a subject business, business ownership interest, security, or intangible asset resides. The Valuation Handbook – International Industry Cost of Capital has been published since 2015, and is updated annually with data through March 31 of the current year (e.g., the 2015 Valuation Handbook – International Industry Cost of Capital is “data through” March 31, 2015; the 2016 Valuation Handbook – International Industry Cost of Capital is “data through” March 31, 2016, etc.). This book includes one semi-annual update with data through September.

\(^1\)\(^2\) There In the Valuation Handbook – International Industry Cost of Capital, “World” companies are defined as companies that (i) are components of the MSCI ACWI IMI, and (ii) satisfy the rigorous screening requirements that are employed to define the company sets used therein.
Note: There are presently no plans to transition the information and data from the Stocks, Bonds, Bills, and Inflation® (SBBI®) Yearbook over to the Cost of Capital Navigator platform. This book will continue to be published as a hardcover book.

To learn more about the Stocks, Bonds, Bills, and Inflation® (SBBI®) Yearbook, visit: duffandphelps.onfastspring.com/books.

This annual book has been the definitive annual resource for historical U.S. capital markets performance data for over 30 years.

Starting with the 2016 edition, the Stocks, Bonds, Bills, and Inflation® (SBBI®) Yearbook is now produced by Duff & Phelps. The SBBI® Yearbook was previously published by Morningstar, Inc. under the name “Ibbotson® Stocks, Bonds, Bills, and Inflation® (SBBI®) Classic Yearbook”.

This book includes returns, index values, and statistical analyses of U.S. large company stocks, small company stocks, long-term corporate bonds, long-term government bonds, intermediate term government bonds, U.S. Treasury bills, and inflation from January 1926 to present (monthly).

Anyone serious about investments or investing needs an appreciation of capital market history. Such an appreciation, which can be gained from this book, is equally valuable to the individual and institutional investor, practitioners and scholars in finance, economics, and business; portfolio strategists, and security analysts seeking to benchmark their own investment performance. The SBBI® Yearbook is a thinking person’s guide to using historical data to understand the financial markets and make decisions.

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i.3 The SBBI® Classic Yearbook (as it was known at that time) was published by Morningstar, Inc. from 2007 through 2015, and by Ibbotson Associates in years prior to 2007.

i.4 The SBBI® Yearbook provides historical “performance” data of U.S. asset classes, while the other Duff & Phelps data resources provide “valuation” data. Specifically, the other Duff & Phelps data resources focus on U.S. and international valuation data and risk premia (e.g., equity risk premia, risk-free rates, size premia, industry risk premia, betas, industry multiples and other statistics, etc.) for use in valuation models, while the SBBI® Yearbook is (i) a history of the returns of the capital markets in the U.S. (thus the name, “Stocks, Bonds, Bills, and Inflation®,” or “SBBI®”) from 1926 to the present, and (ii) an analysis of the relative performance of U.S. asset classes. The SBBI® Yearbook has been published annually for over 30 years. The SBBI® Yearbook does not provide extensive valuation data or methodology.

i.5 Beginning with the 2018 edition, the SBBI® Yearbook is now self-published by Duff & Phelps. The 2016 and 2017 editions were published by John Wiley & Sons.
The Cost of Capital: Applications and Examples 5th edition, by Shannon P. Pratt and Roger J. Grabowski (John Wiley & Sons, Inc., 2014) is the authoritative, comprehensive overview of valuation theory, best practices, and proper use of data. This book puts an emphasis on practical application. The Cost of Capital: Applications and Examples 5th edition is a one-stop shop for background and current thinking on the development and uses of rates of return on capital. This book contains expanded materials on estimating the basic building blocks of the cost of equity capital, the risk-free rate, and the equity risk premium, plus in-depth discussion of the volatility created by the 2008 financial crisis, the subsequent recession and uncertain recovery, and how those events have fundamentally changed how we need to interpret the inputs to the models we use to develop these estimates.

The Cost of Capital: Applications and Examples 5th edition includes case studies providing comprehensive discussion of cost of capital estimates for valuing a business and damages calculations for small and medium-sized businesses, cross-referenced to the chapters covering the theory and data. This book puts an emphasis on practical application. To that end, this updated edition provides readers with exclusive access to a companion website filled with supplementary materials, allowing you to continue to learn in a hands-on fashion long after closing the book. The Cost of Capital: Applications and Examples has been published since 1998, and is updated every three to four years. The 6th edition of this book is tentatively scheduled to be available in winter 2020.

“Shannon Pratt and Roger Grabowski have produced a remarkably comprehensive review of the subject…it is a work that valuation practitioners, CFOs, and others will find an invaluable reference”.
– Professor Richard Brealey, Emeritus Professor of Finance, London Business School

“Estimating the cost of capital is critical in determining the valuation of assets, in evaluating the capital structure of corporations, and in estimating the long-run expected return of investments. Shannon Pratt and Roger Grabowski have the most thorough text on the subject, not only providing various estimation methods, but also numerous ways to use the cost of capital”.
– Professor Roger G. Ibbotson, Professor Emeritus of Finance at the Yale School of Management, Chairman and Chief Investment Officer of Zebra Capital LLC, and former Chairman and founder of Ibbotson Associates, now part of Morningstar, Inc.