

As a valuation and financial modelling professional with limited macroeconomic background, by mid-2011 I was under the impression that the times of recession were over and that a modest recovery would follow. I became fairly optimistic and, like many people around me, believed that pro-cyclical industries, in particular those focusing on consumers, may significantly benefit. During my visit to Florida (one of the US states most severely hit by the mortgage crisis) I saw people really turning things around. So far, the Czech economy is considerably lagging behind my expectations.

I recently revisited my 2011 views with the following observations (probably incomplete and naïve in the eyes of professional macroeconomists):

- Western European and US equity markets are growing again: the Dow, FTSE and DAX are all recording returns in excess of 20% for the last two years.
- Government bond yields remain at historical lows, while negative deposit rates are being seriously discussed at central banks. As a valuation professional, one can see estimates of weighted average cost of capital at (say) 70% of common estimates several years ago.
- According to a recent Deloitte study, debt financing seems to be reasonably accessible, with corporate bond spreads at record lows and corporations actively exploiting the low-yield environment through refinancing deals. Even despite the sovereign crisis and Basel III rules, Western European companies are fairly active in refinancing, partially focusing on US bond markets. Also, leveraged finance appears increasingly available, with debt/EBITDA multiples continuously rising since 2009, gearing stabilised and loan tenure lengthening.
- In client discussions we have with the representatives of major Czech banks, bankers openly present how inviting they are for leveraged deals – even so inviting that mezzanine capital may find it difficult to get sufficient headroom for



**Lukáš Brych, CFA**

Member & President (2009 – 2012)

involvement. Financing seems to be available at reasonable terms if the deal is presented professionally.

From a Czech entrepreneurial viewpoint, almost everything seems to be in place. Yet in recent years Czech GDP growth is consistently 1.5 – 2% lower than Germany's for every single quarter. Until mid-2012, we could have blamed the fiscal restriction; since then it appears that consumer pessimism (or perhaps deflation speculation as the CNB thinks) is the most important factor.

In the past five years, people have become accustomed to negative surprises behind every corner. It is about time to change this. When there is a risk, there is a chance as well. As CFA Charterholders must always maintain an objective view, I propose to always disclose the positives of the presented case (as well as negatives, which you can certainly discuss anyway). It may take an extra effort to consider all the "what ifs" for your client, but it will always result in a more-professional outcome. Hopefully, your education and background will add a new angle to the discussion and let the growth story surface. Hopefully, this