

## Seminar

# Setting the WACC in Low Interest Environments: Bridging Theory and Practice

**27 January 2022**

ETNO's office - Boulevard du Régent 43-44, Brussels

**Anna Pisarkiewicz** | European University Institute

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The FSR Communications and Media and ETNO organise a joint seminar to explore concrete theoretical and empirical questions related to WACC setting in regulated environments and to gather views from a diverse set of stakeholders

## Introduction

The Weighted Average Cost of Capital (WACC) is commonly used to assess the profitability of an investment or to value assets or companies. It is a key financial parameter in corporate decision-making. In regulated environments, such as the telco or the energy sectors, sectoral regulators set the WACC, mostly for cost-oriented products, and it is an important component of the pricing of such products. It is hence of utmost importance that WACC values used by the regulators are set at an appropriate level to provide the right incentives for regulated entities and their competitors, and more broadly for the consumers.

The Capital Asset Pricing Model (CAPM) provides a solid theoretical framework for estimating the WACC. It is also easier to estimate empirically than other, more complex approaches to the WACC (such as multi-factor models), which is why practitioners and financial analysts use it often to estimate the WACC.

The monetary policies implemented by the European Central Bank (ECB), and in particular its Quantitative Easing (QE) programs, have led to persistently low or even negative interest rates in several countries, challenging common empirical approaches to estimate the WACC and potentially entailing high risks of misaligned or under-estimated WACC values. The main issue that QE raises for the regulators is whether the fall in government bond yields that it has caused, reflect the fall in the return that equity investors require, and whether the regulators should make an upward adjustment to the observed yields. The issue is of highly practical importance considering that the positions of various stakeholders are misaligned.

Accordingly, the objective of the Seminar is to explore concrete theoretical and empirical questions related to the WACC setting in regulated environments and to gather views from a diverse set of stakeholders that would include European institutions, academia, regulators, companies, and financial analysts.

The Seminar, divided into two parts, focuses first on the methodological issues concerning the setting of WACC in the telecoms sector, and second on potential challenges to its application in the future.

The Seminar will address the following questions in particular:

- What are the implications of QE on theoretical and empirical approaches to WACC setting?
- Is there a need to change common approaches of WACC setting?
- What are the risks of misaligned values with market estimates?
- What are the implications of:
  - A possible end to QE
  - The revival of inflation
  - Other issues (energy shock, supply chain changes, etc...)

## **Programme**

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10.00 - 10.30 **Stephen Howard** | Communications Chambers

10.30 - 12.00 Panel I  
*Setting WACC in the Telecoms Sector: Methodology*

Moderator

**Anna Pisarkiewicz** | EUI

Panellists

**Annegret Groebel** | BEREC/BNetzA

**Daniel Kapp** | ECB

**Silas Norbjerg** | European Commission | DG CNET

**Richard Stehle** | Humboldt University

**Fadhel Lakhoua** | Orange

12.00 - 13.00 Lunch

13.00 - 15.00 Roundtable  
*The future of WACC*

Moderator

**Philippe Defraigne** | Cullen International

**Kamila Kloc** | European Commission | DG CNECT

**Erzsébet Fitori** | Vodafone

**Ulrich Hege** | Toulouse School of Economics (TSE)

**Brian Williamson** | Communications Chambers

**Fernando Cordero** | Grupo Santander

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