# AN ANALYSIS OF THE FACTORS THAT MAKE A COMPANY FINANCIALLY APPEALING AND HOW THEY IMPACT ITS INVESTMENT PROSPECTS

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To optimize investment choices and ensure the greatest return, the concept of *investment attractiveness* is crucial. This relatively recent addition to economic literature is primarily used to assess and characterize potential investments, facilitate comparisons through ratings, and analyze various business processes. Despite its growing importance, a review of existing interpretations reveals a lack of a universally accepted definition for this key economic category. The concept can be thought of as a holistic assessment of a company's potential to generate value and attract capital.

Specifically, the investment attractiveness of an enterprise represents the complex network of economic relationships among various business entities, all focused on achieving effective growth and maintaining a competitive edge. This attractiveness isn't merely a subjective feeling; it's evaluated using a comprehensive set of indicators that reflect the efficiency and effectiveness of various aspects of the enterprise's operations. These indicators fall into two main categories:

- Formal Indicators: These are objective, data-driven metrics derived from the company's financial reporting. They typically include measures of profitability (e.g., return on equity, profit margins), solvency (e.g., debt-to-equity ratio), liquidity (e.g., current ratio), and efficiency (e.g., asset turnover). These metrics provide a snapshot of the company's financial health and performance.
- Informal Indicators: These indicators, which often lack a definitive set of underlying data, rely on qualitative assessments and expert judgment. They consider

factors like management quality, industry trends, market position, brand reputation, technological innovation, corporate governance, and regulatory environment. These factors, although less quantifiable, are essential for providing a complete picture of an enterprise's long-term prospects.

The interplay between these formal and informal indicators helps potential investors assess the risks and rewards associated with an investment, ultimately allowing them to make informed decisions about the allocation of capital. Therefore, a robust evaluation of investment attractiveness is a key element of successful investment strategy.

Similarly, the investment attractiveness of an enterprise reflects the extent to which it meets the diverse needs and interests of potential investors in financial, operational, organizational and other important areas. This level of satisfaction can be determined and assessed by analyzing relevant indicators, including a comprehensive overall assessment. Investments themselves cover a wide range of assets, from cash and securities to technology, equipment, intellectual property, and loans, which are used in entrepreneurial ventures and other activities for profit and positive social impact.

Investment activity encompasses both the act of investing itself and the series of actions undertaken to realize those investments. When investments are directed towards creating or expanding a company's fixed assets, they take the form of capital expenditures. Building on these definitions, we can infer that an enterprise's investment attractiveness is primarily its capacity to generate commercial or other interest from potential investors. This includes the company's ability to effectively manage ("accept") and strategically utilize investments to achieve significant improvements. These improvements might include enhanced product quality, increased production output, expanded market share, or other advancements that ultimately boost the company's bottom line: net profit.

One widely held perspective equates investment attractiveness with the perceived worthiness of investing in a particular enterprise. This worthiness hinges on

various factors that characterize the entity's operations. While accurate, this definition lacks specificity and doesn't provide a clear framework for assessing investment attractiveness in a practical and measurable way. It describes what investment attractiveness is linked to but not how to evaluate it.

A more precise economic interpretation of investment attractiveness is offered by L. Valinurova and O. Kazakova, who define it as the collective set of objective characteristics, attributes, resources, and opportunities that drive potential investor demand. This definition is broader, accommodating the interests of all stakeholders involved in the investment process.

Other perspectives exist as well, including those of L. Gilyarovskaya, V. Vlasova, and E. Krylov, among others. These viewpoints frame investment attractiveness as an evaluation of how effectively a company utilizes both its own capital (equity) and borrowed funds. They emphasize the analysis of solvency and liquidity, focusing on the composition of equity and debt, how these funds are allocated across different assets, and the overall efficiency of their use.

Alternatively, assessing investment attractiveness in terms of return and risk suggests that it hinges on the presence of a significant income or economic benefit derived from investing funds, while maintaining a minimal level of risk.

Ultimately, regardless of the specific definition favored by an expert or analyst, the term "investment attractiveness" is most often employed to evaluate the viability of investing in a particular target, to select among competing investment opportunities, and to determine the most efficient allocation of resources.

It's important to emphasize that determining investment attractiveness aims to create objective and focused information that supports well-informed investment decisions. Therefore, when approaching its assessment, a distinction should be made between "level of economic development" and "investment attractiveness." While the former describes an object's current state using a range of economic indicators, the latter goes further by characterizing the object's overall condition, its potential for

future development, its profitability, and its growth prospects. Investment attractiveness considers not just where the company *is*, but where it's *going*.

The specific set of indicators selected to assess investment attractiveness depends on various factors, including the nature of the company's business, its creditworthiness, and its overall commercial reputation. The primary objective of assessing investment attractiveness isn't simply to determine the enterprise's current situation. Instead, it's to evaluate the risk associated with a potential investment. To address this objective, investment practice utilizes a systematic set of indicators specifically designed to gauge an enterprise's investment attractiveness. This system helps quantify and compare different investment opportunities based on their perceived risk and potential reward.

Evaluating an enterprise's investment attractiveness is crucially important for economic entities. Potential investors pay close attention to this assessment, examining and comparing a company's performance not just for a single year, but over a period of at least 3-5 years to gain a more comprehensive understanding of its operations and trends. Furthermore, to accurately gauge investment attractiveness, investors analyze the enterprise within the context of its industry, comparing it to other companies in the same sector rather than viewing it as an isolated entity. This allows for a more informed perspective on its relative strengths and weaknesses.

M.I. Bakanov and A.D. Sheremet emphasize that a key internal driver of investment attractiveness is the enterprise's financial health. This manifests itself in the enterprise's solvency—its ability to meet its financial obligations. This includes fulfilling payment obligations to suppliers for equipment and materials as stipulated in business contracts, repaying loans, compensating employees, and meeting its tax obligations to the government. Financial health directly influences the company's competitiveness and its potential for successful business partnerships. Additionally, market-based indicators related to the company's shares, such as market value, liquidity, and trading volume, are also intrinsically linked to its financial condition.

Finally, the financial health of the company directly impacts the dividend income received by shareholders and shapes its overall dividend policy.

High Investment Attractiveness: These are organizations where investment is highly recommended. They offer either high profitability with moderate risk or low profitability with very low risk.

Average Investment Attractiveness: Investing in these entities can be profitable, but the return on investment is unlikely to be substantial. They typically involve a moderate level of both risk and reward.

Low Investment Attractiveness: These organizations offer a lower risk-to-reward ratio, not promising high profits but providing a higher assurance of recouping the initial investment.

Unattractive Investment: Investing in organizations with this level of investment attractiveness is generally not recommended. Such investments are unlikely to generate profit and carry a significant risk of losing the invested capital.

In both global and domestic financial practices, one common method for determining an enterprise's investment attractiveness involves analyzing its financial statements. This analysis entails calculating a set of indicators, the specific selection of which depends on the investor's objectives and priorities. This financial statement analysis provides a data-driven foundation for assessing the risk-return profile of the enterprise.

While financial statement analysis provides a quick method for investors to assess the viability of a potential investment and determine the current financial standing of an enterprise, it falls short of answering crucial questions necessary for making well-informed decisions. It presents a snapshot in time but doesn't necessarily reveal future potential or risks.

When evaluating investment attractiveness, investors should carefully consider the following factors, among others:

- The competence and experience of the management team.

- The existence of a unique and compelling business model, a clearly defined development strategy, and a detailed business plan.
- The presence of sustainable competitive advantages that position the company for market leadership.
- The potential for significant revenue growth.
- The degree of financial transparency, commitment to ethical corporate governance, and overall transparency in business practices.
- A clear ownership structure that safeguards shareholders' investments.
- The potential for achieving high returns on invested capital.
- This list represents only a portion of the information required for a thorough evaluation. To reliably and effectively assess investment attractiveness, a comprehensive examination covering all areas of the enterprise is essential.

A key component of assessing investment attractiveness is evaluating the enterprise's financial condition, which reflects the availability, allocation, and utilization of its financial resources. Analyzing the financial condition helps pinpoint areas needing improvement and highlights both the strengths and weaknesses of the company's financial position.

Expert assessment is particularly valuable in these situations; however, it's not always consistently applied. Ideally, expert assessment should be an integral part of a comprehensive evaluation of an enterprise's investment attractiveness, providing valuable insights beyond what can be gleaned from financial statements alone.

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