

Kyiv National University of Trade and Economics
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FINAL QUALIFYING PAPER
on the topic:

“Management of an enterprise value”

(based on the data of PJSC «Obolon», Kyiv)

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ABSTRACT

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Final qualifying paper on the specialty 051 «Economics», specialization «Finance Management». – Kyiv National University of Trade and Economics. – Kyiv, 2018.

The final qualification paper is devoted to theoretical, methodological and practical aspects of the study of ways to manage the value of the enterprise. This work allows us to identify possible ways to increase the value of an enterprise and the steps that need to be taken to achieve this goal.

Key words: enterprise value, capitalization, value based management, growth strategy.

АНОТАЦІЯ

Куцман В.О. «Управління вартістю підприємства» (за матеріалами ПрАТ «Оболонь», м. Київ). – Рукопис.

Випускна кваліфікаційна робота за спеціальністю 051 «Економіка», спеціалізація «Фінансовий менеджмент» – Київський національний торговельно-економічний університет – Київ, 2018.

Випускну кваліфікаційну роботу присвячено теоретичним, методичним і практичним аспектам дослідження шляхів управління вартістю підприємства. Дана робота дозволяє визначити можливі шляхи підвищення вартості підприємства та кроки, які необхідно здійснити для досягнення цієї цілі.

Ключові слова: вартість підприємства, капіталізація, управління вартістю, стратегія розвитку.

INTRODUCTION

Relevance of research topic. The growth of the enterprise value has become the key goal for top management of all companies since the late 20th century, replacing the paradigm in which the main task was to obtain profits from the enterprise. Although at first glance it may seem that these tasks are complementary, in reality, sometimes the concentration attention on profits does not allow the company to increase value for shareholders.

Therefore, it is important to understand the tools for company valuation and drivers that affect the enterprise value. Taking into account the economic crisis, it is important to establish the most effective type of enterprise functioning, which would ensure a gradual growth of enterprise value and, in general, to start the growth of Ukrainian economic.

In foreign scientific literature, considerable attention was paid to these problems by: A. Damodaran, T. Coller, T. Copeland, M. Miller, F. Modigliani, J. Murrin, A. Rappaport, J. Stern, J. Stuart, C. Walt, J. Friedman, G. S. Harrison, J. Harvey, J. Hicks, J. van Horn, W. Sharp, R. Brandenburg et al. Aspects of company valuation were among the research interests of Ukrainian scholars: P. Krush, O. Kuzmin, O. Mendrul, Y. Marcus, T. Momot, V. Pankov, S. Polischuk.

The purpose of the work is to develop scientific, methodological, practical and advisory issues regarding the ways of value-based management.

To ensure the implementation of the work purpose, the following **objectives** were set:

- To determine essence and types of enterprise value, aspects of enterprise value creation;
- To determine methodological tools for enterprise valuation;
- To analyze theoretical basis for development of enterprise value growth strategy;
- To analyze Ukrainian beer and non-alcoholic drinks market;
- To analyze financials of PJSC “Obolon”;

- To provide valuation of PJSC “Obolon” by a market approach;
- To provide valuation of PJSC “Obolon” by a Discount Cash Flow (DCF) model approach;
- To determine possible approaches to increase enterprise value;
- To develop and assess value growth strategy for the company;
- To develop measures, that ensure implementation of planned strategy.

The subject of the research is the theoretical, methodological and practical issues of value based management by the enterprise.

The object of the research is an enterprise value of the enterprise.

During the research, **methods** of logical generalization, expert evaluations, statistical methods, methods of induction and deduction, methods of abstraction and comparison, etc. were used.

The methodological and theoretical basis for the work consists of Ukrainian and foreign scientists works, legislative and regulatory acts of Ukraine, instructions and regulations, financial statements of PJSC "Obolon" and data from other open sources.

An empirical basis for the research is the financial reporting of the PJSC "Obolon". In 2017, the financial and economic activity of PJSC “Obolon” was characterized by the following indicators: revenue - UAH 4 963 232 thousand, net income - UAH 176 580 thousand.

The practical significance of the results is to develop strategies and measures to increase the enterprise value of PJSC "Obolon".

The information base is made up of analytical, economic and research, as well as statistics information and data from the media, international organizations and other sources of information.

Publication of the final qualifying work results. According to the results of the conducted research, a scientific article "Peculiarities of innovative companies valuation in Ukraine" was developed and published in the collection of scientific articles, the release of which is scheduled for December 2018.

Applied value of the obtained results. The applied value of the research results is aimed at increasing enterprise valued for PJSC “Obolon” and could be used by the company.

Structure of final qualifying paper. The final qualifying paper consists of the introduction, 3 chapters, conclusions, the list of references, and annexes. The work is outlined on 100 pages. The list of references includes 56 sources.

CHAPTER 1

THEORETICAL PRINCIPLES OF MANAGEMENT OF ENTERPRISE VALUE

1.1 Essence and types of enterprise value, aspects of creation of the enterprise value

The study of the term "value of an enterprise" should be based on the consideration of the essence of "value" in relation to the enterprise - "an independent entity created by the competent authority of state power or a local self-government body or other entities to meet social and personal needs through the systematic implementation of production, scientific research, trade, and other economic activities in the manner prescribed by the Commercial Code and other laws "[35]. The value of an enterprise as an economic category is based on existing theory of value. The history of world economic thought distinguishes three main concepts of value, namely: 1) labor theory of value; 2) the theory of marginal utility; 3) the theory of market valuation.

The development of the theory of labor value began by representatives of classical political economy: W. Petty, A. Smith, D. Ricardo and others. It further developed in the works of K. Marx, who developed the doctrine of the dual nature of labor embodied in the product, revealed the contradiction between private and social, concrete and abstract labor, consumer value and value of goods, investigated the historical process of development of exchange and forms of value, disclosed the nature and essence of money as a universal equivalent. In his economic conception, the labor theory of value and the theory of value added based on it occupy a central place. Other world-famous theories of value are also known in the world economic science: those that focus on the costs and those that have moved it to the final results of production. In addition to labor cost, "cost" concepts include the theory of production costs and the theory of three factors of

production. Proponents of the theory of production costs (R. Torrens, N. Senior, J. Mill, J. McCulloch, and others) consider production costs as the basis of the exchange value and prices, considering that the new value is created not only by the living but also by the past, hardened labor. They proceed from the fact that since the cost of production depends on the prices of their individual elements (objects and means of labor, labor), the use of costs as the basis of pricing means, in essence, an explanation of the prices of goods by the prices of elements of expenditure.

Among contemporaries, the position of determining the value of the goods and services stated in the work is adhered to by S.A. Mocheryny, who notes that value is an economic category that expresses the socially necessary labor and economic relations between economic entities that are related to the social division of labor and the exchange of goods and services [30, p. 83]. At the same time, Yu.V. Nikolenko defines the value of labor as expressed in goods, which expresses the relations between commodity producers with regard to the costs of their labor for the production of goods, which they exchange as goods [35, p. 145].

The concept of value from the standpoint of labor theory considers O. Typanova, in her opinion, the value - is the amount of costs, determined relative to one of the elements of the accounting system [40, p. 37]. A. G. Zagorodniy holds a similar view, noting that the value is the value of anything expressed in money or the cost of anything [19, p. 116]. In modern economic terminology, the value of an enterprise is considered mainly in the context of its assessment.

Value is the economic category that characterizes the monetary relationship between the product and its buyers (sellers) and reflects the point of view of the market for the benefits of ownership of this product [37].

Enterprise as a product has certain properties: usefulness for the buyer, investment nature (ability to bring income in the future), incurred by the owner of

expenses after its creation, the possibility of sale in integral form and in the form of separate subsystems [18].

As said Krasnokutskaya, "the choice of the value that most closely matches the value of the object of the transaction will precede the process of valuation of the enterprise. In this context, the value is the monetary equivalent of the value of the object, which the buyer is willing to exchange for ownership of the object" [25]. In this case, the scientist considers the classification of the value of the enterprise depending on the prospects of enterprise development, distinguishing the cost of the operating company and the liquidation value. The systematization of approaches to the essence of the interpretation of the concept of "cost of an enterprise" is given in Table 1.1.

Table 1.1.

Basic approaches to the definition of the essence of the concept of "value of the enterprise"

Approach	Representative	Essence
Additive	Shcherbakov VA, Shcherbakova NA [48]	The value of an enterprise is the sum of the values of all assets of the enterprise (tangible and intangible)
Price approach	Yakupova N. M. [49]	The value of an enterprise is the price at which an enterprise can be purchased or sold
Comprehensive on efficiency	Kozachenko O.V., Yanchuk G.I. [22]	The value of an enterprise is an indicator of the efficiency of an enterprise's operation
Open (external)	Koryagin MV [24]	The value of an enterprise is a system of relations with the external environment
Strategic (promising)	Ivashkovska IV [20]	The value of an enterprise is the value of future cash flows of the enterprise
Valuable	Ostrovskaya G.Y. [32]	The value of an enterprise is the projection of the value of the enterprise

At the same time, the cost of use is subjective and reflects the intentions of the owner, the lessee, not related to the sale of the object, the sublease of it, etc.

Cost-per-use is based on the efficiency of the use of the object in the form of income, utility and approaching market value as buyers increase their willingness to acquire a similar asset. The cost of use includes investment, book value, taxable value.

In the American School of Management and Financial Management, based on the final conclusion of I. Fisher, a cost management model has been developed (shareholder value concept, value-based management, value management). Thus, E. Helfert believes that "the main goal of the managers of any company is to make such decisions in financial, investment and production activities, which will eventually lead to an increase of equity". Other authors point out that "well-established cost management means that all the company's directions, analytical methods and management practices are directed towards one common goal: helping the company maximize its value" [44].

Consequently, we can conclude that the value of an enterprise is an objective indicator of the enterprise's activity, which reflects the total value of assets and the value of the enterprise as of the valuation date.

To determine the concept of "value of an enterprise" we should use a synthetic approach that takes into account the features of the operation of the enterprise. Therefore, in the author's opinion, the concept of "value of an enterprise" should be considered as an objective value, which is established at the appropriate time and in a certain space, on which a sale / purchase transaction in an active market can be made, calculated on the basis of aggregate use of accounting and market information.

The key to successfully investing and managing these assets lies in understanding not only what the value is but also the sources of the value. Any asset could be valued, but some assets are easier to value than other. Thus, the valuation of a real estate property will require different information and follow a different approach to the valuation of a publicly traded stock. However, is not the

differences in valuation techniques across assets, but the degree of similarity in basic principles.

The Enterprise Value, or EV for short, is a measure of a company's total value, often used as a more comprehensive alternative to equity market capitalization. Enterprise value is calculated as the market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents.

$$EV = \text{market value of common stock} + \text{market value of preferred equity} + \text{market value of debt} + \text{minority interest} - \text{cash and investments}[4]$$

Often times, the minority interest and preferred equity is effectively zero, although this need not be the case.

Enterprise value (EV) can be thought of as the theoretical takeover price if a company were to be bought. EV differs significantly from simple market capitalization in several ways, and many consider it to be a more accurate representation of a firm's value. The value of a firm's debt, for example, would need to be paid off by the buyer when taking over a company, so, enterprise value provides a much more accurate valuation because it includes debt in its value calculation.

Why doesn't market capitalization properly represent a firm's value? It leaves a lot of important factors out, such as a company's debt on the one hand and its cash reserves on the other. Enterprise value is basically a modification of market cap, as it incorporates debt and cash for determining a company's valuation.

There are three main types of business value[7]:

- Book value of an asset is the value at which the asset is carried on a balance sheet and calculated by taking the cost of an asset minus the accumulated depreciation. Book value is also the net asset value of a company, calculated as total assets minus intangible assets (patents, goodwill) and liabilities. For the initial

outlay of an investment, book value may be net or gross of expenses such as trading costs, sales taxes, service charges and so on.

As the accounting value of a firm, book value has two main uses:

1. It serves as the total value of the company's assets that shareholders would theoretically receive if a company were liquidated.
2. When compared to the company's market value, book value can indicate whether a stock is under- or overpriced.

- Market value is the price an asset would fetch in the marketplace. Market value is also commonly used to refer to the market capitalization of a publicly-traded company, and is obtained by multiplying the number of its outstanding shares by the current share price. Market value is easiest to determine for exchange-traded instruments such as stocks and futures, since their market price are widely widespread and easily available. However, the greatest difficulty in determining market value lies in estimating the value of illiquid assets like real estate and businesses, which may necessitate the use of real estate appraisers and business valuation experts respectively.

Market value is determined by the valuations or multiples accorded by investors to companies, such as price-to-sales, price-to-earnings, enterprise value-to-EBITDA, and so on. The higher the valuations, the greater the market value.

- Intrinsic value is the perceived or calculated value of a company, including tangible and intangible factors, using fundamental analysis. Also called the true value, the intrinsic value may or may not be the same as the current market value.

Intrinsic value can be calculated by value investors using fundamental analysis to look at both qualitative (business model, governance, and target market factors) and quantitative (ratios and financial statement analysis) aspects of a business. This calculated value is then compared to the market value to determine whether the business or asset is over- or undervalued.

The discounted cash flow (DCF) model is one commonly used valuation approach used to determine a company's intrinsic value[13]. The discounted cash flow model uses a company's free cash flow and weighted average cost of capital (WACC), which accounts for the time value of money, and then discounts all its future cash flow back to the present day. Value creating and value neutral actions are investigated further.

The value of a firm is the present value of the expected cash flows from both assets in place and future growth, discounted at the cost of capital. For an action to create value, it has to do one or more of the following.

1. increase the cash flows generated by existing investments
2. increase the expected growth rate in earnings
3. increase the length of the high growth period
4. reduce the cost of capital that is applied to discount the cash flows

Conversely, an action that does not affect cash flows, the expected growth rate, the length of the high growth period or the cost of capital cannot affect value.

While this might seem obvious, a number of value-neutral actions taken by firms receive disproportionate attention from both managers and analysts. Consider four examples. Stock dividends and stock splits change the number of units of equity in a firm but do not affect cash flows, growth or value. These actions can have price effects, though, because they alter investors' perceptions of the future of the company.

Accounting changes in inventory valuation and depreciation methods that are restricted to the reporting statements and do not affect tax calculations have no effect on cash flows, growth or value. In recent years, firms have spent an increasing amount of time on the management and smoothing of earnings and seem to believe that there is a value payoff in doing this.

When making acquisitions, firms often try to structure the deals in such a way that they can pool their assets and not show the market premium paid in the

acquisition. When they fail and they are forced to show the difference between market value and book value as goodwill, their earnings are reduced by the amortization of the goodwill over subsequent periods. This amortization is not tax deductible, however, and thus does not affect the cash flows of the firm. So, whether a firm adopts purchase or pooling accounting and the length of time it takes to write off the goodwill should not really make any difference to value.

In the late 1990s, a number of firms that have issued tracking stock on their high- growth divisions. Since these divisions remain under the complete control of the parent company, we would argue that the issue of tracking stock, by itself, should not create value[20].

Some would take issue with some of these propositions. When a stock splits or a firm issues tracking stock, they would argue, the stock price often goes up significantly. While this is true, we would emphasize that it is value, not price, that we claim is unaffected by these actions.

While paying stock dividends, splitting stock and issuing tracking stock are value neutral actions, they can still be useful tools for a firm that perceives itself to be undervalued by the market. These actions can change market perceptions about growth or cash flows and thus act as signals to financial markets. Alternatively, they might provide more information about undervalued assets owned by the firm and the price may react as a consequence. In some cases, these actions may even lead to changes in operations; tying the compensation of managers to the price of stock tracking the division in which they work may improve efficiency and thus increase cash flows, growth and value.

1.2 Methodological tools for enterprise valuation

Analysts use a wide range of models to value assets in practice, ranging from the simple to the sophisticated. These models often make very different assumptions about company price, but they do share some common characteristics and can be classified in broader terms. There are several advantages to such a classification - it makes it easier to understand where individual models fit into the big picture, why they provide different results and when they have fundamental errors in logic.

In general terms, there are three approaches to valuation[21]. The first, discounted cashflow valuation, relates the value of an asset to the present value of expected future cashflows on that asset. The second, relative (market) valuation, estimates the value of an asset by looking at the pricing of 'comparable' assets relative to a common variable such as earnings, cashflows, book value or sales. The third, contingent claim valuation, uses option pricing models to measure the value of assets that share option characteristics. Some of these assets are traded financial assets like warrants, and some of these options are not traded and are based on real assets – projects, patents and oil reserves are examples.

Discounted Cashflow Valuation

While discounted cash flow valuation is one of the three ways of approaching valuation and most valuations done in the real world are relative valuations, we will argue that it is the foundation on which all other valuation approaches are built. To do relative valuation correctly, we need to understand the fundamentals of discounted cash flow valuation.

Basis for Discounted Cashflow Valuation

This approach has its foundation in the present value rule, where the value of any asset is the present value of expected future cashflows that the asset generates[2].

$$\text{Value} = \sum_{t=1}^{t=n} CF/(1+r)^t, \quad (1.1)$$

where, n = life of the asset,

CF_t = cashflow in period t ,

r = discount rate reflecting the riskiness of the estimated cashflows.

The cashflows will vary from asset to asset - dividends for stocks, coupons (interest) and the face value for bonds and after-tax cashflows for a real project. The discount rate will be a function of the riskiness of the estimated cashflows, with higher rates for riskier assets and lower rates for safer projects. At one end of the spectrum, you have the default-free zero coupon bond, with a guaranteed cash flow in the future. Discounting this cash flow at the riskless rate should yield the value of the bond.

Discounted cashflow valuation is based upon expected future cashflows and discount rates. Given these informational requirements, this approach is easiest to use for assets (firms) whose cashflows are currently positive and can be estimated with some reliability for future periods, and where a proxy for risk that can be used to obtain discount rates is available. The further we get from this idealized setting, the more difficult discounted cashflow valuation becomes. The following list contains some scenarios where discounted cashflow valuation might run into trouble and need to be adapted.

(1) Firms in trouble: A distressed firm generally has negative earnings and cashflows. It expects to lose money for some time in the future. For these firms, estimating future cashflows is difficult to do, since there is a strong probability of bankruptcy. For firms which are expected to fail, discounted cashflow valuation does not work very well, since we value the firm as a going concern providing positive cashflows to its investors. Even for firms that are expected to survive, cashflows will have to be estimated until they turn positive, since obtaining a

present value of negative cashflows will yield a negative value for equity or the firm.

(2) Cyclical Firms: The earnings and cashflows of cyclical firms tend to follow the economy - rising during economic booms and falling during recessions. If discounted cashflow valuation is used on these firms, expected future cashflows are usually smoothed out, unless the analyst wants to undertake the onerous task of predicting the timing and duration of economic recessions and recoveries. Many cyclical firms, in the depths of a recession, look like troubled firms, with negative earnings and cashflows. Estimating future cashflows then becomes entangled with analyst predictions about when the economy will turn and how strong the upturn will be, with more optimistic analysts arriving at higher estimates of value. This is unavoidable, but the economic biases of the analyst have to be taken into account before using these valuations.

(3) Firms with unutilized assets: Discounted cashflow valuation reflects the value of all assets that produce cashflows. If a firm has assets that are unutilized (and hence do not produce any cashflows), the value of these assets will not be reflected in the value obtained from discounting expected future cashflows. The same caveat applies, in lesser degree, to underutilized assets, since their value will be understated in discounted cashflow valuation. While this is a problem, it is not insurmountable. The value of these assets can always be obtained externally, and added on to the value obtained from discounted cashflow valuation. Alternatively, the assets can be valued assuming that they are used optimally.

(4) Firms with patents or product options: Firms often have unutilized patents or licenses that do not produce any current cashflows and are not expected to produce cashflows in the near future, but, nevertheless, are valuable. If this is the case, the value obtained from discounting expected cashflows to the firm will understate the true value of the firm. Again, the problem can be overcome, by

valuing these assets in the open market or by using option pricing models, and then adding on to the value obtained from discounted cashflow valuation.

(5) Firms in the process of restructuring: Firms in the process of restructuring often sell some of their assets, acquire other assets, and change their capital structure and dividend policy. Some of them also change their ownership structure (going from publicly traded to private status) and management compensation schemes. Each of these changes makes estimating future cashflows more difficult and affects the riskiness of the firm. Using historical data for such firms can give a misleading picture of the firm's value. However, these firms can be valued, even in the light of the major changes in investment and financing policy, if future cashflows reflect the expected effects of these changes and the discount rate is adjusted to reflect the new business and financial risk in the firm.

(6) Firms involved in acquisitions: There are at least two specific issues relating to acquisitions that need to be taken into account when using discounted cashflow valuation models to value target firms. The first is the thorny one of whether there is synergy in the merger and if its value can be estimated. It can be done, though it does require assumptions about the form the synergy will take and its effect on cashflows. The second, especially in hostile takeovers, is the effect of changing management on cashflows and risk. Again, the effect of the change can and should be incorporated into the estimates of future cashflows and discount rates and hence into value.

(7) Private Firms: The biggest problem in using discounted cashflow valuation models to value private firms is the measurement of risk (to use in estimating discount rates), since most risk/return models require that risk parameters be estimated from historical prices on the asset being analyzed. Since securities in private firms are not traded, this is not possible. One solution is to look at the riskiness of comparable firms, which are publicly traded. The other is to

relate the measure of risk to accounting variables, which are available for the private firm[2].

The point is not that discounted cash flow valuation cannot be done in these cases, but that we have to be flexible enough to deal with them. The fact is that valuation is simple for firms with well defined assets that generate cashflows that can be easily forecasted. The real challenge in valuation is to extend the valuation framework to cover firms that vary to some extent or the other from this idealized framework. Much of this book is spent considering how to value such firms.

In relative valuation, the value of an asset is derived from the pricing of 'comparable' assets, standardized using a common variable such as earnings, cashflows, book value or revenues. One illustration of this approach is the use of an industry-average price-earnings ratio to value a firm. This assumes that the other firms in the industry are comparable to the firm being valued and that the market, on average, prices these firms correctly. Another multiple in wide use is the price to book value ratio, with firms selling at a discount on book value, relative to comparable firms, being considered undervalued. The multiple of price to sales is also used to value firms, with the average price-sales ratios of firms with similar characteristics being used for comparison. While these three multiples are among the most widely used, there are others that also play a role in analysis - price to cashflows, price to dividends and market value to replacement value (Tobin's Q), to name a few.

Unlike discounted cash flow valuation, which we described as a search for intrinsic value, we are much more reliant on the market when we use relative valuation. In other words, we assume that the market is correct in the way it prices stocks, on average, but that it makes errors on the pricing of individual stocks. We also assume that a comparison of multiples will allow us to identify these errors, and that these errors will be corrected over time.

The assumption that markets correct their mistakes over time is common to both discounted cash flow and relative valuation, but those who use multiples and comparables to pick stocks argue, with some basis, that errors made by mistakes in pricing individual stocks in a sector are more noticeable and more likely to be corrected quickly[8]. For instance, they would argue that a software firm that trades at a price earnings ratio of 10, when the rest of the sector trades at 25 times earnings, is clearly under valued and that the correction towards the sector average should occur sooner rather than latter. Proponents of discounted cash flow valuation would counter that this is small consolation if the entire sector is over priced by 50%.

Analysts and investors are endlessly inventive when it comes to using relative valuation. Some compare multiples across companies, while others compare the multiple of a company to the multiples it used to trade in the past. While most relative valuations are based upon comparables, there are some relative valuations that are based upon fundamentals.

I. Fundamentals versus Comparables

In discounted cash flow valuation, the value of a firm is determined by its expected cash flows. Other things remaining equal, higher cash flows, lower risk and higher growth should yield higher value. Some analysts who use multiples go back to these discounted cash flow models to extract multiples. Other analysts compare multiples across firms or time, and make explicit or implicit assumptions about how firms are similar or vary on fundamentals.

1. Using Fundamentals

The first approach relates multiples to fundamentals about the firm being valued – growth rates in earnings and cashflows, payout ratios and risk. This approach to estimating multiples is equivalent to using discounted cashflow models, requiring the same information and yielding the same results. Its primary advantage is to show the relationship between multiples and firm characteristics,

and allows us to explore how multiples change as these characteristics change. For instance, what will be the effect of changing profit margins on the price/sales ratio? What will happen to price-earnings ratios as growth rates decrease? What is the relationship between price-book value ratios and return on equity?

2. Using Comparables

The more common approach to using multiples is to compare how a firm is valued with how similar firms are priced by the market, or in some cases, with how the firm was valued in prior periods. As we will see in the later chapters, finding similar and comparable firms is often a challenge and we have to often accept firms that are different from the firm being valued on one dimension or the other. When this is the case, we have to either explicitly or implicitly control for differences across firms on growth, risk and cash flow measures. In practice, controlling for these variables can range from the naive (using industry averages) to the sophisticated (multivariate regression models where the relevant variables are identified and we control for differences.).

II. Cross Sectional versus Time Series Comparisons

In most cases, analysts price stocks on a relative basis by comparing the multiple it is trading to the multiple at which other firms in the same business are trading. In some cases, however, especially for mature firms with long histories, the comparison is done across time.

a. Cross Sectional Comparisons

When we compare the price earnings ratio of a software firm to the average price earnings ratio of other software firms, we are doing relative valuation and we are making cross sectional comparisons. The conclusions can vary depending upon our assumptions about the firm being valued and the comparable firms. For instance, if we assume that the firm we are valuing is similar to the average firm in the industry, we would conclude that it is cheap if it trades at a multiple that is lower than the average multiple. If, on the other hand, we assume that the firm

being valued is riskier than the average firm in the industry, we might conclude that the firm should trade at a lower multiple than other firms in the business. In short, you cannot compare firms without making assumptions about their fundamentals.

b. Comparisons across time

If you have a mature firm with a long history, you can compare the multiple it trades today to the multiple it used to trade in the past. Thus, Ford Motor company may be viewed as cheap because it trades at six times earnings, if it has historically traded at ten times earnings. To make this comparison, however, you have to assume that your firm has not changed its fundamentals over time. For instance, you would expect a high growth firm's price earnings ratio to drop and its expected growth rate to decrease over time as it becomes larger. Comparing multiples across time can also be complicated by changes in the interest rates over time and the behavior of the overall market. For instance, as interest rates fall below historical norms and the overall market increases, you would expect most companies to trade at much higher multiples of earnings and book value than they have historically.

There are some who add a fourth approach to valuation to the three that described in this chapter. They argue that you can argue the individual assets owned by a firm and use that to estimate its value – asset based valuation models. In fact, there are several variants on asset based valuation models. The first is liquidation value, which is obtained by aggregating the estimated sale proceeds of the assets owned by a firm. The second is replacement cost, where you evaluate what it would cost you to replace all of the assets that a firm has today.

While analysts may use asset-based valuation approaches to estimate value, we do not consider them to be alternatives to discounted cash flow, relative or option pricing models since both replacement and liquidation values have to be obtained using one or more of these approaches. Ultimately, all valuation models

attempt to value assets – the differences arise in how we identify the assets and how we attach value to each asset. In liquidation valuation, we look only at assets in place and estimate their value based upon what similar assets are priced at in the market. In traditional discounted cash flow valuation, we consider all assets including expected growth potential to arrive at value. The two approaches may, in fact, yield the same values if you have a firm that has no growth assets and the market assessments of value reflect expected cashflows.

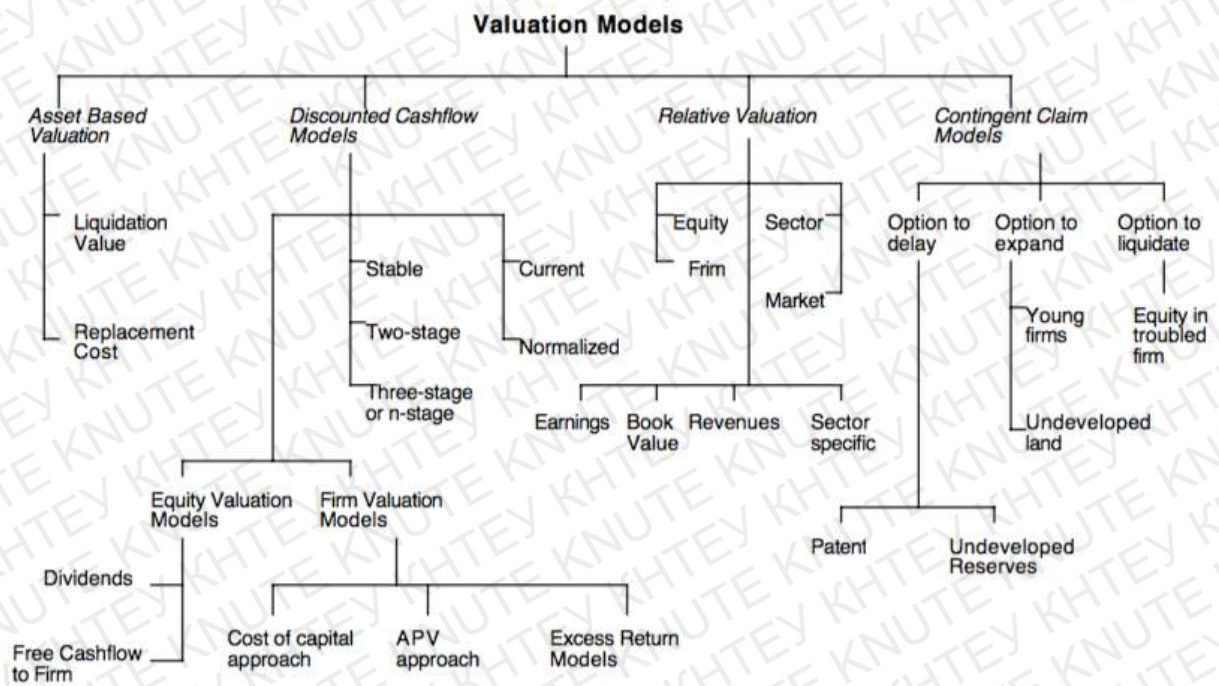


Figure 1.1. Most common types of valuation models. Source: [2]

There are three basic, though not mutually exclusive, approaches to valuation. The first is discounted cashflow valuation, where cashflows are discounted at a risk-adjusted discount rate to arrive at an estimate of value. The analysis can be done purely from the perspective of equity investors, by discounting expected cashflows to equity at the cost of equity, or it can be done from the viewpoint of all claimholders in the firm, by discounting expected cashflows to the firm at the weighted average cost of capital. The second is relative valuation, where the value of the equity in a firm is based upon the pricing of comparable firms relative to earnings, cashflows, book value or sales. The third is

contingent claim valuation, where an asset with the characteristics of an option is valued using an option pricing model. There should be a place for each among the tools available to any analyst interested in valuation.

In discounted cash flow valuation, the objective is to find the value of assets, given their cash flow, growth and risk characteristics. In relative valuation, the objective is to value assets, based upon how similar assets are currently priced in the market. While multiples are easy to use and intuitive, they are also easy to misuse. Consequently, a series of tests will be developed in this chapter that can be used to ensure that multiples are correctly used.

1.3 Theoretical basis for development of enterprise value growth strategy

The value of a firm can be increased by increasing cash flows from assets in place, increasing expected growth and the length of the growth period and by reducing the cost of capital. In reality, however, none of these is easily accomplished or likely to reflect all the qualitative factors that analysts are often accused of ignoring in valuation. In this section, we will consider how actions taken by a firm on a variety of fronts – marketing, strategic and financial – can have an effect on value[9].

Valuation of the business could be made for two main reasons: firstly, if the company wants to make M&A deal, or institutional investor is looking for some undervalued company, then they should use valuation by a market approach. But, for a individual investor, that is looking for a predictable income, DCF valuation will be more relevant.

The value of a firm is the present value of expected future cash flows generated by the firm. The most critical input in valuation, especially for high

growth firms, is the growth rate to use to forecast future revenues and earnings. In this chapter, we consider how best to estimate these growth rates for firms, including those with low revenues and negative earnings.

There are two basic ways of estimating growth for any firm. One is to look at the growth in a firm's past earnings – its historical growth rate. While this can be a useful input when valuing stable firms, there are both dangers and limitations in using this growth rate for high growth firms. The historical growth rate can often not be estimated, and even if it can, it cannot be relied on as an estimate of expected future growth.

The second is to estimate the growth from a firm's fundamentals. A firm's growth ultimately is determined by how much is reinvested into new assets and the quality of these investments, with investments widely defined to include acquisitions, building up distribution channels or even expanding marketing capabilities. By estimating these inputs, you are, in a sense, estimating a firm's fundamental growth rate. While the determinants of fundamental growth remain the same for all firms, estimating these inputs for high growth firms can pose special challenges[11].

The key decision in constructing an effective system of measuring the value of an enterprise is the decision to choose the main indicator of the effectiveness of its activities, on the basis of which will be built a system for assessing investment attractiveness. The system of representatives that should be used to estimate the value of an enterprise can be represented as follows (figure 1.2).

After analyzing the main groups of indicators used in the VBM concept, it is recommended to focus on the Economic Value Added (EVA). The benefits of the EVA score are based on the integrated approach to the three main areas of management: capital budgeting, the assessment of the effectiveness of the

divisions or the enterprise as a whole, the development of an optimal and fair system of bonus management.

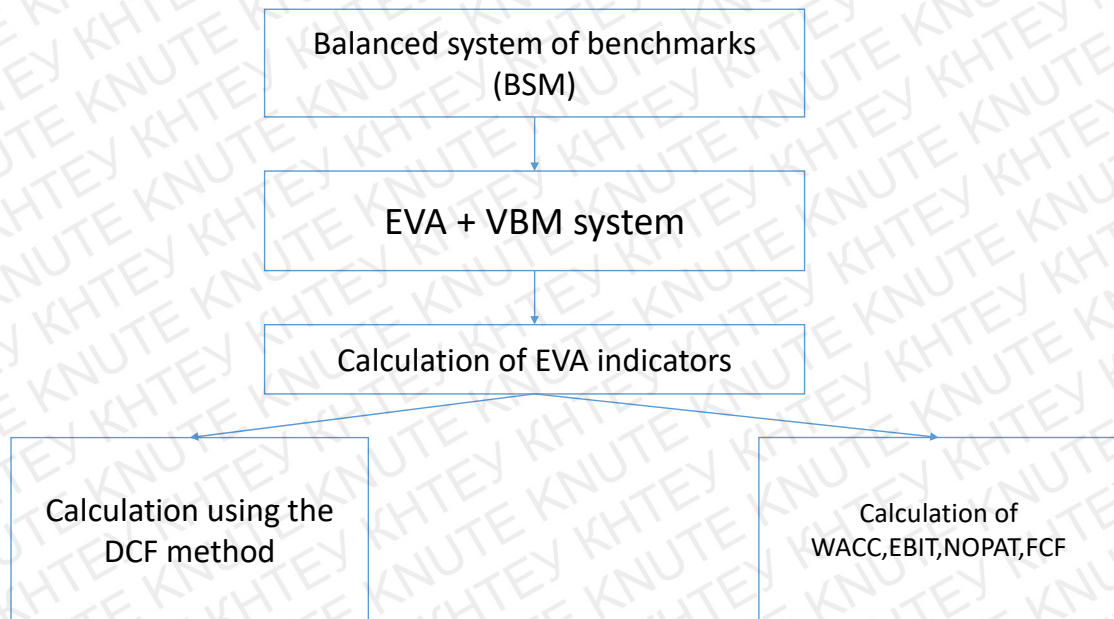


Figure 1.2. Balanced system of control indicators of the enterprise. Source: [15]

The essence of the EVA-based valuation method is that its capital should operate with such efficiency as to provide the rate of return on investment invested by investors[13]. The investor's rate of return is the investor's established barrier rate of income that is required on the invested capital, taking into account the relevant investment risk. That such a rate of return could be earned by an investor, if he used the provided capital in alternative branches of business, but with the same level of risk.

The purpose of managing a company's value based on the EVA indicator is to create an investor's value for the company when operating profit (or profit before deducting financial expenses and taxes) exceeds the weighted average cost of used capital in cash terms[19]:

$$\text{WACC} = \text{Re} \times \text{E}/\text{V} + \text{Rd} \times \text{D}/\text{V} \times (1-t), \quad (1.4)$$

Re - expected cost of equity; E - equity; Rd - the expected rate of borrowing costs; D - loan capital; V - The amount of capital of the enterprise; t - tax multiplier.

$$EVA = NOPAT - WACC \times K \quad (1.5)$$

$$EVA = EBIT \times (1 - T) - WACC \times NA \quad (1.6)$$

NOPAT– Net operating income minus taxes and interest; WACC - weighted average cost of capital; K - amount of capital; EBIT is profit before deducting financial expenses and taxes; T - profit tax rate; NA - net assets.

The EVA indicator serves as an indicator of the quality of managerial decision making. Its positive significance characterizes the efficient use of capital and indicates an increase in the value of the enterprise; if the EVA value is zero, then this characterizes a certain kind of achievement, since capital owners actually receive a rate of return that compensates for the risk; the negative value of EVA characterizes the inefficient use of capital and suggests reducing the cost of the enterprise and its investment unattractiveness. Thus, the basic idea behind the feasibility of using EVA is that enterprise investors should get a certain return rate for the risk they take. If this does not happen, then the real profit of the owners of the company is absent and they do not see in this case the advantages of the investment attractiveness of the enterprise[25]. The Balanced Scorecard (BSC) and the Economic Value Added (EVA) model fit into both the strategic planning and financial budgeting processes and the process of assessing the investment attractiveness of an enterprise by the investor; provide the possibility of cascading financial indicators and translating the developed strategy (including financial or investment) from the level of top management to the level of strategic economic units, structural units and individual performers.

The introduction of EVA, as well as other financial indicators of the VBM-model, into the financial perspective of the BSS as an effective indicator will enable in a certain sense to "close" a set of assessments of the effectiveness of the achievement of the set strategic objectives on a single final financial indicator that satisfies both the owner and the investor, while maintaining sufficient attention to the system of indicators of other perspectives, including and not financial. On the

other hand, combining the mathematical accuracy and uniqueness of the estimation inherent in EVA models and the VBM concept with the systematic approach to performance measurement that is characteristic of BSS allows for an effective strategic management tool with enhanced forecasting capabilities that can provide a significant synergistic effect, orienting the company both on maximizing the value and on increasing its investment attractiveness[24]. The EVA indicator is closely linked to the WACC, which represents the weighted average cost of enterprise capital.

The relationship between the main and additional financial indicators within the framework of the proposed model will have the following form (figure 1.3).

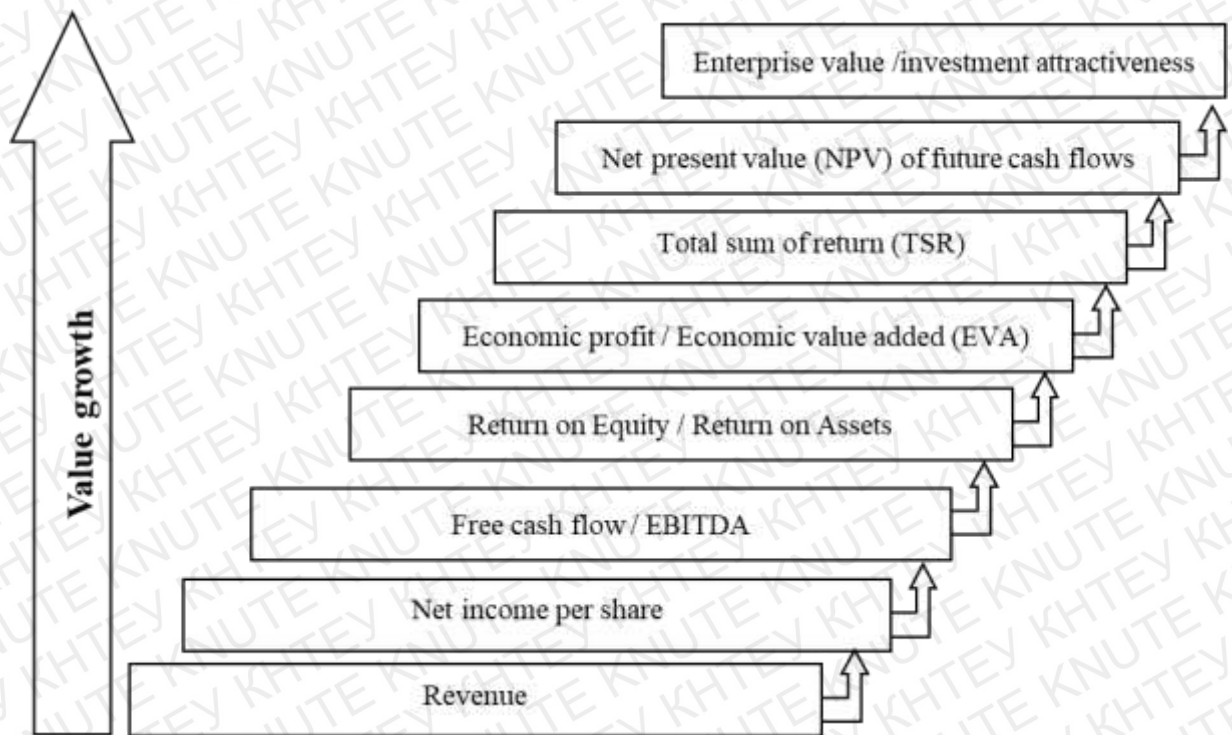


Figure 1.3. The process of maximizing the value and investment attractiveness of the company within the model “VBM–EVA–BSC”. Source: [2]

If the company is created as a corporation, the main purpose of its financial management is to maximize the satisfaction of the founders' interests by maximizing the value of the enterprise and the level of its financial profitability, which is why the model "VBM-EVA-BSS" is proposed to introduce an additional

unit of cost indicators.

The main financial indicator along with others in this case will be the indicator of aggregate yield total shareholder return, (TSR):

$$TSR = (Price_{end} - Price_{begin} + Dividends) / Price_{begin} \quad (1.4)$$

Price_{begin} = share price at beginning of year,

Price_{end} = share price at end of year,

Dividends = dividends paid over year.

Consequently, under the mechanism of management of the value of the enterprise it is necessary to understand the dynamic system of harmonious interaction of the principles, functions and factors of formation of the value of the enterprise, as well as technologies (methods and models) of its assessment taking into account the interests of the parties concerned, aimed at system-integrative coordination.

CHAPTER 2

VALUATION OF PJSC “OBOLON”

2.1 Analysis of Ukrainian beer, non-alcoholic drinks and mineral water market, in which the enterprise operates

As the economic situation in Ukraine stabilised and taxes increased in line with inflation, alcoholic drinks volume sales remained steady in 2017, while current value sales grew at a double-digit pace. Although off-trade volume sales remained stable in 2017, on-trade sales declined slightly, thus highlighting consumer cautiousness regarding spending.

Alcoholic drinks in Ukraine is characterised by strong price competition. Limited disposable incomes force Ukrainian consumers to pay attention to the price of alcoholic drinks.

According to the State Statistics Service of Ukraine, 178 million decalitersl of beer were produced in the country in 2017. Comparing to 2016, there was a 1% decrease, which continued the negative trend that began in 2013. This was affected by:

- loss of capacity in the east of the country and in the Crimea;
- government decision to equate beer regulation to strong alcohol regulation;
- ban on trade with the Russian Federation since 2014;
- decrease of households incomes.

Most breweries in Ukraine are small with installed capacity of up to 600 thousand liters per year. At the same time, there is only one large brewery in Ukraine with an installed capacity of over 1 billion liters of annual production (Obolon`s brewery in Kyiv). It is important to say that the brewery's capacity is used by only 43%.

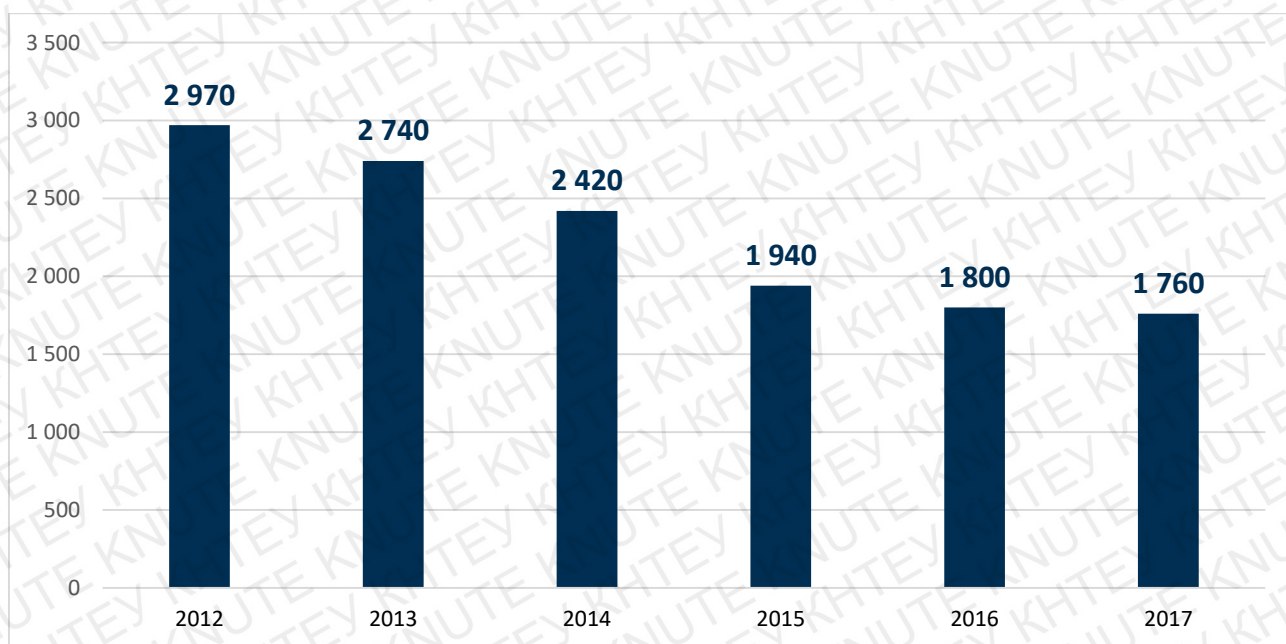


Figure 2.1. Beer production dynamics in Ukraine, mn liters

Source: prepared by author based on [56]

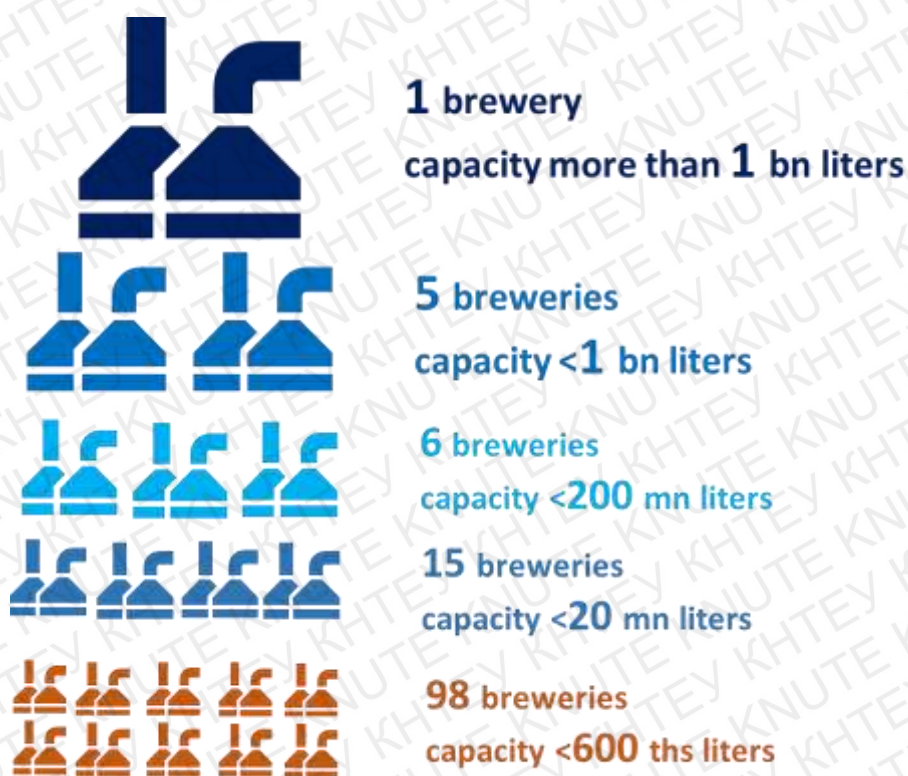


Figure 2.2. Installed annual capacity of breweries in Ukraine as of 2017

Source: prepared by author based on [56]

The volume of domestic beer consumption reaches about 1.7 bn liters or UAH 12,1 bn in 2017, according to State Statistics Service of Ukraine data, that is approximately 283 UAH per person annually. Regions with the largest beer market for beer consumption:

- Kyiv city (UAH 2,3 bn)
- Dnipro region (UAH 1,7 bn)
- Kharkiv region (UAH 1,0 bn)
- Kyiv city (UAH 0,9 bn).

Lot of regions purchase less than UAH 100 mn of beer per year.



Figure 2.3. Beer market size by regions in 2017, UAH bn

Source: prepared by author based on [56]

According to the data of experts valuations, beer market needs 10 thousand working places at breweries in 2017, but, what is more important, it also influences on 170 working places at adjacent industries.



Figure 2.4. Working places at breweries and adjacent industries in 2017

Source: prepared by author based on [56]

While beer production decreases, its exports increases. According to the State Statistical Service, Ukraine sent 1.7 times more beer to exports in 2017 comparing to 2016 (or USD 31.81 million in monetary terms). In natural terms, exports grew by 1.5 times to more than 11 million dekaliters (comparing to 2016).

The main buyers of Ukrainian beer - Algeria, Belarus, Moldova. The largest share of exports is held by companies: Obolon, Carlsberg Ukraine, First private brewery, SUN InBev Ukraine.

In 2017, beer was imported mainly from Germany, Belgium and Mexico. Imports increased, by 35% (or 2.94 million dekaliters) in 2017 comparing to 2016, and in monetary terms - by 43.7% or up to USD 35.82 mn.

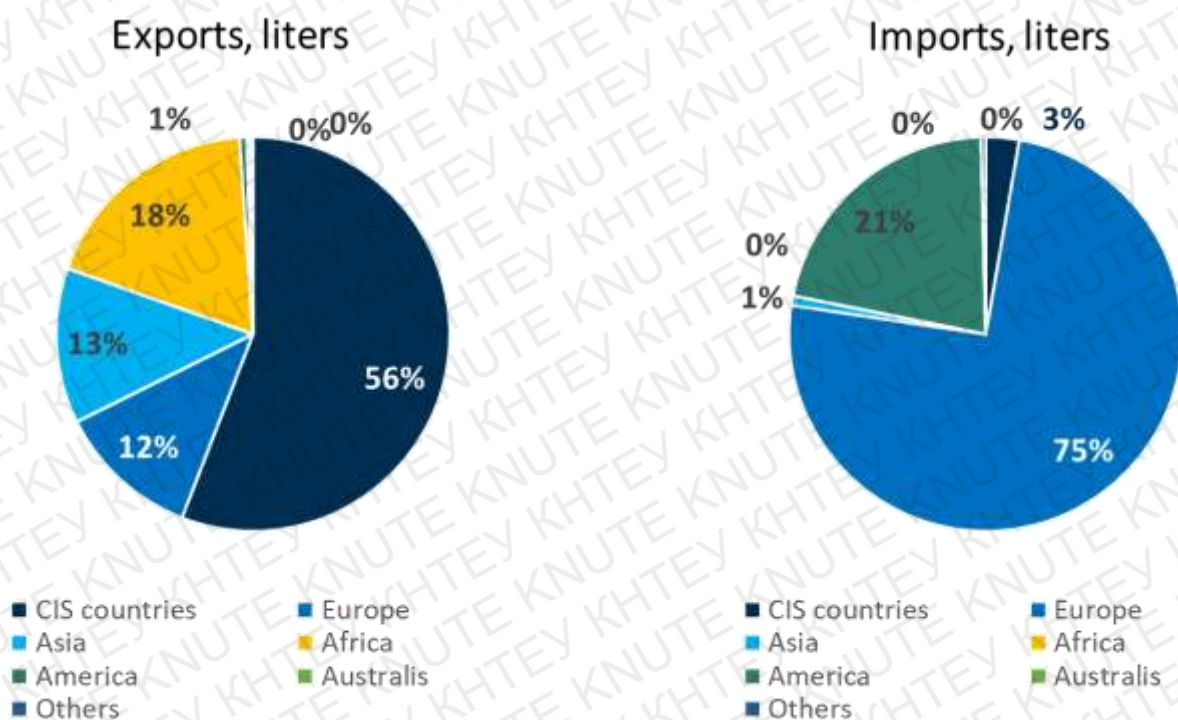


Figure 2.5. Exports and imports of beer in Ukraine in 2017, liters

Source: prepared by author based on [56]

Top producers in Ukrainian market

The peculiarity of the Ukrainian beer market is that the majority of the market consist of four international companies. In the summer of 2017, the Belgian concern AB InBev and the Turkish company Anadolu Efes signed an agreement to unite their branches in Russia and Ukraine. This event was crucial for the Ukrainian market.

Carlsberg Ukraine is a part of the Carlsberg Group. The company owns three factories located in Kiev, Lviv and Zaporozhye. Carlsberg has been leading the Ukrainian market since 2009, and since 2016 it has become the leader in terms of production volumes. According to Nielsen research, the market share of the company amounted to 29.6% in 2017. Carlsberg has over 500 different brands of beer in its portfolio. Among them, the most known in Ukraine are "Baltika", "Lvivske", Carlsberg, Doms, Kronenbourg, Tuborg and others.

SUN InBev Ukraine is a part of the AB InBev corporation, whose plants are located in Chernigov, Kharkiv and Mykolayiv. Company produces 7 of the 10 most popular beer brands in the world. The Ukrainian branch employs more than 2,000 people, and the worldwide corporation profits amounted to more than USD 43.6 billion in 2015. The company has been operating in the Ukrainian market since 2000.

Portfolio of AB InBev consists of international and Ukrainian brands. Among the Ukrainian the most well known are:

- "Chernigivske";
- "Rogan";
- Yantar;
- "Zhigulevskaya Original";
- "Hmelius".

Obolon is a Ukrainian beer producer since 1980. The main brewery is located in Kyiv (the biggest brewery in Europe), and there are still eight more

factories in Ukraine. The company has its own beer malt factory, which produces over 100,000 tons of raw materials annually. Obolon exports both beer and malt. Obolon also is a sponsor of the Obolon football club since 1999.

The manufacturer produces six beer brands:

- Obolon;
- Obolon BeerMix;
- Magnate;
- Hike premium beer;
- Zibert;
- Desant.

Efes Ukraine is part of the Anadolu Efes concern - the fifth largest beer producer in Europe, according to Euromonitor. The company entered the Ukrainian market in 2012 after concluding a deal with SABMiller, which transferred its production facilities in Russia and Ukraine in exchange for shares. In 2013, the company released five new brands within a month.

The Efes` portfolio includes 15 brands, among them:

- Miller Genuine Draft,
- Velkopopovický Kozel,
- REDD'S,
- Efes Pilsener,
- Stariy Melnik,
- Zolotaya Bochka,
- Belyi Medved,
- Sarmat,
- Zhigulivske.

Oasis CIS is an international holding that has factories in Russia, Ukraine and Belarus. Thirty percent of shares owned by European Bank for Reconstruction and Development, as well as the German beer concern Oettinger. In Ukraine, the

holding owns the company “Persha Privatna Brovarny” and “Radomyshl”. The first has been operating since 2004, emerging with the second in 2012. Now, PPB operates two plants in Lviv and Radomyshl. Total production is 2.3 million hectoliters of beer annually.

Among the brands are:

- Stare misto;
- Bochkove;
- Zakkarpatske original;
- Svizhiy rozlyv;
- Pshenichniy etalon;
- Classic Pilsen Beer.

Over the past year, in the period from April 2016 to March 2017, the market for soft drinks (mineral water, sweet aerated water, cold tea and energy drinks) in Ukraine grew by 15.25% in monetary terms and by 4.7% in volumes of sold liters . The sales volumes of non-alcoholic beverages by the year before showed a growth of + 26.17% in monetary terms, while a decline of -4.16% in kind. The main reason for the positive dynamics was the slowdown in prices on the Ukrainian market for all non-alcoholic beverages in comparison with last year: + 10.08% per liter in 2017 against + 31.65% a year earlier.

According to Nielsen, the leader in the growth of all non-alcoholic beverages was the category of energy drinks of low-cost brands, which, at the expense of developing countries, increased sales in liters by 16.9%. In the category of energy and sweet sparkling beverages, sales in liters grew by 22 and 32.8% respectively.

Changes in the volume of production in the domestic market of soft drinks

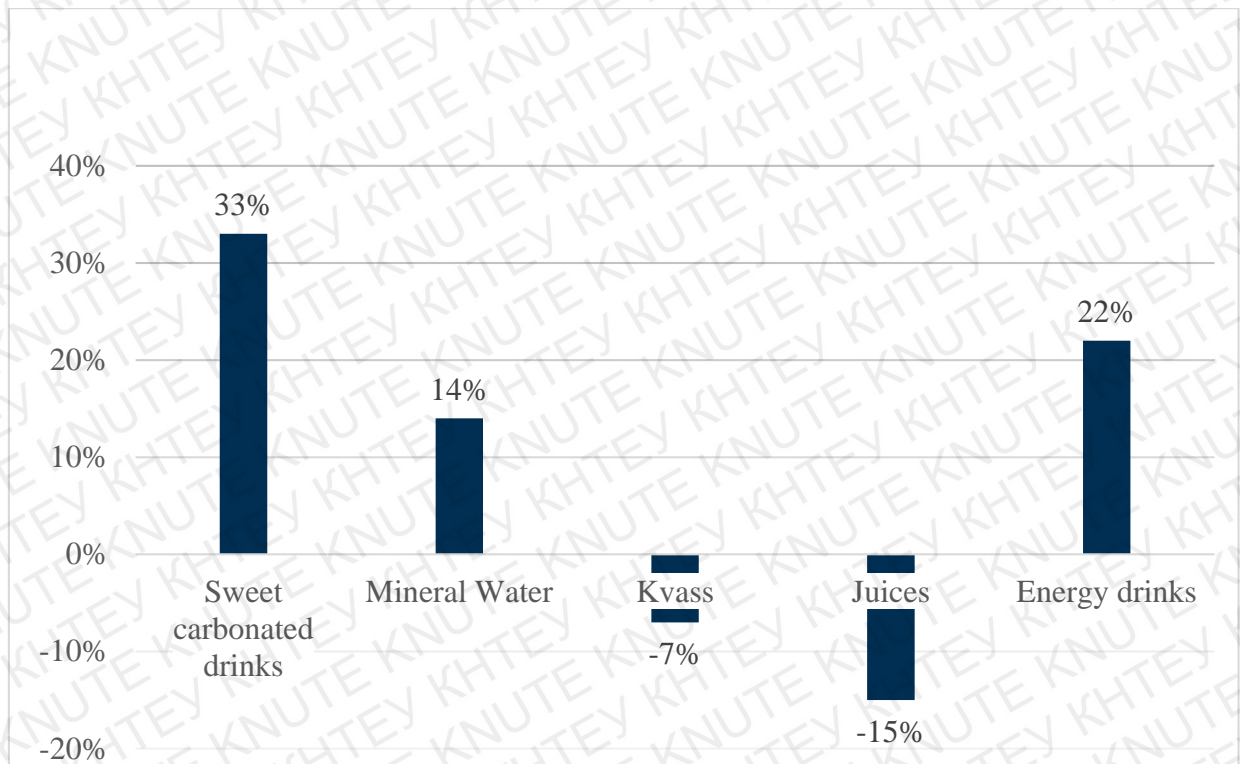


Figure 2.6. Changes in the volume of production in the domestic market of soft drinks in 2017 comparing to 2016

Source: prepared by author based on [55]

Undisputed leaders in the Ukrainian market Non-alcoholic products are Coca-Cola Beverages Ukraine Limited, which represents the market with more than 8 trademarks. Among them, such are known as: TM «Coca-Cola», TM «Sprite», «Fanta», «BonAqua», Fruchtheim, Burn, etc. The following ranking places are engaged in plants producing mineral water. Morshinsky mineral water plant Oscar is a leader in sales and consumer choice. It should be noted that there is no rating PJSC "Obolon", which occupied the leading position for past years.

Manufacturers began to replenish the product line for kids and give up water that does not fit a healthy lifestyle. In the difficult conditions of the past one and a half years, companies have begun to look for new opportunities to stay afloat. A niche products, such as baby water and juices, as well as a focus on healthy drinks, have become a life-saving circle.

By the results of 2016 Ukrainian enterprises exported more than 23% of the country's production of soft drinks.

Table 2.1

The main players of the non-alcoholic market and their profitability 2015-2016

Producer	Net revenue, ml UAH			Net income, ml UAH		
	2015	2016	growth rate %	2015	2016	growth rate %
Coca-Cola Beverages Ukraine Limited	2730	3793	38.94	-303	-127	-58.09
Morshinsky mineral water factory "Oscar"	553	662	19.71	69	76	10.14
Krasylivske	365	483	32.33	30	23	-23.33
Mirgorodsky mineral water plant	267	324	21.35	28	32	14.29
Production company Panda	197	261	32.49	2	2	0.00
Aquaplast	231	233	0.87	1	10	900
Malby Beveridge	195	217	11.28	-2	4	-300
"Rosinka"	160	117	-26.88	-163	-267	63.80

Source: prepared by author based on [55]

The changes show a small but very active growing category, both in volume and in money - energy drinks, which, due to low-cost developing brands, increased sales in liters by 16.9% and became the leader in the growth of volumes among all non-alcoholic beverages.

The market of Europe is the most attractive market for the sale of non-alcoholic beverages of Ukrainian production. Export volumes are gradually returning to pre-crisis indicators, and new emerging companies are emerging in the market using the opportunities of the environment.

2.2 Analysis of financials of PJSC “Obolon”

“Obolon” Corporation presented several new products in the segment of mineral water:

- "Zbruchanska 77",
- "Prozor" with peach and green tea,
- "Obolonskaya" for the taste of lemon and orange.

Baby juice drink "Zhivchik" got a new packaging - PET bottle 0.33 liters, as well as a special kind of flip-top lid. The company has opened new product categories by launching the production of Cider Siber and a new variety of BULBA Grenki snails. The beer assortment of the corporation is augmented with new products from BeerMix Energy and Zibert Bockbier.

“Obolon” has joined the Memorandum on the prevention of the sale of beer to minors. The Expert Jury of the XIth International Beer Competition, Non-Alcoholic, Low-Alcoholic Beverages, Mineral and Drinking Water noted high-quality beverages of the “Obolon” corporation, awarding them 6 Grand Prix, 13 gold and 6 silver medals.

Extension of the Zibert beer line: Pils, Weiss, Dunkel and Bock. Launching a new hard drink category with the release of the Hardmix Citrus brand.

It should be noted that 2017 was quite successful for PJSC “Obolon”, as the company has grown during the year – company`s revenue increased from UAH 3.5 billion in 2016 to UAH 5.0 billion in 2017. However, what is more important, for the first time in a few years, the company earned net income (UAH 177 million).

Table 2.2.

Main financials of PJSC “Obolon” during 2015-2017

Indicator	2015	2016	2017	Absolute deviation		Relative deviation	
				2016 to 2015	2017 to 2016	2016 to 2015	2017 to 2016
Revenue, UAH ths	3,641,996	3,524,945	4,963,232	-117,051	1,438,287	-3%	41%
Costs of goods sold, UAH ths	2,388,394	2,378,936	3,565,168	-9,458	1,186,232	0%	50%
Gross profit, UAH ths	1,253,602	1,146,009	1,398,064	-107,593	252,055	-9%	22%
Other operating revenue, UAH ths	474,740	504,984	88,488	30,244	-416,496	6%	-82%
Administrative expenses, UAH ths	178,381	213,263	296,579	34,882	83,316	20%	39%
Sales expenses, UAH ths	848,865	833,385	1,111,347	-15,480	277,962	-2%	33%
Other operating expenses, UAH ths	358,335	409,965	29,144	51,630	-380,821	14%	-93%
Operating profit, UAH ths	342,761	194,380	49,482	-148,381	-144,898	-43%	-75%
Capital gains, UAH ths	13,476	6,160	0	-7,316	-6,160	-54%	-100%
Other financial revenue, UAH ths	63,823	67,076	97,691	3,253	30,615	5%	46%
Other revenue, UAH ths	467,981	222,156	430,848	-245,825	208,692	-53%	94%
Financial Expenses, UAH ths	306,245	309,935	314,744	3,690	4,809	1%	2%
Capital losses, UAH ths	2,508	9,735	-381	7,227	-10,116	288%	-104%
Other expenses, UAH ths	979,390	353,727	42,861	-625,663	-310,866	-64%	-88%
Pre-tax income, UAH ths	-400,102	-183,625	220,797	216,477	404,422	-54%	-220%
Tax expenses, UAH ths	0	0	44,217	0	44,217	Да	-
Net income, UAH ths	-400,102	-183,625	176,580	216,477	360,205	-54%	-196%

Source: prepared by author based on company's data

Despite the fact that “Obolon” increased revenue in 2017 comparing to 2016 and 2015, the growth rates of costs of goods sold were even higher. In addition, the

company almost did not receive other operating income in 2017 (UAH 89 million compared to UAH 505 million in 2016). Accordingly, operating profit was less than two previous years - only UAH 49.5 million. The year was profitable mainly due to almost twofold growth of other revenues - from UAH 222 million in 2016 to UAH 430 million in 2017.

As a result, the company received UAH 177 mn net income, although there were losses of UAH 400 million and UAH 183 million 2015 and 2016 years respectively.

Table 2.3.

**Dynamics and structure of non-current assets of PJSC “Obolon”
during 2015-2017, UAH ths**

Indicator	2015	%	2016	%	2017	%	Absolute deviation, th. UAH.		Relative deviation, %	
							2016 to 2015,	2017 to 2016,	2016 to 2015,	2017 to 2016,
1. Non-current assets	1726793	53.81	5474679	82.14	5216689	75.81	3747886	-257990	217,0	-4.71
Intangible assets	31005	0.97	9810	0.15	8337	0.12	-21195	-1473	-68,36	-15.02
Incomplete capital investment	31946	1.00	24363	0.37	48455	0.70	-7583	24092	-23,74	98.89
Property, plan and equipment	1513961	47.17	5421561	81.35	5141361	74.71	3907600	-280200	258,1	-5.17
Long-term financial investments	87349	2.72		0.00		0.00	-87349		-100	
other financial investments	60828	1.90	18931	0.28	18522	0.27	-41897	-409	-0.69	-2.16
Long-term receivables	18	0.00	0	0.00	0		-18		-1.00	
Other non-current assets		0.00	14	0.00	14	0.00	14			
Deferred tax assets	1686	0.05	0	0.00	0		-1686		-1.00	
Total Assets	1632431	100.00	6664804	100.00	6881460	100.00	5032373	216656	3.08	3.25

Source: prepared by author based on company's data

Taking into account that PJSC "Obolon" is a production enterprise, an important role in its functioning is played by non-current assets, which in 2017 amounted to more than 75% in the structure of company's assets. In particular, a

large increase in non-current assets occurred in 2016 (+UAH 3.7 bn or +217% growth) due to the strong growth of property, plant and equipment - + UAH 3.9 bn or + 258% compared to 2015. This explained by revaluation P,P&E by the company in 2016. Other indicators have not undergone such a significant change. Although it is worth noting the gradual decrease in the value of intangible assets and incomplete capital investment.

Table 2.4.

Structure and dynamics of fixed assets of PJSC “Obolon” during 2017

Name of fixed assets	Own fixed assets, UAH ths		Absolute deviation, UAH ths	Relative deviation, %
	at the beginning of the 2017 period	at the end of the 2017 period		
buildings and structures	1691107	1609331	-81776	-4.84
machinery and equipment	3645230	3470528	-174702	-4.79
vehicles	60729	40470	-20259	-33.36
ground section	13675	10897	-2778	-20.31
Other	10820	10820	0	0.00
Total	5421561	5142046	-279515	-5.16

Source: prepared by author based on company's data

As we see, non-current assets are crucial in the company's assets structure. In addition, the main share in non-current assets consist property, plan and equipment, which is main for the production enterprise. That is why it is advisable to study the structure and dynamics of Property, Plant and Equipment for 2017, shown in Table 2.4.

As we can see, the key item for the company is machinery and equipment, which accounted for nearly 67% in the structure of property, plant and equipemnt by the end of 2017. At the same time, an important and negative signal is that during the year all property, plant and equipment assets declined, indicating that the company had not invested sufficiently in production during the year. Although this situation is not critical during the one year, the continuation of a similar trend

over several years could lead to depreciation wear and obsolescence of the production base.

Table 2.5.

**Dynamics and structure of current assets of PJSC “Obolon”
during 2015-2017, UAH ths**

Indicator	2015	%	2016	%	2017	%	Absolute, ths. UAH.		Relative, %	
							2016 to 2015,	2017 to 2016,	2016 to 2015,	2017 to 2016,
2. Current assets	1482550	46.19	1190125	17.86	1664771	24.19	-292425	474646		
Inventory	898730	55.05	881787	13.23	750563	10.91	-16943	-131224	-0.02	-14.88
Accounts receivable	533499	32.68	424598	6.37	877778	12.76	-108901	453180	-0.20	106.73
Cash and equivalents	43198	2.65	48394	0.73	46172	0.67	5196	-2222	0.12	-4.59
Costs of future periods	2952	0.18	0	0.00	0		-2952	0	-1.00	
Other current assets	4171	0.26	5707	0.09	16455	0.24	1536	10748	0.37	188.33
Total Assets	1632431	100.00	6664804	100.00	6881460	100.00	5032373	216656	3.08	3.25

Source: prepared by author based on company's data

Current assets play an important role for each company, as this is the most liquid part of the capital, the state and rational use of which largely depend on the results of economic activity and financial condition of the enterprise.

Although current assets represent only 24% of the company's assets as of the end of 2017, they still remain a necessary element for the company, which ensures the continuity of its production cycle. In particular, 10% of the total assets are inventories, which actually provide a production cycle. Negative signal for the company could be a significant growth of accounts receivable in 2017 compared to 2016 - +UAH 453 million or +106% growth. Increase in receivables due to deferred payment requires the attraction of additional sources of financing of assets of the enterprise, and, consequently, additional financial expenses. A sharp increase in its share in current assets may indicate a futile company's credit policy with regard to buyers, as well as an increase in sales, while buyers are insolvent. A large proportion of accounts receivable in the general structure of assets reduces the liquidity and financial stability of the enterprise and increases the risk of financial losses of the enterprise.

In any case, the company need to pay attention to this aspect and try to better control it in subsequent periods.

The main component of operational losses are material expenses, that is usual for brewery industry (almost 60% of operational losses in 2017). All the components of operational losses grew up in 2017 comparing to 2016, that is explained by the growth of the company's activities: material, wages and social expenses grew up by 41%-42%.

Depreciation expenses had the biggest growth (142%), from UAH 186 mn in 2016 to UAH 451 mn in 2017, that are explained by revaluation of Property. Plant and Equipment that led to increase of depreciation expenses by a company. On the other hand, depreciation expenses don't influence negatively on company's cash flow, and allows to reduce tax expenditures of the company, that's why we can't say this is dangerous signal for the business.

Table 2.6.

Operational expenses of PJSC "Obolon" during 2015-2017

Indicator	2015	2016	2017	Absolute deviation		Relative deviation	
				2016 to 2015	2017 to 2016	2016 to 2015,	2017 to 2016,
Material expenses, UAH ths	2,496,994	2,105,266	2,960,495	-391,728	855,229	-16%	41%
Wages expenses, UAH ths	279,183	316,144	448,146	36,961	132,002	13%	42%
Social expenses, UAH ths	98,624	67,027	95,052	-31,597	28,025	-32%	42%
Depreciation, UAH ths	175062	186618	451790	11,556	265,172	7%	142%
Other operational expenses, UAH ths	377,185	711,215	1,107,101	334,030	395,886	89%	56%
Total expenses, UAH ths	3,427,048	3,386,270	5,062,584	-40,778	1,676,314	-1%	50%

Source: prepared by author based on company's data

Company`s profitability indicators changed in two ways:

- On the one side, gross profit margin and operating profit margin had been decreasing during two years from 34% to 28% and from 9% to 1% respectively.
- On the other side, pretax profit margin and net profit margin had been increasing both from -11% to 4%.

That`s why we could say these two years were successful for the company as it received net income in 2017 firstly for the last several years.

Table 2.7.

Profitability ratios of PJSC “Obolon” during 2015-2017

Indicator	Formula	2015	2016	2017	2016 to 2015, %	2017 to 2016, %
Gross profit margin	Gross profit/revenue	34%	33%	28%	-2%	-4%
Operating profit margin	Operating profit/Revenue	9%	6%	1%	-4%	-5%
Pretax Profit margin	Pretax profit/Revenue	-11%	-5%	4%	6%	10%
Net profit margin	Net income/Net sales	-11%	-5%	4%	6%	9%

Source: prepared by author based on company`s data

The company has low liquidity ratios during the last three years, that are significantly lower than standard indicators. The positive signal is that all these indicators have positive dynamics in 2017 comparing to 2016 and to 2015. Current ratio grew up from 0,38 in 2016 to 1,04 in 2017, that is quite close to standard indicators. Quick ratio grew up from 0,099 in 2016 to 0,571 in 2017; cash ratio is still very low – 0,029 in 2017 comparing to normal value for this ratio - 0,2. That`s why, liquidity growth issue should be crucial for the company`s management during next several years.

Table 2.8.

Liquidity ratios of PJSC “Obolon” during 2015-2017

Indicator	Formula	Standard indicator	2015	2016	2017	Absolute deviation	
						2016 to 2015,	2017 to 2016,
Current ratio	Current assets/current liabilities	1-2	0.480	0.383	1.041	- 0.098	0.658
Quick ratio	(Current assets-inventories)/current liabilities	0,6-0,8	0.189	0.099	0.571	- 0.090	0.472
Cash ratio	Cash/current liabilities	0,2	0.014	0.016	0.029	0.002	0.013

Source: prepared by author based on company's data

One of the most positive indicators for “Obolon” during the last years were operating performance indicators, as they show significant reduction of operating cycle. To be more precise, PJSC “Obolon” managed to decrease time of inventory outstanding from 137 days in 2016 to 84 days in 2017 (39% less) and time of days sales outstanding from 28 days in 2016 to 17 days in 2017 (39% less). Taking into account shortage of days payable outstanding, operating cycle reduces from 55 days to 22 days in 2017, mitigating risks of cash gaps for the company.

Table 2.9.

Operating cycle indicators “Obolon” during 2015-2017

Indicator	Formula	2016	2017	2017 to 2016, absolute
Days Inventory Outstanding	(Average inventory / COGS) x Number of days in period	136,59	83,56	-53.03
Days Sales Outstanding	Accounts Receivables / revenue X Number of Days	28,23	17,19	-11.04
Days Payable Outstanding	(Average Accounts Payable / Cost of Goods Sold) x Number of Days	109,50	78,54	-30.96
Net Operating Cycle (Days)	DIO+DSO-DPO	55,32	22,22	-33.11

Source: prepared by author based on company's data

To sum up, PJSC “Obolon” has indicators from several areas, that could say the company is in the crisis (especially, this concerns company`s liquidity). On the other side, almost all the indicators show a company is coming out of the crisis – 2017 was the first profitable year for the last several years, liquidity indicators were improved, operating cycle was decreased two times mitigating risks of cash gaps for the company.

2.3 Valuation of PJSC “Obolon” by market approach

In order to evaluate PSJC “Obolon” by a market approach, we, firstly, have to decide which multiplies we should use. Three the most commonly used multiplies are:

- P/E - price-to-earnings multiple
- EV/EBITDA - Enterprise value/EBITDA multiple
- P/Sales – Price/Sales multiple

It should be noted, that each industry may have each specific multiple, for example EV/customers for telecommunications system, etc. That`s why, it`s possible to use EV/liters of beer production multiple for beer industry, however, not all beer manufacturers publish data on beer production volumes. That is the reason we will use only three multiplies listed above.

The second issue we need to decide are the comparable companies, that we will use to evaluate PJSC “Obolon”. List of companies, that should be used as comparables are as follows:

1. Sun inBev Ukraine, subsidiary of Anheuser-Busch InBev.

Table 2.10.

Key data on Sun inBev Ukraine as of end of 2017

Market capitalization	UAH 1,082 mn
Enterprise value	UAH 1,091 mn
EBITDA in 2017	UAH 270 mn
<i>Multiplies:</i>	
P/E	-2,72
EV/EBITDA	4,04
Price/Sales	0,24

Source: prepared by author based on [51]

2. Big Rock Brewery (Canada). Manufacturer of craft beer. Public company listed on Toronto Stock Exchange.

Table 2.11.

Key data on Big Rock Brewery as of November 2018

Market capitalization	CAD (Canadian dollar) 51,3 mn
Enterprise value	CAD 56,0 mn
EBITDA in 2017	CAD 2,7 nm
<i>Multiplies:</i>	
P/E	-110,8
EV/EBITDA	20,6
Price/Sales	1,10

Source: prepared by author based on [51]

3. Heineken NV (Netherlands). Public company listed on Euronext Amsterdam.

Table 2.12.

Key data on Heineken NV as of November 2018

Market capitalization	EUR 45,0 bn
Enterprise value	EUR 68,4 bn
EBITDA in 2017	EUR 5,3 nm
<i>Multiplies:</i>	
P/E	22,2
EV/EBITDA	12,9
Price/Sales	2,0

Source: prepared by author based on [51]

4. Anadolu Efes Biracılık ve Malt Sanayi AS (Turkey). Public company listed on Turkish Stock Market.

Table 2.13.

Key data on Anadolu Efes as of November 2018

Market capitalization	TRY 11,2 bn
Enterprise value	TRY 26,4 bn
Multiplies:	
P/E	255,1
EV/EBITDA	10,8
Price/Sales	0,75

Source: prepared by author based on [51]

5. Anheuser-Busch InBev SA (Belgium). Public company listed on Euronext Brussels. It is the largest beer manufacturer worldwide.

Table 2.14.

Key data on Anheuser-Busch InBev SA as of November 2018

Market capitalization	EUR 127,6 bn
Enterprise value	EUR 260.0 bn
EBITDA in 2017	EUR 21,7 bn
Multiplies:	
P/E	16,3
EV/EBITDA	12,0
Price/Sales	2,3

Source: prepared by author based on [51]

6. Olvi Oyj (Finland). Public company listed on Helsinki Stock Exchange.

Table 2.15.

Key data on Olvi Oyj as of November 2018

Market capitalization	EUR 589,4 mn
Enterprise value	EUR 582,8 mn
EBITDA in 2017	EUR 64,7 mn
Multiplies:	
P/E	16,2
EV/EBITDA	9,0
Price/Sales	1,7

Source: prepared by author based on [51]

After collecting data on comparable companies, we could calculate average multiplies for the brewery industry. But, it should be noted, that some P/E multiplies have some unusual numbers, due to low extremely net income of Anadolu Efes and losses of some companies.

Table 2.16.

Average multiplies for brewery industry (based on selected companies)

Company	P/E	EV/EBITDA	P/S
Sun inBev Ukraine	-2,72	4,04	0,24
Big Rock Brewery	-110,8	20,6	1,1
Heineken NV	22,2	12,9	2
Anadolu Efes	255,1	10,8	0,75
Anheuser-Busch InBev	16,3	12	2,3
Olvi Oyj	16,2	9	1,7
Average	32,71	11,56	1,35

Source: prepared by author based on [51]

- 1) Calculation of Enterprise value by P/E multiple:

$$EV_1 = \text{average P/E} \times \text{net income} + \text{debt}$$

$$EV_1 = 32,7 \times \text{UAH } 176 \text{ mn} + \text{UAH } 2\,786 \text{ mn} = \text{UAH } 8\,543 \text{ mn.}$$

- 2) Calculation of Enterprise value by EV/EBITDA multiple:

$$EV_2 = \text{average EV/EBITDA} \times \text{EBITDA}$$

$$EV_2 = 11,56 \times \text{UAH } 501 \text{ mn} = \text{UAH } 5\,793 \text{ mn}$$

- 3) Calculation of Enterprise value by P/S multiple:

$$EV_3 = \text{average P/S} \times \text{Sales} + \text{debt}$$

$$EV_3 = 1,35 \times \text{UAH } 4\,963 \text{ mn} + \text{UAH } 2\,786 \text{ mn} = \text{UAH } 9\,482 \text{ mn}$$

The highest enterprise value is calculated via P/S multiple (UAH 9,5 bn), while the lowest is calculated via EV/EBITDA (UAH 5,8 bn). It should be noted that EBITDA of PJSC “Obolon” decreased in 2017 comparing to 2016 and 2015 due to decrease of other operating income. That’s why EV calculated via this multiple in both 2015 and 2016 would be higher than in 2017.

To evaluate the company by a market approach we should calculate the average EV between threes estimates received via P/E, EV/EBITDA, P/S multiplies.

$$EV = (EV_1 + EV_2 + EV_3) / 3 = (8\,543 + 5\,793 + 9\,482) / 3 = \text{UAH } 7\,939 \text{ mn.}$$

Enterprise value of PJSC “Obolon” calculated by a market approach is UAH 8,0 bn (~USD 285 mn or ~EUR 242 mn).

2.4 Discounted Cash Flow (DCF) valuation of PJSC “Obolon”

To provide valuation via DCF model, we, firstly, should forecast free cash flow of the company for the next 5 years. There are two most common formulas to calculate Free Cash Flow (FCF):

1) *Free cash flow = CF from operating activities + Interest expense + Tax shield on Interest expense – CAPEX*

2) *Free cash flow = EBIT (1-tax rate) + Depreciation – change in Working capital – CAPEX*

We consider that the second method will provide more accurate results, as it is based on EBIT, which is more predictable than CF from operating activities due to possible changes in sales terms with counterparties of the company.

Before calculating Free cash flow we should make some assumptions regarding our forecast for the company development for the next 5 years.

Revenue: we expect revenue to grow in 2018 for the 16,7%. That is the CAGR for the revenue dynamics for the last two years. Each next year we expected to decrease growth dynamics by 2% (14,7%, 12,7%, 10,7%, 8,7% for 2019-2022 respectively).

Gross profit margin: we expect gross profit margin to remain the same for the next 5 years as the average margin for the last three years (32%).

EBIT margin: we expect EBIT margin to remain the same for the next 5 years as the average EBIT margin for the last three years (5,3%).

Depreciation: we depreciation expenses to remain as the average expenses during the last three years (UAH 271 mn).

Capital expenditures (CAPEX): we consider, that the company should invest 16% (growth rate) more than the depreciation expenses to ensure sufficient growth of the company. That's why, to calculate CAPEX for 2018-2022 we multiple depreciation sales by 1,16%.

Change in working capital: PJSC "Obolon" had negative working capital in 2015 and 2016, that had changed to positive in 2017 (UAH 65 mn). That led to significant change in working capital in 2017 and that's why it is difficult to forecast change in working capital for the next 5 years. To forecast this, we assume that working capital to revenue ratio for the next 5 years will be the same as in 2017 (1,3%).

Table 2.17.

Free cash flow forecast of PJSC "Obolon" for 2018-2023, UAH mn

Indicator	2015 (hist.)	2016 (hist.)	2017 (hist.)	2018 (forec.)	2019 (forec.)	2020 (forec.)	2021 (forec.)	2022 (forec.)
Revenue	3 642	3 525	4 963	5 794	6 648	7 495	8 300	9 025
Gross profit	1 254	1 146	1 398	1 854	2 127	2 398	2 656	2 888
EBIT	343	194	50	307	352	397	440	478
Depreciation	175	187	452	271	271	271	271	271
CAPEX		8 037	85	316	316	316	316	316
Working capital	-1 603	-1 920	65	76	87	98	109	118
Change in working capital		-316	1 985	11	11	11	11	10
Free cash flow		-5 771	343	196	232	269	305	338

Source: prepared by author

To discount the cash flows, we will use the WACC as a discounting factor.

WACC calculation formula:

$$WACC = C_e \times \frac{E}{V} + C_d \times (1-t) \times \frac{D}{V} \quad \text{whereas,}$$

C_e – cost of equity

Cd – cost of debt

E/V – share of equity in the company's capital

D/V – share of debt in the company's capital

t – tax rate

Cost of equity we will calculate as return on equity (ROE) – net income divided by equity. Cost of debt we will calculate as financial expenses divided by long term liabilities.

To calculate the terminal value we use following formula:

$$\text{Terminal value} = FCF_{2022} \times (1 + \text{growth rate}) / (\text{WACC} - \text{growth rate})$$

Table 2.18

Valuation of PJSC “Obolon” by DCF method, UAH ths

Indicator	2018	2019	2020	2021	2022
Free cash flow	195 657	232 465	269 361	304 887	337 445
Cost of equity	7,1%	7,1%	7,1%	7,1%	7,1%
Cost of debt	13,8%	13,8%	13,8%	13,8%	13,8%
Share of equity	0,36	0,36	0,36	0,36	0,36
Share of debt	0,64	0,64	0,64	0,64	0,64
WACC	9,80%	9,80%	9,80%	9,80%	9,80%
Discounted free cash flow	178 199	192 832	203 501	209 788	211 473
Terminal value					6 493 427

Source: prepared by author

$$\text{Enterprise value} = \sum DFCF + \text{Terminal value} = \text{UAH } 7\,489\,219 \text{ ths.}$$

To sum up, the valuation of PJSC “Obolon” by DCF method provides UAH 7,5 bn valuation for the company, which is quite close to our valuation by a market approach (UAH 8,0 bn). In order to determine the only estimated value of PJSC “Obolon” we have to calculate the average value of these two methods.

$$EV = (EV_1 + EV_2) / 2 = \text{UAH } 7,5 \text{ bn} + \text{UAH } 8,0 \text{ bn} = \text{UAH } 7,75 \text{ bn.}$$

As we can see, current value of the company estimated to UAH 7,75 bn.

CHAPTER 3

DEVELOPMENT OF VALUE GROWTH STRATEGY OF PJSC “OBOLON”

3.1 Approaches to increase enterprise value

To create value, management must have a deep understanding of the performance variables that drive the value of the business. Called key-value drivers, there are two reasons why such an understanding is essential. First, the organization cannot act directly on value. It has to act on things it can influence, such as customer satisfaction, cost, capital expenditures, and so on. Second, it is through these drivers of value that senior management learns to understand the rest of the organization and to establish a dialogue about what it expects to be accomplished.

A value driver is any variable that significantly affects the value of the organization. To be useful, however, value drivers need to be organized so that management can identify which have the greatest impact on value and assign responsibility for their performance to individuals who can help the organization meet its targets.

Next figure shows the linkage between corporate objectives and four categories of value drivers.

- Intangibles
- Operating
- Investment
- Financial

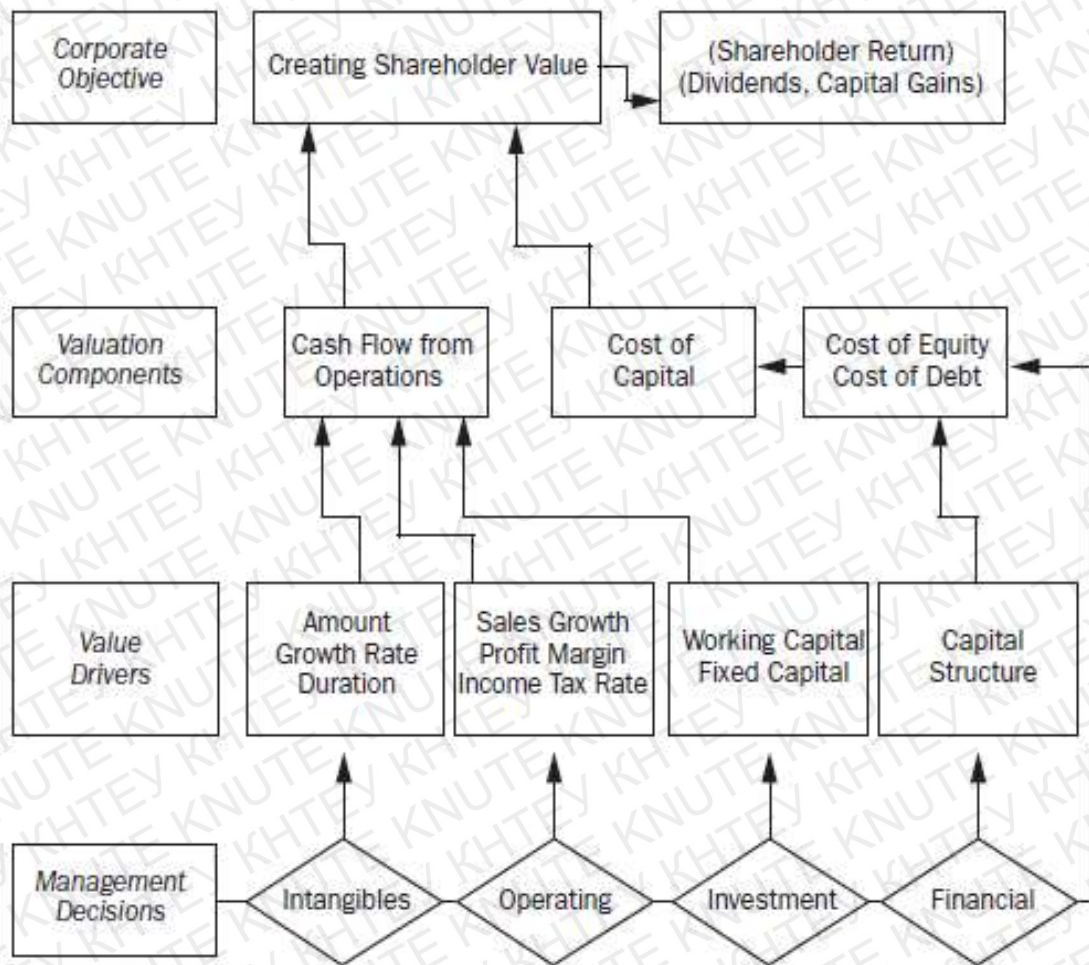


Figure 3.1 Company objectives and value drivers. Source: [4]

In the figure, the objective of management is to provide consistent and positive shareholder value. Positive shareholder value results from improving cash flow from operations and minimizing the cost of capital by making optimal capital structure decisions. The cash flow from operations is determined by the value drivers and is affected by operational and investment decisions taken by management.

Next table shows the implications of this framework for value-creating strategies as they relate to the financial and operational value drivers. The second column shows the value drivers and the third column shows the various underlying strategies that positively influence these drivers.

Table 3.1

Possible enterprise value creation strategies

Aim	Value drivers	Strategic Requirements
An increase in cash flow from operations	higher revenues and growth	patent barriers to entry, niche markets, innovative products, etc.
	lower costs and income taxes	scale economies, captive access to raw materials, higher efficiencies in processes (production, distribution, services) and labor utilization, effective tax planning, etc.
	reduction in capital expenditure	efficient asset acquisition and maintenance, spin-offs, higher utilization rates of fixed assets, efficient working capital management, divestiture of negative value creating assets, etc.
A reduction in capital charge	reduced business risk	consistent and superior operating performance compared to competitors, long-term contracts, project financing, etc
	optimize capital structure	achieving and maintaining a capital structure that minimizes the overall costs, optimizes tax benefits, etc.
	reduced cost of debt	reducing surprises (volatility of earnings), designing niche instruments, etc.
	reduced cost of equity	consistent value creation

Source: [3]

There are many examples of firms employing one or many of these strategies to create shareholder value. One Company does it by continuously introducing new products; another one does it by bringing quality products to

market very quickly, usually with more functionality and at a cheaper price than its competitors; the third one does it by introducing high-quality products to the market for which consumers are willing to pay a higher price. Each organization uses its respective competitive advantages to dominate their product markets, so that as long as their operations and capital continue to be managed effectively, incremental shareholder value will be created. In reality, successful firms employ a combination of these strategies to achieve competitive advantages, which in turn create value for their shareholders.

However, not every strategy, although well-intended and even well-executed, results in shareholder value creation. For example, it may not be sufficient to simply introduce new and innovative products at an attractive price. Although this may result in increased market share and high revenue growth, unless there is sufficient competitive advantage to permit these new revenues to exceed the required additional investment and expense, value may actually be destroyed. Similarly, not all total quality management (TQM) and customer satisfaction programs are successful in creating value.

The linkage between strategy and value creation can be summarized by two simple laws of value creation. The first law is that management must create value for shareholders. The second law is that all other stakeholders should also be satisfied in a way that contributes to shareholder value. The company's ability to continue to attract capital by providing incremental value to shareholders is exactly what will allow it to continue to provide attractive products to its customers, attractive employment to its staff, and opportunities for its suppliers.

The key is to understand and manage the interrelationships among what customers are willing to purchase, what employees perceive to be appropriate rewards, and, ultimately, what shareholders view as delivered value. The success of VBM hinges on management's ability to balance the sometimes-conflicting

notions of value between the three principal partners: customers, employees, and shareholders.

3.2 Development and assessment of value growth strategy of PJSC “Obolon”

One of the possible growth strategy of the company is to grow through the M&A (mergers&acquisitions) deals. Mergers can give the acquiring company an opportunity to grow market share without having to really earn it by doing the work themselves - instead, they buy a competitor's business for a price. Usually, these are called horizontal mergers.

The acquisition of another company may also be defensive in nature. For example, a large company may wish to acquire a small but growing company if the small company has a substantial competitive advantage over the large company, such as an important technology or patent, or superior product offering. This may protect the acquirer from serious competitive consequences, as the small company may over time be able to grow on its own and eat into the large company's business.

In particular, the reputation of the brand and the loyal consumer base are very important in the competitive Ukrainian beer market. That is why it is necessary to pay attention to local brands that have strong positions in certain regions and ensure strong competition to international brands, when choosing companies to acquire. In addition, it is important for such a company to generate a positive cash flow, given “Obolon's” poor profitability over the past few years and an increase in debt load with the involvement of financing for the acquisition of such a company.

One of the breweries that meets the given requirements - PJSC "Khmelnitsky regional brewery", which produces beer under the brand name "Khmelpyvo". The company was founded in 1901 and is located in Khmelnytsky. The brewery's production capacity is about 1.6 million decaliters of beer, most of which are sold within the Khmelnytsky region. The key feature of the company is that all beer sorts do not contain conservatives, therefore they have a very limited shelf life (20 days).

Table 3.2.

Main financials of PJSC “Khmelpyvo” during 2016-2017, UAH ths

Indicator	2016	2017	2017 to 2016, absolute deviation	2017 to 2016, relative deviation
Revenue	68,052	75,377	7,325	11%
Costs of goods sold	34,962	38,195	3,233	9%
Gross profit	33,090	37,182	4,092	12%
Other operating revenue	12,428	13,402	974	8%
Administrative expenses	5,868	7,075	1,207	21%
Sales expenses	3,386	4,306	920	27%
Other operating expenses	9,427	11,061	1,634	17%
Operating profit	26,837	28,142	1,305	5%
Other financial revenue	7,231	11,398	4,167	58%
Other revenue	0	0	0	n/a
Financial expenses	0	0	0	n/a
Other expenses	0	0	0	n/a
Pre-tax income	34,068	39,540	5,472	16%
Tax expenses	6,132	7,117	985	16%
Net income	27,936	32,423	4,487	16%

Source: prepared by author based on company's data

As we can see, the company has shown profitable activities for the last years, having very high profitability margins, for example, gross profit margin was 49% in 2017, which is incredibly high. Operating profit margin reached 37% in

2017, while net profit margin was 43% (mainly due to other financial income of UAH 11.4 mn). It is worth mentioning that the company does not have any financial losses, as there is no long-term debt in capital structure.

PJSC "Khmelpivo" may become a really valuable purchase for PJSC "Obolon" because it is a company that meets several criteria at once:

- Strong regional brand, which competes successfully with national and international brands mainly in the Khmelnytsky region and has the potential for further development in neighboring regions (Podillya and Western Ukraine).
- A profitable brewery that is able generate positive cash flow for "Obolon" and, due to its profitable activity, to substantially increase the enterprise value of "Obolon"
- PJSC Khmelpivo has no financial losses and long-term debt at all. Thus, Obolon will not have any additional debt burden, which is a very important factor for the company.

The next key issue is the price for which "Obolon" can buy "Khmelpivo". Taking into account previously calculated industry-average multipliers (section 2.3), we can evaluate "Khmelpivo" on a market-based approach.

Table 3.3.

Average multiplies for brewery industry (based on selected companies)

Company	P/E	EV/EBITDA	P/S
Sun inBev Ukraine	-2,72	4,04	0,24
Big Rock Brewery	-110,8	20,6	1,1
Heineken NV	22,2	12,9	2
Anadolu Efes	255,1	10,8	0,75
Anheuser-Busch InBev	16,3	12	2,3
Olvi Oyj	16,2	9	1,7
Average	32,71	11,56	1,35

Source: prepared by author based on [51]

1) Calculation of “Khmelpivo” EV by P/E multiple:

$$EV_1 = \text{average P/E} \times \text{net income} + \text{debt}$$

$$EV_1 = 32,7 \times \text{UAH } 32 \text{ mn} + \text{UAH } 0,2 \text{ mn} = \text{UAH } 1\,061 \text{ mn.}$$

2) Calculation of Enterprise value by EV/EBITDA multiple:

$$EV_2 = \text{average EV/EBITDA} \times \text{EBITDA}$$

$$EV_2 = 11,56 \times \text{UAH } 30 \text{ mn} = \text{UAH } 349 \text{ mn}$$

3) Calculation of Enterprise value by P/S multiple:

$$EV_3 = \text{average P/S} \times \text{Sales} + \text{debt}$$

$$EV_3 = 1,35 \times \text{UAH } 75 \text{ mn} + \text{UAH } 0,2 \text{ mn} = \text{UAH } 102 \text{ mn}$$

The highest enterprise value is calculated via P/E multiple (UAH 1 061 mn) that is explained by extremely high profitability ratio. While the lowest value is calculated via P/S multiple (UAH 102 mn) that is explained by quite low market share that lead to low revenues.

To evaluate the company we should calculate the average EV between threes estimates received via P/E, EV/EBITDA, P/S multiplies:

$$EV = (EV_1 + EV_2 + EV_3) / 3 = (1\,061 + 349 + 102) / 3 = \text{UAH } 504 \text{ mn.}$$

Estimated enterprise value of PJSC “Khmelpyvo” calculated by a market approach equals to is UAH 0,5 bn. For “Obolon” this means that UAH 0,5 bn should be attracted to finance this M&A deal.

The next step should be the assessment of increasing “Obolon” value as a result of M&A deal. To provide this assessment we should make several assumptions:

- PSJC “Khmelpyvo” will keep functioning separately from the main company “Obolon”, growing gradually, and expanding geography of sales
- When estimating “Obolon” by a market method, “Khmelpyvo” financials for 2017 will be added to the “Obolon” financials. This will give us a new evaluation of “Obolon” as a result of a M&A deal.
- When estimating "Obolon" by an income method, the forecast of "Khmelpyvo" future cash flows for a period of 5 years will be separately

calculated. The resulting value of the company will be added to the already estimated current enterprise value of “Obolon” by the income method. The result will provide us a new valuation of “Obolon” as a result of a M&A deal

To evaluate PJSC “Obolon” after potential M&A deal we should sum financials of PJSC “Khmelpyvo” to the “Obolon`s” financials and provide valuation via three multiplies. Key financials after M&A deal:

- Net income - UAH 208 mn
- EBITDA – UAH 531 mn
- Sales – UAH 5 038 mn
- Debt - UAH 2 786 mn

Next step is to provide valuation of “Obolon” after M&A deal via three multiplies:

- 1) Calculation of Enterprise value by P/E multiple:

$$EV_1 = \text{average P/E} \times \text{net income} + \text{debt}$$

$$EV_1 = 32,7 \times \text{UAH } 208 \text{ mn} + \text{UAH } 2\,786 \text{ mn} = \text{UAH } 9\,590 \text{ mn.}$$

- 2) Calculation of Enterprise value by EV/EBITDA multiple:

$$EV_2 = \text{average EV/EBITDA} \times \text{EBITDA}$$

$$EV_2 = 11,56 \times \text{UAH } 531 \text{ mn} = \text{UAH } 6\,140 \text{ mn}$$

- 3) Calculation of Enterprise value by P/S multiple:

$$EV_3 = \text{average P/S} \times \text{Sales} + \text{debt}$$

$$EV_3 = 1,35 \times \text{UAH } 5\,038 \text{ mn} + \text{UAH } 2\,786 \text{ mn} = \text{UAH } 9\,583 \text{ mn}$$

To evaluate the company by a market approach we should calculate the average EV between threes estimates received via P/E, EV/EBITDA, P/S multiplies.

$$EV = (EV_1 + EV_2 + EV_3) / 3 = (9\,590 + 6\,140 + 9\,583) / 3 = \text{UAH } 8\,438 \text{ mn.}$$

Enterprise value of PJSC “Obolon” calculated by a market approach after completed M&A deal should be UAH 8,4 bn.

DCF valuation

To evaluate PJSC “Obolon” after M&A deal we should evaluate “Khmelpyvo” by DCF approach and then sum up this value with “Obolon” valuation by DCF method. This will give us the value of the whole company after completing M&A deal.

Next figure represent our result of “Khmelpyvo” free cash flow modelling for the next 5 years.

Table 3.4

Free cash flow forecast of PJSC “Khmelpyvo” for 5 years, UAH ths

Indicator	2016 (historical)	2017 (historical)	2018 (forecast)	2019 (forecast)	2020 (forecast)	2021 (forecast)	2022 (forecast)
Revenue	68 052	75 377	83 490	90 807	96 949	101 568	104 375
Gross profit	33 090	37 182	41 184	44 794	47 823	50 101	51 486
EBIT	26 837	28 142	31 171	33 903	36 196	37 920	38 968
Depreciation	1 790	2 069	2 391	2 764	3 195	3 693	4 269
CAPEX	958	4 841	2 791	3 226	3 729	4 310	4 982
Working capital	145 274	174 085	174 085	156 677	141 009	126 908	115 486
Change in working capital	28 186	28 811	0	-17 409	-15 668	-14 101	-11 422
Free cash flow	-5 348	-8 507	25 161	44 747	44 815	44 579	42 663
WACC	9,80%	9,80%	9,80%	9,80%	9,80%	9,80%	9,80%
Discounted free cash flow		22 916	37 118	33 857	30 674	26 736	22 916
Terminal value							755 784

Source: prepared by author based on company's data

Next table represents results of PJSC “Obolon” valuation (by DCF method) after completed M&A deal.

Table 3.5

**Valuation of PJSC “Obolon” after M&A deal
by DCF method, UAH ths**

Indicator	2018	2019	2020	2021	2022	Terminal value	Total
“Obolon” discounted free cash flow	178 199	192 832	203 501	209 788	211 473	6 493 427	7 489 220
“Khmelpyvo” discounted free cash flow	22 916	37 118	33 857	30 674	26 736	755 784	907 085
“Obolon” discounted free cash flow after M&A deal	201 115	229 950	237 358	240 462	238 210	7 249 211	8 396 306

Source: prepared by author

*Enterprise value after M&A = $\sum DFCF$ + Terminal value = UAH
8 396 305 ths.*

To sum up, the valuation of PJSC “Obolon” after M&A deal by DCF method equals to UAH 8,4 bn, comparing to UAH 8,4 bn valuation by a market approach. In order to determine enterprise value of PJSC “Obolon” we have to calculate the average value of these two methods.

$$EV = (EV_1 + EV_2)/2 = \text{UAH } 8\,396\text{ mn} + \text{UAH } 8\,438\text{ mn} = \text{UAH } 8\,417\text{ mn}.$$

To sum up, our estimated enterprise value could grow from UAH 7,75 bn to UAH 8,4 bn by acquiring local brewery PJSC “Khmelpyvo”. We expect that “Obolon” can acquire “Khmelpyvo” for about UAH 0,5 bn that is UAH 250 mn less than potential enterprise value growth. That is why this action plan could be recommended to shareholders and management of “Obolon” as a part of plan aiming to increase enterprise value.

3.3 Organizational and economic measures to implement value growth strategy

Conducting merger&acquisition (M&A) transactions is a quite complex and timeconsuming process. It requires a careful attention from the company and a really well-structured deal process. The M&A process has many steps and can often take anywhere from 6 months to several years to complete.



Figure 3.2. 10 step checklist of merger&acquisition deal

Source: [3]

Key steps of the M&A deal may include:

1. Development of an acquisition strategy – Developing a good acquisition strategy revolves around the acquirer having a clear idea of what they expect to gain from making the acquisition – what their business purpose is for acquiring the target company

2. Setting the M&A search criteria – Determining the key criteria for identifying potential target companies (e.g., profit margins, geographic location, or customer base)
3. Search for potential acquisition targets – The acquirer uses their identified search criteria to look for and then evaluate potential target companies
4. Acquisition planning – The acquirer makes contact with one or more companies that meet its search criteria and appear to offer good value; the purpose of initial conversations is to get more information and to see how amenable to a merger or acquisition the target company
5. Performing valuation analysis – Assuming initial contact and conversations go well, the acquirer asks the target company to provide substantial information (current financials, etc.) that will enable the acquirer to further evaluate the target, both as a business on its own and as a suitable acquisition target
6. Negotiations – After producing several valuation models of the target company, the acquirer should have sufficient information to enable it to construct a reasonable offer; after which two companies can negotiate deal terms in more detail
7. Due diligence – Due diligence aims to confirm or correct the acquirer's assessment of the value of the target company by conducting a detailed examination and analysis of every aspect of the target company's operations – its financial metrics, assets and liabilities, customers, human resources, etc.
8. Contracts – Assuming due diligence is completed, the next step is executing a final contract for sale; the parties will make a final decision on the type of purchase agreement
9. Financing strategy for the acquisition – The acquirer provides more detailed financing options after the purchase and sale agreement has been signed.

10. Closing and integration of the acquisition – teams of both companies start to work on the process of merging the two firms.

As we mentioned above in the work, almost half of these steps have already been completed, in particular:

- A strategy for M&A deal has been developed
- The criteria that the potential target companies must meet are identified
- The potential target has been selected that meets selected criteria (PJSC "Khmelpyvo")
- Preliminary analysis and valuation of the company has been prepared (see Chapter 3.2)

The next step, which should follow up the M&A process, should be the start of negotiations with the target company. To successfully complete all stages and successfully structure the deal, we propose “Obolon” to create a temporary team that will be responsible for the project. In particular, chief financial officer could become a head of this team.

At the same time, conducting such a deal is quite specific task, therefore, employees of the company probably don't have necessary experience and competencies. In addition, a significant concentration on these tasks will weaken the effectiveness of these workers at their core functions.

Taking this into account, outsourcing some functions to consultants that are professionals in such deals, in particular lawyers, investment bankers and auditors, is critical to the success of all stages.

The team of investment bankers will be able to coordinate the entire process and structure the deal, while lawyers will be responsible for the entire legal part of the work. In particular, lawyers and auditors will play crucial role in due diligence process.

Another important step in a M&A deal process is to find the necessary funding and choose a financing tool that would satisfy both parties. It should be noted that purchasing of a target company through shares or debt tools don't widely widespread in Ukraine, as liquidity of such tools in the Ukrainian market does not satisfy needs of the shareholders of companies being acquired.

Accordingly, the most probable financing tool that would satisfy shareholders of PJSC "Khmlepyvo" will be the cash. Therefore, PJSC "Obolon" management's task is to find ways to attract the required funding (to be more precise, UAH 0,5 bn - our valuation), which would not lead to cash gaps.

Recall that "Obolon" had UAH 46 mn as of December 31, 2017, which could be partially or fully used to finance the deal.

However, it should be noted that Obolon has another significant reserve for financing the operation:

- UAH 51.5 mn accounts receivables on issued advances
- UAH 71.3 mn accounts receivables of budget
- UAH 431.0 mn other receivables

Thus, the company potentially has UAH 600 mn, which could used for purchasing a company. Of course, it is necessary to note, that it will be difficult to collect the entire volume of receivables, but due to the purposeful work of the management, it is realistic to charge more than 50% of this debt, which will give the company at least USD 300 mn. Given the available cash, the company could have about USD 350 million.

The remaining amount required to complete the deal of PJSC "Khmlepyvo" can be expected due to operational activity of "Obolon" in 2018. According to our DCF model, Obolon will generate about UAH 180 mn of positive free cash flow in 2018. Thus, at the end of 2018, when the agreement could potentially be completed and UAH 500 mn will be needed to finance the acquisition, "Obolon" will have the necessary financing, that are showed in a Table 3.6.

Table 3.6

Sources of financing M&A deal by PJSC “Obolon” at the end of 2018

Sources of financing	Sum of financing, UAH mn
Cash available in balance sheet as of 2017	50
Repayment of receivables on issued advances	40
Repayment of budget's receivables	60
Repayment of other receivables	200
Free cash flow generated in 2018	180
Total	530

Source: prepared by author based on company's data

Thus, the financing issue could be solved through internal reserves, in case of efficient work of management.

In case of successful M&A deal process, the next task for both companies should be to work together to integrate the new company into the parent company's activities and strategy.

According to the authors, it doesn't necessary to change strategy of PJSC "Khmelpyvo" drastically, but to provide an opportunity to grow gradually, through the resources of the parent company. Key features of the company's strategy should be:

1. Gradual development in the local region and development to the new regions: Podillya and Western Ukraine.
2. Taking into account the production of “live” beer, it is necessary to consider the realization through the stores that sell kraft, “live” beer. It is more rationale to use such stores in relatively large and developed cities - regional centers.
3. The advertising company of this brand must be consistent with the “Obolon's” campaign and developed to minimize competition between the “Obolon” and “Khmelpyvo” brands.

Thus, summing up the above, we can say that the key steps to successfully complete the M&A deal process are:

- Selection and valuation of the target-company (previously performed by the author).
- Identification responsible employees, as well as recruitment of professional consultants such as auditors, lawyers and investment bankers.
- Successful negotiation and due diligence process.
- Find financing sources for the company acquisition.
- Building a strategy for further development and integration of the acquired company.

CONCLUSIONS AND PROPOSALS

Consequently, the results of the analysis carried out in this paper should draw the appropriate conclusions:

Various approaches to determining the value of an enterprise are mentioned, in particular additive, price approach, comprehensive based on efficiency, open (external), strategic (promising), valuable. We consider, that the price approach is the most suitable to define the real market value of the company. Consequently, we can conclude that the value of an enterprise is an objective indicator of the enterprise's activity, which reflects the total value of assets and the value of the enterprise as of the valuation date.

The targeting of business owners to the growth of business value has led to the fact that the main goal of the managers of any company is to make such decisions in financial, investment and production activities, which ultimately lead to equity increase. So, helping the company maximize its value became more valuable than to receive short-term profits for a company.

Key methodological tools for an enterprise evaluation are defined. In particular, in practice, the three most commonly used methods for evaluating a company are the most common. The first, discounted cashflow valuation, relates the value of an asset to the present value of expected future cashflows on that asset. The second, relative (market) valuation, estimates the value of an asset by looking at the pricing of 'comparable' assets relative to a common variable such as earnings, cashflows, book value or sales. The third, contingent claim valuation, uses option pricing models to measure the value of assets that share option characteristics. Some of these assets are traded financial assets like warrants, and some of these options are not traded and are based on real assets – projects, patents and oil reserves are examples.

The theoretical basis for the development of an enterprise value growth strategy was investigated and analyzed. Since it has been investigated that the value of a firm can be increased by increasing cash flows from assets in place,

increasing expected growth and the length of the growth period and by reducing the cost of capital. Accordingly, the development of the enterprise value growth strategy should be built precisely in the light of these factors and trying to maximize their impact on them, which would increase the enterprise value.

It is determined, that there are two basic ways of estimating growth for any firm: One is to look at the growth in a past earnings – its historical growth rate. The second approach is to estimate the growth from a company's fundamentals. As we cannot influence on a historical date, the key goal is to make a strategy that will positively influence company's fundamentals, for example: to decrease WACC, to increase Free Cash Flow of the company, to reinvest necessary amount of capital, etc. It is analyzed that most companies are trying to develop through active mergers & acquisitions deals.

The Ukrainian beer and soft drinks market is analyzed. It has been determined that over the past six years, the physical volume of beer produced has continued to decline, which is due in the first place to the crisis situation in the economy. It was revealed that Ukraine has the largest brewery in Europe, which is owned by PJSC "Obolon".

In the regional context, the largest share in beer consumption is in Kyiv and several more populated areas (Dnipropetrovsk, Kharkiv, Odessa). It is worth noting that a significant proportion of the beer being produced is sent for export. In the structure of exports, the largest share is made up of CIS countries, namely 57% in 2017. In the structure of imports, the largest share is made by the EU countries - 73% in 2017.

The financial state of PJSC "Obolon" and its change over the last several years have been analyzed in detail. Importantly, over the last few years the company has become profitable again - UAH 176 million in 2017 (for the first time in recent years). In addition, the company was able to significantly reduce other costs in 2017 compared to 2015 and 2016.

It is revealed that in the structure of the balance sheet, the main part consists of non-current assets (about 76% in 2017), which is explained by the fact that PJSC "Obolon" is a production company so this is normal for this industry. It is important that in 2016 the company carried out a revaluation of assets, which led to an increase in the value of property, plant and equipment by UAH 3.9 billion.

The estimation of the Obolon Company by the a market approach is carried out. Comperables for evaluation were Sun inBev Ukraine, Big Rock Brewery (Canada), Heineken NV (Netherlands), Anadolu Efes Biracilik ve Malt Sanayi AS (Turkey), Anheuser-Busch InBev SA (Belgium), Olvi Oyj (Finland). Three multiplies were used to evaluate the company: price-to-earnings multiple (P/E), Enterprise value/EBITDA multiple (EV/EBITDA), Price/Sales multiple (P/Sales). Average calculated multiplies were:

- P/E – 32,7
- EV/EBITDA – 11,6
- P/Sales – 1,4

Enterprise value of PJSC “Obolon” calculated by a market approach is UAH 8,0 bn.

Provided the valuation of PJSC “Obolon” by DCF method. The valuation a result of UAH 7,5 bn EV of the PJSC “Obolon”, which is quite close to valuation by a market approach (UAH 8,0 bn). To determine the only estimated value of PJSC “Obolon” we calculated the average value of these two methods and received average value of the company of UAH 7,75 bn.

Analyzed and identified possible ways for a company to influence its value growth. First, the organization can not act directly on value - it could act on things it can affect, such as customer satisfaction, cost, capital expenditures, and so on. We also determined which drivers affect the increase in cash flow from operations, and which effect - reduction in capital charge. In further development, two laws of value creation were taken into account. The first law is that management must create value for shareholders. The second law is that all other stakeholders should also be satisfied in a way that contributes to the shareholder value.

Developed a strategy to increase the value of the company through an active strategy M&A deals. In particular, the acquisition of a small brewery, which could seriously compete with international brands on the local market, is planned to begin. Accordingly, a company that best meets the requirements, PJSC "Khmelnitsky regional brewery", which produces beer under the brand name "Khmelpyvo", has been selected. The next step was to analyze financial state and calculate the value of the company by a market approach. Estimated value of the company amounted to UAH 0.5 billion. The next step was to calculate the value of PJSC "Obolon" after conducting an appropriate deal - for this Obolon was re-evaluated by a market and DCF method. According to our valuation, the enterprise value of "Obolon" will increase to 8.4 billion UAH.

A key final step should be the development of an action plan for the implementation of the described transaction and to integrate the company efficiency into the parent company. For this aim, first of all, it is recommended to create a working group within PJSC "Obolon", which would be responsible for the success of the whole process. The head of such a group may be the Chief Financial Officer. However, one more essential element is the involvement of professional advisers who could structure the deal and fulfill specific tasks: investment bankers, auditors, legal consultants. According to our estimates, the entire acquisition process of the company can be from 6 to 12 months.

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APPENDICES

Аpendix А

Баланс (Звіт про фінансовий стан)
на 31.12.2015 р. (у тис грн)

Актив	Код рядка	На початок звітнього періоду	На кінець звітнього періоду	На дату переходу на міжнародні стандарти фінансової звітності
1	2	3	4	5
I. Необоротні активи				
Нематеріальні активи:	1000	36191	31005	0
первісна вартість	1001	77190	80415	0
накопичена амортизація	1002	40999	49410	0
Незавершені капітальні інвестиції	1005	44188	31946	0
Основні засоби:	1010	1616822	1513961	0
первісна вартість	1011	3632229	3691299	0
знос	1012	2015407	2177338	0
Інвестиційна нерухомість:	1015	0	0	0
первісна вартість	1016	0	0	0
знос	1017	0	0	0
Довгострокові біологічні активи:	1020	0	0	0
первісна вартість	1021	0	0	0
накопичена амортизація	1022	0	0	0
Довгострокові фінансові інвестиції: які обліковуються за методом участі в капіталі інших підприємств	1030	75319	87349	0
інші фінансові інвестиції	1035	60828	60828	0
Довгострокова дебіторська заборгованість	1040	69	18	0
Відстрочені податкові активи	1045	1686	1686	0
Гудвіл	1050	0	0	0
Відстрочені аквізиційні витрати	1060	0	0	0

Continuation of Appendix A

Залишок коштів у централізованих страхових резервних фондах	1065	0	0	0
Інші необоротні активи	1090	0	0	0
Усього за розділом I	1095	1835103	1726793	0
II. Оборотні активи				
Запаси	1100	690955	898730	0
Виробничі запаси	1101	585854	814249	0
Незавершене виробництво	1102	26733	31179	0
Готова продукція	1103	75043	41337	0
Товари	1104	3325	11965	0
Поточні біологічні активи	1110	0	0	0
Депозити перестрахування	1115	0	0	0
Векселі одержані	1120	0	0	0
Дебіторська заборгованість за продукцію, товари, роботи, послуги	1125	273798	375533	0
Дебіторська заборгованість за розрахунками: за виданими авансами	1130	0	0	0
з бюджетом	1135	28225	11865	0
у тому числі з податку на прибуток	1136	26352	10773	0
з нарахованих доходів	1140	0	0	0
із внутрішніх розрахунків	1145	41605	53704	0
Інша поточна дебіторська заборгованість	1155	104744	92397	0
Поточні фінансові інвестиції	1160	0	0	0
Гроші та їх еквіваленти	1165	182162	43198	0
Готівка	1166	0	0	0
Рахунки в банках	1167	0	0	0
Витрати майбутніх періодів	1170	4544	2952	0
Частка перестраховика у страхових резервах	1180	0	0	0
у тому числі в:				
резервах довгострокових зобов'язань	1181	0	0	0
резервах збитків або резервах належних виплат	1182	0	0	0
резервах незароблених премій	1183	0	0	0
інших страхових резервах	1184	0	0	0
Інші оборотні активи	1190	10054	4171	0
Усього за розділом II	1195	1336087	1482550	0
III. Необоротні активи, утримувані для продажу, та групи вибуття	1200	0	0	0
Баланс	1300	3171190	3209343	0

Continuation of Apendix A

Пасив	Код рядка	На початок звітнього періоду	На кінець звітнього періоду	На дату переходу на міжнародні стандарти фінансової звітності
I. Власний капітал				
Зареєстрований (пайовий) капітал	1400	32513	32513	0
Внески до незареєстрованого статутного капіталу	1401	0	0	0
Капітал у дооцінках	1405	29558	30620	0
Додатковий капітал	1410	0	0	0
Емісійний дохід	1411	0	0	0
Накопичені курсові різниці	1412	0	0	0
Резервний капітал	1415	8128	8128	0
Нерозподілений прибуток (непокритий збиток)	1420	398720	-37931	0
Неоплачений капітал	1425	(0)	(0)	(0)
Вилучений капітал	1430	(0)	(0)	(0)
Інші резерви	1435	0	0	0
Усього за розділом I	1495	468919	33330	0
II. Довгострокові зобов'язання і забезпечення				
Відстрочені податкові зобов'язання	1500	0	0	0
Пенсійні зобов'язання	1505	0	0	0
Довгострокові кредити банків	1510	801436	87464	0
Інші довгострокові зобов'язання	1515	0	0	0
Довгострокові забезпечення	1520	1599	2673	0
Довгострокові забезпечення витрат персоналу	1521	1599	2673	0
Цільове фінансування	1525	0	0	0
Благодійна допомога	1526	0	0	0
Страхові резерви, у тому числі:	1530	0	0	0
резерв довгострокових зобов'язань; (на початок звітнього періоду)	1531	0	0	0

Continuation of Appendix A

резерв збитків або резерв належних виплат; (на початок звітного періоду)	1532	0	0	0
резерв незароблених премій; (на початок звітного періоду)	1533	0	0	0
інші страхові резерви; (на початок звітного періоду)	1534	0	0	0
Інвестиційні контракти;	1535	0	0	0
Призовий фонд	1540	0	0	0
Резерв на виплату джек-поту	1545	0	0	0
Усього за розділом II	1595	803035	90137	0
III. Поточні зобов'язання і забезпечення				
Короткострокові кредити банків	1600	719087	333664	0
Векселі видані	1605	0	0	0
Поточна кредиторська заборгованість: за довгостроковими зобов'язаннями	1610	350131	1766355	0
за товари, роботи, послуги	1615	559225	723372	0
за розрахунками з бюджетом	1620	64389	88808	0
за у тому числі з податку на прибуток	1621	0	0	0
за розрахунками зі страхування	1625	5831	2448	0
за розрахунками з оплати праці	1630	12772	7346	0
за одержаними авансами	1635	0	0	0
за розрахунками з учасниками	1640	57373	32784	0
із внутрішніх розрахунків	1645	0	0	0
за страховою діяльністю	1650	0	0	0
Поточні забезпечення	1660	0	0	0
Доходи майбутніх періодів	1665	0	0	0
Відстрочені комісійні доходи від перестраховиків	1670	0	0	0
Інші поточні зобов'язання	1690	130428	131099	0

Continuation of Appendix A

Усього за розділом III	1695	1899236	3085876	0
IV. Зобов'язання, пов'язані з необоротними активами, утримуваними для продажу, та групами вибуття	1700	0	0	0
V. Чиста вартість активів недержавного пенсійного фонду	1800	0	0	0
Баланс	1900	3171190	3209343	0

Apendix B

Звіт про фінансові результати (Звіт про сукупний дохід)
за 2015 рік (у тис грн)

І. ФІНАНСОВІ РЕЗУЛЬТАТИ			
Стаття	Код рядка	За звітний період	За аналогічний період попереднього року
Чистий дохід від реалізації продукції (товарів, робіт, послуг)	2000	3641996	3189907
Чисті зароблені страхові премії	2010	0	0
Премії підписані, валова сума	2011	0	0
Премії, передані у перестраховування	2012	0	0
Зміна резерву незароблених премій, валова сума	2013	0	0
Зміна частки перестраховиків у резерві незароблених премій	2014	0	0
Собівартість реалізованої продукції (товарів, робіт, послуг)	2050	(2388394)	(2028728)
Чисті понесені збитки за страховими виплатами	2070	0	0
Валовий: прибуток	2090	1253602	1161179
Валовий: збиток	2095	(0)	(0)
Дохід (витрати) від зміни у резервах довгострокових зобов'язань	2105	0	0
Дохід (витрати) від зміни інших страхових резервів	2110	0	0
Зміна інших страхових резервів, валова сума	2111	0	0
Зміна частки перестраховиків в інших страхових резервах	2112	0	0
Інші операційні доходи	2120	474740	442476
Дохід від зміни вартості активів, які оцінюються за справедливою вартістю	2121	0	0
Дохід від первісного визнання біологічних активів і сільськогосподарської продукції	2122	0	0
Дохід від використання коштів, вивільнених від оподаткування	2123	(0)	(0)
Адміністративні витрати	2130	(178381)	(189329)
Витрати на збут	2150	(848865)	(847429)
Інші операційні витрати	2180	(358335)	(393263)

Continuation of Apendix B

Витрат від зміни вартості активів, які оцінюються за справедливою вартістю	2181	0	0
Витрат від первісного визнання біологічних активів і сільськогосподарської продукції	2182	0	0
Фінансовий результат від операційної діяльності: прибуток	2190	342761	173634
Фінансовий результат від операційної діяльності: збиток	2195	(0)	(0)
Дохід від участі в капіталі	2200	13476	8319
Інші фінансові доходи	2220	63823	55105
Інші доходи	2240	467981	196975
Дохід від благодійної допомоги	2241	0	0
Фінансові витрати	2250	(306245)	(195268)
Втрати від участі в капіталі	2255	(2508)	(11814)
Інші витрати	2270	(979390)	(802002)
Прибуток (збиток) від впливу інфляції на монетарні статті	2275	0	0
Фінансовий результат до оподаткування: прибуток	2290	0	0
Фінансовий результат до оподаткування: збиток	2295	(400102)	(575051)
Витрати (дохід) з податку на прибуток	2300	0	0
Прибуток (збиток) від припиненої діяльності після оподаткування	2305	0	0
Чистий фінансовий результат: прибуток	2350	0	0
Чистий фінансовий результат: збиток	2355	(400102)	(575051)

Appendix C

Баланс (Звіт про фінансовий стан)
на 31.12.2016 р. (у тис грн)

Актив	Код рядка	На початок звітного періоду	На кінець звітного періоду	На дату переходу на міжнародні стандарти фінансової звітності
1	2	3	4	5
I. Необоротні активи				
Нематеріальні активи:	1000	31005	22345	0
первісна вартість	1001	80415	80568	0
накопичена амортизація	1002	49410	58223	0
Незавершені капітальні інвестиції	1005	31946	46493	0
Основні засоби:	1010	1513961	2906500	0
первісна вартість	1011	3691299	5239376	0
знос	1012	2177338	2332876	0
Інвестиційна нерухомість:	1015	0	0	0
первісна вартість	1016	0	0	0
знос	1017	0	0	0
Довгострокові біологічні активи:	1020	0	0	0
первісна вартість	1021	0	0	0
накопичена амортизація	1022	0	0	0
Довгострокові фінансові інвестиції: які обліковуються за методом участі в капіталі інших підприємств	1030	87349	84868	0
інші фінансові інвестиції	1035	60828	60828	0
Довгострокова дебіторська заборгованість	1040	18	14	0
Відстрочені податкові активи	1045	1686	17293	0
Гудвіл	1050	0	0	0
Відстрочені аквізиційні витрати	1060	0	0	0
Залишок коштів у централізованих страхових резервних фондах	1065	0	0	0
Інші необоротні активи	1090	0	0	0

Усього за розділом І	1095	1726793	3138341	0
ІІ. Оборотні активи				
Запаси	1100	898730	895375	0
Виробничі запаси	1101	814249	763809	0
Незавершене виробництво	1102	31179	40233	0
Готова продукція	1103	41337	82543	0
Товари	1104	11965	8790	0
Поточні біологічні активи	1110	0	0	0
Депозити перестраховування	1115	0	0	0
Векселі одержані	1120	0	0	0
Дебіторська заборгованість за продукцію, товари, роботи, послуги	1125	375533	407752	0
Дебіторська заборгованість за розрахунками: за виданими авансами	1130	0	0	0
з бюджетом	1135	11865	13198	0
у тому числі з податку на прибуток	1136	10773	3228	0
з нарахованих доходів	1140	0	0	0
із внутрішніх розрахунків	1145	53704	149114	0
Інша поточна дебіторська заборгованість	1155	92397	51498	0
Поточні фінансові інвестиції	1160	0	0	0
Гроші та їх еквіваленти	1165	43198	9776	0
Готівка	1166	0	0	0
Рахунки в банках	1167	0	0	0
Витрати майбутніх періодів	1170	2952	3225	0
Частка перестраховика у страхових резервах	1180	0	0	0
у тому числі в: резервах довгострокових зобов'язань	1181	0	0	0
резервах збитків або резервах належних виплат	1182	0	0	0
резервах незароблених премій	1183	0	0	0
інших страхових резервах	1184	0	0	0
Інші оборотні активи	1190	4171	19198	0
Усього за розділом ІІ	1195	1482550	1549136	0
ІІІ. Необоротні активи, утримувані для продажу, та групи вибуття	1200	0	0	0
Баланс	1300	3209343	4687477	0

Пасив	Код рядка	На початок звітнього періоду	На кінець звітнього періоду	На дату переходу на міжнародні стандарти фінансової звітності
I. Власний капітал				
Зареєстрований (пайовий) капітал	1400	32513	32513	0
Внески до незареєстрованого статутного капіталу	1401	0	0	0
Капітал у дооцінках	1405	30620	1513770	0
Додатковий капітал	1410	0	0	0
Емісійний дохід	1411	0	0	0
Накопичені курсові різниці	1412	0	0	0
Резервний капітал	1415	8128	8128	0
Нерозподілений прибуток (непокритий збиток)	1420	-37931	-213931	0
Неоплачений капітал	1425	(0)	(0)	(0)
Вилучений капітал	1430	(0)	(0)	(0)
Інші резерви	1435	0	0	0
Усього за розділом I	1495	33330	1340480	0
II. Довгострокові зобов'язання і забезпечення				
Відстрочені податкові зобов'язання	1500	0	0	0
Пенсійні зобов'язання	1505	0	0	0
Довгострокові кредити банків	1510	87464	344219	0
Інші довгострокові зобов'язання	1515	0	0	0
Довгострокові забезпечення	1520	2673	3611	0
Довгострокові забезпечення витрат персоналу	1521	2673	3611	0
Цільове фінансування	1525	0	0	0
Благодійна допомога	1526	0	0	0
Страхові резерви, у тому числі:	1530	0	0	0
резерв довгострокових зобов'язань; (на початок звітнього періоду)	1531	0	0	0
резерв збитків або резерв належних виплат; (на початок звітнього періоду)	1532	0	0	0

Continuation of Appendix C

резерв незароблених премій; (на початок звітної періоду)	1533	0	0	0
інші страхові резерви; (на початок звітної періоду)	1534	0	0	0
Інвестиційні контракти;	1535	0	0	0
Призовий фонд	1540	0	0	0
Резерв на виплату джек-поту	1545	0	0	0
Усього за розділом II	1595	90137	347830	0
III. Поточні зобов'язання і забезпечення				
Короткострокові кредити банків	1600	333664	1916055	0
Векселі видані	1605	0	0	0
Поточна кредиторська заборгованість: за довгостроковими зобов'язаннями	1610	1766355	6400	0
за товари, роботи, послуги	1615	723372	635639	0
за розрахунками з бюджетом	1620	88808	99741	0
за у тому числі з податку на прибуток	1621	0	0	0
за розрахунками зі страхування	1625	2448	3390	0
за розрахунками з оплати праці	1630	7346	13777	0
за одержаними авансами	1635	0	59834	0
за розрахунками з учасниками	1640	32784	24908	0
із внутрішніх розрахунків	1645	0	47527	0
за страховою діяльністю	1650	0	0	0
Поточні забезпечення	1660	0	0	0
Доходи майбутніх періодів	1665	0	0	0
Відстрочені комісійні доходи від перестраховиків	1670	0	0	0
Інші поточні зобов'язання	1690	131099	191896	0
Усього за розділом III	1695	3085876	2999167	0
IV. Зобов'язання, пов'язані з необоротними активами, утримуваними для продажу, та групами вибуття	1700	0	0	0
V. Чиста вартість активів недержавного пенсійного фонду	1800	0	0	0
Баланс	1900	3209343	4687477	0

Appendix D

Звіт про фінансові результати (Звіт про сукупний дохід)
за 2016 рік (у тис грн)

І. ФІНАНСОВІ РЕЗУЛЬТАТИ			
Стаття	Код рядка	За звітний період	За аналогічний період попереднього року
Чистий дохід від реалізації продукції (товарів, робіт, послуг)	2000	3524945	3641996
Чисті зароблені страхові премії	2010	0	0
Премії підписані, валова сума	2011	0	0
Премії, передані у перестраховування	2012	0	0
Зміна резерву незароблених премій, валова сума	2013	0	0
Зміна частки перестраховиків у резерві незароблених премій	2014	0	0
Собівартість реалізованої продукції (товарів, робіт, послуг)	2050	(2378936)	(2388394)
Чисті понесені збитки за страховими виплатами	2070	0	0
Валовий: прибуток	2090	1146009	1253602
Валовий: збиток	2095	(0)	(0)
Дохід (витрати) від зміни у резервах довгострокових зобов'язань	2105	0	0
Дохід (витрати) від зміни інших страхових резервів	2110	0	0
Зміна інших страхових резервів, валова сума	2111	0	0
Зміна частки перестраховиків в інших страхових резервах	2112	0	0
Інші операційні доходи	2120	504984	474740
Дохід від зміни вартості активів, які оцінюються за справедливою вартістю	2121	0	0
Дохід від первісного визнання біологічних активів і сільськогосподарської продукції	2122	0	0
Дохід від використання коштів, вивільнених від оподаткування	2123	(0)	(0)
Адміністративні витрати	2130	(213263)	(178381)
Витрати на збут	2150	(833385)	(848865)
Інші операційні витрати	2180	(409965)	(358335)

Continuation of Appendix D

Витрат від зміни вартості активів, які оцінюються за справедливою вартістю	2181	0	0
Витрат від первісного визнання біологічних активів і сільськогосподарської продукції	2182	0	0
Фінансовий результат від операційної діяльності: прибуток	2190	194380	342761
Фінансовий результат від операційної діяльності: збиток	2195	(0)	(0)
Дохід від участі в капіталі	2200	6160	13476
Інші фінансові доходи	2220	67076	63823
Інші доходи	2240	222156	467981
Дохід від благодійної допомоги	2241	0	0
Фінансові витрати	2250	(309935)	(306245)
Втрати від участі в капіталі	2255	(9735)	(2508)
Інші витрати	2270	(353727)	(979390)
Прибуток (збиток) від впливу інфляції на монетарні статті	2275	0	0
Фінансовий результат до оподаткування: прибуток	2290	0	0
Фінансовий результат до оподаткування: збиток	2295	(183625)	(400102)
Витрати (дохід) з податку на прибуток	2300	0	0
Прибуток (збиток) від припиненої діяльності після оподаткування	2305	0	0
Чистий фінансовий результат: прибуток	2350	0	0
Чистий фінансовий результат: збиток	2355	(183625)	(400102)

Appendix E

Баланс (Звіт про фінансовий стан)
на 31.12.2017 р. (у тис грн)

Актив	Код рядка	На початок звітної періоду	На кінець звітної періоду	На дату переходу на міжнародні стандарти фінансової звітності
1	2	3	4	5
I. Необоротні активи				
Нематеріальні активи:	1000	9810	8337	0
первісна вартість	1001	43114	43259	0
накопичена амортизація	1002	-33304	-34922	0
Незавершені капітальні інвестиції	1005	24363	48455	0
Основні засоби:	1010	5421561	5141361	0
первісна вартість	1011	11765383	11850066	0
знос	1012	-6343822	-6708705	0
Інвестиційна нерухомість:	1015	0	0	0
первісна вартість	1016	0	0	0
знос	1017	0	0	0
Довгострокові біологічні активи:	1020	0	0	0
первісна вартість	1021	0	0	0
накопичена амортизація	1022	0	0	0
Довгострокові фінансові інвестиції: які обліковуються за методом участі в капіталі інших підприємств	1030	0	0	0
інші фінансові інвестиції	1035	18931	18522	0
Довгострокова дебіторська заборгованість	1040	0	0	0
Відстрочені податкові активи	1045	0	0	0
Гудвіл	1050	0	0	0
Відстрочені аквізиційні витрати	1060	0	0	0
Залишок коштів у централізованих страхових резервних фондах	1065	0	0	0
Інші необоротні активи	1090	14	14	0
Усього за розділом I	1095	5474679	5216689	0
II. Оборотні активи				
Запаси	1100	881787	750563	0

Continuation of Appendix E

Виробничі запаси	1101	0	0	0
Незавершене виробництво	1102	0	0	0
Готова продукція	1103	0	0	0
Товари	1104	0	0	0
Поточні біологічні активи	1110	0	0	0
Депозити перестрахування	1115	0	0	0
Векселі одержані	1120	0	0	0
Дебіторська заборгованість за продукцію, товари, роботи, послуги	1125	169695	297870	0
Дебіторська заборгованість за розрахунками: за виданими авансами	1130	35477	51466	0
з бюджетом	1135	39468	71280	0
у тому числі з податку на прибуток	1136	10414	8047	0
з нарахованих доходів	1140	0	0	0
із внутрішніх розрахунків	1145	0	0	0
Інша поточна дебіторська заборгованість	1155	9597	430965	0
Поточні фінансові інвестиції	1160	0	0	0
Гроші та їх еквіваленти	1165	48394	46172	0
Готівка	1166	0	0	0
Рахунки в банках	1167	0	0	0
Витрати майбутніх періодів	1170	0	0	0
Частка перестраховика у страхових резервах	1180	0	0	0
у тому числі в: резервах довгострокових зобов'язань	1181	0	0	0
резервах збитків або резервах належних виплат	1182	0	0	0
резервах незароблених премій	1183	0	0	0
інших страхових резервах	1184	0	0	0
Інші оборотні активи	1190	5707	16455	0
Усього за розділом II	1195	1190125	1664771	0
III. Необоротні активи, утримувані для продажу, та групи вибуття	1200	0	0	0
Баланс	1300	6664804	6881460	0

Continuation of Apendix E

Пасив	Код рядка	На початок звітнього періоду	На кінець звітнього періоду	На дату переходу на міжнародні стандарти фінансової звітності
I. Власний капітал				
Зареєстрований (пайовий) капітал	1400	73144	73144	0
Внески до незареєстрованого статутного капіталу	1401	0	0	0
Капітал у дооцінках	1405	3129549	2945067	0
Додатковий капітал	1410	8353	8353	0
Емісійний дохід	1411	0	0	0
Накопичені курсові різниці	1412	0	0	0
Резервний капітал	1415	-116	546	0
Нерозподілений прибуток (непокритий збиток)	1420	-879110	-518048	0
Неоплачений капітал	1425	(0)	(0)	(0)
Вилучений капітал	1430	(13580)	(13580)	(0)
Інші резерви	1435	0	0	0
Усього за розділом I	1495	2318240	2495482	0
II. Довгострокові зобов'язання і забезпечення				
Відстрочені податкові зобов'язання	1500	474967	511172	0
Пенсійні зобов'язання	1505	0	0	0
Довгострокові кредити банків	1510	432673	2037873	0
Інші довгострокові зобов'язання	1515	329260	237082	0
Довгострокові забезпечення	1520	0	0	0
Довгострокові забезпечення витрат персоналу	1521	0	0	0
Цільове фінансування	1525	0	0	0
Благодійна допомога	1526	0	0	0
Страхові резерви, у тому числі:	1530	0	0	0
резерв довгострокових зобов'язань; (на початок звітнього періоду)	1531	0	0	0
резерв збитків або резерв належних виплат; (на початок звітнього періоду)	1532	0	0	0
резерв незароблених премій; (на початок звітнього періоду)	1533	0	0	0
інші страхові резерви; (на початок звітнього періоду)	1534	0	0	0

Continuation of Appendix E

Інвестиційні контракти;	1535	0	0	0
Призовий фонд	1540	0	0	0
Резерв на виплату джек-поту	1545	0	0	0
Усього за розділом II	1595	1236900	2786127	0
III. Поточні зобов'язання і забезпечення				
Короткострокові кредити банків	1600	1993283	417962	0
Векселі видані	1605	0	0	0
Поточна кредиторська заборгованість: за довгостроковими зобов'язаннями	1610	0	0	0
за товари, роботи, послуги	1615	703976	830232	0
за розрахунками з бюджетом	1620	119504	150294	0
за у тому числі з податку на прибуток	1621	340	282	0
за розрахунками зі страхування	1625	4992	5364	0
за розрахунками з оплати праці	1630	46415	51430	0
за одержаними авансами	1635	82270	46900	0
за розрахунками з учасниками	1640	1876	1876	0
із внутрішніх розрахунків	1645	0	0	0
за страховою діяльністю	1650	0	0	0
Поточні забезпечення	1660	9023	10306	0
Доходи майбутніх періодів	1665	0	0	0
Відстрочені комісійні доходи від перестраховиків	1670	0	0	0
Інші поточні зобов'язання	1690	148325	85487	0
Усього за розділом III	1695	3109664	1599851	0
IV. Зобов'язання, пов'язані з необоротними активами, утримуваними для продажу, та групами вибуття	1700	0	0	0
V. Чиста вартість активів недержавного пенсійного фонду	1800	0	0	0
Баланс	1900	6664804	6881460	0

Appendix F

Звіт про фінансові результати (Звіт про сукупний дохід)
за 2017 рік (у тис грн)

I. ФІНАНСОВІ РЕЗУЛЬТАТИ			
Стаття	Код рядка	За звітний період	За аналогічний період попереднього року
Чистий дохід від реалізації продукції (товарів, робіт, послуг)	2000	4963232	4310214
Чисті зароблені страхові премії	2010	0	0
Премії підписані, валова сума	2011	0	0
Премії, передані у перестраховування	2012	0	0
Зміна резерву незароблених премій, валова сума	2013	0	0
Зміна частки перестраховиків у резерві незароблених премій	2014	0	0
Собівартість реалізованої продукції (товарів, робіт, послуг)	2050	(3565168)	(3290800)
Чисті понесені збитки за страховими виплатами	2070	0	0
Валовий: прибуток	2090	1398064	1019414
Валовий: збиток	2095	(0)	(0)
Дохід (витрати) від зміни у резервах довгострокових зобов'язань	2105	0	0
Дохід (витрати) від зміни інших страхових резервів	2110	0	0
Зміна інших страхових резервів, валова сума	2111	0	0
Зміна частки перестраховиків в інших страхових резервах	2112	0	0
Інші операційні доходи	2120	88488	62589
Дохід від зміни вартості активів, які оцінюються за справедливою вартістю	2121	0	0
Дохід від первісного визнання біологічних активів і сільськогосподарської продукції	2122	0	0

Continuation of Appendix F

Дохід від використання коштів, вивільнених від оподаткування	2123	(0)	(0)
Адміністративні витрати	2130	(296579)	(285569)
Витрати на збут	2150	(1111347)	(968802)
Інші операційні витрати	2180	(29144)	(61663)
Витрат від зміни вартості активів, які оцінюються за справедливою вартістю	2181	0	0
Витрат від первісного визнання біологічних активів і сільськогосподарської продукції	2182	0	0
Фінансовий результат від операційної діяльності: прибуток	2190	49482	0
Фінансовий результат від операційної діяльності: збиток	2195	(0)	(234031)
Дохід від участі в капіталі	2200	0	0
Інші фінансові доходи	2220	97691	8604
Інші доходи	2240	430848	0
Дохід від благодійної допомоги	2241	0	0
Фінансові витрати	2250	(314744)	(463655)
Втрати від участі в капіталі	2255	(-381)	(-1060)
Інші витрати	2270	(42861)	(222030)
Прибуток (збиток) від впливу інфляції на монетарні статті	2275	0	0
Фінансовий результат до оподаткування: прибуток	2290	220797	0
Фінансовий результат до оподаткування: збиток	2295	(0)	(910052)
Витрати (дохід) з податку на прибуток	2300	-44217	24809
Прибуток (збиток) від припиненої діяльності після оподаткування	2305	0	0
Чистий фінансовий результат: прибуток	2350	176580	0
Чистий фінансовий результат: збиток	2355	(0)	(885243)