

Kyiv National University of Trade and Economics

Department of Economics and Business Finance

FINAL QUALIFYING PAPER

on the topic:

Investment strategy of an enterprise

based on the data of LLC Auchan Ukraine Hypermarket, Kyiv

Student of the 2nd year, group 3am,
specialty 051 Economics
specialization Financial Management

Yao Serge

Scientific adviser
PhD, Associate Professor

Olena Matusova

Manager of the educational program
PhD, Associate Professor

Olena Matusova

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INTRODUCTION

The relevance of the research. Amidst all the controversial economic policy debates, investment support stands out as a shared priority. It brings together the various schools economic - from supply theorists to Keynesians -, almost all of the political forces, and now for all large companies, including SMEs, have to set a stable development and efficiency target to realize its mean goal of create a profit. This is possible by market requirement to increase efficiency, use good management techniques and implement modern strategies of using technologies in this case investment appears to be the condition for transforming the current economic recovery with strong and sustainable growth. It is a key to job creation and the decline in unemployment.

In modern conditions for effective activity of the enterprise is particularly relevant is the problem of the mobilization and effective use of investments. Investment attractiveness is an integral part of business activity of business entities, including production, innovation, market, marketing and other activity. Formation of investment attractiveness, the development of a clear investment strategy, determining its priorities, to mobilize all sources of investment is critical to sustainable and qualitative development of enterprises in today's challenging environment. It is the process of investing; the firm sets the rhythm of existence in the period before the implementation of the new investment project. The logic of the functioning of the company is presented as follows: investments – the period of growth of fixed costs – the company achieve non-profit development (the threshold of profitability) – capacity-financial stability – new investments.

The conceptual foundations of the essence and theory of investment strategy of enterprise are considered in the scientific works of domestic and foreign economists: M. Ainley, A. Mashayekhi, R. Hicks, A. Ravalia; O. Kirov, F. Alkaraan and D. Northcott, V. Vlosova, R. Ball, P. Brown, J.A. Andersen, G. Arnold, P. Hatzopoulos,

R. Ashkenas, L.J. De Monaco and S.C. Francis. Despite the large number of scientific papers devoted to the problems of development of the company in science there is still no single, common approach to the definition of the essence of the concept of investment strategy of the enterprise and its role in the financial system, that doesn't let to substantiate recommendations for improving the efficiency of management in the company as well as a whole financial resources in particular.

However, there are a number of theoretical and practical problems that remain unresolved both at the level of enterprises in general and at the level of individual branches. These should include the impact of the structure of assets the company onto results of its overall performance.

The purpose of the paper. The **purpose** of the research is to evaluate investment conditions of the enterprise and propose ways of enterprise investment strategy development and improvement.

The following **tasks** were set and solved in the final qualifying paper in order to achieve this goal:

- to identify theoretical aspects of investment strategy of an enterprise;
- to analyze dynamics of volume and structure of assets and liabilities;
- to analyze enterprise investment activity;
- to evaluate enterprise investment strategy effectiveness;
- to analyze the enterprise financial state in the planned period;
- to give proposals of enterprise's performance indicators improvement.

The object of the research is the process of enterprise investment strategy development.

The subject of the research is the theoretical and methodological grounds of enterprise investment strategy development and improvement.

Auchan is a French multinational retail group headquartered in Croix, France. It was founded in 1961 by Gérard Mulliez and is owned by Mulliez Family, which has 95% stake in the company With 354,851 employees, of which 261,000 have 5% stake

in the company, is the 35th largest employer in the world. The holding company, Auchan Holding, includes Auchan Retail International, Ceetrus, which operates shopping centers and Oney, which offers financial services. It operates as Alcampo in Spain, Auchan in Portugal, Ашан in Russia and Ukraine, and through a joint-venture as RT-Mart in China (Auchan brand is also used) and Taiwan.

Methods of the research. The methodological basis of the paper is the dialectical method of knowledge of economic phenomena and processes in their continuous development and interconnection. Research methods were based on general scientific and empirical methodical techniques of economics. During the literature review economic-statistical and mathematical methods of analysis, abstraction techniques were used. Such general theoretical methods of scientific knowledge as synthesis, deduction, induction and other methods were also used. Concerning methodical approaches, according to specific empirical research of selected topics was conducted, among them the most frequently used in the work were calculation and analytical methods of comparison, data grouping, summarizing.

The information base of the paper is laws and regulatory documents, results of investigations of modern scientists, relevant official statistics, Internet resources, financial statements of the business entity.

Practical meaning. The results of the conducted research and the suggested ways of optimization can be taken into account and used by the enterprise in the further decision-making concerning investment strategy of an enterprise.

Approbation. The results of the study were presented at the enterprise for their application and published in the collection of master's articles "Economics and Finance of Enterprise" in an article on the topic: "Investment strategy of an enterprise".

The structure of the final qualifying paper is determined by its purpose and tasks and includes introduction, three chapters, conclusions and proposals, references and appendices. Total amount of pages in the paper is 49 pages.

CHAPTER 1

THEORICAL ASPECTS OF ENTERPRISE INVESTMENT STRATEGY INVESTIGATION

The main aim of investment is to increase the efficiency of operation in market conditions. According to the modern point of view, the result of the investment of funds, regardless of the chosen method, with effective management, should be the increase in the cost of the company and other important performance indicators. Sustainable competitive operation of any modern enterprise is possible only in case of its modernization, active and comprehensive extension activities and the use of the latest technologies, both in production and in management.

The implementation of these activities requires surveying the most affordable (cheap) sources of additional financial resources – investment. Evaluation of investment attractiveness of the company has a very important role, as potential investors are paying the most significant attention to this feature, in most cases, resorting to the study of indicators of financial-economic activity of the enterprise over the last 3-5 years. In addition, for the most correct evaluation of investment of the enterprise, investors make its assessment as part of the industry, and not as any separate entity, comparing it with other firms operating in the industry [35]. Potential investors depends on the economic viability of firms and the degree of stability of their financial condition. These options are one of the most important, because to the greatest extent characterize the investment of an enterprise. However, it is worth noting that even today the methodology of the analysis and evaluation of investment of economic entities have not yet developed enough, and therefore requires further improvement and updating.

Today for almost any niche of business is characterized by an extremely high level of competition. In order to, not only survive in this environment and to take a competitive position, companies have to constantly evolve, adopting international best

practices, mastering new technologies, expanding scope of activities. It is with this dynamic development, comes the understanding that further development is not possible without investment. Thus, the investment gives the company a competitive advantage and often serve as the most powerful means of growth. It is extremely important for investors is the analysis and evaluation of investment of the enterprise as it gives an opportunity to minimize the risk of incorrect investment.

Investments are usually understood as investing in any objects for profit or for achieving a positive social effect [23, p. 86].

The economic nature of this category is to build relationships between participants in the investment process regarding the formation and use of investment resources for the purpose of improving and expanding production.

The category of investment in Western scientific literature is, as a rule, considered in an inseparable unity of the two main aspects: resources (more precisely, capital assets) and investments (costs).

The most obvious way this approach was presented in the works of the famous economist, Nobel laureate J.M. Keynes. So, he under investments meant that part of the income for the current period, which was not used for consumption, as well as the current increase in the values of capital assets as a result of productive activity [14, p. 58].

The term investment was practically not used, since then the administrative-command model of the socialist economy reigned. Thus, more or less widely in scientific terms this term has spread somewhat later.

Investments can also be viewed as a process that, during the reproduction of fixed assets, reflects the movement of their value. In other words, it is a system of economic relations that are associated with a movement of value that has been advanced to fixed assets since the mobilization of cash, until their return.

However, in our opinion, this definition is too narrow.

In the most general form, investment means the investment of capital in order

to increase it in the future. This simple and understandable approach to this definition dominates both in Western and domestic literature.

Under IFRS (International Financial Reporting Standards) leads to the following definition: “Investing is an asset which contains the company for the purposes of building wealth through various income received from the investment object (in the form of dividends, interest and rents), increase the cost of capital of the company, or to receive an investing company other benefits that arise, for example, for long-term trade relations” [11, p. 258]. Thus, in general, investments are investments by an investor of temporarily free capital in a certain object in order to preserve the capital and generate profit or other positive effect.

All investments may be divided into two main groups: real and financial. The financial investment is considered as investment in various financial instruments, primarily in securities. They serve to increase the financial capital of the investor, the receipt of dividends and other income [23, p.85]. The real investment is investing in creating assets that are associated with the implementation of operational (basic) activity of the enterprise, and addressing socio-economic issues [14, p. 57]. More precisely, a real investment should include investment in production. In other words, it is the financial resources that are directed at the development of fixed assets, intangible assets and resource base.

Today the issue of attracting real investment – the question of its survival, the enterprise and the economic system as a whole. The normal functioning of firms, especially large industrial, is not possible without the active involvement of funds from investors. The main purpose of the latter, of course, is the preservation and enhancement of temporarily free capital. Thus the main subjects of investment activity are investors. They can be lenders, customers, investors, buyers, and other participants in the investment process. The investor chooses the investment determines the volumes and the desired efficiency of investment, direction of investment, control the use of attachments, and, of course, acts as the owner created

thanks to the investment activity of the object

A characteristic feature of any investor is to refuse immediate consumption of available tools today, in order to better meet their needs in the future. The main objective of the investor is the most rational choice of investment object. Such a facility should have the most favorable development prospects, but also high efficiency return on investment. The choice of object of investment may not be spontaneous, because before it happens the highly complex process of careful selection, evaluation and analysis of various alternatives, which is the final selection of the object.

The investment strategy is the main action plan of the enterprise in the sphere of its investment activity, which determines the priorities of its directions and forms, the nature of formation of investment resources and the sequence of stages of implementation of long-term investment goals that ensure the effective development of the enterprise. The rating of the investment attractiveness of the enterprise ranges from favorable to unfavorable. A favorable rating promotes active investor activity, stimulates capital inflows, and an unfavorable rating increases the risk for investors by slowing down investment activity [31, p. 185].

The most significant effect on the investment strategy involves the factors of the external environment and their constant changes. Thus, the constant dynamics of macroeconomic and microeconomic factors that directly affect the investment behavior of an enterprise, as well as the acceleration of the scientific-and-technological advance, and as a result, active innovation activities, changes in the technological and financial market condition, the constant changes in the state investment policy do not allow deploying the investment policy in an enterprise effectively only on the basis of its own experience and traditional methods of investment management. The main condition, which confirms the urgency of development and implementation of an active investment strategy at the enterprise, is the possibility of this enterprise to move to a new level of development related to both

the scale of its activity and the efficiency of qualitative and quantitative indicators of its development.

Currently, financial national managers of enterprises face with necessity to make managerial decisions, in particular, regarding investments and uncertainty of the consequences of these decisions.

ation of it in practice. Investment strategy means forming the system of long-term investment goals and choosing the most effective ways to achieve them. To form strategic goals of investment activities one should be based on general objectives of the economic development strategy. Investment objectives should be part of the plan of domestic enterprise development and should be identified during the strategic planning and determination of key areas of the company. Considering the investment objectives one should conduct research on opportunities and risks of investment activities by analysis of the company's investment climate and investment potential [32, p. 16].

Investment strategy as part of the strategic planning of the company includes several stages: risk management; program-targeted planning; development of capital budgets; strategic analysis; strategic management.

There are two types of investment strategies. Active investment strategy provides the investor's ability to predict the behavior of a market and other investors and detect such securities and asset classes that will soon provide the highest yield. The goal of active management is to ensure the effectiveness of investing above average. Passive investment strategy can be used as for the choice of securities and on the distribution of assets. Regarding asset allocation, passive management means maintaining proportions in the investment portfolio, based on terms of return and risk, regardless of the predicted behavior of the stock market. The passive range of securities takes place in case of the absence of access to specific information on their value. The active strategy envisages that within the specified share the decisions of investments may depend on the market conditions prevailing at any given time. It also

may depend on opportunities as for reinvesting funds in objects that are projected to replay the market in the short and medium ranges [25, p. 2]. The aim with active management is to deliver a return that is superior to the market as a whole or, for funds with more conservative investment strategies, to protect capital and lose less value if markets fall. The active investment strategy has several advantages: preferred long-term investment; willingness to brief changes in value investment portfolio; investment portfolio containing stocks, bonds, large corporations and governments [20, p. 65].

The selection of an investment strategy is related to search and evaluation of alternative investment solutions that are most relevant to the purpose of the enterprise and perspectives of its development. There are a number of factors that influence the selection of an investment strategy of the enterprise, namely: stage of the life cycle of the enterprise; general enterprise development strategy; state of foreign and domestic markets of investment resources; investment attractiveness of the enterprise as an investment object and the like [37, p. 69].

The concept of investment attractiveness traditionally associated with the preferences in choosing an object for investment. Investment attractiveness of any object for investment is a combination of the various objective characteristics, capabilities and resources that together constitute a potential effective demand for investment in this investment object [13, p. 34].

Under the investment attractiveness of the enterprise should understand the socio-economic feasibility of investments, which is based on matching opportunities and interests of the investor and recipient (the recipient) investments that ensure the achievement of each of the parties with an acceptable level of risk and return investments [40, p.18].

In simple language, investment attractiveness is a certain set of characteristics and factors of the firm that give rise to the investor to choose her as the object of investment. Investment attractiveness of enterprise is an integrated assessment of the

parties from the standpoint of its performance and prospects.

The main purpose of the analysis and evaluation of investment attractiveness of the company is to determine the appropriateness of investing in a particular object.

The process of formation of investment attractiveness of firms is rather complicated and lengthy. It includes the following main stages:

1) preparation of the general characteristics of the firm, as well as the analysis of its level of economic development:

a) analysis of the financial condition of the company involves determining the value of an asset of the company, analysis of its structure, the assessment of the amount and composition of intangible and non-current assets;

b) assessment of production potential of the company, the essence of which is to determine the production capacity of the company and their growth potential, level of depreciation of equipment and production technology, and the need for modernization;

c) determining the level of development of management in the enterprise (personnel capacity) – analysis of provision of employees of the company, assessment of their qualifications;

d) analysis of innovative potential of the company involves the analysis of presence and use in the production of new technologies and innovation;

2) assessment of market potential also the competitiveness of produced commercial products:

a) the definition of market capacity and its share in the firm (analysis of firms operating in the industry, competitive environment, identifying strengths and weaknesses, identifying promising ways to consolidate positions of the enterprise market and its future growth);

b) assessment of the quality and competitiveness of produced goods (compare the quality of products available on the market similar to, quality assessment and identification of competitive advantages, the search for optimal ways to increase the

competitiveness of goods);

c) analysis of pricing policies of the company;

3) analysis of the financial condition of the company and financial results:

a) assessment of the financial condition of the company involves primarily the implementation of the analysis of financial stability, solvency and liquidity, as well as the analysis of business activity and profitability) analysis of the financial results of the company includes the assessment of the effectiveness of ,and prospects for further development of the company.

The level of development of the enterprise contains a range of important economic indicators and investment discloses mainly the state of the object of investment, the prospects for its growth and profitability and, as a result of further development. During the analysis of the investment of an enterprise, the investor should assess not only the profitability and stability of the object, but also any potential risks that may arise.

In assessing the investment attractiveness of the company considers the following aspects: the attractiveness of the company's products, personnel, innovation, financial, territorial, social attractiveness [13, p. 33].

The analysis of the attractiveness of the company's products for any investor is its competitiveness on the domestic and foreign market. Competitiveness is a multidimensional indicator, term of the following factors:

- analysis of the level of product quality - compliance with national and international standards, the availability of international certificates of product quality, reliability, durability, conformity to fashion, etc.;

- analysis of the level of prices of the products, its correlation with the competitors ' prices and prices of substitute products;

- analysis of the level of diversification, i.e. diversity of the firm, its ability to survive in conditions different of the profitability of the manufactured products.

A composite indicator analysis of competitiveness and its attractiveness to

foreign investors is price. It is influenced by supply and demand and may indirectly

The analysis of enterprise personnel attractiveness is characterized by three terms:

- business qualities of the head and his “team”;
- quality “personnel core” (personnel of higher qualification);
- the quality of the staff as a whole.

Analysis of innovative attractiveness of enterprise is the effect of medium- and long-term investments in innovation in the enterprise. In the analysis of innovative attractiveness of enterprise is taken into account that:

- strategy for technical development of production as the basis for all innovations;
- program of the investment industry from a variety of sources.

The relevance of the development of the investment strategy of the enterprise in the current economic crisis conditions is due primarily to significant changes that have occurred and are occurring in the external environment of business entities. In such circumstances it becomes impossible to manage the investment activity of enterprises only by using the traditional theoretical and methodological foundations of investment management. It is necessary to develop the basics of adaptive management of this area of activity of the enterprise.

The growth of uncertainty in the context of periodic global financial and economic crises causes an increase in the role of investment strategy in ensuring the effective development of the enterprise. The process of developing an investment strategy is an important part of the overall system of strategic management of the enterprise. Taking into account the relationship of investment strategy with other components of the strategic set of the enterprise will significantly increase the effectiveness of its development. The formation of the investment strategy should be based on a comprehensive analysis of the features of the external economic and legal environment, the specifics of the industry and the internal features of the enterprise.

CHAPTER 2

INVESTIGATION OF LLC AUCHAN UKRAINE HYPERMARKET INVESTMENT STRATEGY

2.1. Analysis of dynamics of volume and structure of assets and liabilities

Over 55 years, the French company has been creating a history of everyday life, fuelled by their passion for service, products and customer satisfaction and they are inventing next-generation retailing the world over. In 1960s, launch in the north of France a year later, Gerard Mulliez opened the first Auchan in the Roubaix, naming the company after the “Hauts Champs” neighborhood where it was located. The first Auchan hypermarket opened in Roncq (North France). Since 1980s it start the international expansion with the first store opened in Spain. In 1983, the robin nesting in Auchan’s became the company’s symbol. There was the birth of “Vie Auchan” and 1996 was a year of historic growth with 3 key events:

- Acquisition of Docks de France, the company that owned the Mammouth hypermarkets and Atac supermarkets in France, and Sabeco supermarkets in Spain.
- Acquisition of Pao de Açucar, the owner of the Jumbo stores in Portugal.
- Opening of the first hypermarkets in Poland and Luxembourg.

The first Auchan hypermarket was opened And it in 2008 in Kyiv.

Operating in 19 countries and 3 continents, Auchan Holding combines 3 companies each working in complementary lines of business: Auchan Retail, trading in all forms of useful everyday consumer goods, Oney in banking to finance consumer buying, and Ceetrus in commercial real estate hosting our customers in modern and welcoming locations. Each business strives to strengthen its position in its core market through an economic and responsible approach while pursuing profound transformations to achieve an ambitious and meaningful vision for the future. Auchan Holding is supporting these 3 in-depth, demanding but vital transformations through

the engagement of its 358,914 employees, who are proud of this unique experience in their company's history.

Auchan Retail combines all formats of the food trade with 4,084 banner sales outlets (hypermarkets, superstores, supermarkets and convenience stores), plus in some countries the welcome addition of e-commerce and drive-throughs. To build an all-powerful and modern business and change the lives of its customers, Auchan Retail's every move is totally customer-centred and focused on discount prices, a wide range of choices, high quality service, adjustment to local markets, and full consideration for multichannel shopping habits. With 354,851 employees, the company is the world's 35th largest employee.

At 31 December 2018, Auchan Retail operated in 14 countries through 963 hypermarkets, 1,041 convenience stores and 530 ultra-convenience stores. The consolidated store network at 31 December 2018, excluding the drive outlets, breaks down as follows:

Table 2.1

Representation of LLC Auchan Ukraine in different countries

Country	Hypermarkets	Convenience stores	Ultra-convenience stores
France	119	412	10
Italy	46	232	79
Spain	60	82	51
Portugal	29	5	
Luxembourg	1	5	
Poland	74	27	6
Hungary	19	5	
Romania	31	4	19
Ukraine	20	8	
Russia	62	231	12
Senegal	0	12	15
Mainland China	484	1	310
Vietnam	1	17	3
Taiwan	18		4
TOTAL	964	1041	530

CEETRUS engaged in a transformation process since 2018 and driven by its

Vision 2030 plan, Immochan was renamed Ceetrus in June 2018. Evolving from commercial property to a mixed-use retail estate developer, Ceetrus's mission is to contribute to developing the social bond that will drive the city of the future through the creation of sustainable, smart and lively places to live and shop. This evolution is taking shape primarily on existing commercial sites. With the aim of enhancing their value and attractiveness to contribute to the success of its traders and partners, Ceetrus reinvents commercial sites by integrating housing, offices, leisure and urban infrastructure. Keeping a close eye on the city, the company also works with new programs to provide each region with a comprehensive and tailored urban solution. The company has 1,124 employees.

ONEY is positioned as a different, one-of-a-kind bank with a commercial background. Oney relies on an original positioning and expertise developed over more than 35 years to create payment solutions and innovative financial services. Every day, nearly 3,000 talents around the globe reinvent the bank, working for a more human relationship with the mission of "giving everyone the freedom to be and act". With 400 business and e-commerce partners, Oney supports the project's completion of over 7.6 million customers around the globe by offering memorable shopping experiences in-store and online.

Non-current assets are defined as anything not classified as a current asset. The main line items in this section are long-term investments; property, plant, and equipment; and goodwill and other intangible assets (table 2.2).

The Auchan's inventory represents a significant proportion of its current assets, and so should be carefully examined. Since inventory requires a real investment of precious capital, the company will try to minimize the value of a stock for a given level of sales, or maximize the level of sales for a given level of inventory.

According to the table, we can see an increasing of the non-current assets by 0.06 from 2017 to 2018 and 0.18 to 2019. These increasing are due to the significant amount of investment of capital by Auchan in order to squeeze as much sales revenue

out of them as possible. This indicates how efficiently Auchan is doing to get a competitive advantage on the retail market.

Table 2.2

Dynamics of assets volume of LLC Auchan Ukraine, 2017-2019, ths. UAH

Indicators	2017 year	2018 year	2019 year	Absolute deviation 2018 / 2017	Absolute deviation 2019 / 2018	Growth rate, % 2018 / 2017	Growth rate, % 2019 / 2018
Non-current assets	386621	410363	485315	23742	74952	6	18
Current assets	810959	1111539	1229307	300580	117768	37	11
- stocks	436584	563075	733762	126491	170687	29	30
-receivables	82979	130603	248921	256325	118318	57	91
- cash	283585	196331	180360	-17250	-15971	-31	-8
- other current assets	7533	6031	22245	1235	16214	-20	2,69
Total assets	2008261	2417942	2899910	696582	481968	20.3	19.3

According to the table, we can see an increasing of the non-current assets by 386621 from 2017 to 410363 and 485315 to 2019. These increasing are due to the significant amount of investment of capital by Auchan in order to squeeze as much sales revenue out of them as possible. This indicates how efficiently Auchan is doing to get a competitive advantage on the retail market, at the same time we notice improvement of the current asset with an decreasing of 0.37 and 0.11 respectively from 2017 to 2018 and 2018 to 2019. It is really important for the company because they indicate how much cash it essentially has access to within the next 12 months outside of third-party sources. It is indicative of how well Auchan's funds are ongoing, day-to-day operations, and how liquid it is.

However, the company encountered a negative cash balance in 2018 which reflects poor timing of income and expenses. But it has strived to correct it in 2019

with the cash of 180360.

The figure 2.1 the increasing of the total assets of Auchan during the passed three years. As the total assets is always equal total liabilities plus total equity. Thus, if the assets increase from one period to the next, we know that the company's liabilities and equity increased by the same amount. Now, let's analyzed the liability of the company to understand its formation.

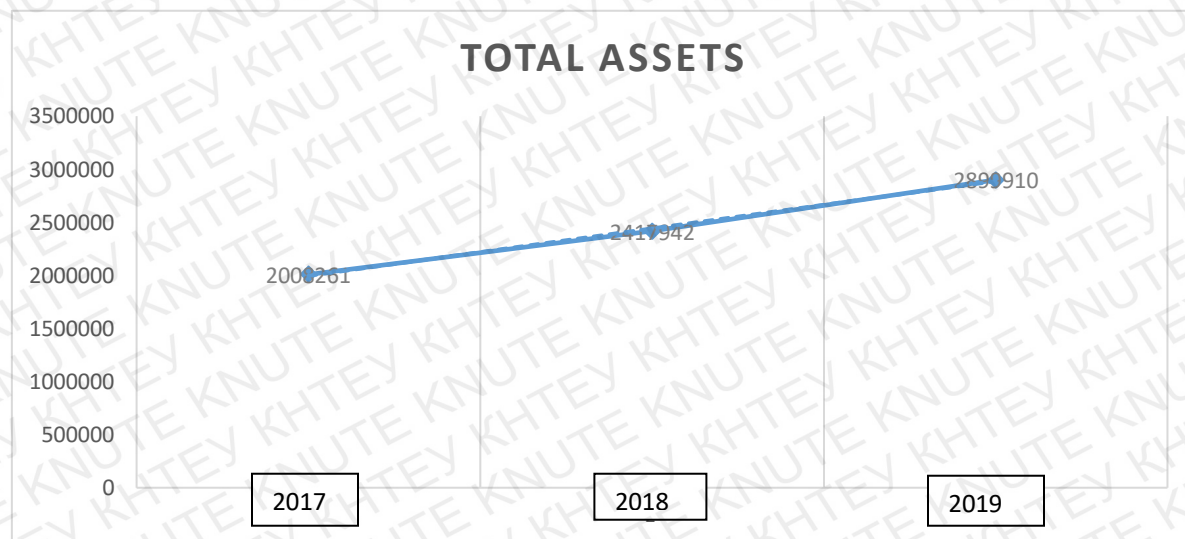


Fig. 2.1. Dynamics of assets of LLC Auchan Ukraine, 2017 – 2019

This table 2.3 shows us a clear view of the dynamic Auchan's equity and debts.

Table 2.3

Dynamics of the liabilities volume of LLC Auchan Ukraine, 2017-2019, ths. UAH

Indicators	2017 year	2018 year	2019 year	Absolute deviation 2019 / 2018	Absolute deviation 2018 / 2019	Growth rate, % 2019 / 2018	Growth rate, % 2018 / 2019
Equity	-86158	-371318	-571025	-285160	-199707	3,31	54
Long-term liabilities and ensuring	201893	395482	603405	193589	207923	96	053
Current liabilities and ensuring	1081845	1497738	1682242	415893	184504	38	12
Balance	1197580	1521902	1714622	324322	192720	27	13

By simple, view we can see that the equity goes from negative to negative value. It means that the total liabilities of the company are more than value of its total assets during the period of 2017 – 2019 and the reasons for such negative balance may include accumulated losses, large dividend payments, large borrowing for covering accumulated losses. This scenario is not good sign for Auchan as it could lead to some difficulties in getting further funds either through loans or equity and also may be classified as per laws as a sick company. However, every year from 2017, the company's long term and short term debts increase progressively. Our table indicates 0.96 increase of long term liability from 2017 to 2018 and also 0.53 increase from 2018 to 2019. Which means that Auchan is financing its assets with debts instead of using equity. However, carrying a high level of long-term debt can present risks and financial challenges to the ability to thrive over time. We also assist of the increasing of the current liabilities that shows how good Auchan is able to manage its credit term with the third parties.

The figure 2.2 is a clear picture of the structures of the formation of company's liability.

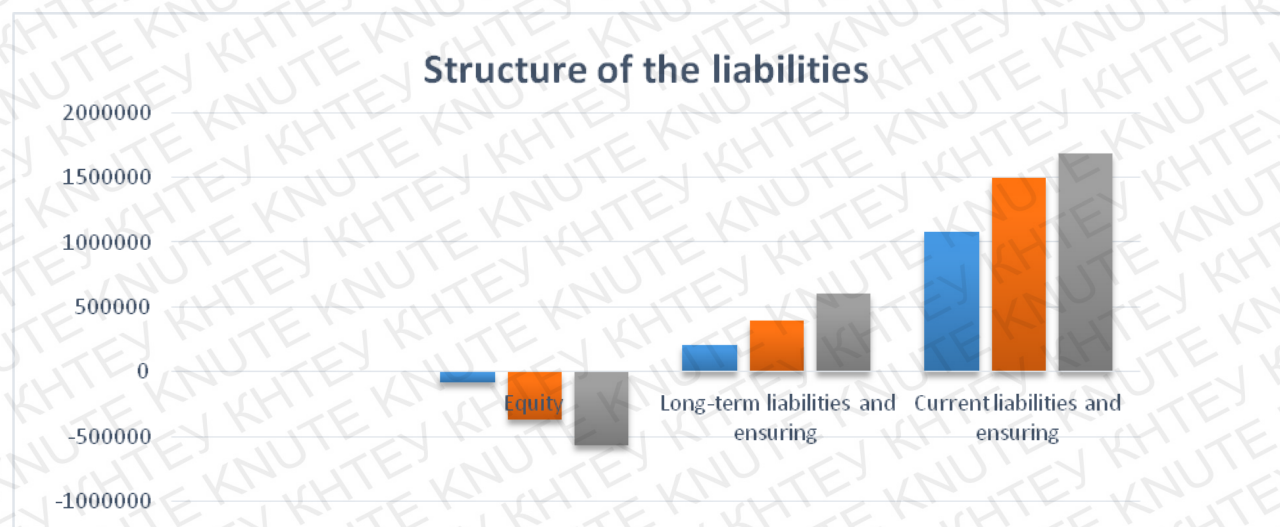


Fig. 2.2 Dynamics of LLC Auchan Ukraine liabilities, 2017 – 2019

The current assets accounted for the largest share of the capital structure during the analyzed period, with inventories 36.46% and Current biological assets at 36.46%

in 2017, to 2018 this situation increase in 2019 for inventories to 42.79% and Current biological assets to 42.79% - Money and cash equivalents 22.94%, in 2017 and decrease to -25.95% in 2018 it mean the company was in lack of liquidity at the period of 2018 this situation was provoke by the negative amount of cash. We can also see an increase for advances paid though out the three period (table 2.4).

Table 2.4

Dynamics of assets structure of LLC Auchan Ukraine, 2017-2019, %

Analysis	2017	2018	2019	Absolute deviation 2019/2018	Absolute deviation 2019/2018
non-current asset					
Intangible assets:	0.96	3.05	2.70	2.09	-0.35
initial value	1.94	4.40	4.16	2.46	-0.24
accumulated depreciation	0.98	1.34	1.46	0.36	0.11
Incomplete capital investments	4.41	2.12	2.97	-2.30	0.86
Fixed assets:	19.22	9.54	17.92	-9.68	8.38
initial value	45.92	42.54	42.94	-3.38	0.39
Depreciation	26.70	26.43	25.02	-0.27	-1.42
Long-term receivables	7.69	5.68	4.71	-2.01	-0.97
II. Current assets					
Inventories	36.46	37.00	42.79	0.54	5.80
Current biological assets	36.46	37.00	42.79	0.54	5.80
Accounts receivable for products, goods, works, services	3.87	6.15	9.18	2.28	3.03
for advances paid	0.34	0.68	1.93	0.34	1.25
with a budget	1.93	1.32	3.21	-0.61	1.89
including income tax	1.92	1.28	1.19	-0.64	-0.09
Other current receivables	0.81	14.59	2.76	13.78	-11.83
Money and cash equivalents	22.94	-25.94	15.10	-48.88	41.04
Prepaid expenses	0.80	0.57	0.53	-0.24	-0.04
Other current assets	0.63	0.40	1.30	-0.23	0.90
Balance	100.00	100.00	100.00		

The Auchan's inventory represents a significant proportion of its current assets, and so should be carefully examined. Since inventory requires a real investment of precious capital, the company will try to minimize the value of a stock for a given level of sales, or maximize the level of sales for a given level of inventory.

According to the table, we can see an increasing of the non-current assets by 0.06 from 2017 to 2018 and 0.18 to 2019. These increasing are due to the significant amount of investment of capital by Auchan in order to squeeze as much sales revenue out of them as possible. This indicates how efficiently Auchan is doing to get a competitive advantage on the retail market.

At the same time we notice improvement of the current asset with an decreasing of 0.37 and 0.11 respectively from 2017 to 2018 and 2018 to 2019. It is really important for the company because they indicate how much cash it essentially has access to within the next 12 months outside of third-party sources. It is indicative of how well Auchan's funds are ongoing, day-to-day operations, and how liquid it is.

Thinking of receivables as bills that a company sends its customers for goods or services it has provided but for which the customer has not yet paid but is expected to pay within the next year. Keep an eye on accounts receivable in relation to Auchan's sales. The accounts receivable are growing a bit faster than sales, it means a company is doing an ideal job collecting the money it is owed. But this difference could potentially be a sign of trouble because the company may be offering looser credit terms to increase its sales, it may have difficulty ultimately collecting the cash it's owed. But yet, Auchan's credit terms is convenient, at the expense of sales.

This table shows us a clear view of the dynamic Auchan's equity and debts (table 2.5). By simple, view we can see that the equity goes from negative to negative value. It means that the total liabilities of the company are more than value of its total assets during the period of 2017 – 2019 and the reasons for such negative balance may include accumulated losses, large dividend payments, large borrowing for covering accumulated losses. This scenario is not good sign for Auchan as it could lead to some difficulties in getting further funds either through loans or equity and also may be classified as per laws as a sick company. However, every year from 2017, the company's long term and short term debts increase progressively. Our table indicates 0.96 increase of long term liability from 2017 to 2018 and also 0.53 increase

from 2018 to 2019.

Table 2.5

Dynamics of the liabilities structure of LLC Auchan Ukraine, 2017-2019, %

Analysis	2017	2018	2019	Absolute deviation 2019/2018	Absolute deviation 2019/2018
Equity					
The registered capital	52.55	17.97	15.39	-34.58	-2.58
Retained earnings (uncovered loss)	-59.18	28.31	29.08	87.49	0.78
Unpaid capital	0.49	0.16	0.14	-0.32	-0.02
Long-term bank credits	16.52	11.14	14.53	-5.37	3.39
Other long-term liabilities	0.17	0.03	0.08	3.56	0.05
Current liabilities and ensuring					
Short-term bank credits	10.80	3.02	0.78	-7.79	-2.24
for goods and services	28.90	18.95	19.47	-9.95	0.52
for payments to budget	2.06	0.30	1.07	-1.75	0.77
for payments of wages	0.03	0.02	0.00	-0.01	-0.02
Current ensuring	46.18	19.32	17.62	-26.86	-1.70
Other current liabilities	1.44	0.72	1.78	-0.72	1.06
Balance	100	100	100		

Which means that Auchan is financing its assets with debts instead of using equity. However, carrying a high level of long-term debt can present risks and financial challenges to the ability to thrive over time. We also assist of the increasing of the current liabilities that shows how good Auchan is able to manage its credit term with the third parties.

2.2 Analysis of enterprise investment activity

The French company has diversified its portfolio in different continents in order to build an all-powerful and modern business and change the lives of its customers. However, it operates with a low proportion of assets that are financed by the stockholders with a high capitalization ratio by using long term liabilities. Therefore, its return on equity indicates a low profitability and weak financial position of the

company and cannot cover potential investors into actual common stockholders.

The cash flow is useful in measuring how effectively Auchan manages its cash from investing activities, or day-to-day investing expenses, and its financing activities, how debt and equity is managed (table 2.6).

Table 2.6

Dynamics of cash flow from investment activity of LLC Auchan Ukraine, 2017-2019, ths. UAH

Indicators	2017 year	2018 year	2019 year	Absolute deviation 2018 / 2017	Absolute deviation 2019 / 2018	Growth rate, % 2018 / 2017	Growth rate, % 2019 / 2018
Inflows: selling non-current assets	64434	41206	8926	-23228	-32280	-5.63%	-36.16%
Outflows: buying non-current assets	205786	194809	80422	-10977	-114387	-1.3%	-14.42%
Net cash flow from investment activity	-141352	-153603	-71496	-294955	-225099	-41.12%	-31.48%

In this table the inflows were decreased during the 3 years also the outflows decreased too but not in the same proportion, Cash flow from investing activities involves long-term uses of cash. The purchase or sale of a fixed asset like property, plant, or equipment would be an investing activity. Also, proceeds from the sale of a division or cash out as a result of a merger or acquisition would fall under investing activities, Auchan net cash flow from investment from 2017 to 2019 were negative because Auchan invests only into non-current assets without financial investment.

The cash flow statement is one of the three main financial statements that show the state of a company's financial health.

Cash flow from investing reflects Auchan purchases and sales of capital assets (table 2.7). CFI reports the aggregate change in the business cash position as a result

of profits and losses from investments in items like plant and equipment. These items are considered long-term investments in the business.

Table 2.7

Dynamics of cash flow from financial activity of LLC Auchan Ukraine, 2017-2019, ths. UAH

Indicators	2017 year	2018 year	2019 year	Absolute deviation 2018 / 2017	Absolute deviation 2019 / 2018	Growth rate, % 2018 / 2017	Growth rate, % 2019 / 2018
Inflows: Loans	27987900	26377580	20812539	-1610320	-5565041	-6.10	-26.74
Outflows: Loans	28004350	26486594	20399295	-1517756	-6087299	-5.73	-29.84
interests	107294	54189	73377	-53105	19188	-98.00	26.15
Net cash flow	-123744	-163203	339867	-39459	503070	24.18	148.02

Cash flow from financing activities is a section of Auchan 's cash flow statement, which shows the net flows of cash in 2017 is negative we contact the same in 2018, result in increase in 2019 to reach 339867. Financing activities include transactions involving debt, equity, and dividends.

Cash flow from financing activities provides investors with insight into a company's financial strength and how well a company's capital structure is managed.

Auchan has very low equity ratio according to the table, the equity ratio of Auchan has decreased from 2017 to 2019 by -17% it means that the part of the asset financing by equity is less than part of asset financed by debt. We observe a slight increasing of the portion of equity in 2017 by -9%. The general observation of Auchan's equity during 3 years shows that the company is using debts instead of its own resources to finance the asset. It has been demonstrated by the negative equity ratios. Therefore, the company is considered to be leveraged company. Auchan pay more interest on rather than dividends to stockholders (table 2.8).

The debt ratio shows that debts of Auchan are above the standard which is 1. It simply means the company's financial health is does not follow the normal indication.

The debt ratio of Auchan increasing from 2017 to 2018 gradually by 17% and by 9% in 2017. That means Auchan has high insolvent risk since excessive debt can lead to a heavy debt repayment burden.

Table 2.8

Financial stability indicators of LLC Auchan Ukraine, 2017-2019

Indicators	2017 year	2018 year	2019 year	Absolute deviation 2018 / 2017	Absolute deviation 2019/ 2018
Equity Ratio	-0,07	-0,24	-0,33	-0,17	0,58
Debt Ratio	1,07	1,24	1,33	0,17	0,09
Capitalization Ratio	1,74	16,37	18,64	14,62	2,27
Accounts Payable-to-Accounts Receivable Ratio	4,73	5,42	3,71	0,69	-1,71

The capitalization ratio of Auchan increased rapidly by 1.74 in 2017, by 16.37 in 2018 and 18.64 in 2019 this high increasing means that Auchan losing its ability of borrowing money in the future. It is considered to be risky as there are risks of insolvency if they fail to repay their debt on time.

Accounts Payable-to-Accounts Receivable Ratio measurement of short-term liquidity used to quantify the rate at which Auchan pays off its suppliers. The Accounts Payable-to-Accounts Receivable Ratio shows that Auchan pays off its suppliers 4.73 times in 2017 and has passed from 5.42 in 2018 to 3.71 in 2017. This is due to the good negotiation of the credit by company with its suppliers. It demonstrates the efficiency of Auchan in credit term management to paying off its suppliers and short-term debts.

Analysis of turnover indicators of LLC Auchan Ukraine could be done based on the following indicators (table 2.9).

The asset turnover ratio is an efficiency ratio that measures a company's ability to generate sales from its assets by comparing net sales with average total assets. In the case of Auchan, we could see from the table that Asset Turnover is

progressively decreasing during the pass three (3) years. The asset turnover ratio shows 5.38; 5.57 and 5.82 for respectively 2017; 2018 and 2019. Which means that every \$1 worth of assets in 2018 generated \$5.38 worth of revenue and every \$1 worth of assets in 2017 generated \$5.82 worth of revenue. This decreasing by 0.18 percent from 2017 to 2018 and 0.26 from 2018 to 2019 reflects the inefficient management of assets by the company and production or management problems.

Table 2.9

Turnover indicators of LLC Auchan Ukraine, 2017-2019

Indicators	2017 year	2018 year	2019 year	Absolute deviation 2018 / 2017	Absolute deviation 2019 / 2018
Asset Turnover	5,38	5,57	5,82	0,18	0,26
Inventory Turnover	12,79	10,36	9,91	-2,44	-0,44
Accounts Receivable Turnover	121,35	120,54	78,36	-0,81	-42,18
Accounts Payable Turnover	15,14	15,96	10,94	0,82	-5,03
Days Inventory Outstanding (Days Sales of Inventory)	2,56	2,54	3,85	-0,03	1,32
Cash Conversion Cycle	-21,21	-20,01	-29,06	1,20	-9,04

The inventory turnover is also decreasing by -1.60 percent from 2018 to 2019. The company where able to sell 8.11 times its total average inventory dollar amount during 2018 and 6.51 times in 2019. Even though, the company is facing the decrease, the rate restock items is still well balanced with your sales.

The account payables turnover ratio has significantly decreased during the period of 2017 – 2017 from 15.14 times in 2017 to 15.96 times in 2018 and 10.94 in 2019 which indicates that a company is taking longer to pay off its suppliers than in previous periods. Alternatively, this decreasing ratio could means that the company has negotiated different payment arrangements with its suppliers.

The company has a negative cash conversion cycle during these period of time, it means that it needs less time to sell its inventory and receive cash from its customers compared to time in which it has to pay its suppliers of the inventory as result of the increasing of the days inventory outstanding.

2.3 Evaluation of enterprise investment strategy effectiveness

To analyze the investment strategy efficiency it is necessary to evaluate liquidity and profitability indicators and level of financial risk by assessing balance liquidity (table 2.10).

Table 2.10

Balance sheet liquidity analysis of LLC Auchan Ukraine in 2017, thousands UAH

Assets	At the beginning of the year	At the end of the year	Liability	At the beginning of the year	At the end of the year	Surplus (+), shortage (-) at the beginning of the year	Surplus (+), shortage (-) at the end of the year
A 1. The most liquid assets	284316	-386207	L 1. The most urgent obligations	1081845	1497738	797529	1468052
A 2. Quick-selling assets	810959	1111539	L 2. Short-term liabilities	130735	106861	680224	-1004678
A 3. Slow-selling assets	46308	93560	L 3. Long-term liabilities	199825	394214	153517	300654
A 4. Hard-to-sell assets	386621	410363	L 4. Permanent liabilities	-86158	-371318	-472779	-781681
Total	1528204	1229255	Total	1326247	1627495	1158491	-17653

The most liquid assets has significantly decreased from the beginning of 2017 at the end of the same period but the most urgent obligations how increased too which indicates that a company has not enough a liquidity to face the most urgent obligation without selling anything.

The company's short-term liabilities has decreased very important at the end of the period compare to the beginning of the period the same for quick-selling assets so company can cover the Short-term liabilities at the beginning of the year and also the end of the year. But for the long-term liabilities of the company has increased a long term debt and increased the Slow-selling assets from the beginning to the end of the year in this case the company need to increase more the Slow-selling assets to cover the rest of the long-term liabilities concerning the permanent liabilities the result is negative because the company equity is negative for 2017 period.

The most liquid assets indicator is an efficiency ratio that measures a company's ability to generate fast liquidity from its assets by comparing hard-to-sell assets. In the case of LLC Auchan, we could see from the table that The most liquid assets is negative in beginning of the years it is mean in 2018 the company doesn't have enough cash but at the same time the Quick-selling assets progressively increasing during the pass two years. The most urgent obligations at the beginning of the year are more important than the most liquid assets at the same period and that situation in increasing at the end of the year.

The quick-selling assets are also increasing by 0.9 percent from beginning of the 2018 to the end of the same year. The company where able to get back quick-selling assets at the end of the period because at the same period the short-term liabilities is very small. Even though, the company is facing the decrease, the permanent liabilities rate and the hard-to-sell assets in increasing at same period than mean the company doesn't have enough resources to cover the hard-to-sell assets (table 2.11).

Table 2.11

Balance sheet liquidity analysis of LLC Auchan Ukraine in 2018,
thousands UAH

Assets	At the beginning of the year	At the end of the year	Liability	At the beginning of the year	At the end of the year	Surplus (+), shortage (-) at the beginning of the year	Surplus (+), shortage (-) at the end of the year
A 1. The most liquid assets	-386207	267978	L 1. The most urgent obligations	1497738	1682242	-1111531	1414264
A 2. Quick-selling assets	1111539	1229307	L 2. Short-term liabilities	106861	32484	1004678	-1196823
A 3. Slow-selling assets	93560	157406	L 3. Long-term liabilities	394214	600017	300654	-442611
A 4. Hard-to-sell assets	410363	485315	L 4. Permanent liabilities	-371318	-571025	-781681	-1056340
Total	1229255	2140006	Total	1627495	1743718	-587880	-128/1510

The most liquid assets have significantly increased from the beginning of 2019 at the end of the same period the same for the most urgent obligations how increased too which indicates that a company has a liquidity to face the most urgent obligation without selling anything

The company's short-term liabilities has increased very important at the end of the period compare to the beginning of the period the same for Quick-selling assets so company can cover the Short-term liabilities at the beginning of the year and also the end of the year. But for the long-term liabilities of the company has decreased a long term debt and increased the Slow-selling assets from the beginning to the end of the year in this case the company need to increase more the Slow-selling assets to cover the rest of the long-term liabilities concerning the permanent liabilities the result is

negative because the company equity is negative for 2019 period (table 2.12).

Table 2.12

**Balance sheet liquidity analysis of LLC Auchan Ukraine in 2019,
thousands UAH**

Assets	At the beginning of the year	At the end of the year	Liability	At the beginning of the year	At the end of the year	Surplus (+), shortage (-) at the beginning of the year	Surplus (+), shortage (-) at the end of the year
A 1. The most liquid assets	267978	345738	L 1. The most urgent obligations	1682242	2740462	1414264	2394724
A 2. Quick-selling assets	1229307	2289062	L 2. Short-term liabilities	32484	751741	-1196823	-3485885
A 3. Slow-selling assets	157406	243863	L 3. Long-term liabilities	600017	339886	-757423	96023
A 4. Hard-to-sell assets	485315	427140	L 4. Permanent liabilities	-571025	-369755	-1056340	-796895
Total	2140006	3305803	Total	1743718	3462334	-1596322	-1792033

The financial information of an enterprise can be assessed using a number of absolute and relative indicators.

The absolute measure of investment strategy of the enterprise is the concept of own working capital.

$$WC = E - LTA \quad (2.1)$$

where E – equity;

LTA – long-term assets.

$$WC_{2017} = -221\,961 - 1\,101\,851 = -1\,323\,812$$

$$WC_{2018} = -133\,536 - 1\,404\,799 = -1\,538\,335$$

$$WC_{2019} = 870\,446 - 2\,394\,722 = -1\,524\,276$$

As the availability of own working capital, especially its positive value, is a minimum condition for financial stability, we see that this condition is not reached for Auchan group retail in 2017-2019, which indicates a violation of the financial stability of the enterprise.

The results of the comparison of the above values are shown in Table. 2.13.

Table 2.13

**Determination of the type of financial stability
of LLC Auchan Ukraine in 2017-2019**

Indicator	01.01.2017	01.01.2018	01.01.2019	01.01.2020
Working capital	-1 303 568	-1 323 812	-1 538 335	-1 524 276
Inventories	155 372	30 120	7 866	31 780
Working capital + Long-term liabilities	-559 273	-553 223	-1 525 985	-1 496 646
Working capital + Long-term liabilities + Current liabilities	947 721	916 099	462 091	388 758
Type of financial sustainability	947 721 > 155 372 unstable	916 099 > 30 120 unstable	462 091 > 7 866 Unstable	388 758 > 31 780 Unstable

As inventories can only be financed through the use of equity, long-term and short-term borrowed funds, the financial position of the enterprise can be called volatile, since it depends excessively on external sources of financing.

In this case, financial sustainability can be considered eligible if one of the following conditions is fulfilled:

- 1) if the value of inventories and finished goods exceeds the volume of short-term bank loans and borrowings at the expense of which inventories are formed;
- 2) if the working capital exceeds the cost of work-in-process production and deferred expenses.

In 2018, the value of inventories is 30 120 thousand and bank loans 1 945 thousand, in 2017 inventories amounted to 7 866 thousand and there were no loans from banks, in 2018 inventories amount to 31 780 thousand and loans 2 thousand, that is, we see that this condition is fulfilled. However, the second condition cannot be fulfilled, since the value of working capital is negative, and therefore cannot exceed the value of work-in-process production. In view of this, the current state of financial sustainability is not acceptable, so management should pay attention to addressing these problems, since there is still room to restore financial solvency and become more financially independent.

We also analyze the financial sustainability of an entity on the basis of the ratios calculated in accordance with the balance sheet and income statement. The main such ratios include equity ratio, ratio of provision of inventories with own working capital, leverage ratio, current assets to equity ratio, concentration ratio of borrowed capital, financial stability ratio, ratio of the real value of fixed assets and a number of other results, which are given in table 2.14.

The equity ratio shows that in 2018 and 2017 the company finances its own assets only through borrowing capital. During 2017-2018, this figure becomes negative due to the negative value of equity. The presence of uncovered loss does not make it possible to fully finance the assets, since it is first necessary to repay the loss. Only in 2017, the indicator is positive and is 0,31 that is 31% of assets the company finances at the expense of its own financial resources. This value is lower than the recommended one, however, can predict a positive trend by increasing equity with every net profit and reinvesting it in economic activity. Low levels of equity ratio entail significant financial costs - interest payments and borrowing costs, and consequently significant financial risks.

The leverage ratio acquires very high values, which indicate high financial risks, and it is possible to reduce the value of this indicator only by increasing the amount of equity. In 2019 1,2 of own funds amounts to 3,20 of attracted funds, which exceeds

the regulatory value.

Table 2.14

Financial sustainability indicators of LLC Auchan Ukraine for 2017-2019

Indicator	01.01. 2017	01.01. 2018	01.01. 2019	01.01. 2020	Deviation			Recommended value
					2017	2018	2019	
Equity ratio	-0,17	-0,11	-0,07	-0,33	0,06	0,04	0,38	>0,5
Leverage ratio	-5,99	-9,09	-13,98	3,20	-3,10	-4,89	17,18	1,67-2,5
Financial stability ratio	0,22	0,27	-0,06	0,32	0,05	-0,34	0,39	0,7-0,9
Equity to debt ratio	-0,14	-0,10	-0,07	-0,46	0,04	0,03	0,52	>1
Maneuvering ratio	4,05	5,96	11,52	-1,75	1,92	5,56	-13,27	>0,1
Concentration ratio of borrowed capital	1,17	1,11	1,07	0,69	-0,06	-0,04	-0,38	0,4-0,6
Ratio of the real value of fixed assets	0,19	0,18	0,20	0,48	-0,01	0,02	0,27	>0,2
Ratio of provision of inventories with own working capital	-8,39	-43,95	-195,6	-47,96	-35,56	-151,6	147,6	>0,5

The financial stability ratio as an indicator of the financial solvency of Auchan group retail in the long term shows that the value of the ratio is lower than the recommended value in 2017-2018, and there is a high risk of losing financial solvency if short-term borrowing sources are not available. Again, this can be increased by increasing equity of the company.

Equity plus long-term debt to total assets ratio is increasing every year, but in 2014 and 2018 the figure is below zero due to the uncovered loss and the negative equity value. In 2017, the this ratio is equal to 0,46 which is lower than the recommended level, so there are significant risks of being insolvent as for 1 of borrowed funds is only 0,46 of own funds.

Current assets to equity ratio has a heterogeneous trend throughout 2017-2019. The negative value of working capital shows that all funds are directed to financing non-current assets, and all working capital is financed solely by borrowing capital, which increases financial risks and reduces the level of financial stability.

Concentration ratio of borrowed capital shows that during 2014 and 2018, assets are financed through current and long-term liabilities, and the enterprise also has debt. The situation is changing in 2017, when assets are 70% funded by borrowing capital. Such an indicator is higher than recommended, and accordingly the financial risks are higher and the level of leverage is generally high. Increasing the value of equity by reinvesting profits and raising additional capital by the owners will solve this problem.

We also evaluate the financial sustainability by the integrated method and present the results in table 2.15.

Table 2.15

**Financial stability indicators by the integrated method of LLC Auchan
Ukraine, 2017–2019**

Indicators	01.01. 2017	01.01. 2018	01.01. 2019	01.01. 2020
Ratio of coverage of inventories with own working capital	-8,39	-43,95	-195,6	-47,9
Ratio of maneuverability of own funds	4,05	5,96	11,52	-1,75
Fixed Assets Index	1,16	1,64	2,84	1,52
Long-term borrowing ratio	-2,31	-3,47	-0,09	-0,03
Ratio of accumulated depreciation	0,43	0,48	0,52	0,04
Ratio of fair value of property	0,20	0,18	0,21	0,48
Debt-to-equity ratio	-6,99	-10,09	-14,98	-2,20

For the overall assessment of the financial sustainability by the integral method, we calculate a generic indicator of changes in the financial stability of the enterprise:

$$2017 \text{ year: } FS = (1 + 2*(-3,47) + (-43,95) + 1/(-10,09) + 0,18 + (-1,64)) / (1 + 2*(-2,31) + (-8,39) + 1/(-6,99) + 0,20 + (-1,16)) - 1 = (-52,59 / -3,87) - 1 = 2,47$$

$$2018 \text{ year: } FS = (1 + 2*(-0,09) + (-195,57) + 1/(-14,98) + 0,21 + (-2,84)) / (1 +$$

$$2*(-3,47) + (-43,95) + 1/(-10,09) + 0,18 + (-1,64)) = 2,71$$

$$2017 \text{ year: FS} = (1 + 2*0,03 + (-47,96) + 1/2,20 + 0,48 + 1,52) / (1 + 2*(-0,09) + (-195,57) + 1/(-14,98) + 0,21 + (-2,84)) = -0,74$$

A negative figure in 2017 indicates a deterioration in the financial sustainability of Auchan group.

Consequently, the financial stability of LLC Auchan Ukraine is broken, the company has a very high level of financial risks and a high level of dependence on external sources of financing, as well as the threat of loss of solvency and even bankruptcy, if not take proper measures to manage financial stability.

The company's current ratio, is below 1 throughout the pass 3 years. Which means the Auchan is at risk of having financial difficulty. It is also shown with the current ratio which is below 1 as well (table 2.16).

Table 2.16

Liquidity ratio of LLC Auchan Ukraine, 2017-2019

Indicators	2017 year	2018 year	2019 year	Absolute deviation 2018 / 2017	Absolute deviation 2019 / 2018	Normative level
Cash Ratio	0,25	0,13	0,10	-0,13	-0,02	0,2 - 1
Current Ratio (Working capital ratio)	0,75	0,74	0,73	-0,01	-0,01	1 - 3
Quick Ratio (Acid-test ratio)	0,35	0,37	0,29	0,02	-0,07	>0,7 - 08
Solvency Ratio	18,14	9,69	6,93	-8,46	-2,75	
Financial Leverage (Debt-to-Equity Ratio)	14,90	5,10	4,00	-9,80	-1,10	1 - 1,5

This risk of the company is demonstrated by all indicators of liquidity. The quick ratio is 0.09 in 2017; -0.01 in 2018 and 0.24 in 2017 all less than 1, which means that the company does not have enough quick assets to pay for its current liabilities. The solvency ratios is below 20%. This means that the company is not able to close out its long-term debt obligations when they come due using operating

income. Lenders looking through a company's financial statement will usually use the solvency ratio as a determinant for creditworthiness.

Measuring cash flow rather than net income is a better determinant of solvency, especially for companies that incur large amounts of depreciation on their assets but have low levels of actual profitability.

That is the reason why the company is highly leverage, with -14.90 ; -5.10 ; and -4 respectively in 2017 ; 2018 and 2019 This ratio indicates that the higher the degree of financial leverage, the more volatile earnings will be. Since interest is usually a fixed expense. This is good when operating income is rising, but it can be a problem when operating income is under pressure.

A decreasing of the return on equity ROE suggests that Auchan is losing its ability to generate profit without needing as much capital. It also indicates how difficult Auchan's management is deploying the shareholders' capital. A deviation of -2.85 percent from 2018 to 2019 shows a bad sign of the company's management.

There is a deficit of the most liquid assets to cover urgent current liabilities. According to the result of working capital ratio, Auchan is not going to be able to meet its current obligations in a timely manner. The company will find itself in difficult situation when it comes to fact its maturing obligations. Because liquidating all current assets except inventory will not generate enough cash to pay. However, the company has a strong potential to meet its long-term obligations without ignoring its low leverage, which indicates its financial strength.

The period's expenses exceed income and the company has much more short-term debt than it has to be. Thus, it has to decrease to short-term, Auchan's current assets content more inventories which are least liquid of the current assets and their liquidation value is most often uncertain, So, we must improve the quick ratio by increasing our liquidly asset. The return on equity indicates a low profitability and weak financial position of the company and cannot cover potential investors into actual common stockholders (table 2.17).

Table 2.17

Profitability Ratios of LLC Auchan Ukraine, 2017–2019

Index	2017	2018	Absolute deviation, 2018/2017	2019	Absolute deviation, 2019/2018	Basic absolute deviation, 2019/2017
ROE (Return on Equity)	-2,00	-3,38	5,37	-0,53	-1,38	2,52
ROA (Return on Assets)	-0,16	-0,24	-0,08	-0,13	0,11	0,03
ROI (Return on Investment)	-0,17	-0,19	0,02	0,21	-0,02	0,04
ROD (Return on Debt)	-1,57	-1,44	0,12	-0,49	0,95	1,07
ROR (Net Profit Margin)	-0,03	-0,04	-0,01	-0,02	0,02	0,01
Operating Expenses Ratio	-0,04	-0,05	-0,02	-0,03	0,03	0,01
Capital Loss Ratio	-1,85	-0,78	1,07	-0,34	0,44	1,51

Auchan achieved -33% ROE over the 12 months that ended in december 2017, with 6.66 billion UAH in total revenue and 471.11 million UAH in average net shareholder equity. Auchan's recent ROE falls comfortably within its historical range and compares favorably to its peers. Net profit margin and financial leverage are the largest factors driving volatility in ROE, while high asset turnover and a high equity multiplier have pushed Auchan's ROE above those of its peers despite the company's narrow net profit margin.

When return on assets point to efficient operations and profitable outcomes of the company as it accelerate the return on assets. In addition, the ROD and ROR show the company's ability to use its net income to pay off its long term debts and therefore be able to efficiently converting revenue into profit. However, there's a deficit in return on investment which means that costs outweigh returns.

The company finances its investment with the long term debts, the gross profit margin is higher than the concurrences and the quantity of sells is increasing.

CHAPTER 3

WAYS OF IMPROVEMENT OF LLC AUCHAN UKRAINE HYPERMARKET INVESTMENT STRATEGY

The process of improvement the level of investment strategy of the company can be divided into several stages. The first step is to bring the values of financial ratios, such as liquidity ratios, working capital adequacy to the regulatory level. For this purpose, it will be advisable to use the following methods of financial recovery: improvement of the payment calendar, regulation of the level of work in progress, conversion of short-term debt into long-term debt.

The purpose of the second stage is to ensure a stable financial position of the enterprise in the medium term, which is manifested in a stable flow of funds from the sale, a sufficient level of liquidity of assets, improving the profitability of products.

In the third stage, a stable financial position of the enterprise is achieved in the long run. This requires the creation of an optimal balance sheet structure and financial results, ensuring the stability of the financial system of the company to adverse external influences.

The result of the implementation of the strategy of recovery should be financial stabilization of the enterprise. Detailed steps to strengthen the financial stability of LLC Auchan Ukraine are described below.

The presence and sufficient amount of equity directly affects the efficiency of any enterprise. In view of this, it is vital for LLC Auchan Ukraine to continue its profitable activity to provide the enterprise with sufficient financial resources.

An important condition for development is an increase in equity. The change in this indicator influences such a factor as the financial structure of capital.

Equity growth can be ensured by several factors.

Firstly, if we increase sales revenue and reduce cost of sales, we will get more net profit. When reinvesting profits into further activities, we will receive an increase

in equity and, accordingly, our own working capital, which will improve most indicators of financial condition and financial stability.

In order to increase the volume of sales, it is necessary to maximize the marketing policy of the enterprise and to ensure greater loyalty of its customers and partners. Increasing the value of profits will also contribute to improving the quality and competitiveness of products.

The cost of sales can be reduced through more rational use of material resources, production capacity and space, labor and working time. Existing manufacturing problems can be eliminated through various improvements in technology, upgrades and automation of production, by creating a variety of organizational management systems and rapid updates of fixed assets.

Secondly, ensure an optimal balance between equity and borrowed funds. Of course, it is not possible to significantly limit the attraction of funds from external sources, since they provide for the expansion of activity and development of the enterprise, but it is necessary to calculate the impact of borrowed capital on the capital structure as a whole and how it will affect the indicators of financial independence.

Thirdly, maximize the turnover rate of current assets, because the more current assets make current assets, the less they are required to achieve the same financial result, which reduces costs and increases profit.

The fastest way to increase equity for LLC Auchan Ukraine would be to increase it at the expense of additional contributions from owners or third parties who also become owners. The other way is retained earnings, but to get it, you need to end the year with a positive financial result.

The following measures can be proposed to improve the financial sustainability of LLC Auchan Ukraine:

1. Increase of the registered capital by attracting additional contributions of the owners by 30%;
2. An increase in the amount of retained earnings by 50% due to an increase in

sales revenue and an increase in gross profit; Revenue from sales can be increased by finding more profitable and new markets, while the export of products will be affected by exchange rate differences. In addition, gross profit will increase when reviewing the cost of production (reduction due to fuel, raw materials, and labor costs due to technology improvements);

3. Reduction of current liabilities by 40% by reducing the amount of current accounts payable for goods, works, services by reviewing the terms of deferral and partial redemption; partial repayment will result in an outflow of cash in the reporting period, but will reduce future financial expenses through interest payments, and assets that were financed in this way will now be financed with additional equity raised. The extra cash to pay off the accounts payable will come from reducing the amount of receivables (the measure described below);

4. Analyze the solvency and financial soundness of its customers in order to reduce the risk of non-refunding of products sold and accordingly not increase the amount of receivables;

5. Sell part of the receivables of their customers through a factoring operation, according to which the company will receive cash in the shortest possible time.

Positive influence on improvement of financial stability of the enterprise can be rendered by transfer of work on collection of receivables to factoring companies, which results in increase of a share of cash, acceleration of working capital turnover, increase of security with own working capital; acceleration of receivables turnover and as a consequence of increase of "safety margin" in terms of solvency, etc.

As a typical scheme for the control of receivables, a scheme that includes several steps can be offered:

1. A critical level of receivables is set, and all settlement documents relating to a debt in excess of a critical level are subject to mandatory review;
2. From the settlement documents a control sample is made;
3. The reality of the receivables in the selected documents is checked. In

particular, letters may be sent to counterparties requesting confirmation of the reality of the amount stated in the document.

One of the important problems of the company is the problem of cash shortages that are highly liquid assets. This is due to the active provision of commercial credit to customers and the lack of strict control over the collection of commercial loans. The main directions of the policy of accelerating and improving the efficiency of calculations are the use of factoring operations and spontaneous financing. Spontaneous financing is beneficial for both the supplier and the buyer. Moreover, it provides some indirect benefits: improving the liquidity of the balance sheet and all financial and economic performance indicators of the enterprise; a positive image of the company that cares about its customers is formed; spontaneous financing, as a method of financial management, helps to reduce accounts receivable.

It is also worth paying attention to the size of the company stocks, because when determining the type of financial stability, the size of the inventory plays a key role. It is necessary to have a clear logistical supply plan in order to ensure a smooth production process in case of failure to deliver the basic materials, but not to accumulate a considerable amount of them. It is important to establish a system of efficient replenishment and utilization of inventories, since excess inventories, as well as their scarcity, result in unsatisfactory financial condition of the enterprise and unstable type of financial stability. The main way to manage inventories to achieve absolute financial sustainability is to consider weighted average inventory levels of products in warehouses per day, week, month.

The values of the components of the balance sheet liability and the main indicators of financial stability after the implementation of the proposed measures are projected and the results are presented in table 3.1.

The table above shows that after the proposed measures, all indicators of financial sustainability are improving.

As a result of the 30% increase, the registered capital will amount to 130 000.

If the volume of retained earnings is increased by 50%, its value will be 44 289 thousand more and will be 132 866 thousand.

Table 3.1

Impact of the proposed measures on the balance sheet liability structure and financial sustainability of LLC Auchan Ukraine

Indicator	Actual value as of 31.12.2019	Value after proposed activities	Absolute deviation	Change rate, %
Equity	-571025	-496736	74 289	8,53
Long-term liabilities	201893	201893	0	0,00
Current liabilities	1081845	327683	-754 162	-40,00
Balance sheet total	1197580	517707	-679 873	-24,43
Equity ratio	0,31	0,45	0,14	43,61
Leverage ratio	3,2	2,23	-0,97	-30,37
Financial stability ratio	0,32	0,46	0,14	43,26
Equity plus long-term debt to total assets ratio	0,46	0,82	0,36	79,17
Concentration ratio of borrowed capital	0,69	0,55	-0,14	-19,84

On the whole, the value of equity will increase by 74 289 thousand, which is 8,53% more than in 2018.

Long-term liabilities do not change as we assume that the entity will repay its liabilities over a period of time.

However, the value of current liabilities is reduced by 754 162 thousand by 40%. To achieve this result, the company needs to develop methods to reduce accounts receivable, because when they receive funds, the company will be able to use them to pay off the accounts payable.

An entity may apply the following forms of refinancing to convert receivables into cash: factoring, accounting for promissory notes issued to buyers, and forfeiting.

As a result of changing the main components of the liability, the balance sheet

total will change in the direction of decrease by 679 873 thousand or by 24,43% and will amount to 2 103 607 thousand.

Based on the values obtained, we can calculate the relative indicators of financial stability. Thus, the equity ratio increased by 0,14 which was 43,6%. Of course, the normative value in this period will not be reached, but if the same rate of growth of retained earnings, and therefore equity, is maintained, in the next reporting periods the equity ratio is likely to be at the level of normative value. Despite this, the company has become more financially independent from external sources of financing.

The ratio of leverage ratio decreased by 0,97 and compared to 2018 it decreased by 30,4%. Such a change indicates that the financial stability of the enterprise is strengthened in terms of increasing the share of financing of assets at the expense of own funds, reducing the degree of dependence on borrowed capital and, accordingly, reducing the level of financial risks.

The financial sustainability ratio is up 0,14 and is 0,46 up 43,26% from 2018. Recommended value is also not achieved, but this change indicates a reduction in bankruptcy and an increase in the solvency of the enterprise in the long run.

The financial stability ratio increased by 79,2% to 0,82. According to this indicator, in 2018 only 0,46 amounted to one of liabilities, as a result of implementation of the proposed measures for one, its liabilities will already amount to 0,82 and will continue to increase. On the whole, the level of financial risks caused by a high proportion of borrowed capital tends to decrease.

The concentration ratio of borrowed capital, which decreased by 0,14 or 19,84%, also confirms the fact that the share of borrowed capital decreases due to an increase in equity that is positive for strengthening the financial stability of the enterprise.

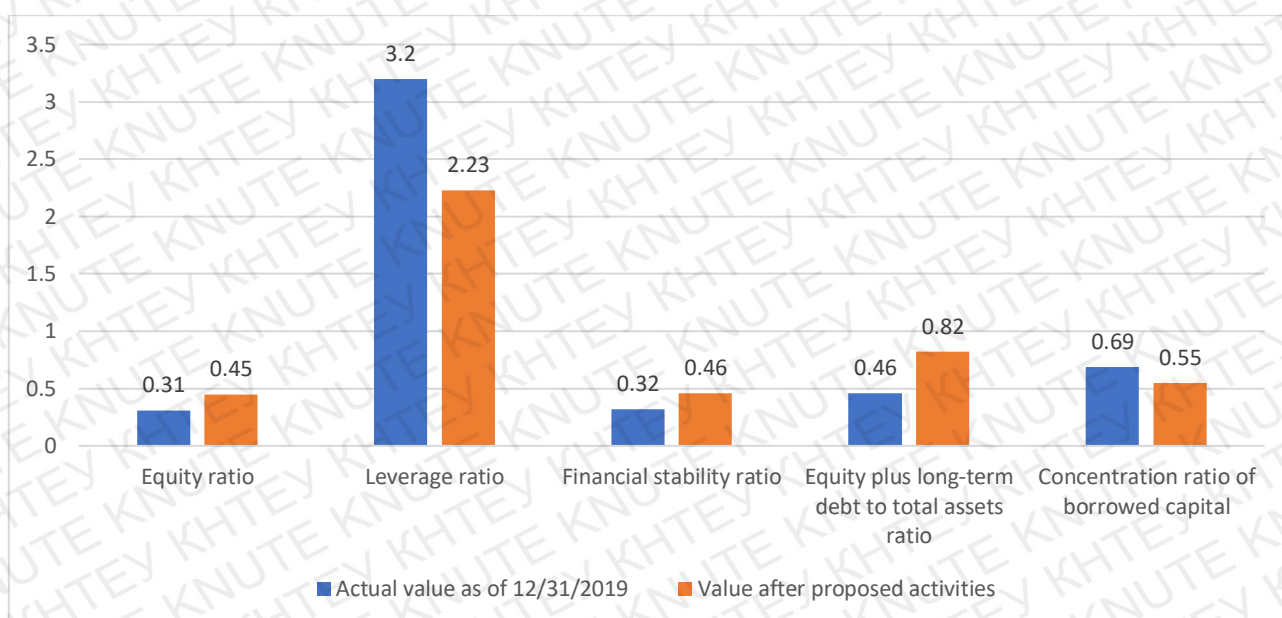


Fig. 3.1. Change in financial sustainability ratios after the impact of the proposed measures to improve financial sustainability

We also calculate the value of our working capital and compare it with the value of 2019:

2019:

$$WC = 870\,446 - 2\,394\,722 = -1\,524\,276 \text{ thousand.}$$

After the proposed activities:

$$WC = 944\,735 - 2\,394\,722 = -1\,449\,988 \text{ thousand.}$$

To increase this indicator it is necessary to continue to increase the share of own funds. As long as the business holds the negative value of its working capital, there will be a risk of loss of liquidity and sustainability, as there will not be sufficient financial resources for uninterrupted operations.

Improving cash flow planning remains an important aspect for an enterprise in the process of improving financial sustainability.

Cash flow planning involves identifying possible sources of income and expense for the enterprise to ensure its solvency during the planning period.

The cash flow plan is developed in the form of a payment calendar, which is a

balance of cash receipts and cash expenditures of the enterprise in separate time intervals and is balanced by the balance of cash in the current account of the enterprise. It is important that payment calendars reflect the real income and expenses of the business to manage them effectively. In addition, separate financial responsibility centers can be set up to provide on an ongoing basis reliable information on a particular type of cash flow and facilitate the control process and ensure transparency of spending. Thus, financial planning is one of the means to ensure the financial stability of an enterprise. It allows you to provide resources to meet projected volumes of operating and investment activities on the basis of financial sustainability, to create prerequisites for obtaining a net profit in the amount sufficient for self-financing and self-financing.

Therefore, after analyzing the financial stability of LLC Auchan Ukraine, possible ways of improving the financial stability of the company can be proposed. To do this, the company needs to implement a system of measures to increase the share of equity: to increase the amount of authorized capital; increase the level of profitability (increase production and sales of profitable products; reduce the cost and volume of production costs; improve the operation of financial services at the enterprise; improve the efficiency of current assets and debt management. timely response to changes in the environment and strategic vision of the future state of the enterprise.

CONCLUSIONS AND PROPOSALS

The conducted research on the essence of investment strategy of the company showed that there is no single approach to the content of this category. In our opinion, the concept of "investment strategy of the enterprise" can be interpreted in a narrow sense as a characteristic of the financial condition of the enterprise, reflecting its successful functioning; and broadly, as the ability to balance assets and liabilities through the formation of a capital structure that allows the financing of liabilities, the implementation of investment projects in the context of internal and external factors. We agree with I. Stefanov's statement that only if any enterprise can adapt its process of managing its capabilities to change the level of point utility will it be able to avoid unreasonable costs, instead the financial state of the enterprise will be equalized, production will be more predictable and even.

During 2017-2019 the value of equity becomes negative, -221 961 thousand and -133 536 thousand accordingly, since the enterprise has an uncovered loss that reduces it. However, in 2018 the uncovered loss was financed by net profit received in the previous period, so the amount of retained earnings amounted to 88 577 thousand. Increases the amount of equity and the value of capital in the revaluations that appeared in 2018, so as of the end of 2018 the equity is 870 446 thousand.

In 2017 the company's long-term liabilities decreased by 758 239 thousand, or 98,4%, compared to 2016. Such decrease is caused by payment of other long-term liabilities of the enterprise by 345 136 thousand, as well as repayment of part of long-term bank loans in the amount of 413 103 thousand.

In 2018, long-term liabilities increased by 15 280 thousand or 123,72% compared to the previous year. This increase was caused by an increase in the bank long-term loans by 1 494 thousand, or by 12,1%, and a new attraction of other long-term liabilities by 13 786 thousand.

With regard to current liabilities, their total amount increased by 518 754

thousand in 2017, which is 35,31% and decreased by 303 598 thousand in 2018, up 28,1%.

The enterprise does not form reserve and additional capital and has no unpaid capital.

In general, we see that capital of LLC Auchan Ukraine decreased in 2018 compared to 2017 by 151 060 thousand, or 7,5% but in 2019 it increased by 916 590 thousand or by 49,1%.

Therefore, according to the capital structure, it can be concluded that the company is not insured with its own financial resources, but finances its activities mostly through borrowed financial resources, which makes it financially dependent and threatens unsustainable financial stability and threatens to deteriorate its solvency in the future.

The following measures can be proposed to improve the financial sustainability of LLC Auchan Ukraine

1. Increase of the registered capital by attracting additional contributions of the owners by 30%;
2. An increase in the amount of retained earnings by 50% due to an increase in sales revenue and an increase in gross profit; Revenue from sales can be increased by finding more profitable and new markets, while the export of products will be affected by exchange rate differences. In addition, gross profit will increase when reviewing the cost of production (reduction due to fuel, raw materials, labor costs due to technology improvements);
3. Reduction of current liabilities by 40% by reducing the amount of current accounts payable for goods, works, services by reviewing the terms of deferral and partial redemption; partial repayment will result in an outflow of cash in the reporting period, but will reduce future financial expenses through interest payments, and assets that were financed in this way will now be financed with additional equity raised. The extra cash to pay off the accounts payable will come from reducing the amount of

receivables (the measure described below);

4. Analyze the solvency and financial soundness of its customers in order to reduce the risk of non-refunding of products sold and accordingly not increase the amount of receivables;

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APPENDICES

Appendix A

Table A.1

Liquidity Ratios

<i>N°</i>	<i>Indicators</i>	<i>Formula</i>	<i>Normative</i>	<i>Explanation</i>
1	Cash Ratio	$CR = \frac{C + CFI}{STL}$	0,2 – 1	Evaluate the opportunity of the enterprise to pay off current (ST) liabilities
2	Quick Ratio	$QR = \frac{CA - I}{STL}$	>0.7 – 0.8	Evaluate the ability of the enterprise to pay off current liabilities through only cash and accounts receivables.
3	Solvency Ratio	$WCR = \frac{C - CFI}{DC/D}$	Daily	Evaluate the ability of the enterprise to cover current costs through only cash and current financial investment.
4	Working Capital	$Wc = CA - CL$	> 0	Evaluate the ability of the enterprise to cover current liabilities through current assets.
5	Financial Leverage	$Fl = \frac{TL}{E}$	1 – 1.5	Evaluate financial stability of enterprise (ability to pay off all debts).

Table A.2

Debt Ratios

<i>Nº</i>	<i>Indicators</i>	<i>Formula</i>	<i>Normative</i>	<i>Explanation</i>
1	Equity Ratio	$CR = \frac{E}{TA}$	= 0.5	Evaluate the ratio between equity and total assets.
2	Debt Ratio	$CR = \frac{TL}{TA}$	= 0.5 Not more than 0.6-0.7	Evaluate the ratio between debts and total assets.
3	Capitalization Ratio	$CR = \frac{LTL}{LTL + E}$	= 0.5 Not more than 0.6-0.7	evaluate the ratio between long-term debts and all sources of investment
4	Accounts Payable-to-Accounts Receivable Ratio	$APAR = \frac{AP}{AR}$	The higher the better it is	Measures the rate at which Accounts Payable are being Payable Accounts Payable paid on an annual basis.

Table A.3

Business Activity Ratios

<i>N°</i>	<i>Indicators</i>	<i>Formula</i>	<i>Explanation</i>
1	Asset Turnover	$AT = \frac{NR}{TA}$	Evaluate income return from using assets.
2	Inventory Turnover	$IT = \frac{S}{AI}$	Evaluate how many time the enterprise uses its inventory per year.
3	Accounts Receivable Turnover	$ART = \frac{NR}{AR}$	Evaluate enterprise's receivables policy
4	Accounts Payable Turnover	$APT = \frac{S}{AP}$	Evaluate enterprise's payable period
5	Cash Conversion Cycle	$CCS = DI - \frac{D}{APT}$	Period of cash turnover (from day of current assets investment till the day of covering investment).
6	Days Inventory Outstanding	$DI = \frac{D}{ART} + \frac{D}{IT}$	It is a period from the starting day of inventory investment till the first day of receiving revenue.

Table A.4

Profitability Ratios

Nº	Indicators	Formula	Normative	Explanation
1	ROE (Return on Equity)	$ROE = \frac{NI}{E}$	15-20%	Evaluation how efficiently the company is taking advantage of its base of assets
2	ROA (Return on Assets)	$ROA = \frac{NI}{TA}$	The higher the better it is	Its shows the percentage of profit the company is earning in relation its overall resources
3	ROI (Return on Investment)	$ROI = \frac{NR}{S}$	2:1	Evaluate the efficiency of an investment or to compare the efficiencies of several different investments
4	ROD (Return on Debt)	$ROD = \frac{NI}{LTL}$	over 15%	Its shows how much the usage of borrowed funds contributes to profitability.
5	ROR (Net Profit Margin)	$ROR = \frac{NI}{NR}$	>0	Measure the amount of return on a particular investment, relative to the investment's cost
6	ROS (Operating Margin)	$ROS = \frac{NI}{S}$	>1	Evaluate how efficiently the company is at generating profits from its revenue
7	Capital Loss Ratio	$R = \frac{NI}{NR}$	The lower the ratio, the more profitable	Its represents the percentage of fund capital in deals realized below cost, net of any recovered proceeds, over the total amount invested.
8	Operating Expenses Ratio	$OER = \frac{NOI}{OE}$	low operating ratio means a high net profit ratio	Measurement of what it costs to operate a property compared to the income that the property generate