



**SEMINAR: «PRACTICAL ASPECTS OF ATTRACTING INVESTMENTS AND SUPPORT TO INVESTORS AT LOCAL LEVEL»**

# Financial Assessment of Investment Effectiveness.

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Date, Year

**There are two issues to discuss:**

- **What key issues investors look at when assessing investments**

This will look briefly at the key features that investors will look at when assessing a target. This is taken to include a new project or investment in an existing business.

- **What they hope to find**

We will look at what sorts of return or yield on investments are being achieved elsewhere. This is because the market is competitive: investors will compare regions with each others, as well as comparing countries

However, remember that not all investment decisions are based on financial profiles of the target: they can also appear irrational.

## **What key issues investors look at when assessing investments**

- Dependent upon type of investment and sector
- Strategic equity investors – market segment/improvement in own competitive position, contribution to “group” profitability, return on the specific investment itself, exit strategies
- Portfolio equity investors: return on investment (RoE), price/earnings (PE) ratio if the target is publicly traded, other exit strategies
- Investors in debt/debt instruments: same as equity investors, but also the coverage ratio – how many times debt service can be covered by anticipated profits. Risk mitigation

## **What key issues investors look at when assessing investments**

- Quality of management of the target and possible participation in that management
- Financial management and audit
- Security i.e. protection of share ownership, liens on assets if debt
- Market access issues
- Legal protection of investors' rights (not an issue that can be dealt with by regions)
- How to exit!

## **What Investors Expect to Find, or Perhaps – What They Hope to Find - 1**

We restrict our comments to returns on investment by type of investor or type of investment instrument. This is difficult, as the returns for the strategic investor are related to market share and that is a function of its business before the new investment.

***Strategic investor*** looking at Ukraine may look at market share from three general perspectives, in addition to what is specific to its own “home country” position:

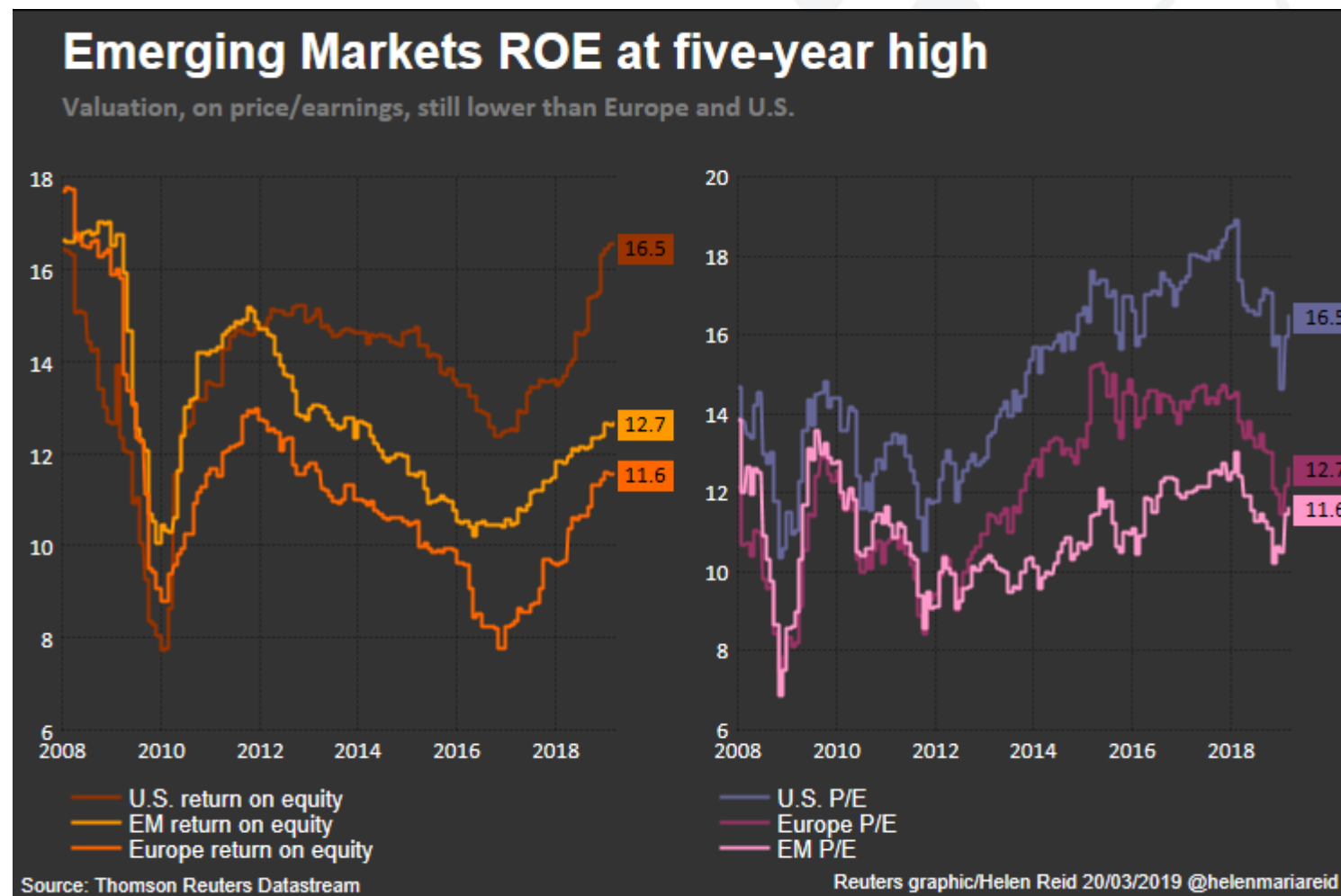
- Access to the local market, with 40+ million potential consumers. However, given falling population and relatively low purchasing power in many regions, export potential is very important
- For smaller companies, coming to Ukraine may make them “multinationals”
- Some may do it for “exclusion” reasons, to block their competitors

## **What Investors Expect to Find, or Perhaps – What They Hope to Find - 2**

Equity investors, participating in the ownership of the business, look to benefit in terms of income (dividends) referred to as return on equity (ROE). They also anticipate that their share of the business will normally be resold at a profit, producing a capital gain. This is particularly true of ***portfolio investors***, such as investment funds.

Ukraine is an emerging market and therefore we need to see what ROE is being achieved for emerging markets.

## What Investors Expect to Find, or Perhaps – What They Hope to Find - 3

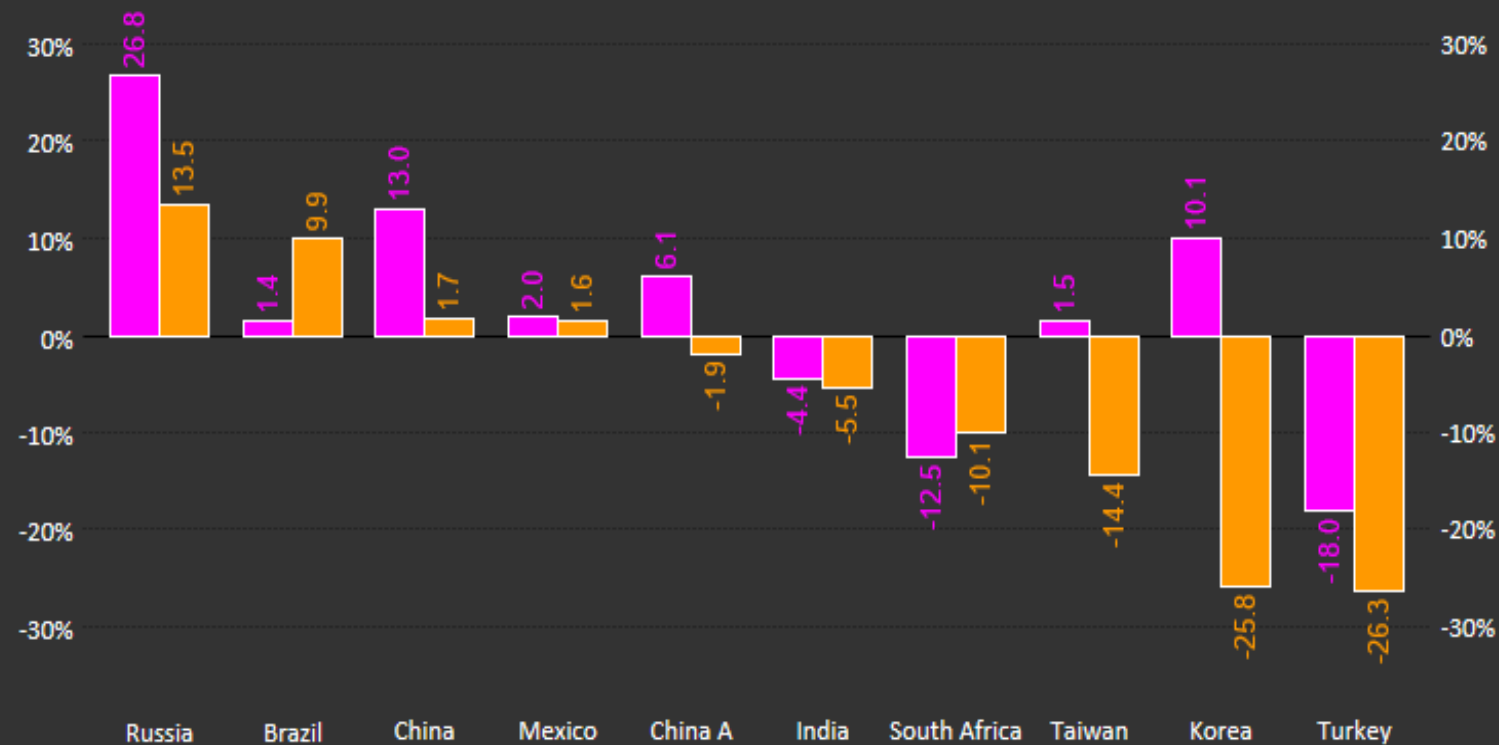


## EM earnings growth by country

Year-on-year earnings growth, trailing and forward, for emerging market stocks

Trailing

Forward



Source: Thomson Reuters Datastream/

Reuters graphic/Helen Reid 20/03/2019 @helenmariareid



## **What Investors Expect to Find – 3 – Debt**

**The situation regarding debt is complicated: there are a large number of debt instruments currently being used in Ukraine. They include for working capital and business development. The main ones are:**

- Overdraft facilities**
- Loans to small and medium enterprises**
- Loans to larger enterprises**
- Some convertible debt**

**The expectation is naturally that the yield will be higher than two things: bank interest rates to depositors and anticipated rates of inflation. In addition investors will look at coverage ratios i.e. how debt can be serviced.**



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## THANK YOU!