INVESTMENT VALUATION OF PUBLIC HIGH-GROWTH COMPANIES

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Abstract. High-growth companies (gazelles) are those that demonstrate faster rates of revenue growth over several subsequent periods compared to other organizations. High-growth firms have social and economic significance, which arouses interest in this group among a wide range of market participants: counterparties, competitors, analysts, scientists, government officials and potential investors. Investors are interested in creating a growth stock portfolio in conditions of global economic uncertainty which will improve the financial well-being of the security holder. Assessment of investment attractiveness plays an important role at the stage of selection of investment targets; assessment mechanisms make it possible to reduce the risks of ineffective investment and identify the most profitable financial investments. The purpose of the study is to determine the most effective valuation methods in the context of high-growth companies and to integrate the specific features of gazelles as an economic group into a financial model. The study included an analysis of the revenue dynamics of high-growth Russian companies, using a systematic approach, as well as comparative and investment analysis methods. The author built a model for assessing the investment attractiveness of a high-growth company using the discounted cash flow method. There is terminological ambiguity in the concept of gazelles; in various studies, the criteria for recognizing companies as high-growth may differ depending on country characteristics and the research question. The article presents the author's definition of high-growth companies and formulates the key features of gazelles as an economic group, which were subsequently integrated into the financial model. Discounted cash flow valuation has been found to be most effective in the context of high-growth companies. The author developed a predictive coefficient for the dynamics of revenue of high-growth companies, which was integrated into the model to obtain more conservative assessment results. The author drew conclusions about the advantages and disadvantages of using a predictive coefficient for revenue dynamics. The main advantages include more conservative assessment results, which will reduce investment risks, and integration into the model historical and sectoral characteristics of revenue dynamics. The main disadvantages include the complexity of calculations and the necessity of having a statistical base for several subsequent periods.

Keywords: High-growth companies   Accounting and analytical support   Investment valuation   Investment attractiveness

There is terminological uncertainty caused by the ambiguous interpretation of this term by researchers with regard to the phenomenon of high growth companies (HGC). In an attempt to give the most general definition of high growth companies, one can come to the following formulation: high growth companies are a small group of companies that are characterized by high rates of revenue growth over an extended period of time. In many studies of both foreign and Russian authors, the selection criteria for high growth companies are revenue growth rates exceeding 20% and the duration of growth, which should be at least 5 years (D. S. Medovnikov, etc. 2021).

High growth companies play an important role in the economic and social spheres of a particular state. D. Birch, the pioneer of the phenomenon of high growth companies (D.L. Birch, 1979; D.L. Birch, etc. 1995), emphasized the special significance of this small group of companies in creating additional jobs in the American economy; the results of D. Birch's research were considered by other scientists who found confirmation of his theories in the economies of other countries of the world (D. S. Medovnikov, etc. 2021).

In addition, high growth companies have a favorable impact on the growth of the national economy. Identifying effective business models and maintaining high growth rates of HGC can become one of the priorities for politicians (YU.A. Polunin & A.YU. YUdanov, 2020) in a crisis and global uncertainty, because HGC continues to grow during periods of economic downturn (YU.G. Kirillov, etc. 2022). However, growth in the context of high growth companies is almost always a temporary stage of development, which is replaced by a slowdown, and sometimes even a recession. A lot of scientific works are devoted to the study of the life cycle of high growth companies and forecasting the dynamics of their development (E.I. Baranova, 2020). Transitional phases can be identified during the development phase of HGCs, when the company is undergoing changes to support growth, such as a change in the company's management, the involvement of professional consultants or the creation of strategic alliances.

The most reliable method in the context of valuation of high growth companies is the discounted cash flow valuation according to the author of the study. DCF model takes into account the intrinsic value of the company, not the assessment of its value by market participants, which can be distorted by the biased attitude of investors and analysts.

Additional adjustments to the discounted cash flow model are worth making, taking into account the short duration of high revenue growth rates for most companies. The factor that corrects future revenue growth can be determined based on the revenue dynamics of other high growth companies. In investment assessment using the discounted cash flow method, the average chain increase in revenue partly determines the final forecasting results. One of the first and most important stages in building a DCF model is to identify the average level of revenue growth rates for the period available for analysis and determine the average specific weight of individual components of financial statements in this revenue indicator. For these purposes, the author of the study created a predictive coefficient of revenue dynamics of high growth companies, developed to assess the investment attractiveness of HGCs based on the discounted cash flow model.

$$\textit{Predictive coefficient} = a \times \textit{historical revenue growth} *$$
$$+ b \times \textit{sectoral revenue growth} **$$

Predictive coefficient of revenue dynamics of high growth companies
a,b – specific weight of each parameter, proportional distribution
** - historical revenue growth after exclusion from the HGC rating*
*** - sectoral revenue growth after exclusion from the HGC rating*

In addition, it is necessary to choose a multiplier suitable for this group of companies at the final stage of determining the value of shares. Since the dynamics of revenue is unstable, and other indicators of the income statement are relatively low, the use of the EV/Revenue multiple will be irrelevant. Traditional EV/EBIT and EV/EBITDA multiples will be more reliable and representative under such conditions.

High growth companies play a significant role in the national economy. The phenomenon of gazelles is of interest to many economic entities, including private investors, whose number market has increased significantly on the Russian stock after the investment boom in 2020. It is extremely important to conduct an investment assessment of this group of companies under such conditions, taking into account their financial statements and life cycle. According to the author, the most effective valuation methods for identifying gazelles that are attractive to potential investors is discounted cash flow method. However, additional adjustments will be required to take into account the sharp, but often temporary growth in revenue to improve the reliability of the financial model for high growth companies.

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