HOW RELEVANT ARE FINANCIAL PERFORMANCE INDICATORS FOR LISTED COMPANIES?

MIRELA POPESCU *

ABSTRACT: *This study examines the relevance of financial performance indicators in explaining the market performance of listed companies. The paper analyzes the extent to which accounting-based and market-based indicators convey information reflected in firm valuation. The analysis focuses on key market-based measures, including market capitalization, the price-to-earnings ratio, the market-to-book ratio, the price-to-sales ratio, and the market-to-assets ratio, alongside firm-level financial performance indicators. The study highlights the role of these indicators in capturing investor expectations regarding profitability, growth opportunities, and risk.*

KEY WORDS: *financial indicators, stock market indicators, market capitalization; valuation multiples; listed companies.*

JEL CLASSIFICATION: *G30, G12, M41.*

1. INTRODUCTION

Financial performance indicators play a central role in the assessment of listed companies, serving as essential tools for investors, analysts, and other market participants in evaluating corporate efficiency, profitability, and financial stability. Derived primarily from financial statements and complemented by stock market data, these indicators provide structured and comparable information that supports investment decision-making and market valuation processes. However, their relevance has been increasingly debated in the context of market efficiency, accounting discretion, and the growing importance of non-financial information. Consequently, a systematic examination of the extent to which financial performance indicators remain informative for listed companies is both timely and necessary.

The assessment of firm value represents a central concern in both financial economics and accounting research, particularly in the context of listed companies

* *Assoc. Prof., Ph.D., University of Petroşani, Romania, mirelapopescu@upet.ro*

operating in increasingly complex and information-intensive capital markets. Investors, analysts, and other market participants rely on financial performance indicators to evaluate corporate performance, compare investment opportunities, and form expectations regarding future cash flows and risk. These indicators, derived from financial statements and complemented by market data, play a critical role in shaping stock prices and overall market valuation.

Traditional accounting-based indicators, such as profitability, liquidity, leverage, and efficiency ratios, provide structured information on a firm's historical financial performance and financial position. However, for listed companies, market-based indicators, most notably market capitalization and valuation multiples, offer additional insights by incorporating investors' forward-looking expectations. As a result, the interaction between accounting information and market valuation has become a key area of inquiry within the value relevance literature.

Despite their widespread use, the relevance of financial performance indicators has been subject to debate. Critics argue that traditional financial measures are backward-looking and may fail to capture intangible assets, growth options, or strategic factors that increasingly drive firm value. Nevertheless, a substantial body of empirical research continues to document significant relationships between financial indicators and market-based performance measures, suggesting that these indicators remain informative for valuation purposes.

Against this background, the present study investigates how financial performance indicators contribute to explaining the market performance of listed companies. Particular attention is given to market-based valuation measures, such as market capitalization, the price-to-earnings ratio, the market-to-book ratio, the price-to-sales ratio, and the market-to-assets ratio, which serve as key links between accounting information and investor perceptions.

2. STOCK MARKET INDICATORS

Stock market indicators complement the information on the financial position and performance of companies by providing additional insights into the evolution of these companies on the capital market.

Market capitalization represents the market value of a firm at a given point in time and reflects investors' collective assessment of the firm's expected future performance. It is calculated as:

$$\textit{Market Capitalization} = \textit{Number of shares outstanding} \times \textit{Market price per share} \quad (1)$$

Market capitalization is primarily used for comparative analysis with the book value of the firm. An increase in market capitalization driven by a rise in share prices is generally viewed as a favorable development, as it signals an increase in investors' confidence in the firm's future growth prospects.

Market capitalization is a fundamental market-based indicator used to assess the economic value of listed companies. It reflects the aggregate market valuation of a firm's equity and incorporates investors' expectations regarding future profitability, growth opportunities, and risk. Unlike accounting-based measures, which rely on historical financial information, market capitalization is forward-looking, as it is determined by prevailing share prices that continuously adjust to new information available on the capital market.

In the context of listed companies, market capitalization serves as a key benchmark for comparing firms across sectors and over time, facilitating analyses of firm size, market positioning, and relative valuation. It is frequently employed in empirical finance research as a proxy for firm value, particularly in studies examining the value relevance of accounting information, corporate performance, and investment efficiency. A higher level of market capitalization generally indicates stronger investor confidence in a firm's future prospects, whereas a decline may signal deteriorating expectations or increased perceived risk.

From a theoretical standpoint, the relevance of market capitalization is supported by the efficient market hypothesis, which posits that stock prices, and, by extension, market capitalization, incorporate all publicly available information. Consequently, changes in financial performance, disclosure quality, or macroeconomic conditions are rapidly reflected in market capitalization. Moreover, improvements in firm performance, conveyed through financial results or strategic decisions, are interpreted by investors as positive signals, leading to an increase in market value.

Market capitalization is also central to valuation analysis through its relationship with accounting variables such as book value of equity, revenues, and total assets.

Ratios derived from market capitalization, including the market-to-book ratio, price-to-sales ratio, and market-to-assets ratio, provide additional insights into whether firms are undervalued or overvalued relative to their fundamentals. These multiples are particularly useful in comparative analyses and in cases where traditional profitability measures may be temporarily distorted.

Overall, market capitalization remains a highly relevant indicator for listed companies, as it synthesizes market perceptions, financial performance, and growth expectations into a single, observable measure. Its widespread use in both academic research and professional investment analysis underscores its importance in evaluating firm value and understanding market behavior.

Price-to-Earnings ratio (P/E). The price-to-earnings ratio (P/E ratio) is one of the most widely used indicators for assessing the efficiency of equity investments. It is regarded as a valuation multiple (or market multiple) that indicates how many times investors are willing to pay the net profit attributable to one share (Anghel, et al., 2022). It is calculated as follows:

Price-to-Earnings Ratio = Market capitalization/Net income for the financial year (2)

From the shareholders' perspective, the P/E ratio reflects the number of years required to recover the investment in shares through the profits generated by the company. A lower P/E ratio indicates superior market performance and suggests that the company is more attractive to investors.

From a theoretical perspective, the relevance of the P/E ratio can be explained through the lens of *value relevance theory*, which posits that accounting information is useful to investors to the extent that it is reflected in stock prices. Earnings figures, as a core component of financial reporting, play a central role in firm valuation models; consequently, the P/E ratio provides a synthetic measure of how earnings are capitalized by the market (Anghel *et al.*, 2022). A higher P/E ratio suggests that investors anticipate stronger future earnings growth or lower perceived risk, whereas a lower P/E ratio may indicate undervaluation or weaker growth expectations.

Firms with stable and sustainable earnings are more likely to command higher valuation multiples, as investors interpret such performance as a credible signal of favorable future prospects. Reserchers highlight that the P/E ratio reflects the number of years required for shareholders to recover their investment through net profits, reinforcing its interpretation as an indicator of investment efficiency from the shareholders' perspective.

In addition, within the context of the efficient market hypothesis, publicly available earnings information is rapidly incorporated into stock prices, implying that changes in earnings or market prices directly affect the P/E ratio. As a result, the P/E ratio serves as a concise indicator of how financial performance is translated into market valuation.

Overall, the P/E ratio occupies a central position in empirical studies on listed companies, functioning as a bridge between accounting-based performance measures and market-based valuation indicators. Consistent with Penman, its widespread use in financial analysis stems from its ability to synthesize information on profitability, growth expectations, and investor sentiment into a single, interpretable metric (Penman, 2013).

Market-to-Book (M/B) ratio. The market capitalization to book value of equity ratio, commonly referred to as the market-to-book (M/B) ratio, is a widely used market-based indicator for assessing the valuation of listed companies. The ratio compares the market value of a firm's equity with its accounting book value, thereby capturing the extent to which investors value the firm beyond its recorded net assets. As such, the market-to-book ratio reflects both current financial performance and expectations regarding future growth opportunities.

From a theoretical perspective, the relevance of the market-to-book ratio is grounded in value relevance theory, which argues that accounting information is useful to investors insofar as it is reflected in market valuations. While book value of equity represents the historical accumulation of shareholders' investments adjusted for retained earnings, market capitalization incorporates forward-looking assessments of profitability, risk, and growth potential. A market-to-book ratio equal to one indicates a close correspondence between accounting value and market valuation, whereas deviations from unity signal differences between recorded financial performance and market expectations.

Values of the market-to-book ratio below one are generally interpreted as an indication of undervaluation, often associated with negative investor sentiment, limited growth prospects, or heightened perceived risk. Conversely, ratios exceeding one suggest that the market attributes a premium to the firm's equity, reflecting optimistic expectations regarding future cash flows, innovation capacity, or competitive advantages. The market-to-book ratio captures how financial performance and strategic signals are interpreted and capitalized by investors.

Empirical studies consistently document the importance of the market-to-book ratio in explaining firm valuation, stock returns, and investment behavior.

Overall, the market-to-book ratio represents a critical link between accounting-based measures and market-based valuation. Its relevance for listed companies lies in its ability to synthesize historical financial information with investor expectations, making it an essential indicator for comparative analysis, valuation assessment, and empirical research on capital market performance.

Price-to-Sales Ratio. The market capitalization to revenue ratio, commonly known as the price-to-sales (P/S) ratio, is a market-based valuation indicator that relates a firm's market value to its total revenues. It is particularly relevant for listed companies with low or negative net income, for which traditional profitability-based multiples, such as the price-to-earnings ratio, may provide limited or distorted information.

From a theoretical perspective, the P/S ratio captures investors' expectations regarding a firm's ability to convert revenues into future profits and cash flows. Unlike earnings, revenues are less affected by accounting discretion and short-term financial volatility, which enhances the usefulness of the P/S ratio in assessing firms at early stages of development or operating in cyclical industries. Consequently, the ratio is often employed in relative valuation analyses and in comparative studies across firms and sectors.

An increase in the P/S ratio may reflect optimistic market expectations concerning future growth or improvements in operating margins. However, persistently high values can also signal declining operational efficiency if revenue growth is not accompanied by corresponding profitability gains. Conversely, lower P/S ratios may indicate undervaluation or limited growth prospects, depending on the firm's cost structure and competitive position.

Overall, the price-to-sales ratio constitutes a valuable complement to earnings-based valuation metrics, particularly in contexts where profitability measures are less informative. Its relevance for listed companies lies in its ability to link market valuation to revenue-generation capacity, thereby providing additional insights into investor expectations and firm performance.

Market-to-Assets Ratio. The market capitalization to total assets ratio, commonly referred to as the market-to-assets ratio, is a market-based indicator that relates a firm's market value to the book value of its total assets. This ratio provides insights into how investors evaluate the firm's asset base in terms of its ability to generate future economic benefits.

From a theoretical perspective, the relevance of the market-to-assets ratio is supported by value relevance theory, as it reflects the extent to which the accounting value of assets is capitalized by the market. Since total assets are financed by both equity and liabilities, the market-to-assets ratio typically assumes values below unity. Variations in this ratio therefore capture differences in investors' perceptions regarding asset efficiency, risk, and growth potential.

An increase in the market-to-assets ratio is generally interpreted as a positive signal, indicating enhanced investor confidence in the firm's ability to use its assets effectively to generate future cash flows. Conversely, persistently low values may reflect concerns regarding inefficient asset utilization, limited growth opportunities, or elevated financial risk.

Overall, the market-to-assets ratio represents a useful complement to other market-based valuation measures, such as the market-to-book ratio. Its relevance for listed companies lies in its capacity to link asset structure to market valuation, thereby contributing to a more comprehensive assessment of firm value and investor expectations.

3. CONCLUSIONS

Financial performance indicators are highly relevant for listed companies as they provide crucial insights into the company's financial health and operational efficiency. These indicators help investors, analysts, and stakeholders assess the company's profitability, liquidity, solvency, and overall financial stability. Key metrics are commonly used to evaluate the company's performance in comparison to industry standards and competitors. For listed companies, these indicators also play a role in influencing stock prices, attracting investors, and ensuring regulatory compliance.

This paper highlights the continued relevance of financial performance indicators in the analysis of listed companies, emphasizing their role in explaining market valuation and investor behavior. Theoretical perspectives provide a foundation for understanding why accounting-based and market-based indicators are reflected in stock prices and valuation multiples.

Market capitalization emerges as a central indicator of firm value, synthesizing investor expectations regarding profitability, growth prospects, and risk into a single observable measure. Ratios derived from market capitalization, such as the price-to-earnings ratio, market-to-book ratio, price-to-sales ratio, and market-to-assets ratio, further enhance valuation analysis by facilitating comparisons across firms, sectors, and time periods. These indicators are particularly valuable in contexts where traditional profitability measures are limited or distorted, such as in firms with volatile earnings or high growth potential.

At the same time, the findings underscore the importance of interpreting financial performance indicators within an appropriate analytical context. Differences across industries, firm size, and market conditions can significantly influence the informational content of specific indicators. Moreover, the growing importance of intangible assets and non-financial factors suggests that traditional financial indicators should be complemented, rather than replaced, by broader sources of information.

Overall, the study supports the view that financial performance indicators remain essential tools for evaluating listed companies, despite the evolving nature of capital markets. Future research may extend this analysis by incorporating non-financial indicators, exploring non-linear relationships, or examining the relevance of financial indicators across different market regimes and institutional settings.

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