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Impact of Financial Performance Indicators on Market Capitalization and Shareholder Wealth

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ABSTRACT

Financial performance indicators play an important role in evaluating the financial health and growth potential of a company. These indicators help investors, analysts, and stakeholders understand how efficiently a company is managing its resources and generating profits. Common financial performance indicators include profitability ratios, return on investment, earnings per share, and return on equity. These measures provide valuable information about a company's operational efficiency and overall financial stability. When a company shows strong financial performance, it generally increases investor confidence, which can lead to a rise in the company's market capitalization. Market capitalization represents the total market value of a company's outstanding shares and reflects how the market perceives the company's financial strength and future prospects. Similarly, improved financial performance can enhance shareholder wealth by increasing share prices and providing higher returns through dividends or capital gains. On the other hand, poor financial performance may lead to a decline in market value and reduced investor interest. Therefore, analyzing financial performance indicators is essential for understanding the factors that influence variations in market capitalization and shareholder wealth.