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Analysis of Financial Statements in the Context of PEST ——Taking Shanghai Jiahua as an Accounting Example

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Abstract: With the improvement of the living standard of Chinese residents and the formation of consumers' daily cosmetics consumption habits, the market size of China's cosmetics industry is growing constantly, promoting the accelerated development of the domestic cosmetics industry. The future market space is broad, which is both an opportunity and a challenge for the development of China's cosmetics industry. This paper selects Shanghai Jiahua as the case object. Based on the existing relevant theories, first of all, the PEST analysis method is used to make a detailed analysis of the industry environment of the current macro environment in which Shanghai Jiahua is located. Secondly, the financial analysis of Shanghai Jiahua is carried out from four aspects of the company's debt paying ability, operating ability, profitability, and development ability.

1. Introduction

With the development of Internet technology and the progress of science and technology, the beauty industry has ushered in broad sales channels and new opportunities[1]. Technology will provide the beauty industry with all-round, multi-angle, full chain transformation and upgrading, and the deep integration of technology and beauty will broaden the development space of the beauty industry. Internet websites and various mobile application clients have achieved systematic communication through various forms, bringing a large number of sales channels to Shanghai Jiahua, which has also promoted the integration of the cosmetics industry[2].

Shanghai Jiahua is one of the national enterprises with a long history in China's cosmetics and daily chemical industry, focusing on three major areas: beauty, personal care, and mother and baby care. That is, taking consumers as the center and taking brand innovation and channel upgrading as two basic points. Shanghai Jiahua attaches great importance to brand building and has established a leading position in many market segments[3-5]. Shanghai Jiahua has solid and extensive channels, so that its products can reach all consumers in a short time.

2. Analysis of the Current Economic Environment

2.1. Macro Analysis - PEST Analysis

The most commonly used method to analyze an enterprise's macro environment is PEST analysis, which includes four factors: Politics, Economy, Society and Technology.

2.2. Political and Legal Environment

It is precisely because of the supervision of national politics and laws that the cosmetics market has been constantly expanded, and many problems such as consumption and cosmetics production safety have been relatively controlled, which has stabilized the development of the domestic cosmetics industry, promoted healthy and sustainable development, and provided a strong political and legal basis and guarantees for the development of Shanghai Jiahua.

2.3. Economic Environment

It is precisely because of the steady and sustainable development of the national economy, the rising level of residents' income, and the strengthening of domestic circulation and demand that the progress and development of the cosmetics and skin care industry have been further promoted, expanding domestic market demand, and promoting production and consumption[6,7].

2.4. Social Environment

The cosmetics consumer group continued to expand, and related products quickly penetrated into the delicate young generation. From the perspective of consumption frequency, the frequency of cosmetics used by young people has been increasing, and the consumption has gradually changed from optional to mandatory. Young people's attention to appearance has promoted the rapid growth of cosmetics consumption[8].

2.5. Technology Environment

On the national side, the Intellectual Property Office has strengthened the expansion of the application scope of priority examination, conducted a rapid examination of patent applications that have passed the preliminary examination, and the Ministry of Education has continued to optimize the cosmetics professional setting to support the training of talents in the cosmetics field.

In order to strengthen its own advantages and develop distinctive and specialized brands, Shanghai Jiahua should strengthen the research and development of technology, strengthen independent innovation technology and research products with its own unique brand[9].

3. Financial Analysis

3.1. Solvency Analysis

3.1.1. Analysis of Short-Term Liquidity

Short term solvency refers to the ability of an enterprise to repay its current liabilities with current assets. It is an ability of an enterprise to pay its due debts daily, and it is also an important sign to measure the relative liquidity of current assets [10]. Therefore, the following four indicators will be used to analyze the relationship between current liabilities and current assets, including current ratio, quick ratio, cash ratio, and cash flow ratio, to evaluate the short-term solvency of Shanghai Jiahua. As shown in Table 1.

Table 1: Analysis of short-term solvency of Shanghai Jiahua from 2018 to 2021

Ratio/Year	2018Y	2019Y	2020Y	2021Y
Current ratio	1.77	2.05	2.14	2.11
Quick ratio	1.45	1.73	1.84	1.84
Cash ratio	0.41	0.56	0.48	0.5
Cash flow ratio	0.33	0.26	0.22	0.31

The current ratio refers to the ratio between the current assets and current liabilities of an enterprise. It is generally believed that a current ratio of about 2 is appropriate. The current ratios of Shanghai Jiahua from 2018 to 2021 are 1.77, 2.05, 2.14, and 2.11, respectively, which fluctuate around the empirical value 2, indicating that its asset liquidity is good, the enterprise's ability to repay current liabilities is strong, and the current liabilities are guaranteed to be repaid. Therefore, the enterprise should adopt an active sales strategy to reasonably speed up the inventory turnover.

The quick ratio reflects the proportion of quick assets and current liabilities. This indicator excludes inventories and prepayments with poor liquidity and instability, and includes cash, accounts receivable, and other assets that can be quickly realized, to further measure the short-term solvency of enterprises.

Cash ratio is the ratio of cash assets and current liabilities of an enterprise. According to the calculation, the cash ratio of Shanghai Jiahua since 2018-2021 is about 0.5, which shows that the enterprise has a good paying ability and debt repayment is guaranteed. At the same time, this data also reflects that the enterprise has more cash assets with low profitability, and the enterprise should consider further improving the utilization efficiency of assets.

The cash flow ratio is the ratio of the net cash flow from operating activities to current liability, which dynamically reflects the ability of the net cash flow from operating activities to pay current liabilities. In the middle of 2020, due to the impact of the epidemic, the cash flow ratio of Shanghai Jiahua has declined significantly.

Based on the comprehensive analysis of the above four short-term solvency indicators, Shanghai Jiahua's current liabilities are mostly composed of accounts payable and non current liabilities within one year. They are generated by occupying the funds of upstream and downstream enterprises. As long as the normal operation of business activities can be guaranteed, there is no need to worry about debt repayment. At the same time, except for the decline of some financial indicators affected by the epidemic environment in 2020, most of the other indicators are within the normal range, so the enterprise has a strong short-term solvency.

3.1.2. Long Term Solvency Analysis

Table 2: Analysis of long-term debt paying ability of Shanghai Jiahua from 2018 to 2021

Ratio/Year	2018Y	2019Y	2020Y	2021Y
Asset liability ratio (%)	42.79	43.61	42.46	44.67
Equity ratio	74.78	77.35	73.79	74.42
Long term capital liability ratio (%)	22.17	24.11	22.81	22.07
Debt service coverage ratio	6.5	6.49	7.45	5.22

As an important indicator to evaluate the solvency of enterprises, long-term solvency refers to the ability of enterprises to repay long-term debts. The long-term creditors and owners of the enterprise are concerned about the short-term solvency of the enterprise, and more concerned about the long-term solvency of the enterprise. Therefore, after analyzing the short-term solvency, we also need to analyze the long-term solvency of the enterprise so that creditors and investors can have a more comprehensive understanding of the enterprise's solvency and financial risks. The long-term liabilities of enterprises are mainly used for long-term investment, and the income generated from investment is used to repay the interest and principal. The stronger the long-term solvency is, the stronger the financial ability of the company to deal with risks is. As shown in Table 2.

Asset liability ratio is the ratio of total liabilities to total assets of an enterprise, which reflects the proportion of liabilities to assets, the proportion of debt obtained in the total assets of an enterprise, the level of liability of an enterprise, and the comprehensive ability of an enterprise to repay its debts. Under the condition of full consideration of various factors inside the enterprise and the external market environment of the enterprise, it can play the role of financial leverage by appropriately increasing the liabilities of the enterprise, to expand the production scale, open up new markets, increase the vitality of the enterprise, and obtain more profits.

The equity ratio is actually another form of asset liability ratio, which is the ratio of total liabilities to total shareholders' equity. It can be seen from the data in table 2 that the property right ratio of Shanghai Jiahua fluctuates slightly and remains at about 75%, which means that the capital of enterprise shareholders can be sufficient to repay the capital provided by creditors, which is a safe loan for enterprise creditors. Thus, we know that the company's risk is small, and it is a financial structure with good risk management and control.

The long-term capital liability ratio is the ratio of long-term liabilities to total assets, which is used to reflect the proportion of long-term interest bearing liabilities that enterprises need to repay in the total long-term working capital. Therefore, the proportion should be less than 20%. According to the data in the table, the long-term asset liability ratio of Shanghai Jiahua is slightly higher than 20%, which is a relatively appropriate ratio. It has few and stable long-term liabilities, low debt repayment pressure, good production and operation conditions, and strong long-term debt repayment ability.

The debt service guarantee ratio reflects the time required to repay all debts to the net cash flow generated by the enterprise's operating activities. Therefore, the debt service guarantee ratio can be used to measure the ability of the enterprise to repay debts with the cash obtained from operating activities. The lower the ratio, the stronger the enterprise's ability to repay debts. It can be seen from the data in the table that the debt service guarantee ratio of Shanghai Jiahua has remained stable and in a low state for a long time, indicating that the enterprise has a strong ability to repay debts

3.1.3. Comprehensive Analysis of Solvency

According to the above analysis of solvency indicators, Shanghai Jiahua has strong short-term solvency and long-term solvency. As a light asset operation enterprise, Shanghai Jiahua adopts a profit model of light asset operation, which reduces the interest bearing debt ratio of the enterprise and improves the interest-free debt ratio. By integrating the resources of upstream and downstream enterprises in the supply chain, enterprises can obtain a large number of interest-free debts, which reduces the financial pressure of enterprises and enhances the solvency. According to the analysis of various indicators of Shanghai Jiahua's debt paying ability, all ratios tend to be normal. Even though some indicators will decline in 2020 due to the impact of the epidemic environment, on the whole, Shanghai Jiahua's debt paying ability is still stronger than that of the same industry.

3.2. Operational Capacity Analysis

The operation capability analysis is to analyze the ability of an enterprise to operate, manage, and use funds. It is to measure the utilization efficiency of enterprise funds by analyzing the relevant measures of the turnover speed of enterprise operation funds, and reflect the capital turnover status, operation status, and operation and management level of the enterprise. The faster the turnover rate of operating capital is, the better the effect of capital utilization is, the higher the efficiency is, and the stronger the enterprise's operation and management ability is. The evaluation of enterprise operation capability mainly includes the analysis of inventory turnover, the analysis of account receivable turnover, and the analysis of total assets turnover, as shown in Table 3.

Table 3: Analysis on the Operation Capacity of Shanghai Jiahua in the Third Quarter of 2018-2021

Ratio/Year	2018Y	2019Y	2020Y	2021Y
Inventory turnover rate	3.27	3.22	3.14	3.63
Days of inventory turnover	110.09	111.8	114.65	99.17
Turnover rate of accounts receivable	7.29	6.72	6.07	6.96
Days sales outstanding	49.38	53.57	59.31	51.72
Turnover rate of current assets	1.56	1.43	1.17	1.18

As an indicator reflecting the liquidation speed of an enterprise's inventory, the inventory turnover rate can well measure the sales ability of an enterprise and whether the inventory is excessive. However, according to the data analysis in 2021, the brand of Shanghai Jiahua has been continuously optimized and its channel operation has been continuously upgraded. In 2021, the number of days of inventory turnover decreased by 11 days, the number of days of accounts receivable turnover decreased by 3 days, and the operating cash flow increased by 54.3% year on year. Therefore, we can learn that the new development strategy of Shanghai Jiahua has achieved initial success, and the efficiency of inventory management has been significantly improved.

From the vertical data, the turnover rate of accounts receivable in Shanghai Jiahua continued to decline from 2018 to 2020. Among them, the accounts receivable at the end of 2019 increased by 19.28% to 1.229 billion yuan compared with the beginning of 19, and the turnover rate of accounts receivable slowed down by 6.73, compared with 7.29 in 2018, mainly due to the adjustment of the business model of e-commerce channels and the lengthening of the opposite party's payment cycle. The turnover days of accounts receivable in 20 years were 59 days, up from 53 days in 19 years. However, since 2021, the turnover rate of accounts receivable of Shanghai Jiahua has improved; the turnover days of accounts receivable were 52 days, down 3 days year on year, and the liquidity of assets was strengthened.

In addition, the current asset turnover rate and fixed asset turnover rate are similar to the development trend of inventory turnover rate and account receivable turnover rate. After a continuous decline in 2018-2020, both of them have achieved good development under the new development strategy in 2021. We can learn that Shanghai Jiahua's overall management level of fixed assets and current assets has been strengthened, and the utilization rate has gradually increased.

Table 4: Comparison of asset utilization efficiency between Shanghai Jiahua and the same industry in 2021

Ratio/Year	Same industry	Shanghai Jiahua
Inventory turnover rate	3.5	3.14
Turnover rate of accounts receivable	15.53	6.07
Turnover rate of current assets	1.76	1.17
Turnover rate of fixed assets	6.72	6.57

Overall, with the continuous optimization of Shanghai Jiahua brand, the channel operation has been upgraded. Private domain operation and digital transformation of channel end layout, quality improvement and efficiency enhancement of internal functional departments, and significant improvement in operational efficiency of each channel in 2021. Therefore, even though the data of operational capacity indicators in 2018-2020 are not ideal, we still have a positive attitude towards its future operational capacity as its internal structure continues to optimize and the external market continues to expand, as shown in Table 4.

3.3. Profitability Analysis

Profitability reflects the ability of an enterprise to obtain profits. Profitability is an important business objective of an enterprise and the material basis for its survival and development. It is not only related to the return on investment of enterprise owners, but also an important indicator for enterprises to repay debts. At the same time, profitability analysis is also an important basis for evaluating the operation and management of enterprises. Therefore, creditors, owners, and managers of enterprises attach great importance to the profitability of enterprises.

Table 5: Profitability Analysis of Shanghai Jiahua from 2018 to 2021

Ratio/Year	2018Y	2019Y	2020Y	2021Y
Gross profit rate of sales (%)	62.79	61.88	59.95	58.73
Net profit margin on sales (%)	7.57	7.33	6.12	8.49
Return on total assets (ROA)	5.47	5.23	3.83	5.54
Return on equity (ROE)%	9.66	9.21	6.73	9.65

It can be seen from Tables 5 that since 2018-2021, the gross profit margin of Shanghai Jiahua's sales has generally fluctuated and increased. Due to the influence of e-commerce business's constant optimization of various rates, department stores' closure of low unit output counters, optimization of store personnel, and optimization of logistics rates, its sales expenses and management expenses will be reduced for the first time in 2021. This shows that while expanding the sales scale, Shanghai Jiahua should also pay attention to whether the business management model is in line, and an appropriate business management model can effectively improve the profitability.

Return on total assets (ROA) is the proportional relationship between the company's total profits and average total assets. Return on shareholders' equity (ROE) is the percentage of net profits and owner's equity. These two indicators are the core indicators to measure the profitability of enterprises. These two indicators show a significant decline in 2018-2020, mainly due to the decline in the growth rate of net profits of Shanghai Jiahua.

The rate of return on shareholders' equity is the ratio between the net profit of an enterprise in a certain period and the average total amount of shareholders' equity. The higher the ratio, the stronger the profitability of the enterprise. It can be seen from the data that due to the low asset utilization efficiency of Shanghai Jiahua and the relatively conservative business model, the ability of enterprises to use financial leverage is not strong. Therefore, from 2018 to 2020, the return on shareholders' equity has declined.

In general, we will hold a positive attitude towards the future profitability of the enterprise and continue to look forward to the brand renaissance of the old domestic product group.

3.4. Development Capacity Analysis

Development ability, also known as growth ability, refers to the growth ability of enterprises in the process of operating activities, such as the expansion of scale, the continuous growth of profits, and the enhancement of market competitiveness. The following will analyze the development capability of the enterprise by analyzing specific indicators such as sales growth rate and asset growth rate.

Table 6: Analysis of Shanghai Jiahua's Development Capacity from 2018 to 2021

Ratio/Year	2018Y	2019Y	2020Y	2021Y
Sales growth rate (%)	10.01	6.43	-7.43	8.73
Asset growth rate (%)	5.79	9.72	1.33	7.53
Operating profit growth rate (%)	34.01	8.34	-23.77	40.95
Net profit growth rate (%)	38.63	3.09	-22.78	50.92
Net asset growth rate (%)	8.12	8.13	3.4	7.14

According to the data in Table 6, the growth rate of business income of Shanghai Jiahua slowed down in 2019 and showed a negative growth in 2020, which is due to the fact that Shanghai Jiahua was in the period of brand structure adjustment in 2019.

4. Conclusions

On the whole, in 2021, with the improvement of the epidemic situation and the enterprise's efforts to expand the market and continue to explore online sales, subordinate retail terminals will continue to promote standardized management, strengthen internal control capabilities, enhance risk prevention capabilities, and improve terminal service levels; the growth rate of operating profit exceeded the expectation, the growth rate of revenue performance increased, and the overall development capacity of Shanghai Jiahua Enterprises increased. The enterprise should continue to comply with the development trends of the times, innovate the marketing model, establish a good brand image, and continue to improve its comprehensive strength.

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