Financial Performance Analysis of Anta Sports Strategic Transformation--Based on Dupont Analysis

Huiran Hu

College of Business and Economics, Australian National University, Canberra, Australia

Keywords: Strategic transformation, Anta, Dupont analysis method

Abstract: Taking Anta Sports as an example, this article explores the impact of its transformation on company performance through empirical analysis using DuPont analysis. In order to compare the performance changes of Anta Sports before and after the strategic transformation, the research selected companies in the same industry, Li Ning and Xtep Sports, to compare with Anta Sports, and conducted a horizontal comparison of their main indicators, in order to provide reference suggestions for China's sports brand diversification strategy.

1. Introduction

Anta Sports is a leading sportswear company based in China, which has undergone a significant strategic transformation in recent years. In 2014, it officially proposed a development strategy of “single focus, multiple brands, and all channels”; In this strategy, Anta Sports focuses on the sports footwear industry[1]; In the development of multiple brand strategies, Anta Sports has continuously improved its multi brand strategy by continuously purchasing various brands after its phased success in FILA. From 2015 to now, Anta has successively acquired DiSant and Xiaoxiaoniu as low-end product series, respectively exploring the ski sports market and children's footwear market; In 2018, Anta announced a significant investment in the acquisition of Yamafin Sports, and completed the acquisition of its market in 2019. During the implementation of the omnichannel strategy, Anta Sports has expanded its sales field and reduced inventory risk by using flexible supply chain management, ERP system real-time monitoring, and online and offline marketing networks. When Anta first went public in 2007, its revenue was 3.19 billion yuan. By 2021, its revenue reached 49.328 billion yuan, surpassing Li Ning as the industry leader. From this point, it can be seen that the strategic transformation of Anta Sports has strong representativeness and effectiveness.

2. Dupont Analysis System

DuPont analysis method is a financial analysis method that focuses on the rate of return on net assets. It comprehensively analyzes and evaluates a company's profitability, operating ability, and solvency to fully reflect the company's operating conditions. This financial analysis method is mainly used to analyze the interrelationship of various financial indicators, calculate the product of various indicators and parameters, and then compare them with the company's operational performance to ultimately identify problems in its operation. DuPont's analysis method organically combines the relationship between business efficiency, profitability indicators, and financial indicators to form a complete indicator system that comprehensively reflects the business situation of the enterprise through the rate of return on equity, allowing managers to better grasp the factors that affect the enterprise's income[2].

3. Analysis of the Financial Performance of Anta Sports Strategic Transformation Based on Dupont Analysis Method

3.1 Relevant Analysis of Operating Margin Indicators (Profitability Analysis)

3.1.1 Overall Analysis of Operating Margin

(1) Comparative Analysis of Anta Sports operating margin

The net operating margin measures the efficiency of a company in generating profits from its primary operations.

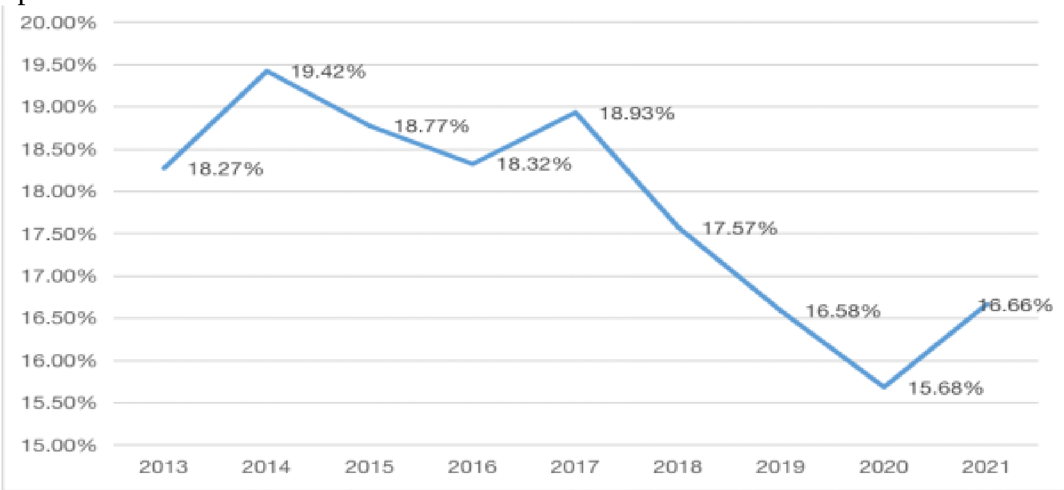


Fig.1 Change in Net Operating Margin of Anta Sports from 2013 to 2021

The operating net interest rate of Anta Sports showed a trend of first decreasing and then increasing during 2013-2021 (See Figure 1). The slight increase in net operating profit margin between 2013 and 2014 was mainly due to the inventory crisis in 2012. Anta subsequently actively improved its sales channels and made strategic adjustments in 2013 and 2014. After 2014, the overall operating net profit margin of the company declined, mainly due to the company's acquisition of brands such as Spandy, Disant, and Yamafin in order to develop a multi brand strategy. In 2017, there was a short-term increase in the net operating profit rate, which was due to the increase in government subsidies and the increase in the income of financial assets, reducing the interest on fiscal debt; In 2018, the net operating profit rate decreased, mainly due to the significant increase in financial debt interest brought by Yamafin Sports, making the increase in net profit smaller than the increase in operating income; The significant decline in the operating net interest rate in 2019 was largely due to the fact that Yamafin Sports obtained higher financial debt interest rates at the end of 2018 and shared the losses of the joint venture, resulting in a significant decrease in net income. In 2020, due to the impact of the epidemic and the launch of DTC transformation, as well as the consolidated loss of the joint venture AS Holding of 600 million yuan and the impact of Euro convertible bonds of 340 million yuan at any time, the net operating profit continued to decline. In 2021, the rebound in operating net interest rates was mainly due to the easing of the epidemic and the success of DTC transformation, as well as the reduction of losses by AS Holding and the positive conversion of exchange gains and losses[3].

3.1.2 Specific Analysis of the Impact of Strategic Transformation on Operating Revenue

(1) Comparative analysis of Anta Sports' own revenue profile

The operating revenue of an enterprise is the most intuitive indicator reflecting its profitability. Therefore, the operating revenue data of Anta Sports from 2013 to 2021 was selected for analysis (See Figure 2). Anta Sports showed a trend of overall growth in operating revenue from 2013 to 2021, with a nearly 7-fold increase from 7.281 billion yuan in 2013 to 49.328 billion yuan in 2021. In terms of revenue growth rate, except for negative revenue growth in 2013, revenue growth was positive from 2014 to 2021, especially in 2018 and 2019, where revenue growth exceeded 40%. In 2020, due to the impact of the epidemic and the launch of DTC transformation, the company's revenue growth significantly slowed down. In 2021, with the alleviation of the impact of the epidemic, DTC transformation made phased progress, and its operating revenue increased by 45.52% compared to 2019. From this point, it can be seen that the profitability of Anta Sports has been significantly improved after the strategic transformation. The omnichannel marketing strategy allows Anta Sports to have more channels for sales of its products. Supply chain management can reduce the risk of inventory crises, while the implementation of a multi brand strategy allows Anta Sports to cover multiple consumer groups and improve its profitability.

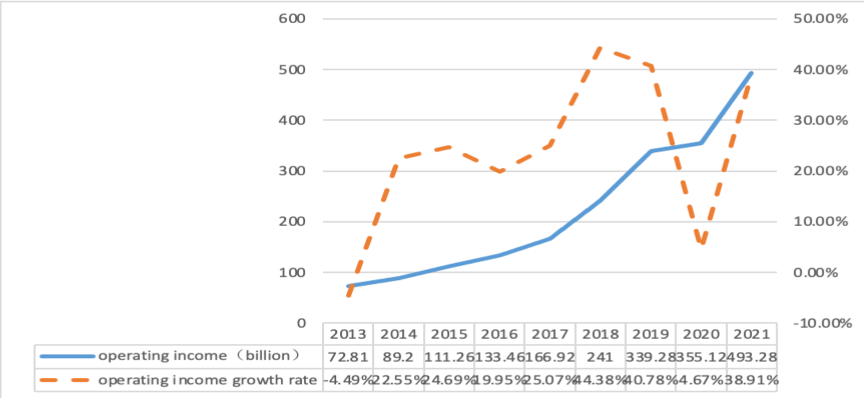


Fig.2 Anta Sports Revenue and Growth Rate Change 2013 to 2021

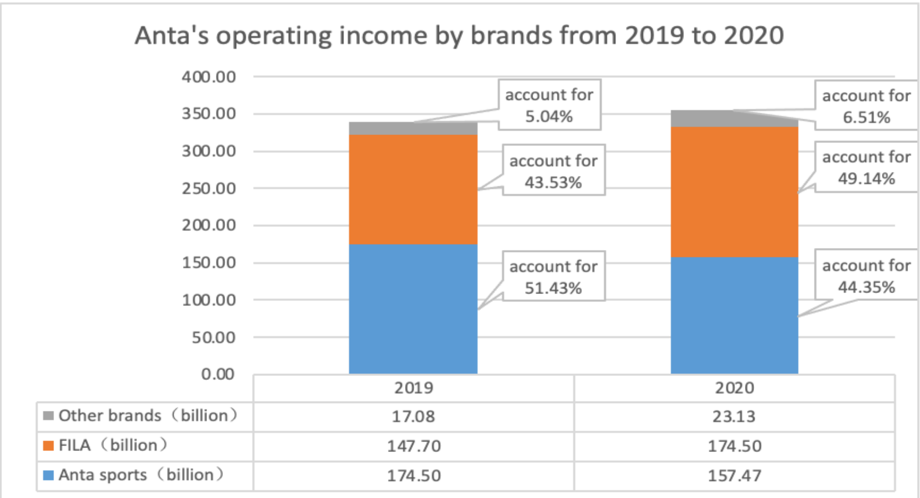
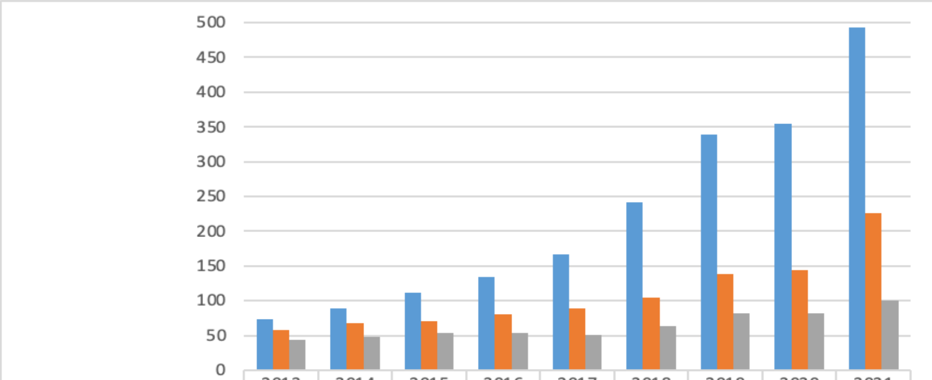


Fig.3 Anta Operating Income by Brands from 2019 to 2020

In terms of operating revenue, the FILA brand surpassed the Anta brand in 2020, increasing by 18.1% to 17.45 billion yuan compared to 2019, contributing 49.1% to the overall operating revenue of Anta Sports(See Figure 3). In terms of gross profit, the performance of the FILA brand is more prominent, increasing from 10.402 billion yuan in 2019 to 12.092 billion yuan in 2020, accounting for 58.56% of the total gross profit, surpassing the main brand of Anta by 24.5%. The growth of FILA brand revenue mainly benefited from the growth of e-commerce. In 2020, the operating revenue of Anta, another major brand, decreased by 9.7% to 15.749 billion yuan, accounting for 44.3% of the overall operating revenue of Anta Sports. In addition to the two main brands of Anta and FILA, other brand incubation models of Anta Sports are also becoming increasingly mature. Driven by the business of Disant and KOLON SPORT, the operating revenue of other brands reached 2.313 billion yuan in 2020, an increase of 35.4% compared to 2019. The gross profit also increased from 1.056 billion yuan in 2019 to 1.524 billion yuan. The above shows that Anta Sports' multi brand strategy has a positive impact on the company's profitability, while the reason why other brands' revenue growth is relatively slow is that brand building requires a long process and it is impossible to achieve sudden results in a short period of time. The successful experience of the FILA brand has a certain reference value for the shaping of other brands in Anta. However, as the mergers and acquisitions of other brands have not achieved significant results, the company must always pay attention to the risks of brand integration.

(2)Comparative Analysis of Revenue between Anta Sports and Enterprises in the Same Industry. In order to gain a better understanding of Anta Sports' level of operations within its industry, the following comparison has been compiled of revenue data for two companies in the same industry, Li Ning and Xtep Sports, as shown in Figure 4:



	2013	2014	2015	2016	2017	2018	2019	2020	2021
Anta sports（billion）	72.81	89.23	111.26	133.46	166.92	241	339.28	355.12	493.28
LiNing（billion）	58.24	67.28	70.89	80.15	88.74	105.11	138.7	144.57	225.72
Xtep Sports（billion）	43.43	47.78	52.95	53.97	51.13	63.83	81.83	81.72	100.13

Fig.4 Comparison of Operating Revenue of Companies in the Same Industry from 2013 to 2021

From 2013 to 2021 (See Figure 4), the operating income of Anta Sports was higher than that of Li Ning and Xtep sports. The income difference between the three companies in 2013 was not significant, but in the next few years, the difference gradually widened. Li Ning and Xtep Sports have undergone strategic transformation before and after 2014 and 2015, but their transformation results are not as effective as Anta Sports. The operating revenue of Anta Sports in 2013 was 7.281 billion yuan, but by 2021 it had reached 49.328 billion yuan, nearly seven times the operating revenue of 2013, with a rapid growth trend.

In summary, the strategic transformation of Anta Sports is conducive to improving the company's profitability. An omnichannel marketing strategy allows the company to sell products from multiple channels, while multiple brand strategies can better meet the different needs of customers. A complete supply chain management and ERP system can achieve real-time monitoring of inventory and sales, reduce inventory issues, and provide guidance to retailers in a timely manner. By virtue of its synergy, Anta Sports has increased its profit level and improved the company's core competitiveness, making its profit level a leading position among similar companies.

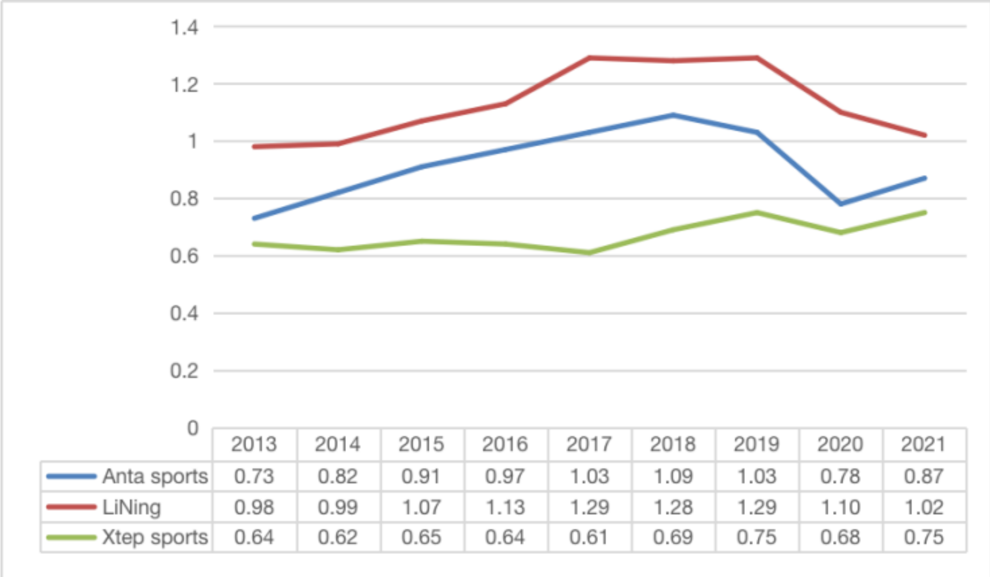
3.2 Correlation Analysis of Total Asset Turnover Index (Operating Capacity Analysis)

3.2.1 Overall Analysis of Total Asset Turnover

The total asset turnover ratio is the ratio of an enterprise's operating revenue to its average total assets over a period of time, and is commonly used to determine the operating capacity of the enterprise in the DuPont analysis system.

The following is a comparison of the total asset turnover rates of Anta Sports, Li Ning, and Xtep sports in order to better analyze the operational capacity of Anta Sports (See Figure 5).The total asset turnover rate of Anta Sports in 2013-2021 showed a trend of fluctuating growth. However, compared with other two industry companies, the total asset turnover rate of Anta Sports in 2013-2021 was always lower than that of Li Ning. Compared with Li Ning, there is still a problem of insufficient asset operation efficiency.

In the strategic transformation of Anta Sports, the company gradually realized the transformation of its business model in 2014, transforming from a traditional wholesale model to a combination of wholesale and retail. Through a flat business approach and flexible supply chain, it can monitor the inventory and sales situation of retailers in real time, thereby helping enterprises overcome inventory crises and enhance their business capabilities. In addition, the implementation of Anta's multi brand strategy has also contributed a significant portion of Anta Sports' revenue, with FILA's revenue accounting for almost half of the entire company's revenue. Therefore, the significant increase in corporate revenue brought about by the development of multi brand strategy is also conducive to the improvement of corporate operating capacity.

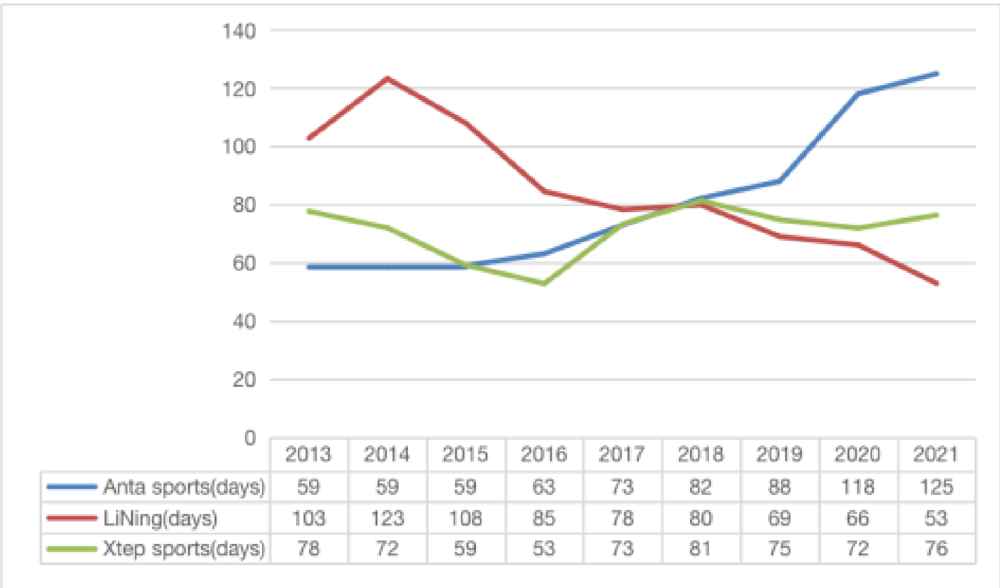


	2013	2014	2015	2016	2017	2018	2019	2020	2021
Anta sports	0.73	0.82	0.91	0.97	1.03	1.09	1.03	0.78	0.87
LiNing	0.98	0.99	1.07	1.13	1.29	1.28	1.29	1.10	1.02
Xtep sports	0.64	0.62	0.65	0.64	0.61	0.69	0.75	0.68	0.75

Fig.5 Comparison of Total Asset Turnover Ratio of Companies in the Same Industry from 2013 to 2021

3.2.2 Analysis of Other Relevant Indicators of Enterprise Operating Capacity

Anta Sports is mainly engaged in the production and sales of products, and its operating capacity mainly focuses on the turnover of product inventory and accounts receivable. Therefore, this article selects the inventory turnover days and accounts receivable turnover days of companies in the same industry from 2013 to 2021 to compare and analyze the operation status of Anta Sports (See Figure 6 and Figure 7).



	2013	2014	2015	2016	2017	2018	2019	2020	2021
Anta sports(days)	59	59	59	63	73	82	88	118	125
LiNing(days)	103	123	108	85	78	80	69	66	53
Xtep sports(days)	78	72	59	53	73	81	75	72	76

Fig.6 Comparison of Average Inventory Turnover Days for Companies in the Same Industry from 2013 to 2021

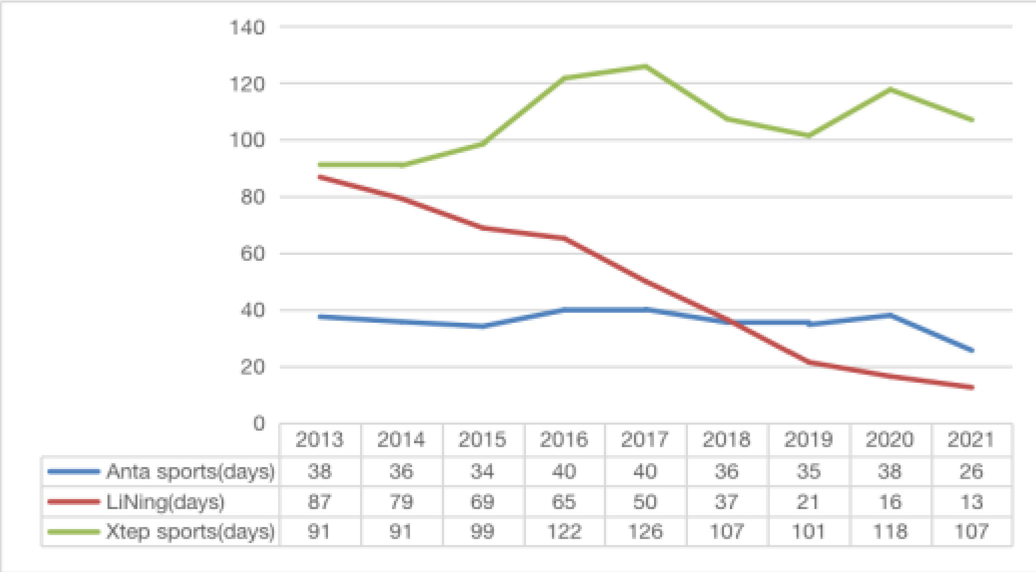


Fig.7 Comparison of Turnover Days of Accounts Receivable among Companies in the Same Industry from 2013 to 2021

The inventory turnover rate of Anta Sports in 2015 and prior years was lower than that of Li Ning and Xtep Sports, and Anta's inventory turnover rate has been increasing since 2015, especially after 2018, surpassing the other two companies. This is because Anta is a distribution model, while FILA's sales channel is a direct sales model, and its products are produced, distributed, and sold by the company itself, Therefore, the inventory turnover cycle is much longer than the previous distribution model. In 2020, due to the impact of the epidemic, many original sports events were canceled, and the number of customers' consumption also decreased, resulting in an increase in the inventory backlog. Meanwhile, in the second half of 2020, the proportion of DTC transformation direct sales increased, which also led to an increase in the number of days of inventory turnover.

The turnover days of accounts receivable of Anta Sports are relatively stable. Before 2019, the turnover rate of accounts receivable of Anta Sports was lower than that of the other two companies, which also indicates that Anta's operating condition is relatively stable and the turnover days of accounts receivable fluctuated slightly, mainly due to the excellent control of Anta Sports supply chain, which can monitor the company's inventory and sales situation in real time, and provide timely guidance to dealers, thereby improving the company's operational efficiency and ability to withstand risks. After 2020, the turnover days of accounts receivable have accelerated, which is due to the decrease in accounts receivable due to the lower proportion of wholesale sales under DTC transformation.

3.3 Relevant Analysis of Financial Leverage Indicators (Solvency Analysis)

Equity multiplier, which is the ratio of total assets to total owner's equity, is commonly used to measure a company's long-term solvency.

As shown in Figure 8, the equity multiplier of Anta Sports changed relatively smoothly from 2013 to 2018, while it changed significantly in 2018-2019. This is largely because Anta completed its acquisition of Yamafin in March 2019, spending a total of 36.67 billion yuan on Anta Sports. This huge acquisition price is even higher than Anta Sports' revenue for the entire year of 2019. As a result, Anta increased the company's long-term debt through bank loans, greatly increasing the company's equity multiplier in 2019, and also increasing the company's financial risk. In 2020, Anta Sports issued 1 billion euros of zero interest guaranteed convertible bonds due in 2025 to alleviate the financial pressure caused by the acquisition of Amafin.

In order to better analyze the impact of strategic transformation on corporate solvency, financial analysis is conducted from two perspectives: short-term solvency and long-term solvency.

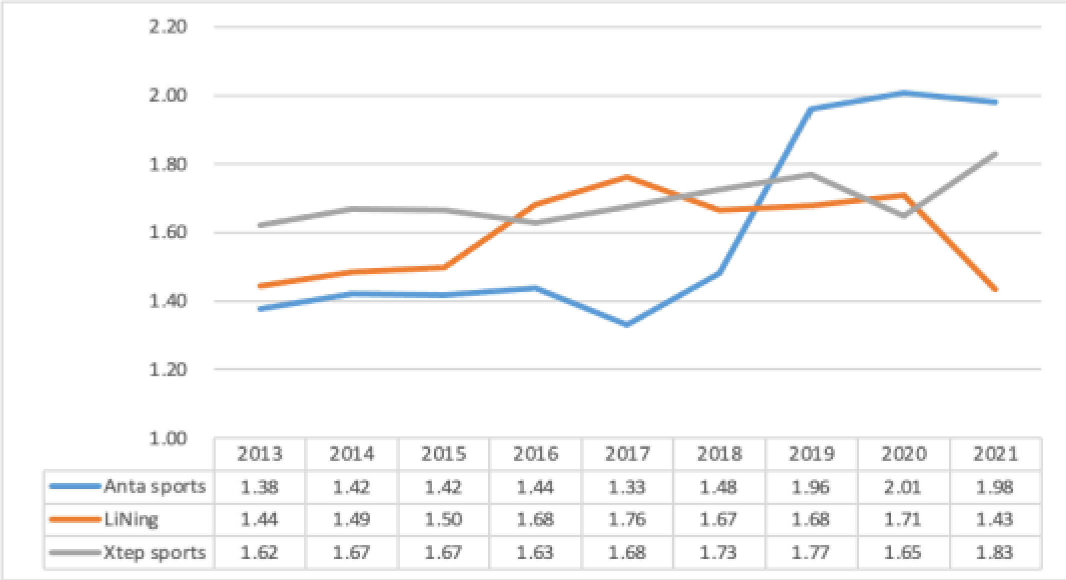


Fig.8 Comparison of Equity Multipliers of Enterprises in the Same Industry from 2013 to 2021

3.3.1 Comparative Analysis of Relevant Indicators of Short-Term Solvency

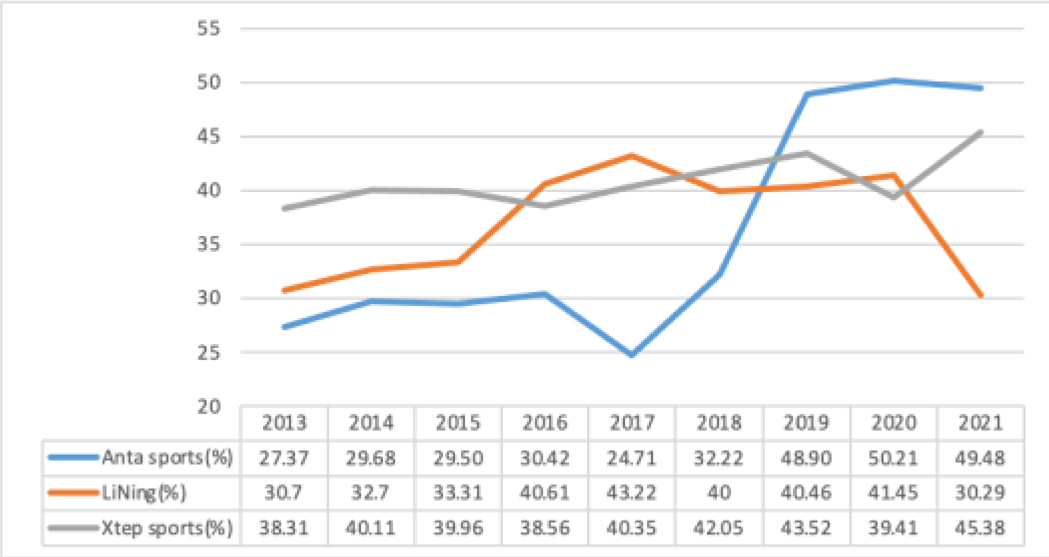
In terms of short-term debt repayment ability, it can be seen that the overall liquidity ratio of Anta Sports has shown a fluctuating downward trend in recent years. In 2013-2017, the current ratio and quick ratio of Anta Sports were generally higher than those of Li Ning and Xtep Sports, indicating that Anta Sports' short-term debt repayment ability is still strong in the industry. However, in 2019, its current ratio and quick ratio decreased significantly, mainly due to the acquisition of Amafin Sports by Anta Sports in 2019. Due to the large scale of the acquiree, Anta used a large amount of cash payments to avoid dilution of control rights in the acquisition, resulting in an increase in the company's short-term financial leverage. This indicates that the strategic transformation of enterprises has a certain degree of negative impact on short-term debt repayment ability (Table 1).

Table 1 Comparison of Short-Term Solvency Indicators of Enterprises in the Same Industry from 2013 to 2021

		2013	2014	2015	2016	2017	2018	2019	2020	2021
Current ratio	Anta	3.18	2.93	2.85	2.68	3.43	2.55	1.88	2.79	2.50
	LiNing	1.96	1.48	2.22	1.74	2.40	2.30	1.81	1.95	2.42
	Xtep	2.70	2.96	2.38	2.38	3.17	2.46	2.52	2.71	2.57
Quick ratio	Anta	2.91	2.66	2.57	2.38	2.95	2.17	1.52	2.32	2.02
	LiNing	1.50	0.99	1.83	1.38	1.88	1.85	1.51	1.68	2.19
	Xtep	2.47	2.71	2.24	2.23	2.88	2.20	2.24	2.41	2.21

3.3.2 Comparative Analysis of Relevant Indicators of Long-Term Solvency

As shown in Figure 9, The asset-liability ratio changed relatively smoothly from 2013 to 2021, with Anta Sports' asset-liability ratio reaching 48.90% in 2019, a significant change compared to the past, which is basically consistent with the trend of changes in the equity multiplier. The asset-liability ratio of Anta in 2013-2017 is far lower than that of Li Ning and Xtep Sports, which indicates that Anta has a strong long-term debt repayment ability and a weak leverage utilization ability. After 2018, Anta's asset liability ratio has risen sharply and surpassed the other two companies. This is also mainly due to the acquisition of Yamafin Sports in 2019, coupled with the unsatisfactory performance of other international brands acquired under the multi brand strategy. At the same time, Yamafin Sports realized a net loss of up to 1.2 billion yuan in 2019, and Anta needs to bear a loss of 630 million yuan. In addition, as the epidemic began to spread globally in 2020, the performance of Yamafin Sports in the European and American markets has also been hit, and the loss area has significantly increased, which has also led to a high asset liability ratio of Anta Sports.



	2013	2014	2015	2016	2017	2018	2019	2020	2021
Anta sports(%)	27.37	29.68	29.50	30.42	24.71	32.22	48.90	50.21	49.48
LiNing(%)	30.7	32.7	33.31	40.61	43.22	40	40.46	41.45	30.29
Xtep sports(%)	38.31	40.11	39.96	38.56	40.35	42.05	43.52	39.41	45.38

Fig.9 Balance Sheet Comparison of Companies in the Same Industry from 2013 to 2021

4. Major Findings and Suggestions

4.1 Major Findings

(1) Expense risk. Anta Sports has invested heavily in its channel expansion strategy, including store rent, employee salaries, and marketing promotion. In addition to the transformation of DTC's direct sales model in recent years, without the buffer of dealers, the sharp decline in terminal sales and the increase in inventory will directly and negatively affect the operating costs of Anta Sports.

(2) Operational capacity risk. The transformation of Anta's direct sales model makes the sales terminal of the enterprise no longer a dealer, but a consumer, which will lead to an increase in store inventory, resulting in a longer inventory turnover cycle. After the transformation of sales model of Anta Sports, the number of inventory turnover days has increased rapidly, indicating that the liquidity of inventory has decreased and the efficiency of inventory management needs to be strengthened.

(3) Solvency risk. Anta's merger and acquisition strategy is often accompanied by a significant outflow of funds (such as the acquisition of Yamafin Sports with a price of 36 billion yuan in 2019, and the acquisition of all shares of Yamafin Sports in cash at a price of 40 euros per share). Although cash payment can avoid the risk of diluting equity, it also greatly increases the cash flow pressure of the enterprise, and the asset liability ratio will also rise synchronously, which will cause the enterprise to face greater risk of solvency.

4.2 Suggestions

(1) Implement refined management and strengthen cost control

The growth in the number of Anta stores has reached its peak. According to annual report data, the number of Anta main brand stores has exceeded 10000 in 2018. The main brand of Anta has entered a bottleneck period in the past by increasing the number of stores to drive revenue growth. However, large-scale store operations will inevitably bring some pressure on costs, and the inventory pressure under the direct sales model cannot be reduced by adding stores. Therefore, it is possible to evaluate the operating performance of retail terminals and close stores with lower profits, which can not only reduce the overall store rental expenses of the enterprise, but also reduce labor costs.

(2) Dynamically assess inventory quantity and build an intelligent warehouse management platform

Carry out digital transformation to fully connect business processes, including online and offline channels, and real-time data connection between the front-end and back-end. For example, in the front end of the “consumer internet”, various mobile terminal applets, direct e-commerce, live streaming, etc. are used to establish direct links between brands and consumers, grasp the dynamic changes in market demand, and reasonably arrange inventory quantities; On the back end of the “industrial internet”, by connecting factory, logistics, and store data, we can improve responsiveness and speed of shipment and replenishment, and reduce store inventory.

(3) Expand financing channels and adopt hybrid payment

From the analysis in the previous section, it is found that due to the brand acquisition strategy of Anta Sports in recent years, it has been costly, especially in 2019, Anta Sports invested a large amount of cash to acquire Yamafin, resulting in a significant increase in the company's asset liability ratio and increased the company's financial leverage risk. Therefore, Anta Sports must conduct a comprehensive evaluation of the risks and benefits of various financing methods, select the most suitable financing channels for the company, and reduce the risk of debt repayment.

Acknowledgment

The Fund Project of Social Science Planning Project in Jiangxi Province(22YJ18).

References

[1] Tao Lei. Enterprise Strategic Transformation from a Project Perspective [J]. Project Management Review, 2018(02):66-69+9.

[2] Deng Xinming. Epidemic Impact and Strategic Transformation Levels of Enterprises [J]. Tsinghua Management Review, 2020(10):28-35.

[3] Michael Porter.On Competition[M].Harvard Business School Press,1998.