

Yunnan Baiyao Earnings Quality Analysis

Jing Li, Shuo Liu*

School of Management, Hebei GEO University, Shijiazhuang, Hebei, China

**Corresponding Author.*

Abstract: The "14th Five-Year Plan" for the development of traditional Chinese medicine clearly states that "We should promote the development of traditional Chinese medicine inheritance and innovation". Under the favorable policy, the Chinese medicine industry has ushered in valuable development opportunities. However, some Chinese medicine enterprises have insufficient innovation ability, and the competition in the industry has been intensifying, and the quality of their profitability is of great concern. This paper takes Yunnan Baiyao as an example, and analyses its earnings quality from five dimensions: profitability, truthfulness, cash-change ability, growth and sustainability. Finally, we analyze the problems of Yunnan Baiyao's earnings quality problems and puts forward corresponding measures to solve them, in order to provide certain reference for the Chinese medicine industry to improve profitability quality.

Keywords: Yunnan Baiyao; Earnings Quality; Chinese Medicine Industry; Five Dimensions; Profitability

1. Yunnan Baiyao Company Profile

Founded in 1902, Yunnan Baiyao is a brand, product and company name in one, and is recognised as the most innovative representative of old Chinese brands in the industry. The brand value of Yunnan Baiyao is more than 30 billion yuan, ranked in the top 4 of the national pharmaceutical enterprises, traditional Chinese medicine No. 1. From 1999 to 2022, the revenue of Yunnan Baiyao increased from 232 million yuan to 36.488 billion yuan, an increase of 157 times. It deploys factories in Kunming, Dali, Wenshan, Lijiang and Wuding, as well as Wuxi in Jiangsu Province and Hefei in Anhui Province, with sales channels covering the whole country. Yunnan Baiyao is committed to bringing

traditional Chinese medicine into modern life, and has developed from a bottle of bulk medicine to become one of the leaders in China's major health industry covering four major segments: pharmaceuticals, personal care health products, Chinese herbal resources and pharmaceutical logistics. Oral Intelligence, Medical Beauty and New Retail Health Services have become three new businesses that the company is focusing on cultivating. The products amount to 390 varieties in 36 categories, with 11 products with single product sales of hundreds of millions, and toothpaste, aerosol, band-aid and plaster are the top-ranked products in the country in the relevant categories.

2. Yunnan Baiyao Earnings Quality Analysis

The quality of Yunnan Baiyao's earnings is analysed in five dimensions: profitability, authenticity, cash flow, growth and sustainability.

2.1 Profitability Analysis

For the profitability dimension of earnings, this paper mainly selects four indicators, namely, Return on Total Assets Ratio, Return on Equity, Main operating margins, Gross profit rate, to analyse the profitability of corporate earnings. In general, the larger these indicators, the stronger the profitability of corporate earnings is represented.

As can be seen from Figure 1, the return on total assets, return on equity, main business profit rate and gross profit rate of Yunnan Baiyao show a downward trend year by year from 2018 to 2020, and tend to be stable from 2021 to 2022. This shows that its profitability gradually declined from 2018 to 2020. Profitability in the past two years has been relatively stable. From Figure 2, it can be seen that Yunnan Baiyao's profitability in 2022 is less than that of China resources Sanjiu (CR sanjiu), but better than Baiyunshan.

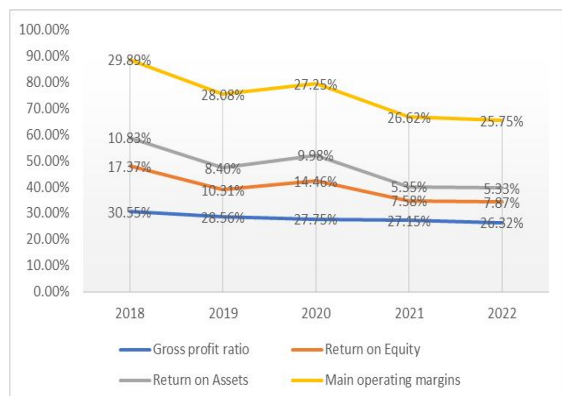


Figure 1. Yunnan Baiyao Profitability Analysis Chart

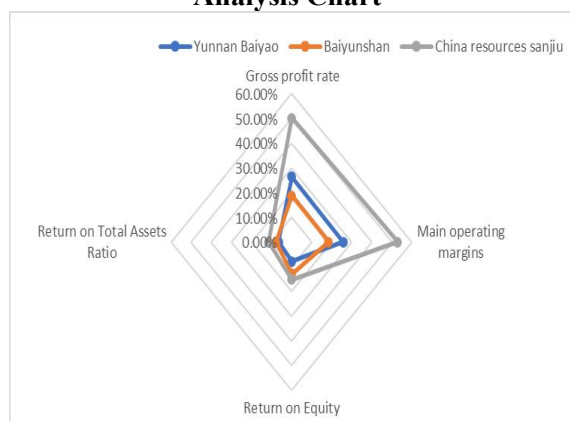


Figure 2. Profitability Radar Chart of Yunnan Baiyao, Baiyunshan and China Resources Sanjiu in 2022

2.1.1 Return on Total Assets

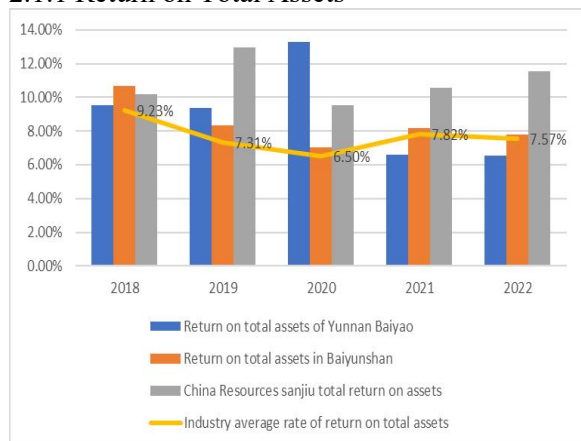


Figure 3. Yunnan Baiyao Total Return on Assets Analysis Chart

Total return on assets indicates the level of return on all assets of an enterprise, and comprehensively reflects the profitability and input-output status of an enterprise. The higher the indicator, the better the level of inputs and outputs, and the more effective the operation of the enterprise's assets.

As can be seen from Figure 3, the total return on assets of Yunnan Baiyao tends to be stable

in 2021 and 2022. From 2020 to 2022, the total return on assets of Yunnan Baiyao decreases from 13.29% to 6.52%, which indicates that its input-output level becomes worse. Especially in 2021 and 2022, the total return on assets is lower than the average value of the industry. Compared with the three, CR Sanjiu has a better input-output level, Baiyunshan is the second best, and Yunnan Baiyao is the worst.

2.1.2 Return on Equity

Return on Equity reflects the efficiency of the company's use of its own capital and the level of return on shareholders' equity. As can be seen in Figure 4, in 2019, Yunnan Baiyao implements the mixed ownership reform, which leads to changes in the share capital structure, which in turn leads to a decrease in the company's Return on Equity. In 2021, Yunnan Baiyao's Return on Equity is 7.58%, a year-on-year decrease of 47.58%, which indicates a decrease in the level of return on shareholders' equity. Although the growth of enterprise value remains stable, for the level of return on shareholders' equity, Yunnan Baiyao Group does not provide a more reliable guarantee. The reason for this is that, on the one hand, in 2020, Yunnan Baiyao's investment in securities increased its profit by 2.2 billion yuan, while in 2021 the trading financial assets changed from 11.23 billion yuan to 4.72 billion yuan. After the loss of speculation, Yunnan Baiyao strictly controlled the risk in 2022 and gradually reduced its position. Eventually, it makes the return on net assets of Baiyunshan and China Resources Sanjiu in the past two years are higher than Yunnan Baiyao. In 2022, Yunnan Baiyao Return on Equity is lower than the industry average of 9.03%.

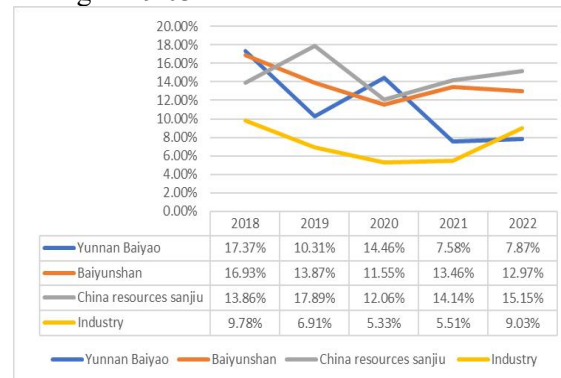


Figure 4. Analysis of Yunnan Baiyao's Return on Equity Graph

2.1.3 Main Operating Margins

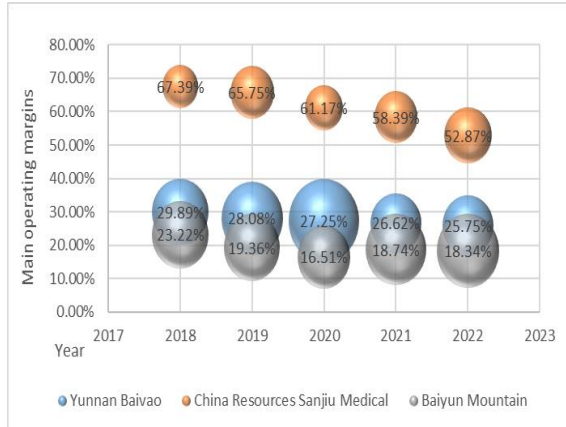


Figure 5. Bubble Analysis of Yunnan Baiyao's Main Operating Margins from Main Business with the Same Industry

In Figure 5, the horizontal coordinate represents the year, the vertical coordinate represents the Main operating margins, and the size of the bubbles represents the annual net profit of each company. In terms of Main operating margins, CR Sanjiu is higher than the sum of the two, but its Main operating margins shows a decreasing trend year by year. Yunnan Baiyao and Baiyunshan main business profit margin is more stable. Yunnan Baiyao main business for Yunnan Baiyao series of products and natural plant medicine products. Baiyunshan's main business is the manufacture and sale of Chinese and Western patent medicines, the wholesale and retail of medical devices, the research and development, production and sale of health products and investment in the health industry. Because both are involved in wholesale and retail, the main business profit is lower than that of CR Sanjiu. In 2022, Baiyunshan net profit is the highest in the industry, reaching 4.253 billion yuan, Yunnan Baiyao is second to 2.84 billion yuan. Yunnan Baiyao and Baiyunshan have low profit margins in their main business, but the large scale of the retail industry and the long industrial chain make the net profit higher. The main business of CR Sanjiu is CHC cold and flu medicine and Chinese medicine prescription, with a revenue share of 65.59%. Among them, drugs such as 999 Cold and Flu Ling and Sanjiu Gastritis are highly recognised. The small business volume and small scale make the net profit less than Yunnan Baiyao and Baiyunshan.

2.1.4 Gross Profit Rate

As can be seen from Figure 6, Yunnan Baiyao's gross profit rate declined from

30.55% to 26.32%, but it was much lower than the industry average of 0.5. The gross profit margin was higher than that of Baiyunshan. The decline in gross profit margin shows the decline in product competitiveness. On the other hand, the smooth gross profit can be seen that Yunnan Baiyao cost control is better, which makes the profit grow steadily. In 2022, the increase in selling expenses makes the gross profit margin decline slightly. In the past five years, CR Sanjiu's gross profit margins are much higher than those of Yunnan Baiyao and Baiyunshan, which is because its main business is in the field of CHC consumer healthcare products and prescription drugs, and it is not involved in the retail business of drugs. And the low-margin retail business pulls down the overall gross margin of Baiyunshan and Yunnan Baiyao. From 2018 to 2022, Yunnan Baiyao's industrial gross margin are above 60%, while the wholesale and retail gross margin is less than 10%. While the low-margin retail business accounted for 64.8% of revenue, the high-margin industrial sales revenue accounted for only 33.67%. This situation makes Yunnan Baiyao's gross profit margin has been at a low level for a long time. In recent years, in the pharmaceutical policy reform and the impact of the epidemic makes part of the drug prices, rising costs, the pharmaceutical industry gross profit margins are followed by a decline.

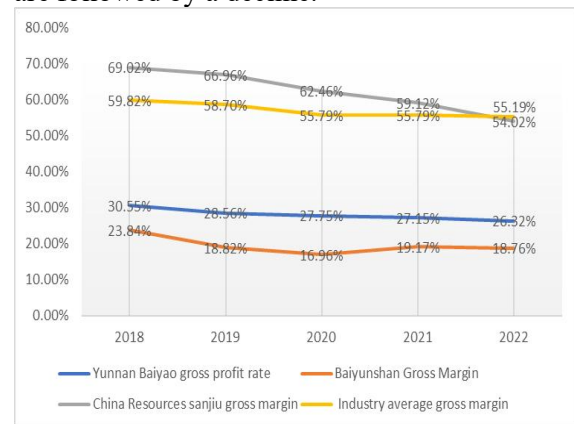


Figure 6. Yunnan Baiyao Gross Profit Analysis

2.2 Authenticity

For the authenticity dimension of earnings, this paper mainly tests the authenticity of corporate earnings through the proportion of virtual assets (the proportion of long-term amortised expenses to net profit). If the long-term

amortised expenses are too high, it will make the enterprise's period expenses too high, which will falsely reduce the profit of the current period, and ultimately affect the authenticity of earnings. As shown in Table 1, the proportion of virtual assets of Yunnan Baiyao from 2018 to 2022 are all below 1%, basically judging that it is unlikely for enterprises to manipulate profits through virtual assets.

Table 1. Yunnan Baiyao's Long-term Amortised Expenses as a Percentage of Net Profit from 2018 to 2022

	18	19	20	21	22
percentage (%)	0.22	0.43	0.38	0.62	0.98

2.3 Cash-change Ability

For the dimensions of cash-change ability, this paper mainly selects the accounts receivable turnover ratio, working capital turnover ratio, all assets cash recovery rate and surplus cash security multiples to judge the profitability. These measures are positively correlated with the profitability of the collectability, that is, the larger the value of the index, indicating that the enterprise profitability of the collectability of the stronger, the more cash flow security.

2.3.1 Accounts receivable turnover ratio

Table 2. Comparative Accounts Receivable Turnover Ratio from 2018 to 2022

sports event	18	19	20	21	22
Yunnan Baiyao (%)	17.5	15.2	11.7	6.8	4.5
Mt Baiyun in Shandong (%)	7.1	7.1	4.9	5.5	7.1
China Resources Sanjiu (%)	6.4	5.8	4.8	5.1	5.0
Industry averages (%)	10.4	8.0	7.9	12.1	7.4

The higher the accounts receivable turnover ratio, the stronger the cash turnover ability of the enterprise, and the stronger the operating ability of the enterprise. As shown in Table 2, from 2018 to 2022, Yunnan Baiyao accounts receivable turnover ratio declines year by year, Yunnan Baiyao's accounts receivable turnover ratio is only 4.5 in 2022. It is lower than the industry average, Baiyunshan and China Resources Sanjiu. It indicates that it takes more and more time to realise Yunnan Baiyao's accounts receivable, and the risk of bad debt further increases, and the solvency is affected. This is because Yunnan Baiyao for

medical institutions, commercial companies and other purchasing volume, long-term and stable customers, using the "goods before payment" principle, commercial sales revenue accounted for 62.33% of the retail industry.

2.3.2 Full asset cash recovery rate

Table 3. Comparative Cash Recovery Rates for all Assets from 2018 to 2022

sports event	18	19	20	21	22
Yunnan Baiyao (%)	2.9	4.2	6.9	10.0	6.0
Baiyunshan (%)	10.1	8.8	0.98	8.6	9.4
CR Sanjiu (%)	10.6	9.1	10.1	7.7	11.1

The cash recovery rate of all assets is the ratio of net operating cash flow to all assets. This indicator reflects the ability of all assets of the enterprise to generate cash, the larger the ratio indicates that the better the use of assets, the more cash inflow created by the use of assets, the stronger the ability of the whole enterprise to obtain cash, the higher the level of business management. As shown in Table 3, in 2021, Yunnan Baiyao's cash recovery rate of all assets is higher than the corresponding ratios of Baiyunshan and CR Sanjiu, indicating that Yunnan Baiyao's asset utilisation effect is better in 2021. From 2020 to 2022, Yunnan Baiyao's net cash flow from operating activities is 3.829 billion yuan, 5.223 billion yuan and 3.209 billion yuan, indicating that Yunnan Baiyao has a stronger ability to obtain cash in 2021 and a weaker ability to obtain cash in 2022. The ability is weaker in 2022. This is because in 2022 Yunnan Baiyao accounts receivable increased, cash received from the sale of goods and services decreased by 1.369 billion yuan compared with the same period of the previous year, and cash paid for the purchase of goods and acceptance of services increased by 1.541 billion yuan in this period compared with the same period of the previous year. Therefore, Yunnan Baiyao's operation and management level is better in 2021 and weaker in 2022.

2.3.3 Operating cash flow per share

Table 4. Comparative Statement of Operating Cash Flow Per Share from 2018 to 2022

Sports event	22	21	20	19	18
Operating cash flow per share	1.79	4.1	1.0	1.65	1.49
Industry averages	1.41	0.8	0.7	0.61	0.59

The higher the operating cash flow per share indicator, the higher the cash flow contained in

each share, indicating that the enterprise's sales and payback ability is stronger, and this indicator can verify the authenticity of the enterprise's revenue. As shown in Table 4, the operating cash flow per share of Yunnan Baiyao is higher than the industry average from 2018 to 2022, which indicates that Yunnan Baiyao's sales and payback ability is basically higher than the industry average. In 2019, Yunnan Baiyao implemented the mixed ownership reform, the common shares increased by 23%, and the unstable operating cash flow makes the operating cash flow per share constantly changing. The basic earnings per share from 2018 to 2022 are 2.74, 3.28, 4.32, 2.21, 1.9. Yunnan Baiyao's operating cash flow per share is greater than basic earnings per share, implying that there are a large number of unrealised assets in 2021, and the authenticity of its revenue may be in question.

2.3.4 Surplus cash cover multiples

Table 5. Yunnan Baiyao's Surplus Cash Cover Multiple Table

sports event	2018	2019	2020	2021	2022
Surplus cash cover multiple (%)	44.51	50.44	69.48	187	113

Yunnan Baiyao's net cash flow from operating activities fluctuates greatly making the surplus cash security multiple unstable. As shown in Table 5, Yunnan Baiyao's surplus cash security multiple is less than 0.7 from 2018 to 2020, indicating that the proportion of cash in the company's net profit is very small in this period, and most of the funds from operating income are taken up by accounts receivable and in-kind, and the overall quality of earnings is poor. In 2022, Yunnan Baiyao net cash flow from operating activities decreased by 38.5% year-on-year, and the change in net profit is not significant, which makes the surplus cash security multiples decreased.

2.4 Growth and Sustainability

For the growth dimension of earnings, this paper mainly selects three indicators, namely the growth rate of net cash flow from operations, the growth rate of earnings per share, and the year-on-year growth rate of net profit, to analyse the growth of corporate earnings, which are generally positively correlated with profitability, i.e., the larger the indicators are, the stronger the growth of corporate earnings is represented.

Table 6. Comparison of Growth Indicators of Yunnan Baiyao from 2018 to 2022

sports event	18	19	20	21	22
Growth rate of net cash from operating activities (%)	34.0	35.9	81.9	36.4	-38.6
EPS growth rate(%)	-9.3	19.7	11.7	-48.8	-14.0
Net profit year-on-year growth rate(%)	11.1	19.9	32.1	-49.2	1.5

2.4.1 Growth rate of net cash flow from operations

As shown in Table 6, the growth rate of cash from operating activities is positive from 2018 to 2021, which indicates that Yunnan Baiyao has better earnings growth. The growth rate of net cash from operating activities of Yunnan Baiyao is -38.6% in 2022, which indicates that the earnings growth becomes worse in that year. This is related to the large amount of accounts receivable. Cash received from selling goods decreased by 1.369 billion yuan in 2022 compared with the same period of the previous year, and cash paid for purchasing goods increased by 1.541 billion yuan. The accounts receivable of Provincial Pharmaceuticals was 9.09 billion yuan in 2022, which was a year-on-year increase of 26.52%.

2.4.2 Earnings per share growth rate

Yunnan Baiyao's earnings per share growth rate will be negative in both 2021 and 2022. The pharmaceutical industry is highly competitive, and market demand for Yunnan Baiyao's products has shown a downward trend in recent years.

2.4.3 Net profit year-on-year growth rate

In 2021, the impact of gains on investment in financial assets and gains from changes in fair value caused net profit to be lower than net cash flow from operating activities. Under the influence of loss on investment in securities, Yunnan Baiyao's loss on fair value change in 2021 is as high as 1.929 billion yuan, which makes the year-on-year growth rate of net profit in 2021 -49.24%. In 2022, net profit rises slowly but ranks second in the industry.

2.5 Continuity

For the profitability dimension, by grasping the cash flow changes and trend patterns of the three major activities of operating, investing and financing in the cash flow statement, and analysing the overall cash inflow and outflow

structure, Yunnan Baiyao concluded that the cash inflow in the past two years relied on operating activities and profitability is more stable.

2.5.1 Structure of cash inflows

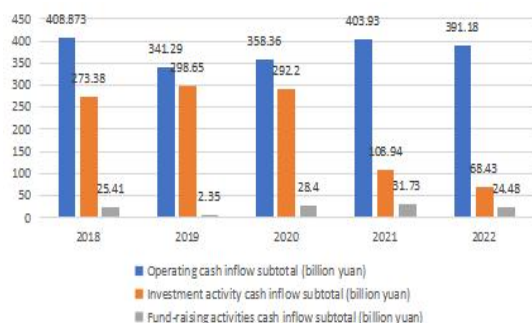


Figure 7. Comparative Structure of Cash Inflows

As shown in Figure 7, from 2018 to 2020, the main source of cash inflow of Yunnan Baiyao is the "cash received from the sale of goods and provision of labour services" and investment activities, indicating that it not only pays attention to the development of the main business but also actively invests and obtains better returns, which can bring sufficient cash flow for the enterprise. Due to the loss of Yunnan Baiyao's securities investment in 2021, it narrowed down its investment segment from 2021 to 2022 to focus on its main business, resulting in a decrease in overall cash inflow. Under the impact of the epidemic, the price of some drugs decreased, making the cash received from the sale of goods and the provision of labour services in 2022 decrease by 1.369 billion yuan compared with the same period of the previous year, and the cash inflow from operating activities decreased. Under the impact of the epidemic, cash inflow from financing activities decreased in 2022.

2.5.2 Structure of cash outflows

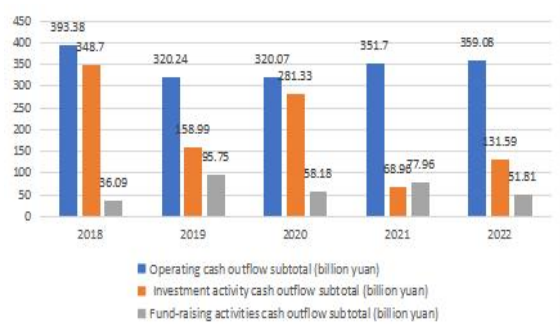


Figure 8. Comparative Structure of Cash Outflows

As shown in Figure 8, in terms of operating activities, cash outflows from operating

activities increased in 2021 and 2022. Cash paid for the purchase of goods and services increased by 1,541 million RMB in 2022 compared to the same period of the previous year due to the increase in the price of raw materials and the increasing cost of sales. In respect of investing activities, matching with the cash inflow, cash outflow from investing activities decreased significantly in 2021 due to the net cash received from the disposal of Dali Properties of 933 million RMB and the cash paid for investment decreased by 22,459 million yuan in 2021 as compared with that of the previous period. Yunnan Baiyao completed its investment in Immune Sensor Inc. of the U.S. in the form of equity participation in 2022, and its full tender offer for listed company Wanlong Holdings in 2022 in the form of a comprehensive tender offer, resulting in an increase in its cash outflow from investing activities. In respect of financing activities, the decrease in cash outflow from financing activities in 2022 was due to a decrease of 2,831 million RMB in cash paid for distribution of dividends, profits or repayment of interest as compared with the same period of the previous year.

3. Problems with Yunnan Baiyao's Earnings Quality

3.1 Profitability Needs to Be Improved and Insufficient Innovation Capacity

Compared with the same industry Baiyunshan and China Resources Sanjiu, Yunnan Baiyao asset utilisation efficiency is bad and the gross profit margin is low. In 2022, Yunnan Baiyao net profit of about 3 billion yuan, ranking second in the industry, and the first Baiyunshan 3.967 billion yuan is still a big gap. Yunnan Baiyao profitability has a larger development space. China's pharmaceutical industry is still facing low innovation ability, the proliferation of generic drugs, the industry is not centralised and other shortcomings. Yunnan Baiyao's lack of innovation ability also inhibits its profitability to a certain extent.^[1]

3.2 Higher Receivables Make It Less Collectible

In recent years, Yunnan Baiyao's accounts receivable turnover ratio has been decreasing and is lower than the industry average, which

has a certain impact on the enterprise's cash flow. So Yunnan Baiyao doesn't make full use of funds. The adoption of loose credit policy leads to insufficient cash security of earnings.^[2] The high level of accounts receivable exposes the enterprise to the risk of uncollectible accounts receivable.

3.3 Poor Growth

In 2022, Yunnan Baiyao's net cash from operating activities growth rate and earnings per share growth rate are both negative. The year-on-year growth rate of net profit is only 1.53%, which makes the veteran Yunnan Baiyao enterprise grow poorly under the fierce competition in the Chinese medicine industry. On the one hand, the high amount of merger and acquisition costs incurred in the process of Yunnan Baiyao's comprehensive tender offer for listed Wanlong Holdings in 2022. It will not only aggravate the financial burden of the enterprise, but also constrain the development of other advantageous businesses. Moreover, the business at the early stage of merger and acquisition is generally in the stage of exploration, development, testing and figuring out, and the possibility of achieving profitability of the merged and acquired business in the short term is relatively small, and the enterprise's multiple mergers and acquisitions of large amounts will seriously affect the quality of the enterprise's profitability and make Yunnan Baiyao's growth slower. On the other hand, Yunnan Baiyao's operations in recent years has a tendency to financialisation. As a pharmaceutical company, its 2020 trading financial assets accounted for 20.33% of total assets, resulting in a lower proportion of the funds of the main businesses. The enterprise in the R & D and other aspects of the expenditure have been squeezed and the pressure of product iteration increased.^[3]

4 Solutions

4.1 Improvement of Corporate Profitability

Enhancing the efficiency of asset utilisation is important. On the one hand, Yunnan Baiyao should strengthen fund management and actively expand financing channels. On the other hand, it should strengthen fixed asset management and reduce idle assets. It is also possible to carry out asset swaps with funders

to improve asset utilisation.

Yunnan Baiyao should strengthen brand building, increase the proportion of profits from industrial products, and increase the overall gross profit margin.^[4] With the concept of "health and wellness", it uses platforms such as Jittery Voice and short videos to promote industrial products, such as Yunnan Baiyao toothpaste and Yunnan Baiyao tea series. It can sell healthcare products to middle-aged and elderly customers. In the wholesale and retail business, it needs to enhance cost control and development new drugs to improve profitability.^[5] On the cost side, it should endeavour to reduce unnecessary selling expenses. An integrated management mechanism can be established to precisely control costs and strictly control expenses in each step of purchasing, production and marketing.^[6] Establish strategic alliance with suppliers, optimise the purchasing mode and production mode, and control the purchasing cost.^[7] In terms of R&D, the pharmaceutical industry as a whole spends less on R&D and is slow to achieve results. As an old Chinese medicine industry, it should increase the R&D expenditure. While paying attention to the development of the main business, it can also develop new products such as traditional Chinese medicine masks and skin care products to increase the profit of the enterprise.

4.2 Formulate Reasonable Credit Policy for Credit Sales and Strengthen Internal Control of Accounts Receivable

Yunnan Baiyao should formulate reasonable credit policies for credit sales and strictly control the credit standards, credit conditions and credit limits.

In implementing the credit policy, the credit status of the sales targets should be effectively assessed in advance. The credit files should be established, and their credit status should be regularly updated. In addition, the company may set up a credit policy that is appropriate in light of its financial situation.^[8] If the partner company has liquidity risk and a large amount of payment is uncollectible, the company can reduce the maximum payment period to avoid the economic loss caused by the inappropriate credit sales behaviour.

The internal controls of Yunnan Baiyao pertaining to accounts receivable should be strengthened through the clarification of labor

division and assignment of responsibilities. Firstly, in the credit sales business, there should be a clear segregation of duties between the two sales staff and the credit sales approval staff. Additionally, it is essential to ensure that there is no overlap in the accounting responsibilities pertaining to consignor management, invoicing procedures, payment handling, and bookkeeping tasks. The occurrence of bad debts should be linked to the income of sales personnel, and included in the assessment system of corresponding employees. Make it clear that responsibility goes back to the person when bad debt occurs. For the frequent occurrence of unrecoverable bad debts, the reasons should be found out and the responsible person should be held accountable. Second, establish an authorization examination and approval system and strictly implement it. Specific departments and special personnel can be set up to keep the vouchers and relevant data records for later review. Finally, it is also necessary to establish a checking system. Yunnan Baiyao should set up a supervisory department, and regularly check the general ledger and detailed ledger of accounts receivable in order to find errors and correct them in time. Inspectors should urge sales staff to pay close attention to the financial information of large receivables companies, analyze their solvency, and urge them to repay their debts. Cash rewards will be given to employees who find the financial problems of the company and recover the losses of the company in time. Strengthening the internal control of accounts receivable can not only lay a solid foundation for the company's realization, but also contribute to the company's smooth development.

4.3 Strengthen the Development of the Main Business and Improve Profitable Growth

In the past five years, Yunnan Baiyao's profits from its main business have been declining. Its main business is the key to the company's development and benefits. So, the company must improve the development of its main business. Its main business is Yunnan Baiyao series products and natural plant medicine series products. Therefore, the company should focus on drug research and development and sales. The prerequisite for sales is to produce products that meet the market demand. At the same time, the company should control the

cost of each link in accelerating product innovation and promoting sales, and finally position the products reasonably and price them scientifically, so as to enhance the profitability of the company from multiple angles and promote its development. In addition, Yunnan Baiyao can co-operate with universities and research institutes to research and develop new types of drugs so that enhance the company's innovation ability.

It should optimize the capital layout and restructuring when mixing and reforming, focus on the main responsibility and main industry, expand productive investment, and improve the efficiency of capital allocation.^[9] Yunnan Baiyao's development strategy of rapid expansion by mergers and acquisitions has brought certain positive effects to the enterprise's production chain as well as market expansion to a certain extent. But the process of the enterprise's rapid expansion also breeds a lot of financial risks, operational risks and potential risks. The company can introduce a third-party consulting organization to assist in the construction of a comprehensive risk management system, through risk identification, risk assessment, clear risk warning indicators, the formation of risk reports and response mechanisms. Yunnan Baiyao should promote the organic integration of strategic decision-making, corporate governance, internal control and risk management and implement risk management measures. In addition, enterprises should strengthen budget management and improve budget supervision. Strengthen the monitoring and analysis of the external environment and market changes, timely understanding of market demand and change trends, to provide more accurate and reliable data support for budget formulation.^[10]

5. Conclusion

This paper selected financial data from 2018 to 2022 to analyse Yunnan Baiyao's earnings quality in five dimensions: profitability, authenticity, cash collection, growth and sustainability. The results show that Yunnan Baiyao enterprises have some problems. Firstly, the profitability of Yunnan Baiyao needs to be improved. Moreover, due to the large amount of accounts receivable, the cash collection is bad and the growth is poor. In terms of improving profitability, Yunnan

Baiyao should enhance the efficiency of asset utilisation, increase the proportion of profits from industrial products, and increase the overall gross profit margin. In terms of accounts receivable, it should formulate a reasonable credit policy and strengthen the internal control of accounts receivable. In terms of growth, it should strengthen the development of the main business and improve the profitability growth.

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