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Analysis of Financial Statements of Beauty and Daily Chemical Companies

-- Take T Company as an Example

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Abstract

The growing demand for cosmetics among the "Generation Z", who grew up with the Internet, and the continuous improvement of various cosmetic policies have led to an unprecedented development of the cosmetics industry. In this paper, we analyze the financial indicators of Company T through its financial statements from 2018 to 2021, and then draw the current development trend of T Company and propose corresponding development suggestions.

Keywords

Financial Statement Analysis; Solvency; Operating Capacity.

1. T Company Profile

T Company is the leading "Chinese long-established brand" in China's cosmetic industry, which has been cultivating in the three major fields of beauty, personal care and home care, and mother and baby, with "one center, two basic points and three boosters" as its business strategy and policy. T is committed to creating a typical industry of "Made in China 2025", becoming the leader of China's beauty and cosmetics industry, and bringing Chinese beauty to the world.

2. Financial Statement Analysis

In order to better analyze the financial situation of T Company and to determine the room for improvement, we selected the indicators of the benchmark company Bethenny, a daily chemical company, and compared them.

2.1. Debt Service Capacity Analysis

2.1.1. Short-term Solvency Analysis

Table 1. Short-term solvency analysis

	Company/Year	2018	2019	2020	2021
Current Ratio	T Corporation	1.77	2.05	2.14	2.11
	Bethenny	3.16	3.56	3.56	5.81
Quick Ratio	T Corporation	1.45	1.73	1.84	1.84
	Bethenny	2.49	2.91	2.91	5.29
Cash Ratio	T Corporation	41.07	56.17	44.74	49.76
	Bethenny	82.55	178.02	144.40	226.13
Cash Flow Ratio	T Corporation	0.33	0.26	0.22	0.31
	Bethenny	0.34	1.74	1.1	1.28

Short-term solvency refers to the ability of an enterprise to repay its current liabilities with current assets, which reflects the ability of an enterprise to pay off its daily maturing debts. The

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following will analyze the short-term solvency of T Company from four aspects: current ratio, quick ratio, cash ratio and cash flow ratio.

Current ratio is the ratio of current assets to current liabilities, and a current ratio around 2 has a good liquidity. From 2018 to 2021, T's current ratio stays in the range of 1.7-2.22 and is growing, mainly due to the increasing current assets of T. T's current ratio is at a high level in normal and is lower than Bethenny. This indicates that Company T's short-term financial position is very good, with strong liquidity of assets and increasing short-term solvency.

Quick ratio refers to the ratio of quick assets to current liabilities of an enterprise, the higher the quick ratio, the more guaranteed the future solvency of the enterprise. The quick ratio is generally maintained at around 1. From 2018 to 2021, Company T's quick ratio remains within the range of 1.4-1.9 and is on an upward trend, exceeding the industry average, and compared with other enterprises in the same industry, T Company has a stronger short-term solvency and less pressure to repay its debts. However, Company T's quick ratio is much lower than Bettany's, which indicates that Company T occupies slightly more funds in quick assets and increases the opportunity cost of investment, so T Company should increase its quick assets and working capital, reduce its short-term liabilities, and be on par with Bettany.

Cash ratio refers to the ratio of cash-based assets to current liabilities of a company, and a cash ratio of 20% or more is good. From 2018 to 2021, T has a high cash ratio and is well above the industry average, mainly due to higher cash and cash equivalents, indicating the company's strong short-term solvency; and the use of current assets of T is relatively reasonable compared to Bethenny.

Cash flow ratio is the ratio of net cash flow from operating activities to total cash outflow, the higher the ratio, the better the financial elasticity of the enterprise, and the cash flow ratio of the enterprise is generally more appropriate at 1. From 2018 to 2021, the cash flow ratio of T Company stays in the range of 0.2-0.4, all less than 1, and much lower than Bethenny, indicating that the cash inflow from operating activities cannot meet the needs of the enterprise, and should be taken as soon as possible to raise funds. the cash flow ratios of T Company and Bethenny in 2018 are very similar, but Bethenny's cash flow ratio rises significantly in 2018-2019 and stabilizes above 1 afterwards, probably because it adopts an appropriate strategy. T company should try to learn and learn from this, strengthen the cash flow management of operating activities and accounts receivable management, and continuously improve the cash flow budget management system.

2.1.2. Long-term Solvency Analysis

Long-term solvency refers to a company's ability to take on debt and its ability to guarantee the repayment of debt. We analyze the long-term solvency of T Company through two components: the gearing ratio and the equity ratio.

Table 2. Long-term Solvency Analysis

	Company/Year	2018	2019	2020	2021
Gearing ratio	T Corporation	44.15	45.34	44.96	42.67
	Bethenny	29.79	24.97	24.97	17.79
Equity ratio	T Corporation	0.748	0.773	0.738	0.744
	Bethenny	0.703	0.427	0.334	0.217

The gearing ratio is the percentage of total corporate liabilities to total corporate assets, and usually, the appropriate level of gearing ratio is 40%-60%. From 2018 to 2021, T Company's gearing ratio remains around 40%, which is a normal level and lower than the industry average. It indicates that T Company has a strong long-term solvency, then the security of creditors to issue loans is relatively high and the financial risk is low. However, the gearing ratio of T

Company is significantly higher than that of Bethenny. It indicates that T is not as well financed as Bethenny, borrowing more to operate, and its long-term solvency is weaker than Bethenny, which is still some distance away from the industry benchmark enterprise and still needs to work hard.

The equity ratio is the ratio of total liabilities to total owner's equity, and the equity ratio is generally 1. The equity ratio of T Company in 2018-2021 is maintained around 0.7, which is a low level. It indicates that the long-term solvency of the enterprise is stronger, and the creditors' equity can be more protected and bear less risk, but the income achieved is also low. At the same time, the equity ratio of T Company is higher than that of Bethenny, which indicates that T Company has higher risk than Bethenny, and its long-term solvency is weaker than the other party, and there is still room for improvement.

2.2. Operating Capacity Analysis

The operating capacity of a company refers to the efficiency and effectiveness of its operating assets, mainly the turnover rate of assets and the number of days of turnover. In the following, we will analyze the operating capacity of T Company in terms of inventory turnover, accounts receivable turnover and total assets turnover.

Table 3. Operating Capacity Analysis

	Company/Year	2018	2019	2020	2021
Inventory turnover rate	T Corporation	0.84	1.73	2.37	3.63
	Bethenny	1.68	2.77	2.77	2.69
Accounts Receivable Turnover Ratio	T Corporation	7.29	6.72	6.07	6.96
	Bethenny	17.95	17.64	17.64	18.53
Total assets turnover ratio	T Corporation	0.18	0.36	0.49	0.65
	Bethenny	2.1	1.96	1.96	1.08

Inventory turnover is the ratio of a company's operating costs to its average inventory balance over a certain period. The higher the inventory turnover ratio, the lower the level of inventory occupancy, the stronger the liquidity, and the faster the conversion of inventory into cash or accounts receivable. company T's inventory speed in 2018-2019 is significantly lower than Bethenny and the industry average, indicating that it has the phenomenon of inventory backlog and the weaker ability to realize inventory assets; however, from 2018 to 2021, company T's inventory turnover ratio keeps improving, the conversion of inventory into revenue The speed of conversion of inventory into revenue is accelerated and the operating capacity is enhanced; and the inventory turnover ratio of T in 2021 exceeds that of Bethenny and the industry average. The main reason is that the Company has strengthened inventory management by removing long-tail SKUs, so that inventory management can ensure the continuity of production and operation while improving the efficiency of capital utilization as much as possible. In the future, the company will continue to optimize its logistics system and digital intelligence supply chain operation system, continue to shrink long-tail inefficient stores, and focus on the core of the head stores.

Accounts receivable turnover ratio is the ratio of net income from credit sales to average accounts receivable balance in a certain period, the higher the accounts receivable turnover ratio, the faster it collects accounts receivable. From 2018 to 2020, Company T's accounts receivable turnover ratio is decreasing and gradually lower than the industry average, indicating that its accounts receivable turnover has become worse and slower during this period. However, from 2020 to 2021, T's accounts receivable turnover ratio starts to increase again, indicating that the company accelerates the recovery of distributor credit, shortens the average collection period, reduces bad debt losses, and enhances its operating capacity. T

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Company should learn from Bethenny's accounts receivable management system and maintain a high and stable accounts receivable turnover rate.

Total asset turnover ratio is the ratio of net sales revenue to average total assets for a certain period of time. From 2018 to 2021, T Company's total asset turnover ratio is on the rise, which indicates that its sales capacity has been enhanced, its efficiency has developed and its operating capacity has been strengthened. The main reason is that the company adheres to the management strategy of "one center, two basic points and three boosters", so the company's operation quality will be effectively improved in 2021. Meanwhile, T's total asset turnover ratio is significantly lower than that of Bethenny and the industry average, which indicates that T's total asset turnover is slower and its asset utilization efficiency is lower compared with other daily chemical companies.

3. Conclusions and Recommendations

T Company has good long-term solvency, but its short-term solvency is deficient, its current asset reserves are relatively adequate and its current liabilities are at a manageable level. company T can moderately increase the proportion of current assets and liabilities, increase cash inflows from operating and sales activities, optimize product mix and develop markets, and appropriately reduce management expenses, sales expenses and cash outflows from operating activities as needed, so as to improve cash flow Total debt ratio.

T Company's operating capacity is increasing, but there is still a gap with the industry benchmark companies, T Company should increase the collection of accounts receivable and continuously improve the collection efficiency. It should also make reasonable decisions on inventory management, check the relatively weak links in production, reduce inventory piling, ease the increased management costs and accelerate inventory sales. The most important and fundamental thing is to strengthen the research and development efforts, accelerate the improvement of product quality and technology content, actively carry out strategic cooperation, grasp the market changes and customer needs so as to better provide customers with quality services and enhance market competitiveness.

To sum up, T Company should make more efforts in strategy formulation, understand the market trend, increase the efforts in product development, and accelerate the improvement in product innovation, in order to solidify the customer team, in order to cope with the changing market competition environment and the new enterprises that are constantly on the offensive.

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