ATLANTIS PRESS
Advances in Economics, Business and Management Research, volume 219
Proceedings of the 2022 2nd International Conference on Enterprise Management and Economic Development (ICEMED 2022)

Financial Risks and Impacts of the Whole Industry Chain Business Model of Film and Television Industry
A Case Study of Huayi Brothers

Letong Ren

Chongqing DEPU Foreign Language School, Chongqing, 404100, China
**Corresponding author. Email: 1761753920@qq.com*

ABSTRACT

With the outbreak of the COVID-19 epidemic in 2019 and its trend of turning increasingly serious, nearly all the movie theaters nationwide have been shut down, and the loss has reached over 100 billion. Since people are living in a generation where the Internet is booming, many of them still prefer to find resources online even after the theaters are fully opened. This has led to heavy losses for large film companies, causing a decrease in their annual revenue. Huayi Brothers is a film company operating the whole industry chain to complete from film shooting to post-production. However, the whole industry chain does not help Huayi to weather the storm. During the pandemic, Huayi Brothers has fared poorly. Based on this background, this paper focuses on the different financial risks brought by Huayi Brothers' implementation of the "whole industry chain" business model, as well as analyzing Huayi Brothers' current situation and comparing it with other companies in the industry with the same business model. It is concluded that Huayi Brothers' financial risks include the low mobility, the net interest rates which fall into negative territory, and the inability to timely repay debts led by insufficient cash flow, thus resulting in high asset-liability ratio.

Keywords: *Huayi Brothers, Financial risks, The whole industry chain, Film and television companies.*

1. INTRODUCTION

The whole industry chain is the most perfect business model in theory. In reality, it is displayed in various processioned models due to different industry needs, being as a systematic, holistic and innovative business model [1]. As the most perfect business model in China, the whole industry chain was first proposed by China Oil and Foodstuffs Corporation (COFCO). The original definition of the whole industry chain is to achieve traceability of food safety and form a safe, nutritious, and healthy food supply process [2]. In addition, the whole industry chain can also be applied to non-agricultural industries, such as the film and television industry mentioned in this paper. In the film and television industry, the application of the whole industry chain is a process of original work creation, film production, film shooting, and film distribution, reflecting the economic ecological environment between business units and companies in the film industry. In short, the whole industry chain also has many representative features. For example, all the links of the whole industry chain are interconnected. In other words, every link from the source to the terminal can be managed, and the key links can be effectively controlled.

The purpose of this paper is to analyze the financial risks that the "whole industry chain" will face by analyzing the financial risks of Huayi Brothers. This paper will study from three aspects: First, the specific business model of the whole industry chain of film and television industry. Second, different financial risks faced by the film and television industry in different situations. Last but not least, the effects that the financial risks bring to the business. This paper takes the film company Huayi Brothers as a case study, and analyzes the company's solvency, operating capacity, profitability, etc., so as to better understand the operation mode and risks of film and television companies.

2. THE APPLICATION OF THE WHOLE INDUSTRY CHAIN IN HUAYI BROTHERS

For the application of the whole industry chain in film groups, it is essential to form diversified competition and development [3]. In the year of 1988, Huayi Brothers officially entered in film industry in China, and later in

Copyright © 2022 The Authors. Published by Atlantis Press International B.V.
This is an open access article distributed under the CC BY-NC 4.0 license -http://creativecommons.org/licenses/by-nc/4.0/.

many other entertainment industries, such as television industry, music industry, and game industry [4]. Huayi Brothers began making and investing in films many years ago, from classics such as “My 1919” and “Endless” to the most recent ones such as “Hello, Li Huanying” and “Eight Hundred”. Later, Huayi Brothers absorbed a number of famous directors, such as Feng Xiaogang and Jackie Chan. It launched many popular films, and won large and small awards at home and abroad, creating box office miracles again and again. This kind of large-scale event also provides an international communication platform for Chinese film industry to create better works [5]. In 2012, Huayi Brothers developed its fourth cultural tourism project Mission Hills· Huayi· Feng Xiaogang Film Commune. A small town was built based on the theme of the movie for people to visit. This project costed Huayi Brothers a lot of money, with an initial investment of 800 million to 1 billion Yuan [6]. In the same year, Huayi Brothers established its first cinema, ensuring the whole industry chain from the production to the release and investment. However, Huayi Brothers’ ambition to make money has not stopped. On the basis of a certain reputation and resources, Huayi Brothers decided to develop towards the game industry. It first invested in Zhangqu Technology and Heroes Interactive Entertainment, then finished the acquisition of Yinhan Technology, and finally entered the game industry thoroughly. Since then, Huayi Brothers has reached the top in terms of the manpower, site, investment and other resources.

3. ANALYSIS ON HUAYI’S FINANCIAL ABILITY

3.1 The ability to earn profit

As it is shown in Figure 1 and 2, the net profit margin of Huayi Brothers dropped to -71.7% in 2020 [7], which means that Huayi Brothers has been losing money. At the same time, its gross margin reached 38.03% [7], which is a positive number, indicating that Huayi Brothers still has a certain competitive advantage, and this advantage is sustainable.

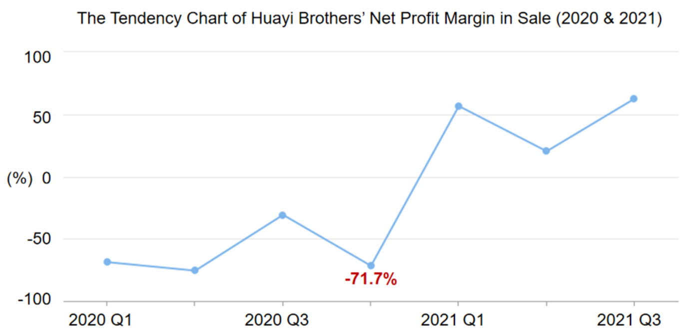

Figure 1 The net profit margin of Huayi Brothers for 2020 and 2021 [7].

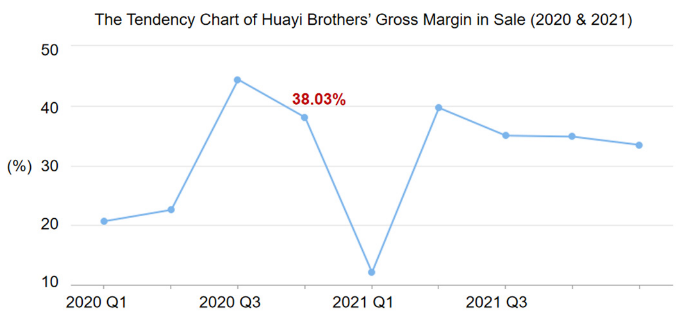

Figure 2 The gross margin of Huayi Brothers for 2020 and 2021[7].

It can be seen that Huayi Brothers can freely price its products and services, and set the price a lot higher than the cost of its products and services. By analyzing the comprehensive index used to evaluate the level of an enterprise’s own capital, accumulation, and return, the comprehensive benefit of the enterprise’s capital operation can be reflected. The return on equity of Huayi Brothers only reached 2.92% in 2020 [7], therefore, it can be seen that Huayi Brothers can only create a small part of income for his shareholders, and investors can only receive a relatively small unit income through investments. This indicates that Huayi Brothers does not have an excellent financial control ability. Similarly, the return on total assets of Huayi Brothers was only 2.33% in 2021 [7], which represented a low level of input and output of Huayi Brothers. Moreover, it can be seen that the asset operation of Huayi Brothers is not effective enough, and sometimes bad situations occur. However, Huayi’s return on invested capital was 1.7% in 2021 [7]. This is a positive number representing that Huayi

Brothers has used its money well. It also shows the competitiveness of the company's historical performance, and determines that the ultimate value of Huayi Brothers in the future will be good, though it may not be able to compete well with other companies.

3.2 The ability to pay debts

The asset-ability ratio of Huayi Brothers in 2021 reached an extremely high value around 63.8% [7], which represents that the capital from debts accounts for the majority of the total capital sources of the enterprise. This means that the financial risks are higher compared to other companies. Therefore, when there is not enough cash flow, the capital chain may be broken, and Huayi Brothers cannot repay the debts on time, leading to the company's bankruptcy as well as a rising in the financial costs. Also, in the same year, Huayi's equity ratio reached 30.58% [7], which means part of the business capital is invested by the owner, and the enterprise also uses the financial leverage to expand the scale of business actively and greatly. Moreover, the interest earned became 2.01 times higher in 2021 [7], which is not an extremely high number, reflecting Huayi Brothers' strong ability to pay debts, namely its high solvency. The current ratio was 0.69 in 2021 [7], which means the liquidity capacity of this company is relatively weak, and the solvency in the short term is also relatively weak. In the same year, the quick ratio reached about 0.32, which can be used to determine the ability of a company's current assets to be immediately realized and used to repay current liabilities. Therefore, when the quick ratio reached about 0.32 in 2021, Huayi's ability to pay debts can be regarded as poor because this value is not high.

3.3 The ability to operate

Firstly, the inventory turnover rate refers to the ratio of an enterprise's cost to the average inventory balance over a given period. This numerical value reached about 0.48 in 2021 [7], representing that the sales are poor, and the use of the capital is not efficient enough. In addition, the liquidity of inventory and the amount of inventory capital occupied are not quite reasonable. Secondly, the account receivable turnover means the number of times that receivable accounts are converted into cash within a year. In the same year, this value reached about only 1.81 [7], which is a low value. This represents that Huayi Brothers has a slow collection speed, a long average collection period and a slow asset flow. In addition, the total asset turnover is also an important factor in determining whether a business is good at operating. This value of Huayi Brothers reached about 0.06 [7], which represents that the turnover of the enterprise is slow, and the sales capacity as well as the operating capacity is weak.

4. ANALYSIS ON HUAYI'S FINANCIAL RISKS AND ITS IMPACTS

4.1 Financial risk analysis

According to the analysis of the above data and financial statements, it can be found that Huayi Brothers' situation now is not optimistic. This means that Huayi Brothers is facing a lot of problems, especially financial risks. Firstly, due to the low net profit margin and the low rate return on equity, Huayi Brothers has paid less dividends to shareholders, leading to a failure to meet the short-term interests of shareholders, which proves the low level of dividend distribution. Secondly, because of the low asset-ability ratio, there is insufficient cash flow to repay debts on time, and the ability to raise funds is also relatively weak, leading Huayi Brothers to face more risks. The primary method of financing is to advertise themselves by investing in the film industry, private equity financing, and the short-term bond financing [8]. However, this method of financing will cause financial risks. For example, Huayi Brothers raises money through too much short-term financing, which results in its insufficient current assets to repay debts, and affects the efficiency of the use of corporate funds. Lastly, considering Huayi Brothers' weak sales ability, poor sales status, and unreasonable use of inventory funds, the collection speed is slow and the collection cycle is long, which leads to its poor liquidity. For one thing, a lot of enterprise funds are occupied. For another, the enterprise must pay a lot of storage expenses, resulting in the increase of enterprise expenses and the decline of profits, and it will affect the liquidity and security of Huayi Brothers' funds.

4.2 Impact analysis

Huayi Brothers have faced a lot of financial risks caused by the whole industry chain business model, and this will bring some externalities which may have a great impact on Huayi Brothers.

Firstly, when the dividend distribution level is low, the short-term interests of shareholders will not be satisfied, and the number of investors of the enterprise will be reduced. It is not conducive to the long-term development of the enterprise. At the same time, Huayi Brothers have excess financing costs, but because its net profit margin has been negative, the company has been in debt. And the asset management of Huayi Brothers is not efficient enough, which can even be regarded as poor.

Secondly, Huayi Brothers adopts the way of equity investment, which helps attract more investors to invest in the company. At the same time, it also makes up for the capital gap in the daily operation of the enterprise. Due to the long fundraising cycle, Huayi Brothers fills these capital gap. In addition, equity investments have helped Huayi expand. Because the profit of Huayi

Brothers is not enough, and a lot of funds are needed to operate the company, Huayi Brothers raises funds through bonds to expand its business. However, because bond financing has a fixed term and requires regular interest payments, there is a lot of financial pressure. Therefore, when Huayi Brothers suffered from depression or lack of funds, it became a great financial risk. And too many restrictions may affect Huayi Brothers' fund-raising ability in the future.

Lastly, because of a variety of inventory backlog of Huayi Brothers, it needs to pay a large amount custodian for these inventories, leading to an increase in the costs and a decrease in profits. Also, holding stock or inventory for a long time needs Huayi to bear the loss of the stock price due to the market price decline, and Huayi's workers may damage some inventories such as some movies in disks which are already shot. This will cause the company to pay for fixing or reshooting them, which also costs a lot, and will lead to new financial risks to Huayi Brothers.

5. CONCLUSION

In conclusion, this paper takes Huayi Brothers as an example to research effects and financial risks brought by the whole industry chain model of film and television companies. In this research,it is found that there are three different financial risks that film and television companies will face or are already facing. Firstly, the level of distribution dividend is low because of the low net interest rate and low rate of return on equity. This makes Huayi Brothers expend less money on dividend, and shareholders' short-term interests will not be satisfied. Secondly, different financial risks caused by different methods of financing. For instance Huayi Brothers applies the method of getting a lot of short-term financing, leading to insufficient current assets to pay debts, which influences the efficiency of using the funds. Lastly, when there is too much inventory backlog, such as disks with movies in or some shooting equipments which cost a lot for storage, an increase in costs and a decrease in profits will occur. Additionally, due to the long collection cycle and the slow collection speed, the liquidity of the company is poor. Besides, there are some effects on film and television companies that brought by the financial risks.

Firstly, when the level of distribution dividend is low, and the interest of the shareholders is not satisfied, there will be a decrease both in the investors and investments, which is not beneficial to the long-term development of business. Secondly, due to excessive restrictions on financing, Huayi Brothers will perform poorly in future financing; In addition, Huayi Brothers earns less profits, and because of the high capital cost of bond investment, Huayi Brothers may have huge financial risks and high capital risks, which may lead to problems such as poor operation in the future. Lastly, due to the costs increasing and the profits decreasing as a result of too much inventories, companies need to bear the loss of the stock price when the market price falls. There are some limitations for this paper. Firstly, the data that this paper collected are not up-dated, which may influence the accuracy of the analysis results. Secondly, there is a chance that the results may be different when using different method. In the future, as the rapid development of the internet, online movies may substitute offline cinemas. In other words, people can easily find resources of different movies and TV series on the Internet. So future research can focus on exploring whether Huayi Brothers and other film and television companies will survive or be substituted by other companies that produce products with greater quality as well as cheaper prices.

REFERENCES

[1] J. Wu, The whole industry chain strategy of Huayi Brothers—a simple analysis of the feasibility of the project "Guanlanhu·Huayi·the film commune of Fengxiaogang"[J], Oriental Corporate culture, 2013(08):272-273.

[2] The whole industrial chain model of COFCO helps the transformation and upgrading of the grain industry[J], China's grain economy, 2017(10):44-45.

[3] J.H. Lan, On the Whole Industry chain of Chinese films[J], Film Literature, 2018(16):27-29.

[4] Y.X. Meng, Case Study on Financing Methods of Huayi Brothers Media Company[D], Supervisor: Jia Mingqi, Lanzhou University, 2019.

[5] American Film and Television Industry Expo[J], China Digital Television, 2013(09):12-13.

[6] M.Q. Yao, Research on the operation mode of the whole industry chain of film and television Industry—Based on the investigation of Hengdian Film and television Base[J], Science and Technology Square, 2013(11):211-216.

[7] Financial analysis of Huayi Brothers, qianzhan.com., 2020, retrieved April 28, 2022, https://stock.qianzhan.com/hs/caiwufenxi_300027.SZ.html.

[8] S.Y. Wu, Research on Financing Strategy of Huayi Brothers[D], Chinese Academy of Fiscal Sciences, 2018.