Analysis of Transformation from a Financial Perspective - Taking ANTA and Li-Ning as Examples

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Abstract. With the rapid development of the Chinese market, the construction of digital infrastructure has been completed. Therefore, to improve market competitiveness, all the consumer-oriented brands are facing transformation and upgrading. Previous research has primarily focused on analyzing a company's transformation strategy or financial analysis alone, with few combining the two. However, it cannot be denied that the transformation dynamics of a company will have a direct impact on finance, and the financial performance will also have a direct reflection of whether the transformation succeeds. This research applies financial analysis and comparative analysis and utilizes some important financial data from the official financial statements, selecting ANTA as the main research object under the background of digitization and comparing ANTA with Li-Ning to analyze their brand transformation strategies and the impact on their finance performance. Further suggestions are also proposed for the transformation of Chinese sports brands and even sports clothing enterprises in the global economic context.

Keywords: Financial analysis, Brand transformation, ANTA, Sportswear.

1. Introduction

Due to the COVID-19 pandemic, most sports brands have experienced ups and downs in the past three years. In 2021, many factories in the relevant industrial chain were forced to close, resulting in supply chain disruptions and uncertain product supply. In 2022, the global economic recession had a significant impact on consumer purchasing power, and many sports brands were facing enormous challenges. After entering 2023, the overall performance of the sports brand market has rebounded due to the positive impact of liberalization. However, at the same time, many large first-tier brands still face enormous pressure to reduce inventory, and brand reformation is urgent as well. To shift from brand wholesale to brand retail, it is necessary to refine channels and face consumer demand directly while maintaining a stable reform process to prevent the existing system from collapsing. Being sharp in seizing opportunities during industry crises naturally enables one to stand out from the industry.

Yan et al. conducted the financial analysis of three top sportswear companies, Nike, Adidas, and ANTA, analyzing the sustainability and alignment of sportswear apparel and utilizing value measures & value drivers' analysis. The authors found that these three companies were all generating economic profits and creating positive economic value for the market. Nike's value was damaged in 2017, Adidas's value had the healthiest fundamentals, and ANTA's value achieved strong growth [1]. Wang and Fang analyzed and compared the brand transformation approach and the current management situation of Li-Ning, ANTA, Xtep, and 361°. The authors suggested that brands should strengthen their emphasis on after-sales service, carry out more brand activities to be closer to consumers, and increase research and development to add more brand value and promote brand sustainability [2]. Lu and Jin constructed a framework and evaluation index system for the strategic transformation capability of sports equipment enterprises and conducted empirical research on ANTA analyzing the main factors influencing its transformation capability. The authors concluded that ANTA had the excellent ability of market grasping, resource integration, and continuous innovation, but still needed to improve in market responsiveness, basic resource adaptation, and innovative environment cultivation [3].

Duan et al. constructed a brand equity driving model for sports goods enterprises from the perspective of a multidimensional relationship, exploring the main stakeholders affecting the brand equity and how the interaction affects sports brand equity through the analysis of Li-Ning. The authors stated that interaction between enterprises and customers, distributors, competitors, and government is beneficial for developing brand equity and gaining competitive advantages [4]. Ge and Li conducted the analysis of the financial statements and the successful development process of ANTA utilizing the dual logarithm model. The authors concluded that ANTA should increase the investment in manpower and research and development to continuously expand its scale, and Chinese sportswear brands should apply modern technology and enhance their brand construction to increase their worldwide influence [5]. Shan combined investigation, interviews, and literature research to analyze the success and shortcomings of the development of ANTA. The author asserted that patriotic sentiment has a significant impact on consumer behavior, which ANTA has successfully launched marketing activities based on. However, due to decision-making biases and other issues, some categories of products have missed the best opportunity to enter the market [6]. Ali et al. conducted a comparative analysis of digital marketing taking Nike, Adidas and Puma as examples, and analyzed their financial statements to explore the financial gain. The authors clarified that sports apparel companies have changed their strategies to adapt to the rising trend of digital marketing, and combined direct marketing with digital marketing to increase sales and therefore market share [7].

Yang employed market research, brand image and SWOT analysis to explore the brand transformation of ANTA and Li-Ning. The author revealed that although Li-Ning and Anta have been relatively successful in brand image transformation, they still need to strengthen their efforts in product quality improvement, brand spokesperson selection and corporate culture judgment [8]. Hu analyzed the impact of transformation on ANTA's performance and compared ANTA with Li-Ning and Xtep. The author applied DuPont analysis and observed that ANTA was facing expense risk, operational capacity risk and solvency risk. The suggestion of implementing refined management to control costs and utilizing intelligent warehouse management to control inventory was given as well [9]. Sun et al. utilized PEST analysis and 4P marketing theory to explore the influencing factors, conditions, and countermeasures of the brand internationalization of ANTA. The authors concluded that brand internationalization requires clarifying its own strengths and weaknesses, overcoming potential challenges such as cultural differences and international competitive pressures, and conducting extensive research on target markets to develop adaptive strategies [10].

This research revolves around four perspectives, profitability, operating capacity, solvency and developing capacity, of ANTA's financial development during its transformation, and mainly compares ANTA with Li-Ning in terms of profitability and operating capacity. The objective is to discover the impact of different transformation strategies on the financial situation and brand value and to provide reference and constructive suggestions for the transformation of other sports brands in the current economic situation.

2. Financial Situation Analysis of ANTA

2.1. Profitability

Since ANTA went public in 2007, its gross profit margin has been continuously increasing as shown in Fig. 1. Such performance is closely related to the strong competitive power of various brands of ANTA, and is also the most intuitive expression of ANTA's brand power enhancement. The net profit margin has remained stable at above 16%, which indicates good profitability. Meanwhile, since listing, the rate of return on equity (ROE) has maintained at over 20% and it is quite high.

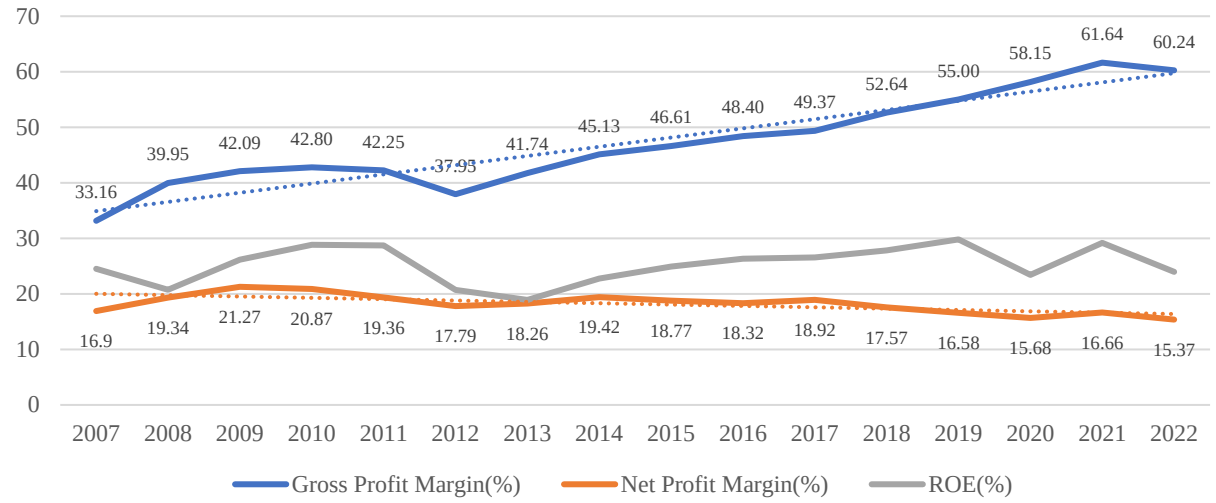


Figure 1. Profitability of ANTA (2007 - 2022)

However, as the gross profit margin of ANTA has continued rising since 2018, the net profit margin and ROE have shown downward trends on the contrary. Theoretically, there are three main reasons.

First and most importantly, ANTA continuously deepens its brand retail strategy. The upward trend of selling and distribution began in 2012, which was also the first year ANTA started its retail and of its directly operated brand FILA to achieve break-even and run through the single-store pattern. FILA expanded its own stores rapidly from 301 stores in 2012 to 1951 stores in 2019, whose compound annual growth rate exceeded 30%, and maintained at around 2000 stores from 2020 to 2022 (Fig.2). Aiming at mid- to high-tier buyers, FILA's gross profit margin increased relatively quickly and could equal the increase in operating expense rate due to the store setting-up. Therefore, the net profit of ANTA could remain stable from 2012 to 2018. However, the main brand of ANTA whose gross profit margin was relatively low began its direct-to-customer (DTC) reformation in the second half year of 2020. Self-operated channels reduced the links of distributors and franchisees, certainly increasing the gross profit margin, but under DTC, new expenses such as store rents, salaries, and so on were allocated to ANTA itself, which is the main reason for the decreasing net profit margin. The second and the least important reason is the acquisition of Amer Sport in 2019. Amer was all in loss-making status during the first three years after the acquisition, which dragged down the net profit of ANTA and lowered the calculated net profit margin. Moreover, the third reason is the impact of the epidemic on offline consumption, which is periodic and there is no need to discuss further.

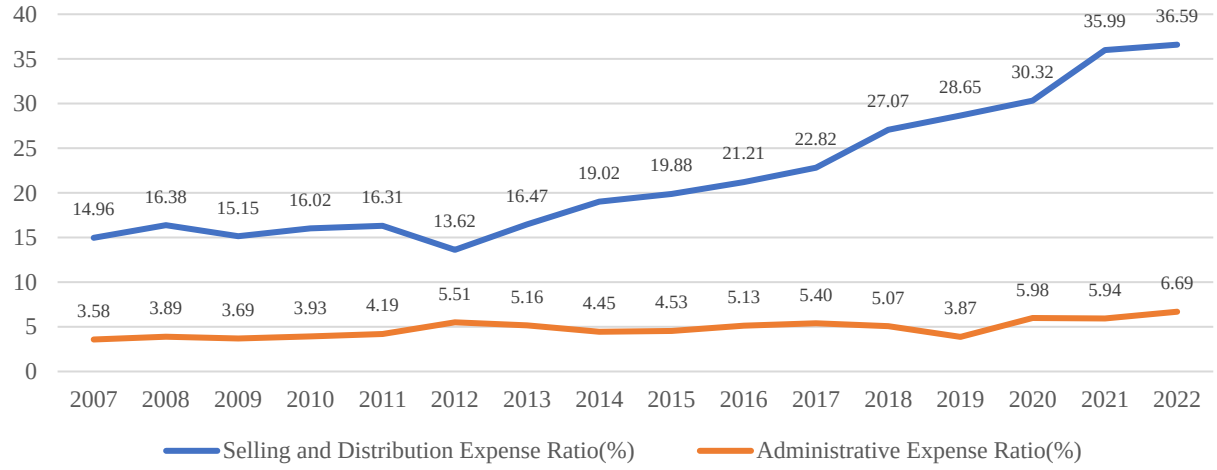


Figure 2. Operating Expense Ratio (2007 - 2022)

As the reform is gradually completed, the gross profit margin of the main brand of ANTA is increasing, and Amber gradually contributes positive profits, the net profit margin of ANTA is expected to hit bottom and resume growth and to rise to 18% or 19%. As of the first half year of 2023, the net profit margin of ANTA returns to 17.86%, the selling and distribution expense ratio decreases to around 34%, and the administrative expense ratio to around 5.72%, which are all significantly improved compared with the same period in the first half year of 2022. Therefore, it can be expected that the net profit margin of ANTA will return to the level before 2018.

2.2. Operating Capacity

The operation mode of ANTA mainly focused on brand wholesale before 2012. As the brand side, ANTA sold goods to distributors which was treated as completing sales and was not closely related to how quickly the distributors and the franchisees sold after receiving the goods or how much they earned the money. Under such conditions, ANTA held inventory for only about 40 days, its receivable turnover in days was less than 30 days and the payable turnover in days was less than 40 days. In 2010, the industry crisis broke out. Both the inventory turnover and payable turnover were rising, to 59 days and 65 days respectively in 2013, signaling worsening operation conditions.

After ANTA initiated the transformation from brand wholesale to brand retail in 2012, its inventory turnover rose to around 60 days. Till 2014, ANTA gradually emerged from the industry crisis and both its payables and receivables gradually became stable in a normal state. The inventory turnover still increased slightly before 2019, and it corresponded to the rapid growth of the directly operated brand FILA, whose opening speed exceeded 30% and inventory volume was getting larger and larger. The inventory turnover increased significantly again in 2020. It was first caused by the DTC reform in the second half year of 2020. ANTA embodied some distributors and franchisees' stores during the epidemic and transformed them into the directly operated mode, increasing the inventory turnover. What's more, the epidemic hurt offline consumption and slowed down inventory turnover.

The inventory turnover rose to 138 days in 2022 which was not healthy, while it has fallen from 145 days to 124 days in the first half year of 2023 compared with the same period in 2022 which is a significant improvement. However, an inventory turnover between 90 to 100 days is relatively a good performance (Fig.3). The clothing category has a seasonal characteristic, and it should be stocked up once a quarter. The inventory turnover maintains at about 90 days, indicating that the inventories from the last quarter can be sold in the next quarter and it is in ideal condition. If enterprises increase their ability to respond more quickly and reduce the inventory turnover to below 90 days, it will be more excellent. Meanwhile, both the receivable turnover and the payable turnover are decreasing corresponding to the DTC reform. Under the condition of directly facing consumers, most are cash transactions (the online flagship stores may have delayed arrival periods) and the receivable turnover should be lower. As ANTA receives money more quickly, its payment to the upstream supply chain is faster, and its payable turnover decreases in response.

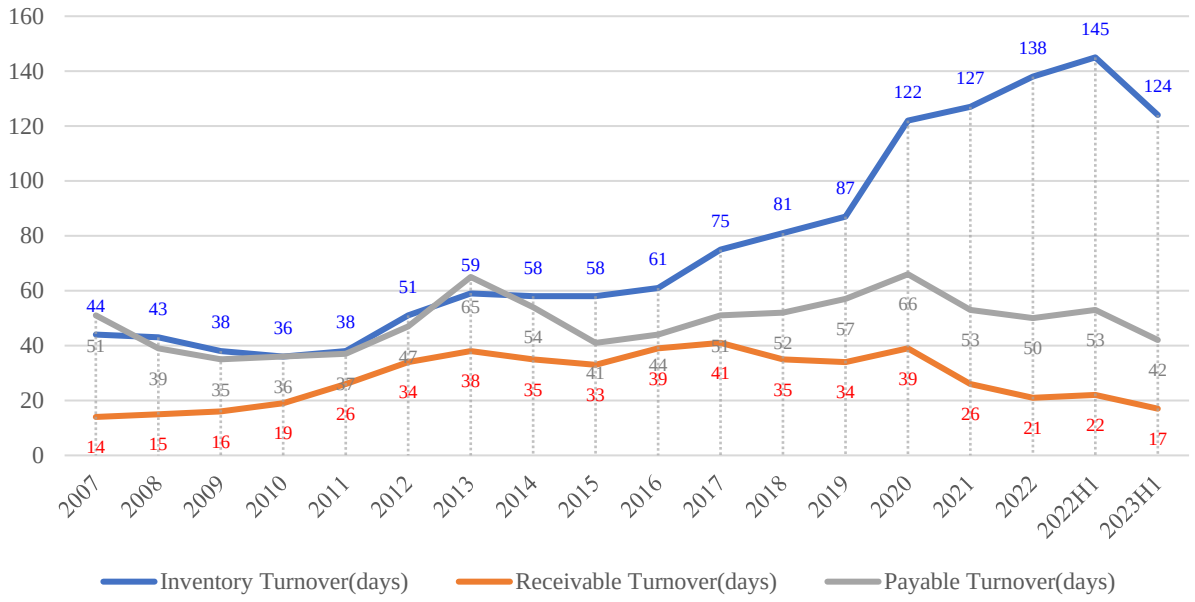


Figure 3. Operating Capacity of ANTA (2007 - 2023 H1)

2.3. Solvency

As shown in Table 1, both the current ratio and the quick ratio increased from 2019 to 2020 and then decreased for two consecutive years until rebounding in 2023. However, even if these two ratios decreased, the current ratio remained around 2 and the quick ratio was significantly above 1. It can be concluded that in the short term, ANTA's solvency has become stronger and stronger, and its ability of the current assets to repay the current liabilities has been enhanced.

As for the debt-to-asset ratio, 2020 marked a turning point. The debt-to-asset ratio was generally in an upward trend before 2020, in which year it reached the peak value of 50.21%, indicating that ANTA's liabilities were about to exceed the reasonable value of its financial position but still around the reasonable level of 50%. This is related to its merger and acquisition, but ANTA still had a large amount of cash and cash equivalents, which could almost completely cover the debt owed, making it overall relatively safe. In the following years, it decreased and reached a lower value in 2023. It reveals that ANTA has developed to a certain scale and has also been operating well in response to the DTC reform since 2021, and it no longer requires a large amount of debt to expand. Overall, ANTA has no significant debt risk and its solvency is relatively stable.

Table 1. Solvency of ANTA (2019 - 2023)

	Current Ratio	Quick Ratio	Debt to Asset Ratio
2019	1.88	1.52	48.90%
2020	2.79	2.32	50.21%
2021	2.50	2.02	49.48%
2022	1.63	1.30	45.32%
2023	2.53	2.18	39.27%

2.4. Developing Capacity

ANTA went public in July 2007, when its operating income was RMB31.82 billion and the net profit was RMB5.38 billion. By the end of 2022, the operating income of ANTA has reached RMB536.51 billion and its net profit has reached RMB82.45 billion. During this period, the operating income of ANTA has increased by 1687%, whose compound annual growth rate is 20.72%, and the net profit has increased by 1533%, whose compound annual growth rate is 19.96%.

ANTA started with a market cap of HKD131.5 billion on 10th July 2007. By the end of 2022, shares in ANTA closed at HKD102.30 and the market value of ANTA has already risen to about

HKD2800 billion, whose rate of increase is 2130% and the compound annual earning rate is around 21.9%. Since there was a significant increase on the day of opening and listing, despite purchasing at the closing price of HKD7.5 on 10th July 2007, the rate of increase is still 1499% and the compound annual earning rate exceeds 19%.

The developing capacity of ANTA has been outstanding since its listing and has brought massive returns to long-term investors. Indeed, above all, the increase of ANTA since listing is almost identical to the increase of its operating income and net profit, which indicates that shareholders' returns of ANTA are almost driven by growth in operating income and net profit entirely, and the contribution on valuation is almost 0.

From the perspective of growth trends, the operating income and the net profit fell from high levels from 2008 to 2012 and increased negatively in consecutive years 2012 and 2013. The growth rate fell to a low point in 2012 and began to recover and rise in 2013. During this period, the whole industry was sliding into an inventory crisis, and ANTA decisively transformed from brand wholesale to brand retail and got out of the crisis first, widening the gap with other domestic brands.

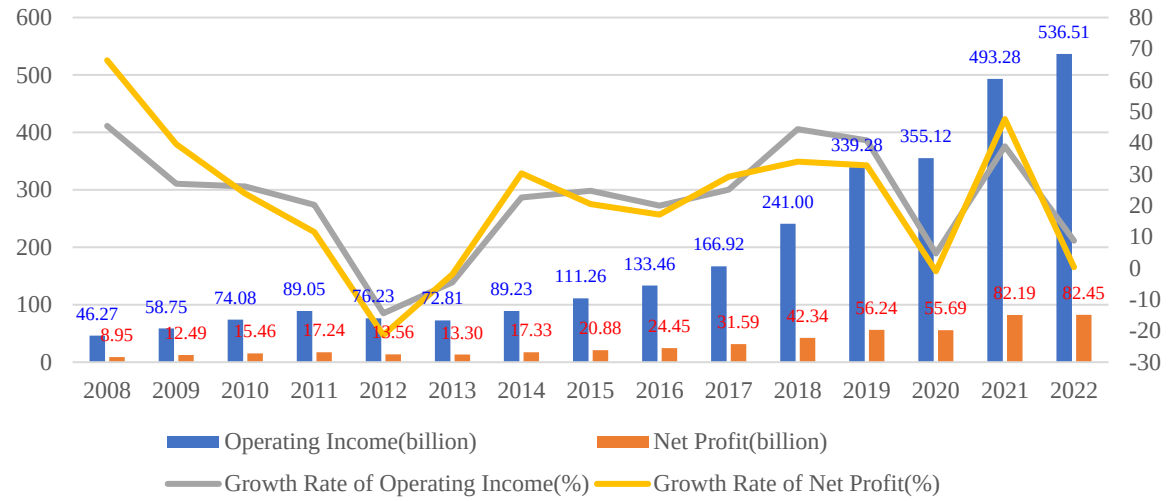


Figure 4. Operating Income and Net Profit of ANTA (2008 - 2022)

During the pandemic years from 2020 to 2022, both the operating income and the net profit of ANTA grew well as shown in Fig 4, and the compound annual growth rates were 22.9% and 21.68% respectively. However, the growth rate of the operating income and the net profit experienced significant fluctuation. On the one hand, the COVID-19 epidemic had a great impact. On the other hand, the 'Xinjiang Cotton event brought positive impacts, and ANTA made efforts in DTC reform during the pandemic. The industry is recovering slowly after stepping out of the epidemic, and it is expected that the growth of ANTA will return to a normal and stable track in 2024.

3. Comparative Analysis of ANTA and Li-Ning

As the two giants of domestic sports shoes and clothing in China, both ANTA and Li-Ning have their own unique technology and solid foundation, adopting different strategies and therefore moving towards different developing directions.

ANTA's strategy was upgraded from 'single focus, multi-brands, and multi-channel' to 'single focus, multi-brands, and globalization'. At present, ANTA owns multiple sports brands such as ANTA, FILA, DESCENTE, and KOLON. It focuses on the industry and consumer value to establish a leading position in segmented markets, meets multiple consumers' needs to create a matrix of professional, fashion, and outdoor sports brands, and finally brings Chinese brands to the world to realize the globalization of market position, brand and value chain layout and governance structure.

However, Li-Ning has always adhered to its core strategy of 'single brand, multi categories, and multi-channel'. It continuously focuses on product technology upgrades, seeking breakthroughs to

further improve the professional product matrix and strengthen the attributes of the professional sport, and insights and grasps the trend of sports demand improvement of customers.

Table 2. Profitability of ANTA and Li-Ning (Revenue - RMB in millions)

		2020	2021	2022	2023 H1
ANTA	Revenue	35,512	49,328	53,651	29,645
	Growth Rate	4.67%	38.91%	8.76%	14.17%
	Net profit margin	15.68%	16.66%	15.37%	17.86%
Li-Ning	Revenue	14,457	22,572	25,803	14,019
	Growth Rate	4.23%	56.13%	14.31%	12.97%
	Net profit margin	11.75%	17.77%	15.75%	15.13%

As shown in Table 2, the revenue of ANTA in the first half year of 2023 amounts to RMB296.5 billion, rising by 14.17% year on year. Also, the main brand of ANTA earns the revenue of RMB141.7 billion which outweighs the revenue of Li-Ning of RMB140.19 billion. The main reason why ANTA stands out among various brands is its unique brand strategy and forward-looking strategic planning. With the continuous diversification of sports, consumers have put forward higher requirements for brand differentiation, triggering new scenarios and related products, which ANTA's main strategy is in line with. ANTA has available brands and products to compete with whether it's low-end or high-end, leisure or professional. Another success of strategic planning is reflected in the forward-looking transformation of the DTC model discussed above.

In the financial report of Li-Ning, its revenue during the first half year of 2023 records a year-on-year increase of 12.97%. However, the net profit margin decreased by 3.11% year on year to RMB2.121 billion, which is also the first negative increase in the net profit of Li-Ning since the mid-year report in 2020. The obstacles to high-end development, the task of reducing the inventory within the year, and the inherent contradictions between them have hindered Li-Ning's high-quality growth. In the high-end path, Li-Ning's strategy of 'single brand, multi categories, and multi-channels' seems to be slightly inadequate compared to ANTA's multiple brand strategy.

ANTA has chosen a path that is more acceptable to consumers. All these FILA, ARCTERYX, and DESCENTE originated from foreign high-end brands, which give middle-class consumers a feeling of being 'off the ground' and even apply the latest technology to low-end products. By contrast, the price of thousand yuan for Li-Ning's high-end products is indeed understandable in terms of their quality, their trendy designs, or the extremely sincere materials, but due to their excessively close connection with the parent brand, consumers find it difficult to accept such a huge price range, and only certain products such as BOGO hoodies and large font hoodies can be sold. Moreover, accumulated inventory caused by COVID-19 dealt another heavy blow to Li-Ning's high-end path. During the three-year pandemic, the channel merchants were left with large quantities of goods, and as a result, Li-Ning began its crazy promotion. After searching through different channels, consumers could even purchase products that used to cost over a thousand yuan through e-commerce channels at a 20% discount. Under such great mark-downs, the consumers who truly supported Li-Ning completely lost trust in the brand. Li-Ning was forced to choose such an action. Only by selling the inventory, activating the funds of the company and distributors, and exchanging 'new blood' on the channel chain can Li-Ning take the next step. Despite the decrease in profits from e-commerce channels leading to a decline in profits in 2023 H1, such 'clearance sale' raised the inventory turnover and capital turnover days to the brand's optimal position.

4. Inspiration and Prospect

4.1. Strategy

The "single focus, multi-brand, and globalization" strategy enables ANTA to succeed in various market segments, and the rapid construction of its DTC model has become the strongest weapon in the stage of inventory reduction. External mergers and acquisitions of brand technology has gradually

internalized and reappeared in the main brand of ANTA, which has given ANTA an advantage in 2023 and maintained its leading position.

However, for Li-Ning, the strategy of "single brand, multi categories, and multi-channels" has made its high-end path difficult, and even placed the brand and consumers on the opposite side of price reduction and non-reduction, discount, and non-discount. The process of removing the inventory also tore off the mask of the high prices of Li-Ning. But fortunately, the pain has passed, and Li-Ning is also expected to set sail again.

4.2. Brand

ANTA has already included 15 brands, with ANTA's main brand, FILA, and Amer group currently generating revenue of RMB20-30 billion, while brands like DESCENTE and KOLON are also hitting RMB10 billion. In the past, multiple brands of ANTA relied on precise insights into consumer demand trends precise positioning, and misplaced competition in segmented markets to achieve coordinated development among various brands. However, in the future, as the scale of major brands continues to increase, the issue of competition and overlap between brands will become more prominent. While the brand size is increasing, it must also maintain growth and continuously explore new fields. Moreover, as the overlap between similar brands increases, the increasingly fierce competition may become an internal friction for ANTA. Certainly, now and shortly, ANTA is doing a good job in managing various brands and categories. But when these brands face unavoidable direct conflicts one day, extra caution will be needed.

5. Conclusion

Overall, as the top two domestic sportswear brands in China, both ANTA and Li-Ning have their own unique technology and solid foundation in the Chinese sports brand market. However, to maintain a leading position in fierce competition, it is necessary to continuously innovate, timely adjust strategies, and pay attention to market changes and consumer demands.

Based on the above research, suggestions on the transformation of sportswear brands are as follows. First, enterprises should have strong and accurate foresight. They should achieve timely insight into market dynamics to make corresponding strategic reforms and think globally to plan strategic layouts. Second, enterprises should maintain caution and stability in promoting new strategies. They should identify the balance point between old and new connections, constantly observe the positive changes and negative impacts in various aspects of the reform process, and solve targeted problems promptly. Finally, enterprises should be adept at taking advantage of industry crises. They should maintain the ability to discover opportunities amid crises and seize the opportunity with strong execution to stand out from the competition. In general, the enhancement of the financial capability and brand value of sportswear enterprises requires long-term coordination and strategic planning. Looking to the whole world, the internationalization path of Chinese sportswear brands has seen its dawn, but they still require perseverance to continue moving forward.

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