The Development and Strategy Analysis of Huayi Brothers

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Abstract. Huayi Brothers Media Co., LTD., once known as the "first stock of Chinese film and television entertainment", has been mired in continuous financial losses since 2018. According to the financial statements of Huayi Brothers in 2021 and the semi-annual financial statements in 2022, Huayi Brothers has been in a state of loss in profit, and there are major flaws in its main business planning. The company had ideas and actions to save the market but to no avail. This article starts with the financial report of Huayi Brothers and discusses the problems exposed in its development. It can clarify the current difficulties faced by the Chinese film industry and list film and television companies and propose appropriate solutions to help the further development of the Chinese film industry and also provide other Film and television companies sounded the alarm.

Keywords: Huayi Brothers, Private film companies, Listed film and television companies.

1. Introduction

With the onset of COVID-19, the film and television industry has come to a standstill. Chinese film industry is undergoing a new round of restructuring after a decade of explosive growth. The extreme cold of 2018 has changed the atmosphere of the film and television industries, and for the great majority of media companies today, how to allow media enterprises to thrive in this environment is their top concern. Until now, the capital winter situation of the film and television industry has still not been able to "warm up". As a new industry different from the traditional industry, the possibility of the film and television industry incurring a large amount of goodwill impairment is much higher than other industries. In 2018, for example, all industries were affected by the economic downturn, and the impairment of goodwill was calculated, but only the film and television industry collectively has a huge amount of goodwill impairment, and the huge amount of goodwill impairment has become a problem faced by the entire film and television industry. As a leading enterprise in the film and television industry, Huayi Brothers has the reputation of "the first share of Chinese film and television", but it also inevitably has the problem of huge goodwill impairment.

Huayi Brothers Media Group, a well-known company in the film business, was the research object of choice by Luo et al. To address the challenges in the valuation of Huayi Brothers, this study begins by analyzing the company's financial statistics. Then, to estimate cash flows, the improved gray prediction method is adopted as an absolute valuation model. The survey results show that Huayi Brothers has a market value of approximately 40 billion yuan. And during the bull market in 2015, the stock price was significantly higher than the reasonable value range. Short-term investors are advised to postpone investments in the company until the stock price returns to the reasonable range [1]. Ren focuses on the different financial risks of Huayi Brothers' implementation of the 'whole industry chain' business model, as well as analyzing the current situation of Huayi Brothers and comparing it with other companies in the industry. According to the analysis, the financial risks of Huayi Brothers include low liquidity, net interest rate falling into negative territory, and insufficient cash flow resulting in the inability to repay debts in time, resulting in a high asset-liability ratio [2]. Tan explores the issue through the case of Huayi Brothers' acquisition of a 70 percent stake in Dongyang Meira. The results show that in the short term, M&A and performance commitment of listed companies can improve the company's financial situation and benefit minority shareholders. However, when the performance of the target company falls short, the share price of the listed company will fall accordingly [3].

Bu selected the case of Huayi Brothers' goodwill impairment audit and analyzed the formation process of Huayi Brothers' goodwill and goodwill impairment. Based on the risk-oriented audit theory, the author focused on analyzing the risk of material misstatement and inspection risk in the audit process of goodwill impairment. The author concludes that the premium of goodwill M&A in the media industry is serious [4]. Xie using short-term market performance analysis and long-term financial effect analysis, studied the impact of major shareholders' equity pledge dependence behavior on the market and corporate performance of Huayi Brothers, and selected EVA and Tobin's Q value to study its impact on corporate value, concluding: Affected by the industry characteristics of the film and television industry, listed companies in this industry prefer to use equity pledge for financing Moreover, it is very common for major shareholders to pledge their equity rights [5]. Wu first analyzed the general situation of the industry, selected Huayi Brothers as the case study object for specific analysis, introduced the development process and diversified business, and summarized the existing problems in its capital chain management to evaluate its management process. The research results show that the problems of Huayi Brothers, the object of the case study, include common problems in the industry: (1) over-reliance on debt financing. (2) The diversified business scope is too wide, and the amount of foreign investment is large [6]. In order to determine Huayi Brothers' intrinsic value and assess the investment risk and potential return, Xin used the price-to-book ratio and price-to-sales ratio as price multipliers in the relative valuation method and the EVA valuation model, respectively. The results of the EVA valuation indicate that there is a small investment value in the company's present stock price, which can be taken part in cautiously. As a result, the shared price at the moment has a particular investment value [7]. Wang et al. taking Huayi Brothers' acquisition of Dongyang Meila as an entry point, combined with corporate governance theories and company annual report data, conducted an in-depth analysis of the origin, course, and economic consequences of the merger. The study found that the irrationality of the Huayi Brothers M&A transaction and the inefficiency of internal and external supervision mechanisms led to the formation of high goodwill, resulting in the decline of corporate performance and economic damage to investors [8].

Wang selected Huayi Brothers as a case to analyze and sorted out the process of capital chain change of Huayi Brothers. The research conclusion of this paper is as follows: Film and television enterprises are mostly funded by debt financing, and the financing type is relatively simple; In the use of funds, film and television enterprises have a large amount of investment expenditure, occupying enterprise funds; However, film and television enterprises are affected by relevant policies and audience tastes, resulting in a backlog of film and television works, which affects the speed of capital return [9]. Cui took Huayi Brothers as a case study and selected its financial data from 2006 to 2019 for a hierarchical assessment of its cash flow risk. The results show that the high proportion of equity pledges of major shareholders can induce their specific financial behavior. Moreover, the high proportion of equity pledges by major shareholders will harm the debt repayment, liquidity, profitability, and growth of corporate cash flow [10].

2. Company Introduction and Financial Situation

2.1. Huayi Brothers

Huayi Brothers was founded in 1994 and listed on the A-share market in 2009. Huayi Brothers is the first A-share listed film and television company in mainland China and is a benchmark in the industry of Chinese film and television companies. The main business of Huayi Brothers consists of three major segments: film and television entertainment segment represented by movies, TV plays, and artist management; Brand authorization and live entertainment sector represented by film commune, the culture city, theme park, and other businesses; The Internet entertainment sector represented by games, new media, fan community, and other businesses. Since its inception, it has created a lot of famous works, such as the movies "Sorry, Baby", "Devils on the Doorstep", etc. TV series "My Leader My Regiment", "Soldiers Assault" and so on. The volatility of Huayi Brothers'

development is closely related to the overall development of the Chinese film industry, but Huayi Brothers has been mired in continuous financial losses since 2018. According to the financial statements of 2021 and 2022, Huayi Brothers has been in a state of loss in terms of profit, and its main business has major flaws in its planning.

2.2. Financial analysis

Huayi Brothers, which started as an advertising business, gradually entered the Chinese film market after 1997 by cooperating with Feng Xiaogang. It not only created the history of Chinese New Year films but also boosted the industrialization of Chinese films, creating a win-win situation between commercial film interests and word-of-mouth. After going public in 2009, Huayi Brothers innovated its business model into what was then known as the "troika" of film, TV drama, and talent management. This business model has been used until now and has become the classic business model of Chinese film and television companies. From 2009 to 2014, the return on equity of Huayi Brothers showed an increasing trend, and the company's assets reached the maximum value in 2014. In the same year, the founder Wang Zhongjun proposed the future business strategic layout of "eliminating the single film". Namely, "film and television entertainment, Internet entertainment, brand authorization, and real entertainment" three boards. From 2015 to 2016, Huayi Brothers entered the peak period of foreign investment, due to a long time of living beyond its means, Huayi Brothers entered the debt period after 2018, Wang Zhongjun himself declared: "2018 is the most difficult year for me, and 2019 is the most difficult year for the company." From 2018 to the middle of 2022, Huayi Brothers has been losing money for more than four consecutive years, and this situation is continuing, as shown in Table 1.

Table 1. Huayi Brothers financial statements for the first quarter of 2023

Indicator name	**2023Q1**	**2022Q1**	**Indicator Name**	**2023Q1**	**2022Q1**	**Indicator name**	**2023Q1**	**2022Q1**
Weighted return on equity (%)	-0.84	-5.82	Gross profit margin (%)	32.52	33.42	Asset-liability ratio (%)	72.11	64.70
Total revenue (Yuan)	233.4 million	132.2 million	Total operating revenue increased sequentially (%)	25.16	-18.91	Total Revenue growth (%)	76.58	-66.69
Attributable net profit (Yuan)	- 10.56 million	- 131.8 million	Attributable net profit increased sequentially (%)	12.35	-148.80	Attributable net profit growth (%)	91.99	-156.19
Non-net profit deducted (yuan)	- 16.8 million	- 112.7 million	Non-net profit growth (%)	9.08	-3.89	Non-net profit growth (%)	85.09	-58.93

Due to the impact of the epidemic for three years, since 2018, Huayi Brothers has increasingly suffered serious losses. According to the 2019 financial report of Huayi Brothers Media Co., LTD., the company's total assets in 2019 were 11.023 billion yuan, reduced by 40.22% compared with 18.439 billion yuan in 2018, and the total liabilities reached 608 billion yuan. In 2020, the total debt will reach 5.974 billion yuan. The decline in debt in 2020 benefited from the box office revenue of 3.1 billion yuan for the movie "Eight Hundred", but it still could not save its huge losses for three consecutive years.

3. Company Development Strategy and Competition

Recently, several film and television companies have announced the 2021 annual financial report and the 2021 first-quarter report. According to the secondary classification of Shenwan industry (2021), the total revenue of 22 film and television companies in 2021 was 41.441 billion yuan, and the total net profit was -1.303 billion yuan, of which 11 companies were in a state of loss.

Affected by the pandemic, the performance in the first quarter continued to decline, especially for theater companies. Wanda Films (002739. SZ), which has just returned to profit in its 2021 annual report, saw its box office revenue and attendance fall by 14.3% and 20% year-on-year in the first quarter, and its net profit fell by 91.25% in the first quarter. Wanda Film explained that the company lacked big productions such as Detective Chinatown 3 during this year's Spring Festival. At the same time, since March, a large number of theaters have been shut down, resulting in a cliff drop-in ticket rooms, but the rigid costs such as depreciation, rent, and labor costs in the operation and maintenance of theaters have not declined, so the net profit decline is more significant than the income decline. Also affected by the shutdown were Shanghai Film (601595. SH) and Lucky Blue Sea (300528. SZ), among which Shanghai Film's net profit fell 105.14% year-on-year in the first quarter; Happiness Blue Sea first-quarter net profit loss of 37,952,200 yuan, down 800%. China Film (600977. SH), one of the producers of "Keep you Safe", also withdrew from file, revenue in the first quarter was 946 million yuan, a decrease of 24.83%; Net profit was 116 million yuan, down 19.32 percent year-on-year. Huayi Brothers (300027. SZ) continued to lose money, with a net profit loss of 132 million yuan. In the view of some industry insiders, the film market has been caught in a "dead circle". On the one hand, film and television companies are not optimistic about the market response, to reduce losses and choose to withdraw files to protect themselves. On the other hand, fewer new films will be released in theaters, which will further aggravate the loss of moviegoers. In addition, for producers, blindly delaying the change of files will also bring a new chain effect: the more films are squeezed, the slower the recovery of funds, which will also affect the investment and production process of other films.

The number of shows on screen is significantly lower than in previous years. Film and television company practitioners told reporters that the recession of the film and television market has become a consensus in the industry. The impact of the epidemic, coupled with the reduction of the production budget of various platforms, many projects that were originally scheduled to start were temporarily canceled. "The most important thing is that investment has decreased, capital no longer watches the film and television industry, film and television companies have no money, platforms have no money, and many projects have been cut."

4. Conclusion

As a leading enterprise in the private film industry, Huayi Brothers is now like an ant in a hot pan. The company's own strategic problems and social forces resulted in its current debt tragedy. Not only Huayi Brothers, Wanda, Huace, and other private film companies are also in debt, the essence of which is the depression of the entire film market. How to get rid of the debt crisis of Huayi Brothers is not only a problem of Huayi Brothers but also a problem that the entire film industry is in dire straits and needs to be solved urgently. Returning to the original intention of film production, starting with the quality of films and putting out the fire from other industries are all methods that film companies can try, but they want to completely reverse the domestic film industry. The situation still needs the joint efforts of people from all walks of life.

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