

Changes in Financial Performance of BL Pharmaceuticals before and After the Equity Incentive Plan and Its Implications

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Abstract: Taking BL Pharmaceuticals as an example, this paper analyzes the changes in its financial performance before and after the implementation of the equity incentive plan, and discusses the implications of the equity incentive plan for enterprise development. It is found that after the equity incentive plan was put into effect, BL Pharmaceuticals' financial indicators such as operating income, net profit and net asset value all showed significant improvement. In addition, the work motivation of the employees of the enterprise has been well stimulated, thus promoting the development and innovation of the enterprise. Equity incentive programs have a very obvious role in the motivation and development of enterprises, but they also face certain risks and management challenges. Therefore, enterprises should develop a more reasonable equity incentive plan, focusing on the construction of internal management mechanism and talent management system, in order to ensure the effectiveness and continuity of the incentive policy.

Keywords: BL pharmaceuticals, Equity incentive program, Financial performance.

1. Introduction

With the continuous updating of enterprise management concepts and the intensification of competition for talents, equity incentive programs are receiving more and more attention. As an advanced reward method, equity incentive plan can not only effectively improve the work enthusiasm and creativity of employees, but also promote the sustainable development of enterprises and enhance their competitiveness [1]. BL Pharmaceuticals, a pharmaceutical company with a certain scale and strength, has significantly improved its financial performance since it began its equity incentive program in 2019, a phenomenon that has attracted widespread attention. Therefore, the study of the changes in financial performance before and after the BL Pharmaceuticals equity incentive plan not only helps to gain an in-depth understanding of the impact of the equity incentive plan on the development of the enterprise, but also helps to provide some reference for the implementation of equity incentive plans in other enterprises. Share incentive program has always been one of the major companies in the management and development of the policy attaches great importance to BL Pharmaceuticals, as a well-known pharmaceutical companies, in the implementation of the share incentive plan has also achieved good performance. However, the impacts of equity incentive plans have both positive driving effects and certain risks and pitfalls. This article will analyze the financial performance changes of BL Pharmaceuticals after the implementation of the equity incentive plan, aiming to explore the impact of the equity incentive plan on the development of the enterprise, and put forward some practical significance of the revelation and recommendations for the development and implementation of the enterprise equity incentive plan to provide in-depth and effective assistance.

1.1. Share Incentive Scheme

A stock incentive plan is a reward policy implemented by

a company to motivate its employees to actively participate in the development of the company. It uses shares as an incentive to enhance employees' sense of belonging and loyalty, increase their motivation and creativity by granting them company shares or the right to purchase company shares, thus positively affecting the performance of the enterprise [2].

1.2. Traditional Financial Ratio Analysis

Financial performance is a measure of the operating results created by the day-to-day business activities and the implementation of long-term strategies for a company over a certain period of time. There are many ways to evaluate the financial performance of a company, and the traditional financial ratio analysis is the most basic and commonly used method, which evaluates the company's financial position by calculating the ratio relationship between different items of the financial report from the perspective of relativities, and is used to determine whether there are any problems with the company's financial performance and operation. According to the provisions in the Interim Measures for Performance Evaluation of Central Enterprises of the State-owned Assets Supervision and Administration Commission of the People's Republic of China (SASAC) in 2006, the evaluation of financial performance should include four aspects, namely, profitability, asset quality, solvency and growth capacity, and the weights of each evaluation index should be set. This paper starts from the four aspects mentioned above to make a comparative analysis of the performance of BL Pharmaceuticals before and after the implementation of the equity incentive plan, from which it analyzes and determines the improvements and shortcomings of BL Pharmaceuticals in terms of business performance after the implementation of the plan [3].

2. Analysis of Changes in Financial Performance of BL Pharmaceuticals before and After the Stock Incentive Plan

2.1. Introduction to BL Pharmaceuticals

Beijing BL Pharmaceutical Co., Ltd. was founded in September 1992. The company is mainly engaged in the research and development, production and sales of pharmaceutical products, and is a national high-tech enterprise and one of the first batch of listed enterprises on the GEM board. The company developed and launched contrast agent products at an early stage in China. After more than 20 years of industry exploration and professional accumulation, the company has formed unique core competitive advantages in this field, and is the leading enterprise in the contrast agent industry in China. The company has also increased its R&D efforts in the fields of central nervous system and endocrine drugs, striving to realize product diversification. In September 2019, the Company formally released the 2019 Restricted Stock Incentive Plan (Draft), which intends to grant restricted shares to a total of 44 directors, senior management, middle management and the Company's core technical (business) personnel who have a direct impact on the Company's operating performance and future development, involving 5.7 million shares, accounting for 1.166% of the Company's total share capital. The restricted shares to be granted under this incentive program will be unlocked in three phases, and the assessment years for the release of restricted shares will be 2019, 2020 and 2021, and the assessment indexes contain two parts, namely, the Company's performance indexes and personal indexes. Along with the implementation of the incentive program, the company adheres to the development concept of "focusing on talent, people-oriented", and continuously improves the company's core competitiveness, and promotes the realization of the company's long-term strategic objectives.

2.2. Comparative Analysis of BL Pharmaceuticals' Profitability before and after the Stock Incentive Plan

2.2.1. Profitability Indicator Selection

Profitability of listed companies is a central concern of investors. This paper selects three indicators to measure the profitability of BL Pharmaceuticals based on literature reading.[4] They are: the indicator of total return on assets (ROA), which reflects the overall profitability of the enterprise and evaluates the operation of assets, the indicator of return on equity (ROE), which measures the efficiency of the enterprise's utilization of the capital invested by shareholders, and the indicator of profitability of the enterprise's products and the enterprise's potential for development, and the profitability of the main business, which is a three-index indicator.

2.2.2. Trend and Analysis of Changes in Profitability of BL Pharmaceuticals before and after the Stock Incentive Plan

Based on the selected indicators reflecting profitability and the publicly disclosed financial statements of BL Pharmaceuticals Limited, the changes in profitability indicators before and after the listing of the BL Pharmaceuticals Stock Incentive Plan are shown in Table 1.

Table 1. Comparative indicators of BL Pharmaceuticals' profitability before and after the implementation of the stock incentive plan

| Year/Indicators | MBPR | RROE | ROA |
|-----------------|--------|--------|--------|
| 2017 | 27.18% | 12.30% | 13.33% |
| 2018 | 27.42% | 13.02% | 13.38% |
| 2019 | 48.89% | 25.96% | 27.2% |
| 2020 | 22.13% | 11.49% | 7.99% |
| 2021 | 14.79% | 7.00% | 5.74% |
| 2022 | -1.73% | 0.61% | 1.15% |

(1) In terms of the profitability of main business, from 2017 to 2022, the profitability of main business of BL Pharmaceuticals shows a trend of rising and then falling, and forms a peak in 2019. It can be seen that the implementation of the equity incentive plan in the year has a greater impact on the profitability of BL Pharmaceuticals' main business, and after the implementation of equity incentives, the company resumed normal operations and adjusted its strategy so that the profitability of the main business returned to the normal level. The downward trend in profitability from main operations from 2020 to 2022 is mainly due to the decline in operating income as a result of the New Crown outbreak, which is a public health event and is not related to the normal operating level of BL Pharmaceuticals.

(2) As far as the return on net assets is concerned, from 2017 to 2022, the return on net assets shows the same fluctuation trend as the profit margin of main business. the return on net assets in 2017 was 12.30%, the return on net assets in 2018 was 13.02%, which remained relatively around 13%, and the return on net assets in 2019 showed a substantial increase with a return on net assets of 25.96%, which was explained by the implementation of the Company's equity incentives Related.

(3) As far as the compensation rate of total assets is concerned, from 2017 to 2022, the compensation rate of total assets and with the profit margin of main business also showed the same trend, with the compensation rate of 13.33% and 13.38% in 2017 and 2018, respectively, which remained at a relatively stable level, and the compensation rate of 27.2% in 2019, which increased at a faster rate, mainly due to the implementation of equity incentives and the equity of Shihe Genetics transferred from long-term equity investments to financial assets at fair value through profit or loss.

Comparison with the average level of the industry in the same period found that BL Pharmaceuticals after the implementation of equity incentives, in addition to the return on net assets and earnings per share indicators are slightly lower than the average level of the industry, the profitability of the main business is higher than the average level of the pharmaceutical manufacturing industry, which indicates that BL Pharmaceuticals after the implementation of equity incentives to improve the operating efficiency effectively, but this improvement is not enough to unify with the expansion of the enterprise's capital, thus presenting a net assets Returns and earnings per share indicators are lower than the average level of the industry in the same period.

2.3. Comparative Analysis of BL Pharmaceuticals' Operating Capacity before and after the Stock Incentive Plan

2.3.1. Selection of Operating Capacity Indicators

Operating capacity is an indicator for evaluating the

efficiency of the enterprise's capital utilization and asset management. The faster the turnover of the enterprise's production and operation funds and the fewer the number of turnover days are, the higher the efficiency of the enterprise's capital utilization, the better the asset management ability, and the enterprise owns more profit-making opportunities [5]. In this case, the accounts receivable turnover ratio, which reflects the time it takes for a company to obtain the rights to accounts receivable and to collect the money and turn it into cash, the net asset turnover ratio, which measures the turnover of corporate assets, the inventory turnover ratio, which reflects the efficiency of the use of corporate funds and the short-term solvency of the company, and the total asset turnover ratio, which measures the allocation of resources by the company and the rational use of the resources in the company, are selected as indicators to measure the efficiency of the use of funds before and after the share incentive plan of BL Pharmaceuticals to analyze. Before and after the capital utilization efficiency to be analyzed.

2.3.2. Trend and Analysis of Changes in BL Pharmaceuticals' Operating Capacity before and after the Stock Incentive Plan

Table 2. Comparative indicators of operating capacity before and after BL Pharmaceuticals' equity incentive plan

| Year/Indicators | ARTO | CATR | ATR | ITR |
|-----------------|-------|-------|-------|-------|
| 2017 | 4.36% | 1.20% | 0.50% | 1.70% |
| 2018 | 4.75% | 1.33% | 0.50% | 1.97% |
| 2019 | 5.58% | 1.65% | 0.56% | 2.35% |
| 2020 | 5.02% | 0.87% | 0.37% | 2.31% |
| 2021 | 5.66% | 0.65% | 0.30% | 1.77% |
| 2022 | 6.38% | 0.62% | 0.27% | 1.30% |

(1) In terms of accounts receivable turnover, the accounts receivable turnover of BL Pharmaceuticals before the implementation of the Equity Incentive Plan averaged around 4.5%. 2017 to 2022 showed a gradual upward trend, and the increase in accounts receivable turnover was reasonable due to the epidemic, but it was not possible to analyze further the specific impact on accounts receivable turnover before and after the implementation of the Equity Incentive Plan.

(2) In terms of current asset turnover ratio, total asset turnover ratio and inventory turnover ratio, from 2017 to 2022, they all show a trend of increasing and then decreasing, and peak in 2019. The current asset turnover ratio and total asset turnover ratio have increased at a faster rate since the implementation of the equity incentive plan, which may be caused by the inability of the company's rapidly expanding asset scale in the year of implementation to achieve synchronized growth with sales revenue. Inventory turnover ratio ups and downs of more obvious, from 2017 to 2019, the big rise increased compared to the previous years, and the later period of a substantial decline is mainly due to the reasons by the epidemic, inventory accounted for an increase in the proportion of the company's poor sales.

According to the situation of the pharmaceutical industry in the same period, the accounts receivable turnover ratio of BL Pharmaceuticals after the implementation of the Equity Incentive Plan was slightly lower than the level of the industry in the same period, and the inventory turnover ratio was higher than that of the industry; the net asset turnover ratio and the total asset turnover ratio did not perform satisfactorily, which, according to the financial statements published by BL

Pharmaceuticals, were higher than the level of the industry prior to the implementation, and lower than the level of the industry after the implementation due to the following reasons. The sudden expansion of shareholders' equity after implementation affected the overall level of net asset turnover and total asset turnover.

2.4. Comparative Analysis of Solvency of BL Pharmaceuticals before and after Stock Incentive Plan

2.4.1. Selection of Solvency Indicators

Solvency is a financial indicator that determines the level of financial risk of an enterprise [6]. This paper focuses on measuring the rationality of BL Pharmaceuticals' capital structure and financial position through research, and in-depth study of the equity financing efficiency of the gearing ratio, while analyzing the enterprise's asset liquidity, based on the short-term solvency of the enterprise, the enterprise's current assets can be seen in the quick ratio of the enterprise's ability to immediately realize for the repayment of current liabilities, and the ability of the enterprise to reflect the ability of the enterprise to directly repay current liabilities of the cash. The long-term solvency and short-term solvency of the enterprise before and after the stock incentive plan were evaluated.

2.4.2. Trend and Analysis of Changes in Solvency of BL Pharmaceuticals before and after the Stock Incentive Plan

Table 3. Comparative indicators of solvency before and after BL Pharmaceuticals' equity incentive program

| Year/Indicators | CR | QR | ER | ALR |
|-----------------|-------|-------|--------|--------|
| 2017 | 9.58% | 7.36% | 93.72% | 6.28% |
| 2018 | 7.15% | 5.63% | 93.57% | 6.43% |
| 2019 | 4.38% | 3.40% | 89.33% | 10.67% |
| 2020 | 3.93% | 3.59% | 66.45% | 33.55% |
| 2021 | 4.57% | 3.70% | 71.82% | 28.17% |
| 2022 | 3.89% | 2.98% | 68.31% | 31.69% |

(1) As far as the gearing ratio is concerned, it remained at a stable level from 2017 to 2018, and the gearing ratio showed an upward trend during the implementation of the equity incentive plan, and it rose in 2019 because of the further expansion of the equity capital in that year, however, it was due to the impact of the epidemic reasons from 2020 to 2022, and the company publicly issued a convertible loan in 2020, which was used for the new construction of the Cangzhou solid preparation workshop project, during this period, due to the impact of the national collection, the proportion of research and development expenditure is larger, the sales price declined, the gearing ratio only rose. Overall, in the year of implementation of the equity incentive plan, the gearing ratio fluctuated within the normal range, indicating that the investment structure is more reasonable after implementation [7].

(2) As far as the current ratio and quick ratio are concerned, the overall trend is a gradual decline, with a larger fluctuation in 2019 compared to the previous year. Despite the declining trend, the current and quick ratios of the Company are still higher than the level of the industry, especially after the implementation of the equity incentive plan, the gap is gradually widening.

(3) As far as the shareholders' equity ratio is concerned, it is within the normal range of variation from 2017 to 2022, showing a stable trend in the first two years, a significant

decline in 2019, another decline in 2020 due to the impact of the epidemic, and a small rebound in 2021. After the implementation of the company's equity incentive plan, this indicator declined low instead of rising, indicating that the company's liquid assets are well utilized.

Compared with the average level of the pharmaceutical industry during the same period, BL Pharmaceuticals' debt level was low in the year of implementation, and the company could not talk about the existence or improvement of the debt service risk. 2020 issue of convertible bonds to raise funds of up to 1.5 billion yuan, resulting in a substantial increase in the debt ratio, but through the Cangzhou solid preparations of the new workshop project, the company's marketing and management capabilities have been strengthened to maintain the competitiveness of products in the market, in stark contrast to the average level of the industry. Formed a sharp contrast.

2.5. Comparative analysis of BL Pharmaceuticals' Growth Capacity before and After Stock Incentive Plan

2.5.1. Selection of Growth Capacity Indicators

The development speed and stability of an enterprise determines its growth capacity. In order to survive, compete and continue to operate, an enterprise needs to judge its own development ability in the coming period, the competitive environment and industry position it is in and the development opportunities it faces, and the analysis and judgment of an enterprise's growth ability plays an important role in its operation ability and development ability [8]. In this paper, the following four indicators are selected to measure the growth capacity of enterprises, namely, the growth rate of total assets which reflects the growth of the enterprise's asset scale in the current period, the growth rate of net profit which measures the enterprise's operating results and economic efficiency, the growth rate of the main business income which measures the life cycle of the company's products and determines the stage of the company's development, and the expansion rate of the enterprise's capital scale which reflects the expansion rate of the enterprise's capital scale, and is an important indicator to measure the change of the total scale of the enterprise and its growth status. Net assets growth rate is an important indicator to measure the change of the total scale and growth of the enterprise [9].

2.5.2. Trend and analysis of changes in BL Pharmaceuticals' growth capacity before and after the stock incentive plan

Table 4. Comparative indicators of development capacity before and after BL Pharmaceuticals' share incentive program

| Year/Indicators | AGR | G | MORG | ROE |
|-----------------|--------|----------|---------|--------|
| 2017 | 19.33% | 666.31% | 4.75% | 18.58% |
| 2018 | 12.96% | 24.36% | 16.37% | 12.77% |
| 2019 | 26.00% | 131.75% | 34.71% | 20.29% |
| 2020 | 75.36% | -55.03% | 1.00% | 30.44% |
| 2021 | 1.99% | -28.38% | 3.94% | 10.25% |
| 2022 | -3.06% | -104.19% | -10.94% | -7.80% |

(1) With respect to the growth rate of revenue from main business and net profit, from 2018 to 2022, the trend of first increase and then decrease was presented, and hit a new high in recent years in 2019, and the downward trend from 2020 to

2022 was due to the epidemic collection. In 2019, the year that BL Pharmaceuticals implemented the equity incentive plan, the total assets increased significantly, higher than the average level of the same industry, combining with the public financial data analysis, the adjustment of the equity structure after the implementation of the plan and the input of some new projects are the main reasons for the fluctuation.

(2) In terms of the growth rate of total assets and net assets, it shows an upward and then downward trend from 2018 to 2022 and peaks in 2020, with a particularly large increase in the year of implementation of the plan.

Compared with the level of the pharmaceutical industry in the same period, the total assets of BL Pharmaceuticals returned to a reasonable level of growth after the implementation of the plan, and the level of growth from 2019 onwards is higher than the industry average; the revenue from main business of the pharmaceutical manufacturing industry showed stable growth, while BL Pharmaceuticals demonstrated greater volatility after the implementation of the plan, and combined with the analysis in the previous section, the adjustment of the company's shareholding structure after the implementation of the plan and the epidemic impact are the main reasons for the fluctuation.

3. Conclusion

This paper provides a detailed background overview of Beijing BL Pharmaceutical Co., Ltd. and an in-depth analysis of the history of the company's implementation of the equity incentive plan, and a detailed discussion of the changes in the company's financial indicators after the equity incentive plan, as detailed in Table 5.

Table 5. Financial Performance before and after BL Pharmaceuticals Equity Incentive Plan

| | Changes in indicators | Financial performance |
|-------------------|---|-----------------------|
| profitability | MBPR, ROA generally show an upward trend after implementation of the plan | Profitability up |
| operating ability | ARTO, ATR rise steadily after plan implementation | operating ability up |
| solvency | CR, QR, ER are on a downward trend after the implementation of the plan | Solvency down |
| growth capacity | MORG, AGR, ROE rise steadily after program implementation | growth capacity up |

In response to the above data and phenomena, the paper draws the following conclusions:

(1) The incentive role of the equity incentive plan for the enterprise is very obvious, can improve the enthusiasm of the staff and drive the rapid development of the enterprise.

(2) Enterprises should develop more reasonable equity incentive plans to avoid possible risks and strictly implement the plans to ensure the effectiveness of the incentive policy.

(3) The successful implementation of the equity incentive program requires the enterprise to have a good internal management mechanism and talent management system to ensure that the incentives can truly benefit the enterprise and its employees.

To summarize, equity incentive plans play a very obvious role in the motivation and development of enterprises, but

they also face certain risks and management challenges. Therefore, enterprises should formulate a more reasonable equity incentive plan and focus on the construction of internal management mechanism and talent management system to ensure the effectiveness and continuity of incentive policy.

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