

Research on The Dividend Distribution Policy Optimization of Yunnan Baiyao Based on The Financial Strategy Matrix

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Abstract: Dividend distribution policy is an important part of enterprise financial strategy, which has an important impact on the long-term development of enterprises and the interests of investors. Enterprises should adjust the dividend distribution strategy appropriately according to the different economic situation. The article is based on the case studies, Using the analysis method of the financial strategy matrix, Select Yunnan Baiyao Co., Ltd., a leading enterprise in the pharmaceutical industry, as the research object, The financial data of Yunnan Baiyao in different years were calculated from the dimension of capital surplus and shortage and value creation, Further deepening the research on the dividend distribution policy of Yunnan Baiyao, Analyze whether the dividend distribution policy of Yunnan Baiyao matches with the financial strategy matrix, We found the problems such as mismatch of financial strategy matrix in dividend policy of Yunnan Baiyao, single and chaotic dividend distribution mode and lack of stability of dividend distribution policy, And based on the perspective of financial strategy matrix.

Keywords: Dividend distribution policy, Financial strategy matrix, Value creation.

1. Introduction

Pharmaceutical manufacturing industry is an important pillar to promote China's economic development and an important part of China's national economy. Due to the outbreak of COVID-19, the government and the public have increased their attention to the pharmaceutical manufacturing industry, and the entire pharmaceutical manufacturing industry is facing challenges and opportunities. Since its listing, Yunnan Baiyao has achieved good performance and reputation, and all indicators are also in the leading position in the same industry. However, the dividend distribution policy of Yunnan Baiyao has shown some deficiencies in the comparison of the same industry. Although it has been improved compared with before, it still does not match the excellent business performance of the company. Based on the above background, this paper selects Yunnan Baiyao as a case company, using the financial strategy matrix analysis method to study the company's dividend distribution policy, found the problems in Yunnan Baiyao dividend distribution policy, so as to put forward feasible suggestions for the optimization of enterprise dividend distribution policy.

2. Yunnan Baiyao Introduction

Yunnan Baiyao Group Co., LTD. (stock referred to as "Yunnan Baiyao", stock code 000538), founded in 1902, is a well-known trademark in China and a time-honored brand in China. Yunnan Baiyao has a long history of development. In 1971, it became the first listed company in Yunnan province in 1993. In 1996, it paid attention to the unification of brand management. Yunnan Baiyao mainly deals in four sectors: native medicinal materials and health products, drugs and

medical devices, tea products and big health products. Each sector is independent and supports each other, and has established a market value system of the whole industrial chain and an economic ecosystem featuring industrial integration and mutually beneficial development of each sector.

3. Construction and Analysis of Yunnan Baiyao Financial Strategy Matrix

Financial strategy matrix is an evaluation tool that analyzes the financial performance of an enterprise in a period of time by selecting the relevant financial strategy indicators of an enterprise and building a model matrix, so as to play a certain guiding role in the adjustment of the company's strategic policy. The y-axis of the model is an indicator that reflects the ability to create value, and the x-axis is an indicator that reflects the cash flow of the company. If it is fixed in a specific quadrant, the value creation and sustainable development of the company can be evaluated according to this index, so as to adjust the overall strategy of the enterprise.

Since the formulation of dividend policy of Yunnan Baiyao is obviously affected by the Notice on Further Implementing Matters related to Cash Dividend of Listed Companies issued by China Securities Regulatory Commission on May 4, 2012, this paper focuses on the period from 2013 to 2021 in the selection of relevant indicators.

3.1. The Calculation of Value Creation Ability

Under the financial strategy matrix model, the ability of enterprises to create value is evaluated with the economic added value as the core. As shown in Table 1.

Table 1. Value calculation of Yunnan Baiyao 2013-2021

Age	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net operating profit after tax	25.61	24.44	28.70	31.39	34.76	38.21	47.04	60.1	34.55
investment capital	90.97	120.49	143.81	177.05	200.9	197.27	386.43	406.73	409.62
Return on investment capital: (%)	28.15	20.29	19.96	17.73	17.3	19.37	12.17	14.78	8.43
Weighted average capital cost ratio (%)	9.01	9.84	10.03	9.34	9.39	7.99	9.55	9.91	8.4
Create the value of the ability to (%)	19.14	10.45	9.93	8.39	7.91	11.38	2.62	4.87	0.03
Economic value	17.41	12.59	14.28	14.86	15.90	22.46	10.14	19.80	0.14

Table 2. The calculation of Yunnan Baiyao 2013-2021

Age	2013	2014	2015	2016	2017	2018	2019	2020	2021
Sales growth rate of (%)	15.55	18.96	10.23	8.07	8.50	9.84	11.07	10.38	11.09
Sustainable growth rate of (%)	29.13	23.69	21.59	21.11	19.13	17.28	7.30	9.03	-1.03
Sustainable development capability: (%)	-13.58	-4.73	-11.37	-13.04	-10.63	-7.44	3.77	1.34	12.12

Table 3. Yunnan Baiyao financial strategy matrix horizontal and vertical axis data

Age	2013	2014	2015	2016	2017	2018	2019	2020	2021
X-axis	-13.58	-4.73	-11.37	-13.04	-10.63	-7.44	3.77	1.34	12.12
Y-axis	19.14	10.45	9.93	8.39	7.91	11.38	2.62	4.87	0.03
Matrix state	Capital surplus, value appreciation	Capital surplus, value appreciation	Capital surplus, value appreciation	Capital surplus, value appreciation	Capital surplus, value appreciation	Capital surplus, value appreciation	Capital shortage, value appreciation	Capital shortage, value appreciation	Capital shortage, value appreciation

3.2. The Calculation of Value Sustainability Ability

The sustainable development ability of an enterprise is an important indicator to evaluate the surplus or shortage of enterprise funds. The evaluation method is the difference between the sales growth rate and the sustainable growth rate of an enterprise. As shown in Table 2.

Construction of Yunnan Baiyao financial strategy matrix Through the horizontal and vertical coordinates of the financial strategy matrix are obtained, and the financial strategy matrix of Yunnan Baiyao is constructed according to the data. As shown in Table 3.

According to the analysis, the year when Yunnan Baiyao is in the first quadrant is from 2019 to 2021, and the enterprise status in this quadrant is short of funds and value appreciation. Yunnan Baiyao was in the second quadrant from 2013 to 2018. The enterprise status shown in the quadrant was capital surplus and value appreciation.

In recent years, Yunnan Baiyao has been short of funds for four years, but it still insists on paying cash dividends during this period. In this case, it is likely to bring operational risks to the enterprise. The remaining year of funds is 6 years, and the level of cash dividend payment in these 6 years is relatively low. If an enterprise is in a state of long-term capital shortage, it will accelerate the consumption of the intrinsic value of the enterprise and hinder the long-term development of the enterprise. On the other hand, if the enterprise has excess funds, it means that the capital is not fully utilized, which will hinder the development of the company. Yunnan Baiyao continues to create value for shareholders for most of the time, but the income from shareholders does not improve, which shows that Yunnan Baiyao's dividend distribution policy does not match its own financial situation.

4. Yunnan Baiyao Dividend Distribution Policy Analysis

Enterprise dividend distribution should not only consider the annual operation and development of enterprises, but also be overall and long-term. For an enterprise, how to reasonably distribute the dividends is of great significance to the stability and development of enterprise funds. The specific distribution of Baiyao in Yunnan from 2013 to 2021 is shown in Table 4.

As can be seen from Table 1 and the financial strategy matrix, the dividend distribution policy of Yunnan Baiyao has the following problems:

(1) Mismatch with the financial strategy matrix

From 2013 to 2018, Yunnan Baiyao was in the stage of capital surplus value appreciation. In order to show the signal of its good operating condition to the outside world, Yunnan Baiyao should appropriately increase the amount of cash dividend. The increased cash dividend of Yunnan Baiyao only occupies a small part of its high net profit.

In the long run, it will convey a signal to the outside world that the company's business development is not good, which will reduce shareholders' investment confidence.

During the period of 2018-2021, Yunnan Baiyao is in the stage of capital surplus but still creating value for shareholders. At this time, the dividend policy should be adopted to reduce the dividend payment ratio, reduce the distribution of cash dividends, and choose the distribution method of stocks, liabilities or mixed distribution. As can be seen from the above table, the cash dividend amount of Yunnan Baiyao has increased year by year from 2018 to 2021, and the amount is relatively large, and there is no other distribution method adopted, which is obviously contrary to the dividend policy that should be adopted. From the perspective of the financial strategy matrix, this kind of dividend distribution method is very unreasonable and does not match with the financial strategy matrix.

Table 4. Dividend Distribution Policy of Yunnan Baiyao in 2013-2021

Age	dividend policy	dividend payout ratio (%)	Industry dividend distribution rate is (%)	Cash dividend per share	Average industry cash dividend	Total dividends (100 million yuan)	Net profit (RMB 100 million)	Matrix state
2013	Pay ¥5 in cash (including tax) for every 10 shares converted into 5 additional shares	14.95	27.00	0.50	0.20	3.47	23.21	Capital surplus, value appreciation
2014	Pay ¥5 in cash (including tax) for every 10 shares	20.85	23.37	0.50	0.19	5.21	24.97	Capital surplus, value appreciation
2015	Pay ¥6 in cash (including tax) for every 10 shares	22.68	34.02	0.59	0.19	6.25	27.56	Capital surplus, value appreciation
2016	Pay ¥8 in cash (including tax) for every 10 shares	28.43	32.62	0.8	0.2	8.33	29.31	Capital surplus, value appreciation
2017	Pay ¥15 in cash (including tax) for every 10 shares	49.87	32.69	1.50	0.22	15.62	31.33	Capital surplus, value appreciation
2018	Pay ¥20.001254 in cash (including tax) for every 10 shares	63.32	27.56	2.00	0.24	20.83	32.90	Capital surplus, value appreciation
2019	Pay ¥30 in cash (including tax) for every 10 shares	91.83	32.71	3	0.26	38.32	41.73	Capital shortage, value appreciation
2020	Pay ¥39 in cash (including tax) for every 10 shares	90.40	25.73	3.899999	0.35	49.17	55.11	Capital shortage, value appreciation
2021	Pay ¥16 in cash (including tax) for every 10 shares converted into 6 additional shares	73.39	28.24	1.600001	0.36	20.53	27.96	Capital shortage, value appreciation

(2) The dividend distribution method is single and chaotic

According to the distribution of financial strategy matrix, Yunnan baiyao more than half of the year is a state of cash shortage, and in the stage of rapid development of, capital flow for investment and financing, you can choose some other ways to distribute dividends, but Yunnan baiyao dividend payment to cash dividend form, thus the company's dividend distribution way is single.

From the perspective of dividend distribution mode, Yunnan Baiyao mainly takes the way of cash dividend distribution, supplemented by the way of share delivery and equity conversion. Moreover, which way is not regular, indicating that its dividend distribution policy is chaotic and there is no fixed way.

(3) Lack of stability of the dividend distribution policy

Comparing the dividend distribution ratio of Yunnan Baiyao with the dividend distribution ratio of the same industry, it can be found that the dividend distribution policy of Yunnan Baiyao is less stable. During 2017-2020, the dividend distribution ratio of Yunnan Baiyao was higher than that of the same industry, and during 2013-2016, the dividend distribution ratio of Yunnan Baiyao was continuously lower than that of the same industry. In general, Yunnan Baiyao's dividend distribution ratio is lower than the industry level of the majority. This shows that Yunnan Baiyao, as a leading enterprise in the pharmaceutical manufacturing industry, does not have an ideal dividend distribution level under the good state of various index data, which is inconsistent with its excellent business performance, which indirectly shows that Yunnan Baiyao's dividend distribution policy is indeed insufficient.

5. Yunnan Baiyao Dividend Distribution Policy Recommendations

(1) Reference to the financial strategy matrix when formulating dividend distribution policies

Through the financial strategy matrix analysis of the financial situation of Yunnan Baiyao and the comparison company, the company can clearly realize which quadrant it is in and what kind of dividend distribution strategy will be formulated in different quadrants to adapt to the development of the company. During the period of 2019-2021, Yunnan Baiyao should mainly solve the problem of cash shortage at this time. The dividend distribution policy should be as follows: reduce the dividend payment ratio according to the actual situation of the company, reduce or stop the payment of cash dividends, and choose the dividend payment method of stocks, liabilities or both. Strengthen the overall budget management of enterprise funds, increase the retention rate of the enterprise, and use most of the funds for the internal needs of the enterprise. From 2013 to 2018, Yunnan Baiyao has sufficient funds and can meet the development needs of the company. At this stage, Yunnan Baiyao can adopt dividend distribution policies: appropriately increase cash dividends, use the remaining funds to repurchase shareholders' shares, and if there are still funds left, the dividend payment ratio can be appropriately increased.

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6. Conclusion

In the study of the dividend policy of Yunnan Baiyao from the perspective of financial strategy matrix, the following conclusions are drawn: First, according to the distribution of the financial strategy matrix of Yunnan Baiyao, Yunnan Baiyao is in a state of value appreciation, and there is an intermittent shortage of funds. Secondly, through the construction and analysis of the financial strategy matrix, it is found that the financial strategy matrix mismatch, single and chaotic dividend distribution mode and the lack of stability of the dividend distribution policy. It is hoped to encourage Yunnan Baiyao Company to think about and improve the problem of dividend distribution, and balance the relationship between dividend and development, so as to repay the majority of investors for the long-term healthy development of the enterprise, and also have reference significance for other enterprises in the pharmaceutical manufacturing industry.

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