

Analysis of the Investment Value and Future Development of Pop Mart

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Abstract: In recent years, the popularity of "blind box" has soared and has received the love of countless young people. This study focuses on the leading company in the blind box market, Pop Mart, conducts a specific analysis of the 2021 financial statements of Pop Mart, studies the investment value of Pop Mart, and uses SWOT analysis methods to envision the future development of Pop Mart and draw analysis conclusions.

Keywords: blind box; key financial indicators; SWOT analysis; the value of the investment

1. Introduction

Under the background of new consumption, China's trendy game market has achieved rapid development in the past few years. In 2005, China began to appear tide play studios and tide play independent designers, by 2020, the tide play culture market has developed for about 15 years, small tide play studios have increased year by year, and large trend culture brand companies tend to mature. Trendy toys show strong vitality, showing a huge consumer market, on the whole, the tide play industry has broad prospects [1]. At present, the largest and best-selling brand in China's tide play market is Pop Mart, as a unicorn enterprise in the tide play market, it has shown strong vitality and development potential after its listing in 2020 [2].

1.1. Background

Pop Mart Cultural Creative Co., Ltd. was formally listed on the Hong Kong Stock Exchange on December 11, 2020, with an offer price range of HK\$31.5 to HK\$38.5 per share, up 100.26% at the open, with a total market value of more than HK\$100 billion. The company has maintained an upward trend for the past two months, but its rapid rise is odd given that the average P/E ratio of the industry sector in which Pop Mart is located is only 27 times, while the P/E ratio of Pop Mart on the day of listing reached 200 times. Does this rapidly growing company, which symbolizes that consumers have begun to turn to "spiritual civilization consumption", have certain corporate value, or have a huge capital bubble been generated due to the heating up of the blind box economy? The first listed company in China to make its fortune on blind boxes and its new business model can provide data for investors to study whether blind box concept companies are worth investing in[3].

1.2. Research Methods

This study is based on the 2021 financial statements of Pop Mart, through the use of some key financial indicators and the analysis of the future investment value of Pop Mart in the context of the current Chinese market

1.3. Research Process

2021 is the first calendar year after the listing of Pop Mart, so it is analyzed according to the income statement, balance sheet and cash flow in the 2021 company general report released by Pop Mart in early 2022.

2. Main Research Content

In order to comprehensively analyze Pop Mart and understand the investment value of it, the author uses some key financial metrics which are helpful in understanding financial performance and how shareholders view such performance.

First, introduce the formulas for Key Metrics, Liquidity Metrics and Credit Metrics [4]:

EPS is likely the most popular metric for determining a company's revenue. It demonstrates stockholder profitability.

$$\text{EPS} = \text{Net Income} / \text{Weighted Average Shares} \quad (1)$$

Diluted EPS is the portion of a firm's profit allocated to each share after adjusting for possible transactions that could trigger an increase in the number of outstanding shares.

$$\text{Diluted EPS} = \text{Net Income} / (\text{Weighted Average Shares} + \text{Convertible Securities, Including Preferred Shares, Stock Options, etc.}) \quad (2)$$

Return on Equity (RoE) is commonly used to capture profitability at the firm level.

$$\text{Return on Equity (RoE)} = (\text{Net Income} / \text{Shareholders' Equity}) * 100\% \quad (3)$$

The return on assets (RoA) ratio measures a company's profitability in relation to its overall assets. The number gauges how effectively management generates profits from its assets.

$$\text{Return on Assets (RoA)} = (\text{Net Income} / \text{Total assets}) * 100\% \quad (4)$$

A snapshot of the revenue shift from one year to the next is provided by sales growth. It can tell us relative growth from one year to the next, the type of company is being analyzed and whether the company is stable or volatile.

$$\text{Sales Growth} = ((\text{Current Year Revenue} / \text{Prior Year Revenue}) - 1) * 100\% \quad (5)$$

After production expenses, the operating margin shows how much revenue is left over. This metric provides us a sense of the core margin the business earns on each dollar of sales.

$$\text{Operating Margin} = (\text{Operating Income} / \text{Revenue}) * 100\% \quad (6)$$

Asset turnover gauges how effectively a business generates income or sales using its assets.

$$\text{Assets Turnover} = (\text{Total Revenue} / \text{Average Total Assets}) * 100\% \quad (7)$$

The capacity of the business to pay off its short-term obligations (debt and payables) with its short-term assets (cash, inventory, and receivables) is indicated by the current ratio:

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities} \quad (8)$$

Debt to EBITDA measures a company's financial leverage, focusing in particular on debt in relation to working profitability, which indicates how long it will take the business to pay off the debt it has accumulated.

$$\text{Debt to EBITDA} = \text{Total Debt} / \text{EBITDA} \quad (9)$$

The Debt to Equity ratio shows the proportion of debt and equity that the company uses to fund its assets, while the Debt to EBITDA ratio measures the company's ability to pay its debt.

$$\text{Debt to Equity Ratio} = \text{Total Debt} / \text{Shareholders' Equity} \quad (10)$$

Next, read the 2021 financial statements of Pop Mart to obtain the most valuable data:

First, let us take a look at Pop Mart's income statement:

Table 1: Income statement from Pop Mart 2021 annual report [5].

	2021	2020
	RMB'000	RMB'000
Revenue	4,490,651	2,513,471
Cost of sales	(1,732,027)	(919,363)
Gross profit	2,758,624	1,594,108
Distribution and selling expenses	(1,106,078)	(630,069)
General and administrative expenses	(557,509)	(279,967)
(Provision for)/reversal of impairment on financial assets	(1,435)	398
Other income	54,425	45,420
Other gains/(losses) - net	1,785	(11,107)
Operating profit	1,149,812	718,783
Finance income	28,609	1,953
Finance expenses	(21,246)	(10,946)
Finance income/(expenses) – net	7,363	(8,993)
Fair value changes of convertible		
redeemable preferred shares	–	(6,260)
Share of profit of investments accounted for using the equity method	14,016	3,873
Profit before income tax	1,171,191	707,403
Income tax expense	(316,624)	(184,091)
Profit for the year	854,567	523,312
Profit for the year attributable to:		
– Owners of the Company	854,339	523,505
– Non-controlling interests	228	(193)
	854,567	523,312
Other comprehensive loss		
Items that may be reclassified to profit or loss		
– Currency translation differences	(12,629)	(25,726)
Items that will not be reclassified to profit or loss		
– Currency translation differences	(102,926)	(13,050)

Table 1: (continued).

Other comprehensive loss for the year, net of tax	(115,555)	(38,776)
Total comprehensive income for the year	739,012	484,536
Total comprehensive income for the year attributable to:		
– Owners of the Company	738,816	484,604 (68)
– Non-controlling interests	196	
	739,012	484,536
Earnings per share for profit attributable to owners of the Company		
– Basic (expressed in RMB per share)	0.62	0.44
– Diluted (expressed in RMB per share)	0.62	0.44

Next, let us take a look at Pop Mart's balance sheet:

Table 2: Balance Sheet from Pop Mart 2021 annual report [5].

	2021	2020
	RMB'000	RMB'000
Assets		
Non-current assets		
Property, plant and equipment	366,281	238,325
Intangible assets	134,032	92,731
Right-of-use assets	609,517	287,799
Investments accounted for using the equity method	61,539	50,380
Financial assets at fair value through profit or loss	328,688	16,900
Prepayments and other non-current assets	30,727	6,177
Deferred income tax assets	35,553	23,087
Total non-current assets	1,566,337	715,399
Current assets		
Trade receivables	171,334	78,334
Other receivables	154,939	90,781
Inventories	788,829	225,369
Prepayments and other current assets	353,580	177,918
Financial assets at fair value through profit or loss	20,544	
Restricted cash	3,353	3,263
Cash and cash equivalents	5,264,710	5,680,235
Total current assets	6,757,289	6,255,900
Total assets	8,323,626	6,971,299
Equity		
Share capital	923	923
Shares held for Share Award Scheme	(15)	(16)
Other reserves	5,023,583	5,189,115
Retained earnings	1,793,691	939,352

Table 2: (continued).

Equity attributable to owners of the Company	6,818,182	6,129,374
Non-controlling interests inequity	1,824	1,628
Total equity	6,820,006	6,131,002
Liabilities		
Non-current liabilities		
License fees payables	46,371	27,934
Lease liabilities	364,543	147,050
Total non-current liabilities	410,914	174,984
Current liabilities		
Trade payables	266,098	115,804
License fees payables	86,004	58,880
Other payables	266,902	202,297
Contract liabilities	119,624	83,941
Lease liabilities	256,909	144,724
Current income tax liabilities	97,169	59,667
Total current liabilities	1,092,706	665,313
Total liabilities	1,503,620	840,297
Total equity and liabilities	8,323,626	6,971,299

Finally, let us take a look at Pop Mart's cash flow statement:

Table 3: Cash flow statement from Pop Mart 2021 annual report [5].

	2021	2020
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	1,042,075	899,881
Interest received	28,609	1,953
Income tax paid	(291,587)	(198,476)
Net cash generated from operating activities	779,097	703,358
Cash flows from investing activities		
Increase in financial assets at fair value through profit or loss	(1,272,757)	(247,400)
Purchases of property, plant and equipment	(287,502)	(175,984)
Purchases of intangible assets	(46,246)	(47,608)
Proceeds from disposal of financial assets at fair value through profit or loss	950,988	281,653
Investment income from financial assets at fair value through profit or loss	4,832	
Dividends received from an associate	2,074	
Proceeds from sale of property, plant and equipment, intangible assets	609	2,713
Investment in a joint venture		(4,475)
Investment in an associate		(27,424)
Cash acquired from business combination		1,590
Net cash used in investing activities	(648,002)	(216,935)
Cash flows from financing activities		

Table 3: (continued).

Payment of lease liabilities	(220,126)	(147,995)
Dividends paid	(208,834)	(377,580)
Payment for listing expenses	(6,867)	(154,902)
Capital injection from the shareholders of the Company	—	398,375
Deemed distribution to the then shareholders for purchasing the Listing Business	—	(4,566)
Proceeds from issuance of ordinary shares	—	5,070,481
Proceeds from issuance of convertible redeemable preferred shares	—	86,561
Net cash (used in)/generated from financing activities	(435,827)	4,870,374
Net (decrease)/increase in cash and cash equivalents	(304,732)	5,356,797
Cash and cash equivalents at beginning of the year	5,680,235	324,614
Exchange losses on cash and cash equivalents	(110,793)	(1,176)
Cash and cash equivalents at end of the year	5,264,710	5,680,235

Through the above three financial statements, we can obtain and calculate the above key indicators.

First of all, we can see that Diluted EPS and EPS are equal in value, and EPS has increased compared to 2020, it grew from 0.44 to 0.62, which shows that Pop Mart is a growing company, but as we all know: don't spend money to buy growth. Because growth is a guess after all, but you can be optimistic about the future development of Pop Mart.

Next, we can calculate that the RoE and RoA values of Pop Mart are 10.8% and 8.88%, respectively, which is not an excellent value, which shows that the company's ability to utilize its own assets and investments needs to be improved, and investors should take this into account when investing.

Next, we found that Sales Growth has a value of 78.6%, which is a very good number, which represents that Pop Mart is a fast-growing company.

We can also conclude that Pop Mart's Gross profit Margin and Net profit Margin are 61.4% and 19.0% respectively, which is a very good result, and the business situation is good, which shows that the decision of Pop Mart to expand the online market and expand overseas markets in the past year is feasible.

We can conclude that the value of Asset Turnover is 58.7%, which is lower than 80%, which is consistent with the "blind box fever" reported in the news in the past year, and also implies that the problem of insufficient popular IPs faced by Pop Mart is in line with Pop Mart's policy of choosing to increase co-branding and develop new IPs.

Through calculations, it can be concluded that the value of Pop Mart's Current Ratio is 6.183, which is far higher than the normal range of 1.0 to 2.0, so there are too many current assets relative to current liabilities, which may be inventory backlogs, or it may be holding too much cash, which may be related to the epidemic in 2021 and the decline in blind box popularity mentioned above, matching the low utilization rate of own assets mentioned above.

The value of Debt to EBITDA is within the normal range, and the Debt to equity ratio is low to indicate that the company has more own funds, is relatively stable, and has lower creditor risk

3. Discussion

Based on the above data, we can judge that Pop Mart is currently in the growth period, but due to the epidemic and the decline in blind box consumption, it can no longer continue to develop with its previous development strategy, and Pop Mart has also begun to develop overseas markets, research

and development of new IP images, co-branding with other companies, expanding business scope, expanding online markets and other feasible solutions, so investors can choose to further analyze the impact of these policies on the company's development through the 2022 financial report. Then choose to invest or not. Overall, Pop Mart is a low-risk investment company [6].

3.1. Analyze of Sales Funnel

Retail stores, roboshops, internet channels, wholesale channels, and other channels are where the company gets its money from. The revenue for the Company in 2021 and 2020 is broken down by channel in the accompanying table:

They debuted 106 brand-new physical shops in Mainland China in 2021. At the end of 2021, there were 2881 physical shops, up from 187 at the end of 2020. We launched 510 new roboshops in Mainland China in 2021. At the end of 2021, there were 1,861 roboshops, up from 1,351 at the end of 2020. By the end of 2021, we had amassed 7 stores and 9 roboshops in Taiwan, Hong Kong, and Macau. Pop Mart gained brand recognition from clients with a variety of cultural backgrounds by hosting an international online pop toy conference, visiting DesignerCon in the US, Dubai Expo, and other international conventions [7].

Table 4: Income statement for different sales methods from Pop Mart 2021 annual report[5].

	For the year ended 31 December 2021			For the year ended 31 December 2020		
	Gross			Gross		
	revenue	profit margin	Proportion of revenue	revenue	profit margin	Proportion of revenue
	RMB'000			RMB'000		
Retail stores	1,673,386	61.9%	37.3%	1,002,054	62.0%	39.9%
Online channels	1,879,189	64.2%	41.8%	951,875	66.4%	37.9%
Roboshops	469,803	68.8%	10.5%	328,679	72.3%	13.1%
Wholesales and others	468,273	41.2%	10.4%	230,863	44.7%	9.1%
–Mainland China	330,920	42.9%	7.4%	156,691	42.8%	6.1%
–Outside Mainland China	137,353	37.2%	3.0%	74,172	48.8%	3.0%
Total	4,490,651	61.4%	100.0%	2,513,471	63.4%	100.0%

Additionally, they separately created a small program called Pop Draw on the WeChat platform with the intention of producing an enjoyable and intriguing shopping experience. Revenue increased by 92.6% from the previous year to RMB 898.0 million in 2021. JD.com's flagship shop generated RMB143.2 million in revenue in 2021, an increase of 296.0% year over year. Their Tmall flagship shop reported RMB598.9 million in revenue in 2021, an increase of 47.5% from the previous year. For the third year running, they were the top seller of toys during the Tmall Singles Day buying festival [8].

It can be seen that the decision to open up the market is feasible in the context of the epidemic, which has brought profit growth and visibility to the company.

3.2. The Main Consumer of Blind Boxes

Total registered members increased from 7.40 million at the end of 2020 to 19.58 million as of December 31, 2021, of which 12.18 million were freshly registered members. In 2021, member-contributed sales will account for 92.2% of overall sales, with a member-repeat purchase rate of 56.5%.

It is easy to see that improving member stickiness is essential if Pop Mart is to keep profits rising. Looking at the Chinese market, in addition to the rapid growth of Pop Mart in recent years, there are more and more companies on the blind box track, and these companies also hold many hot IPs, so if Pop Mart wants to continue to become an industry leader, it is necessary to vigorously develop new IPs [8].

4. SWOT Analysis of Pop Mart

4.1. Strengths

As a leading enterprise in the blind box industry, Pop Mart has the advantages of high visibility, complete industrial chain, high consumer viscosity, and high number of original IPs, which make Pop Mart have a solid position in the market. At the same time, according to the above analysis, Pop Mart continues to launch new series and new IP according to the preferences of young consumers, and actively co-brand across industries.

From 39.0% of revenue in 2020 to 57.6% in 2021, the percentage of revenue from propriety intellectual property grew significantly. From RMB979.9 million in 2020 to RMB2,586.8 million in 2021, revenue from propriety IPs grew by 164.0%, mainly because of the increased revenue contribution from sales of Molly, SKULLPANDA, and Dimoo [9].

4.2. Weaknesses

With the decline of blindness and popularity and the economic downturn brought about by the epidemic, consumers no longer blindly overconsume to pay for appearance, no longer attracted by the unique purchase method of blind boxes, but began to pay attention to the practicality of products. At the same time, compared with world-famous IPs such as Disney, the popular IP of Pop Mart has no story support behind it, which is easy to cause aesthetic fatigue for consumers.

4.3. Opportunities

In 2021, the museum launched a treasure-digging blind box, which has increased the value of the blind box from only being used for viewing to having high play ability and certain cultural communication capabilities, often supported by historical stories, attracting a large number of consumers. Therefore, the use of popular short videos to inject vitality into popular IP, so that there is a story behind it, and at the same time develop practical blind boxes, such as mobile phone holders, pendants and other content, taking the lead in creating a market that combines popular IP image and practicality.

4.4. Threats

The form of blind box extraction has brought a lot of dividends to the company, but there is also a risk that the probability of drawing duplicate money is too high, resulting in a decrease in user experience, reducing user stickiness and shortening the life cycle. At the same time, the rapid launch of IP will weaken the stimulation to consumers, and the value of hidden money in the hands of old users will be diluted, and the desire to buy will decrease. However, the slow launch of IP will make

it difficult for the company to stand out in the fierce competition of the blind box track, because the market share with the second place in the industry is only 0.8% more, and finally, intangible assets such as IP have the risk of large investment but low return, and the aesthetic is subjective, and there may be a danger that it cannot meet the public's aesthetics.

5. Conclusion

Based on this analysis, we realize that with the decline in the popularity of blind boxes and the impact of the epidemic, the rapid growth that occurred when Pop Mart was first listed no longer exists, but it is not in line with the "bubble economy" judged on the Internet, and it has its own value. After China's per capital GDP exceeded 10,000 yuan, like the United States, Japan and other countries before, Pop Mart belongs to the leading enterprise of the cultural and creative industry that rose after this critical node, with its own cultural value, but due to the dividend of the blind box market, many companies have joined, and the advantages of Pop Mart have gradually been weakened, and the rapid development of rising stars makes Pop Mart have to quickly analyze its own shortcomings, combine the rapid transformation and improvement of the market, and develop rapidly with its current advantages.

As for the investment value, according to the situation in 2021, Pop Mart is a low-risk and low-return situation, and investors can analyze it again after the disclosure of the 2022 annual financial report in combination with the data. However, according to the current situation of China's epidemic policy relaxation, economic recovery, and cultural export to the outside world, combined with a series of changes made by Pop Mart, we can be optimistic about the future development of Pop Mart.

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