

Original Paper

Profitability Analysis of OPPEIN Based on DuPont Analysis System

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Abstract

Customized home furnishings are closely connected with people's daily life, especially in the context of the continuous improvement of the consumption level, consumers pay more and more attention to the experience, individuation and comfort of the products. In this paper, OPPEIN Furnishings, a leading company in the customized home furnishing industry, is selected as a research case, and its profitability over the past five years is analyzed in depth using DuPont analysis. For the problems found in the analysis process, this paper further proposes targeted optimization strategies.

Keywords

DuPont Analysis, OPPEIN, Profitability

1. Company Profile

Founded in 1994, OPPEIN Furnishing Group Co., Ltd. has become a leading enterprise in China's customized home furnishing industry. The company initially took the whole cabinet as its core business, and has now expanded to whole-house customization, wooden doors, sanitary ware, soft furnishings and kitchen appliances, building a diversified industrial structure. OPPEIN has five intelligent production bases in Tianjin, Qingyuan City, Wuxi, Chengdu and Wuhan, and the number of global stores has exceeded 7,000, with products sold in 118 countries, covering six continents. With strong brand influence, excellent product research and development capabilities and process innovation level, OPPEIN has a significant influence and appeal in the customized home furnishing industry, its market value exceeded 100 billion, known as the giant of the home furnishing industry.

2. OPPEIN Profitability Status

2.1 Revenue and Composition of OPPEIN Furnishings

OPPEIN's operating income continued to grow steadily, and in 2023, the company's annual revenue exceeded 22.78 billion yuan, a year-on-year increase of 1.35%. In the A-share customized home furnishing industry, OPPEIN Furnishings became the first enterprise with operating revenue exceeding 20 billion yuan, topping the revenue list. The growth rate of operating income reflects the speed of its

growth, thus indicating the market prospect of the enterprise. Over the past five years, OPPEIN has experienced significant fluctuations in its operating revenue growth rate. Between 2019 and 2020, the operating revenue growth rate showed a downward trend, especially in 2020, which was affected by the epidemic and its growth rate was only 8.9%. However, in 2021, the company quickly adjusted its business strategy and its growth rate rebounded significantly to 38.68%, indicating that OPPEIN has impressive ability in business expansion and demonstrated strong growth potential, thus attracting wide attention in the market. However, its growth rate dropped to 9.97% in 2022 and further reduced to 1.35% in 2023, which was mainly affected by the market environment.

OPPEIN Furnishings' main businesses include overall closets and overall cabinets, with the combined business revenue of the two accounting for approximately 88% of the company's main business revenue. Meanwhile, other businesses, such as customized wooden doors, have continued to expand, showing diversified profit growth potential, in line with OPPEIN's diversified development strategy. Against the backdrop of the rising core business of overall closet and overall cabinet, other diversified businesses are also showing a growth trend, indicating that the Company is actively adapting to market changes and steadily advancing its diversification strategy in order to ensure a continuous increase in the scale of revenue.

2.2 Business Situation

Earnings Data of OPPEIN, 2019-2023 (in billions of yuan)

	2019	2020	2021	2022	2023
Net Profit	18.39	20.63	26.64	26.88	30.36
Net Cash Flows from Operating	21.56	38.89	40.46	24.10	48.78
Gross Profit Margin (%)	35.84	35.01	31.62	31.61	34.16

During the period from 2019 to 2023, the net profit and net cash flow from operating activities of the enterprise are both positive and continue to grow, indicating that the enterprise is in a benign state of development, with sufficient net profit and operating cash flow, in normal operating condition, and capable of generating operating cash inflow on a sustained basis, which provides a guarantee that the enterprise can realize the resources required for long-term development. As far as OPPEIN is concerned, its gross profit amount between 2019 and 2023 shows a continuous upward trend; and in terms of gross profit margin, OPPEIN 's gross profit margin experienced a change of rising and then declining during the period from 2019 to 2023, nevertheless, it still maintains above 30% as a whole, with a gross profit margin of 34.16% in 2023. However, the gross profit margin in 2023 has been lower than the industry average, a phenomenon that indicates that the overall competitiveness of the company's products has weakened.

3. Profitability Analysis of OPPEIN Based on DuPont Analysis

The return on net assets reflects the profitability efficiency of the capital invested by the owners of the enterprise, while the DuPont analysis is to analyze the return on net assets layer by layer, in order to explore how the various indicators of Oprah Home Furnishings interact with each other and affect the profitability of the enterprise, so as to achieve a comprehensive and systematic analysis.

2019-2023 Opus Home Financial Indicators

	2019	2020	2021	2022	2023
Return on Equity	21.66%	19.26%	20.14%	17.37%	17.55%
Net Profit Margin on Sales	13.59%	13.99%	13.03%	11.93%	13.28%
Total Asset Turnover	1.04	0.88	0.97	0.87	0.72
Equity Multiplier	1.55	1.58	1.62	1.73	1.9

3.1 Analysis of Return on Equity

As a comprehensive financial indicator in DuPont's analytical framework, Return on Equity (ROE) can effectively reflect the profitability, growth potential and shareholders' return level of an enterprise. If the enterprise can further improve ROE, it will help to realize the goal of financial management more effectively. From the perspective of financial management, it reflects the overall return on investment and business risk of the enterprise, which not only directly shows the actual operational objectives of the company, but also reflects the profitability of investors.

Based on the above tables, OPPEIN's financial performance over the last five years has shown a general trend of decreasing return on equity, accompanied by some volatility during the period from 2019 to 2021. By 2022, the return on equity decreases to 17.37%, representing a year-over-year growth rate of -13.75%. Meanwhile, the equity multiplier increased by 6.79%, which indicates that the net interest rate on the company's total assets has declined, mainly due to the decrease in net interest rate in 2022, reflecting the decline in the efficiency of the company's use of assets, and the weakening of the profitability of its owner's equity, and the reduction in the benefits of inputs and outputs, thus requiring further strengthening of cost and expense control. Entering 2023, the return on net assets rebounded by 1.04% and the equity multiplier increased to 9.82, indicating an improvement in the company's profitability.

3.2 Analysis of Net Profit Margin on Sales

During the period from 2019 to 2023, Oprah Home Furnishings' net sales margin experienced an increase from 13.59% to 13.99%, then declined to 13.03% and 11.93%, and finally rebounded to 13.28%. Overall, its net sales margin remained at approximately 13%, but with significant volatility. Meanwhile, OPPEIN Furnishings' operating income showed a continuous growth. However, changes in net sales margin are also significantly affected by the company's cost factors, so there is an urgent need for an in-depth analysis of OPPEIN Furnishings' cost structure.

Among the various costs and expenses of Oprah Home, operating costs accounted for the highest

proportion, accounting for approximately 75% to 80%. During the period from 2019 to 2023, the proportion of operating costs showed a trend of change firstly upward and then downward, with specific figures of 74.93%, 76.88%, 80.21%, 79.10% and 77.44%. Secondly, the proportion of selling expenses ranges from 8% to 11% and shows a slight decreasing trend during the period from 2019 to 2023, which is mainly due to the impact of the epidemic, which has resulted in the failure of some of the sales activities to be carried out successfully.

During the period from 2021 to 2023, Oprah's overhead expense ratio continues to increase, remaining between 6% and 8%. In contrast, the company's R&D expense ratio is relatively stable at around 5% to 6% between 2019 and 2023. The higher percentage of R&D expenses and the consistently negative financial expenses indicate that its interest income exceeds its interest expenses, reflecting the company's growing trend in interest income. Despite the decline in both net sales margin and gross sales margin in 2021 and 2022 (a phenomenon that may be related to the epidemic as well as product restructuring), the net profit margin remains at a high level, indicating that OPPEIN Furnishings occupies a strong competitive position in the industry chain, demonstrating its excellent management and crisis response capabilities.

3.3 Analysis of Total Asset Turnover

The total asset turnover ratio, as an indicator assessing the ability of business managers to utilize total assets to generate sales revenue, reflects the speed of the overall asset turnover of the enterprise as well as the strengths and weaknesses of its business performance. Generally speaking, the stronger the capital turnover ability of an enterprise, the higher its total asset turnover ratio will be accordingly. According to the data, OPPEIN's total asset turnover ratio shows an overall decreasing trend from 2019 to 2023, from 1.04 to 0.72. In the past five years, although OPPEIN's operating income has continued to rise, its inventory turnover ratio has remained relatively stable at around 11%, indicating that OPPEIN's ability to realize its inventory has maintained a certain degree of stability. As far as accounts receivable turnover ratio is concerned, from 2019 to 2023, this indicator of OPPEIN continues to decline, from 35.12% in 2019 to 25.33% in 2023, which reflects the weakening of its operating ability, the profitability of accounts receivable decreases year by year, and the management efficiency of the enterprise also declines.

3.4 Equity Multiplier Analysis

Equity multiplier reflects the multiplier relationship between total assets and shareholders' equity, while gearing ratio is the ratio of assets to liabilities of a company, both of which can be used to assess the solvency of a company. As can be seen from the data, OPPEIN's equity multiplier shows an increasing trend during the period from 2019 to 2023. During this period, OPPEIN's gearing ratio is 35.47%, 36.71%, 38.40%, 42.28% and 47.25% in order. The trend of equity multiplier and gearing ratio shows some synchronization. This phenomenon indicates that OPPEIN Furnishings has made strategic adjustments and started to place more emphasis on research and development, gradually transitioning to a high-risk, high-yield direction. It is worth noting that the gearing ratio in 2022 and 2023 are both

over 40%, which suggests that the debt structure of the enterprise is not yet reasonable enough, and the overall trend is rising, implying that OPPEIN Furnishings is facing more pressure in debt repayment, which in turn leads to an increase in its financial risk.

4. Problems in the Profitability of OPPEIN Furnishings

4.1 Decline in Return on Equity

Since 2020, OPPEIN Furnishings' operating income has continued to grow, however, profit margins have declined. This phenomenon was partly attributed to the negative impact of the epidemic on domestic consumption, which brought severe challenges to China's customized furniture industry, leading to a decrease in the number of orders for the Company, which in turn exerted greater pressure on performance. In recent years, with the gradual fading of the real estate market dividend, the growth of market demand in the home furnishing industry has slowed down and competition has become more and more intense. Consumer preferences showed a trend of diversification and individuation, which forced OPPEIN Furnishings to continuously adjust its product structure and marketing strategy, which in turn increased operating costs and expenses, resulting in compressed profit margins. In addition, OPPEIN actively expanded its bulk business, mainly for real estate customers. However, due to the downward trend of the real estate industry and the impact of policies, the accounts receivable of OPPEIN Furnishings expanded significantly and grew rapidly. The longer payment cycle of real estate customers and the strong voice of real estate developers in the market caused OPPEIN to face significant pressure on the recovery of accounts receivable, which also significantly reduced OPPEIN's profitability.

4.2 Weak Cost Control and High Expenses

The cost of raw materials for the core products of the whole-house home customization industry, including customized closets, kitchen cabinets, bathroom fixtures and wooden doors, accounts for more than 75% of the overall cost. OPPEIN Furnishings has a wide variety of raw materials to choose from, which makes cost control extremely complex. In addition, OPPEIN in the procurement, inventory and internal management there are certain deficiencies, specifically for the lack of systematic management of the procurement process and cost control means, inventory turnover cycle is longer and backlog phenomenon is serious, there are defects in the internal management mechanism and so on. These factors together contribute to the high cost of expenditure. At the same time, the intensification of market competition makes OPPEIN furnishing in sales, management and research and development expenditures continue to rise, which further aggravates the burden of costs.

5. Strategies to Improve the Profitability of OPPEIN Furnishings

5.1 Optimizing the Capital Structure

Maintain a moderate debt ratio and avoid over-reliance on debt financing to reduce financial risks. At the same time, lower financing costs are achieved by optimizing the composition of debt, for example

by choosing long-term borrowings with lower interest rates.

The management of accounts receivable should be strengthened in order to reduce the use of funds and enhance the efficiency of asset utilization. A sound customer credit evaluation system should be established to accurately assess the credit status of customers, so as to reduce the risk of accounts receivable; at the same time, internal communication and coordination should be strengthened, and the collection process should be optimized, so as to improve the efficiency of accounts receivable recovery. In addition, it is necessary to establish a perfect inventory management system, strengthen the monitoring and management of inventory, ensure a reasonable inventory level, so as to reduce the risk of inventory backlog. By means of optimizing the production process and improving production efficiency, the operational efficiency of the enterprise can be comprehensively improved to achieve more efficient and sound financial management and operational development.

5.2 Strengthening Cost Control

Actively establish long-term and stable cooperative relationships with suppliers, and strive for more favorable purchase prices through bulk purchasing and long-term cooperation, so as to reduce the cost of raw materials. At the same time, we improve the utilization rate of plates and reduce the waste of raw materials, and ensure that every piece of raw material can be fully utilized by optimizing the production design and process flow.

In addition, OPPEIN Furnishings can pay close attention to the trend of commodity prices and rationalize the procurement plan according to the market price fluctuations in order to grasp the best procurement timing and further reduce the procurement costs. In terms of procurement management, through the introduction of advanced procurement management system, automation and intelligence of procurement process can be realized to improve procurement efficiency and reduce human errors and delays. Meanwhile, we strengthened cooperation and communication with suppliers and established a synergy mechanism to jointly optimize the supply chain process and improve the overall efficiency of the supply chain.

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