Study on the Impact of Financialization of Entity Enterprises on Yunnan Baiyao's Debt Risks

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Abstract

In the current economic downturn, many entity enterprises operating profits are increasingly low, in order to make up for the lack of operating profits and stabilize the operating state, entity enterprises as a rational person tend to profit choose to obtain profits through financial channels, this economic behavior will make the entity enterprises will be the original transfer of assets to the financial assets, resulting in the economy, "de facto to false". This economic behavior will cause real enterprises to transfer their original assets to financial assets, resulting in the economy being "de-realized to virtual". The financialization of real enterprises to obtain profits at the same time also implies huge risks. Changes in the financing channels of real enterprises have changed the original financial structure of enterprises, making the solvency of enterprises affected to different degrees, and the debt risk has changed. Therefore, it is of great significance to study the debt risk of the financialization of real enterprises in order to prevent the risk of enterprises. By selecting Yunnan Baiyao, one of the typical representatives of financialization of entity enterprises, and selecting the financial statement data of the enterprise from 2017 to 2023, we draw on the methods and principles of academic experts and scholars on the measurement of enterprise financialization and debt risk. First, the degree of financialization of Yunnan Baiyao is measured from the perspective of asset structure. Second, it analyzes the impact of changes in Yunnan Baiyao's financial assets on its debt risk, adopts the F-score model, analyzes the impact of Yunnan Baiyao's financialization process on its debt risk, and finally reveals the changes in debt risk brought about by different stages of Yunnan Baiyao's financialization. The research in this paper is not only of great significance to the risk prevention of Yunnan Baiyao's financialization business, but also of certain reference significance and warning to the deepening of financialization of other real enterprises.

Keywords

Financialization of Real Enterprises; Debt Risk; Yunnan Baiyao; F-score Model.

1. Introduction

1.1. Background and Significance of the Study

In the current economic downturn, the operating profits of many real enterprises are increasingly low, in order to make up for the lack of operating profits and stabilize the operating state, real enterprises as a rational person who tends to profit choose to obtain profits through financial channels, this economic behavior will make the real enterprises will be the original transfer of assets to the financial assets, resulting in the economy, "real to virtual This economic behavior will make real enterprises transfer their original assets to financial assets, leading to economic "de-realization to virtual". The financialization of real enterprises to obtain profits at the same time also implies huge risks. Changes in the financing channels of real enterprises

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have altered the original financial structure of enterprises, which has affected the debt risk of enterprises to different degrees.

At present, most of the research on enterprise financialization in China is at the macroeconomic level, and part of the research on microeconomic bodies adopts comprehensive index analysis, which is not targeted. This paper selects the case of Yunnan Baiyao, one of the typical representatives of financialization of real enterprises, analyzes the path of financialization of Yunnan Baiyao, measures the degree of financialization, explores the debt risk brought by financialization, determines the size of the debt risk during the process of financialization of the enterprise, and draws out the positive or negative impacts of the degree of financialization of different enterprises on the debt risk, and finally gives relevant suggestions based on the research. The research in this paper is not only of guiding significance for Yunnan Baiyao itself to prevent debt risk, but also has certain reference significance and warning for the deepening of financialization of other real enterprises.

1.2. Literature Review

1.2.1. Motivations for the Financialization of Real Enterprises

There are different researches on the motivation of financialization of real enterprises in academia. Huang Xiaobo (2023) believes that enterprises holding financial assets can prevent the adverse impact on the production and operation of enterprises due to the shortage of funds, which is conducive to the enterprises to increase production investment [1]. When there is a shortage of funds, the funds needed can be obtained quickly through the realization of financial assets to meet the capital needs of investment or debt repayment. Li Weibin and Li Fei (2023) believe that the financialization of enterprises plays the role of "financial reservoir", which guarantees the stability of cash flow of enterprises, makes enterprises have strong liquidity, and has a significant effect on preventing enterprises from experiencing a shortage of funds [2].

Sun Jiao Yang (2022) to the principal-agent problem is divided into two categories, the first one is the agency problem between the owner if the manager and the manager, and the second one is the agency problem between the controlling shareholders and the small and medium shareholders [3]. The former is the high-risk investment decisions made by managers who only care about pursuing their own interests, which will make the investment inefficient and make the enterprise bear higher risks. The latter is that under the imperfect corporate governance structure, the major shareholders are highly centralized and lack of constraints, thus taking advantage of their absolute control position to transfer interests and irrational investment.

1.2.2. Impact of the Financialization of Real Enterprises on Debt Risk

Huang (2023) argues that holding moderate financial assets can alleviate corporate financing constraints and enhance debt servicing capacity [1]. However, excessive financialization affects the source of funds for debt repayment and may increase the debt ratio, thus reducing the debt service capacity. Wang Xuwu (2020) believes that debt risk refers to the risk that a company raises debt to achieve its business objectives, but it cannot be repaid on time and brings operational problems to the enterprise [4]. The formation of debt risk faced by modern enterprises is influenced by the very factors of the use of debt financing by the enterprise. Lack of awareness of the funds needed for financialization and risk management, blind financing, large debt, and blindness to their own unreasonable financing structure and scale of financing eventually lead to crises.

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2. Conceptual Definition and Theoretical Basis

2.1. The Meaning and Measurement of Financialization of Firms

2.1.1. Conceptual Connotations of Corporate Financialization

At present, in the academic research on "enterprise financialization", scholars mainly understand it from two perspectives: First, in order to obtain benefits other than the main business, the ratio of financial assets and financial investment allocated and held by real enterprises is increasing. The second is that real enterprises have shifted their business focus from daily production and operation to financial activities and actively participated in the financial market, and the important position of production and operation in enterprises has been gradually diluted, and they are increasingly influenced by financial institutions and the financial market, with increasingly close and complex relationships.

2.1.2. Financialization Metrics

Changes in corporate financial assets reflect the degree of corporate financialization to a certain extent, so this paper refers to the studies of Demir [5], Song Jun and Lu Yang [6] to measure the degree of financialization of Yunnan Baiyao in terms of changes in asset structure.

(i) Measurement of financial assets

Considering that the monetary funds held by the pharmaceutical industry are mainly used to maintain the daily production and operation activities of the enterprise, in order to facilitate the calculation, this article is based on the "Derivative financial assets", "Available-for-sale financial assets" in the balance sheet of Yunnan Baiyao, "Interest receivable", "Dividends receivable", "Trading financial assets", "Long-term equity investments", and "Investment properties". Changes in the data of seven accounts, including "investment properties", are used to measure the extent of the melting of Yunnan Platinum.

The measurement formula for financial assets is as follows:

$$\text{Financial assets} = \text{Derivative financial assets} + \text{Available-for-sale financial assets} + \text{Interest receivable} + \text{Dividend receivable} + \text{Trading financial assets} + \text{Long-term equity investments} + \text{Investment properties} \tag{1}$$

(ii) Measurement of financialization of enterprises

The measure of financialization in terms of asset structure is based on the following:

$$\text{Degree of financialization of the enterprise} = \text{financial assets}/\text{total assets} \times 100\% \tag{2}$$

2.2. Transmission Mechanisms of Corporate Financialization on Debt Risk

Based on the theory of "rational economic man", the main purpose of enterprises as rational economic man is to seek profit. Nowadays, with the high development of virtual economy, all kinds of financial products and financial tools come out in an endless stream, and the financial industry with high profit, high return and high efficiency makes the "rational man" to pursue profit in the virtual economy and financial industry. The high profit, high return and high efficiency of the financial industry make the "rational man" enterprises chase profits in the virtual economy and the financial industry, speculate and arbitrage to a certain extent, shift the production and operation center of gravity, jeopardize the development of the main business of the entity enterprise to a certain extent, and invariably change the financial structure and capital structure.

Assets as a very important part of the enterprise and debt risk is inseparable, the enterprise configuration of assets will bring changes to its asset structure, due to the assets in business

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operations related to the ability to raise debt repayment and risk resistance, in addition, the configuration of financial assets means that the enterprise in the configuration of the main business other than the assets, deviation from the main business development will weaken the foundation of the enterprise, the enterprise is facing greater challenges and the risk of failure, the debt crisis with the expansion of the main business may ultimately lead to losses and eventually bankruptcy. The debt crisis will expand with it, which may eventually lead to the loss of the main business, and the enterprise will be insolvent and eventually bankrupt.

3. Yunnan Baiyao Financialization Status

3.1. Introduction of Yunnan Baiyao

Yunnan Baiyao is a well-known brand of traditional Chinese medicine in China, the early operation to the production of traditional Chinese medicine products for the treatment of bruises and injuries, with 'Baibao Dan' to create a series of products, in 2000, Yunnan Baiyao launched the 'traditional Chinese medicine modernization' strategy, based on 'Yunnan Baiyao', the state's top secret formula to shape the product family from a single product to the cloud pharmaceutical enterprises. In 2000, Yunnan Baiyao launched the strategy of "modernization of traditional Chinese medicine", shaping the product family based on Yunnan Baiyao, a top-secret formula of the state, and expanding from a single product to a cloud medicine enterprise.

Currently, Yunnan Baiyao Group's business scope mainly includes R&D, manufacturing and sales of traditional Chinese medicines, cultivation, processing and wholesale of Chinese herbal medicines, personal daily care and health care products as well as pharmaceutical logistics, etc. In 1993, Yunnan Baiyao Factory was restructured into Yunnan Baiyao Industrial Company Limited, and as the first listed company in Yunnan, it was listed on the Shenzhen Stock Exchange on December 15 of the same year (stock code: 000538). As the first listed company in Yunnan, the company was listed on the Shenzhen Stock Exchange on December 15 of that year. The company has four major business segments: pharmaceutical business, pharmaceuticals, traditional Chinese medicine resources and health products. At the same time, Yunnan Baiyao is also involved in tea business, industrial hemp business and other segments. According to Yunnan Baiyao's 2023 financial statement data, in the first 3 quarters of 2023, Yunnan Baiyao Group realized a net profit attributable to shareholders of listed companies amounting to 4.123 billion yuan, a year-on-year increase of 78.9%, ranking 1st among more than 70 listed companies in A-share traditional Chinese medicine sector. Yunnan Baiyao has been on the list of Cato BrandZ Top 100 Most Valuable Chinese Brands for 13 consecutive years, and ranked No. 1 in the pharmaceutical industry in terms of brand value in 2023 (No. 68 overall, with a brand value of $2.665 billion).

3.2. Overview of Yunnan Baiyao's Financialization Business

3.2.1. Background of Yunnan Baiyao's Financialization

Yunnan Baiyao is China's earlier implementation of mixed reform of local state-owned backbone enterprises, the company through two rounds of mixed reform in 2016 and 2019, and ultimately realize the overall listing of the group.In 2015, the actual controller of Xinhua Du, Chen Fashu, first in the secondary market, a large number of purchases of Yunnan Baiyao shares, in the second quarter into the ten largest shareholders of one of the ten shareholders of Yunnan Baiyao, after 2016, the actual controller of the actual controller of the new Xinhua Du Chen Fashu to the Yunnan Baiyao Holding Company Limited increased its capital by 25.37 billion dollars to obtain a 50% stake.

Xiong Aihua and Zhang Qibin (2020) believe that the shareholders of non-state-owned enterprises are backed by state-owned enterprises and go out for the purpose of speculative arbitrage to drive the level of financialization of enterprises [7]. Under the goal of shareholder

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centrism and shareholder value maximization, non-state shareholders pursue greater profits and higher returns on investment, and rapidly increase their wealth from high returns in the capital market. Chen Fashu, the de facto controller of Xinhua Du, is active in the capital market for many years, and is well aware of the rules of the capital market, and after the mixing and reorganization, Chen Fashu, as one of the shareholders of Yunnan Baiyao, is even more positive towards the capital market. In Yunnan Baiyao main business is weak, in the capital market investment, a series of investment and financial activities to broaden the profit channels become Yunnan Baiyao in the main business outside of another way to obtain profits. Yunnan Baiyao has shifted its business focus from daily production and operation to financial activities, actively participated in the financial market, and has been increasingly influenced by financial institutions and the financial market, and the relationship has become more and more intimate and complex.

3.2.2. Yunnan Baiyao's Financialization Business Process

Yunnan Baiyao first started to get involved in the financial field in 1989, and set up investment enterprises and securities companies in 2001 and 2002 respectively. On July 21, 2011, Yunnan Baiyao passed the "Motion on Broadening the Channels of Investment and Wealth Management of Own Funds", and began to move towards the financial market, purchasing wealth management products and money market funds.

After 2014, Yunnan Baiyao's configuration of financial assets has become more and more loose, especially after the mixing and reform, the non-state shareholders' pursuit of high profits in the financial market makes Yunnan Baiyao invest more and more in the financial market, and the choice of financial products is no longer confined to low-risk bank wealth management products and money market funds, but rather into the stock market and other some high-yield financial channels. In 2020 Yunnan Baiyao "on the 2021 continue to use idle own funds to carry out securities investment announcement" clearly pointed out that the purpose of the investment in order to maximize the company's own idle funds to improve the efficiency of the use of the company, for the company and shareholders to seek a better return on investment.

Figure 1 shows that Yunnan Baiyao's transactional financial assets have been climbing since 2017, starting with Yunnan Baiyao's liberalization of its investment restrictions on the securities market, and two years later the securities investment exceeded tens of billions of dollars. Transactional financial assets and securities investment peaked in 2020.

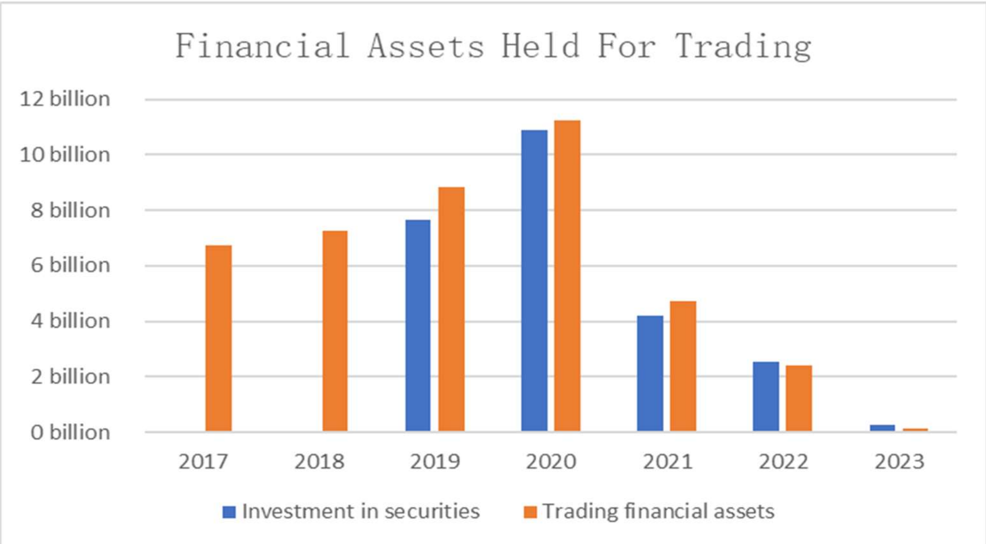

Figure 1. Trading financial assets and bond investments
Source: Yunnan Baiyao Annual Report

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On October 14, 2021, Hainan Yunfan Private Equity Fund Management Co., Ltd. was established to make up for the blank of Yunnan Baiyao Group in the private equity securities, Yunfan Fund Company indirectly reveals Yunnan Baiyao to further enter into the financial capital market, the degree of financialization is still deepening, and the relationship with the financial market is more and more inseparable.

Table 1. Overview of Yunnan Baiyao's financialization business process

Overview of Yunnan Baiyao's financialization business process	
1989	Investment of 500,000 Yuan Bank of Communications Co.
2000	Invested RMB10 million to initiate the establishment of Hongta Venture Capital Investment Co.
2001	Investment of 20 million yuan in Hongta Securities Co.
2011	Decided to plan to use up to 300 million yuan of its own funds for the purchase of bank financial products, money market funds, etc.
2011	Bank capital-protected financial products, money market funds and various financial management businesses on a capital-protected basis (without access to the primary and secondary stock markets).
2014	Maximum investment amount is 30% of own funds of the audited net assets of the latest fiscal year, no investment in shares
2015	You can purchase stocks or equity in the biomedical industry, securities investment funds related to biomedicine, and place or subscribe for new shares.
2018	You can buy stocks or equity, stock or equity funds, money market funds with a risk rating of R1 and R2, bank financial products, treasury reverse repo and bonds, and bond funds.
2019	The cap of 1 billion yuan on the amount of securities investment has been canceled, as Yunnan Baiyao Holding's total financial investment cannot be higher than 18 billion yuan before the disclosure of the audit report of the next fiscal year due to the merger process of its financial investment.
2020	Maximize the efficiency of the use of the Company's own idle funds and seek better investment returns for the Company and its shareholders.
2021	Maximize the efficiency of the use of the Company's own idle funds and seek better investment returns for the Company and its shareholders.
2022	Improve the efficiency of the use of idle funds to create a better return on investment, while taking the opportunity to properly dispose of the company's current holdings of secondary market stock investments, gradually withdraw from, and do not continue to increase their holdings.
2023	Exited all secondary market securities investments in the third quarter of 2023 and plans to cease secondary market securities investments in 2024.

Source: Yunnan Baiyao Annual Report

Since 2021, in addition to being affected by market opinion and departmental regulation, Yunnan Baiyao realized the drawbacks brought by excessive financialization and began to spontaneously de-financialize to alleviate the enterprise's excessive de-realization to virtualization. In 2023, Yunnan Baiyao clearly pointed out that it would withdraw from all secondary market securities investment in the third quarter of 2023, and planned to stop carrying out secondary market securities investment business in 2024, reducing the allocation of financial assets such as securities and transactional finance. Based on the process of Yunnan Baiyao's de-financialization, securities investment and trading financial assets rapidly declined to 261 million and 149 million from 2022 to 2023.

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4. Metrics of Yunnan Baiyao's Financialization

Based on formula (1) and formula (2), Yunnan Baiyao's degree of financialization is calculated using its statement data from 2017-2023, and the results are shown in Table 2 and Figure 2.

Table 2. List of financial assets of Yunnan Baiyao Unit: 100 million yuan

year	2017	2018	2019	2020	2021	2022	2023
Derivative financial asset	-	-	-	-	-	-	-
Available-for-sale financial assets	-	1.247	-	-	-	-	-
Interest receivable	0.636	0.863	0.613	0.003	-	-	-
Dividends receivable	-	-	0.095	-	-	-	0.05
Financial assets held for trading	67.494	72.648	88.211	112.287	47.202	24.157	1.49
Long-term equity investments	0.008	0.011	3.175	3.289	1.850	113.187	115.37
Investment property	0.003	0.002	0.007	0.005	0.005	0.558	0.44
Add up the total	68.140	74.772	92.101	115.585	49.057	137.903	117.35

Source: Yunnan Baiyao Annual Report

From Table 2, it can be clearly seen that Yunnan Baiyao has been actively allocating financial assets during this period, from the type of financial assets, it has more types of financial assets, in addition to short-term available-for-sale financial assets and trading financial assets, there are also long-term equity investments. From the scale of financial assets, it reaches a maximum of 13.7903 billion yuan in 2022, and the amount of financial assets held by Yunnan Baiyao as of 2023 is as high as 11.7903 billion yuan.

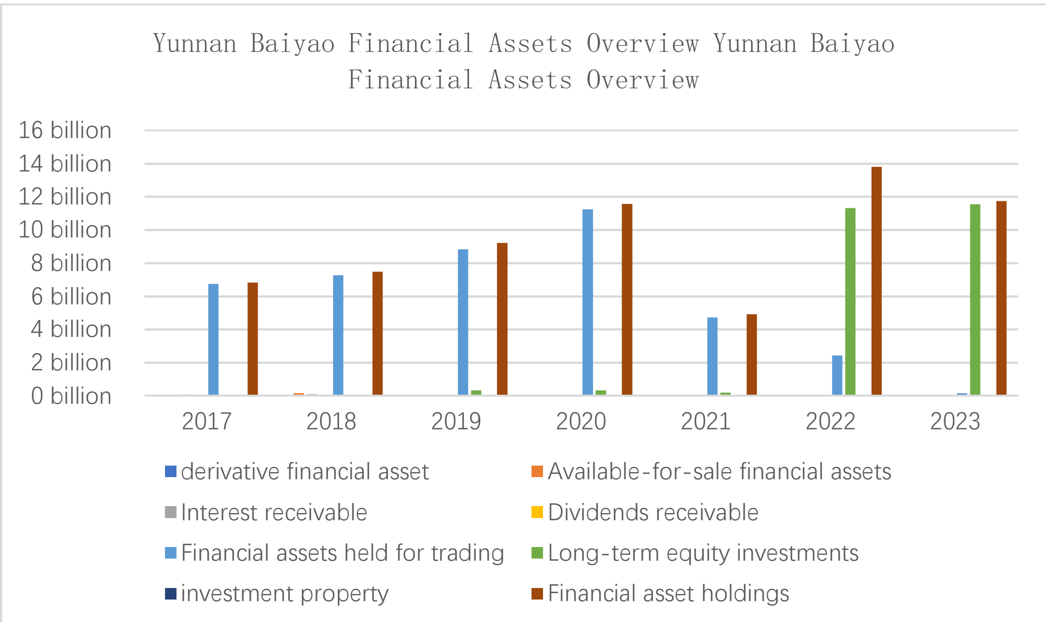

Figure 2. Yunnan Baiyao Financial Assets Overview
Source: Yunnan Baiyao Annual Report

From Figure 2, it can be seen that in the process of Yunnan Baiyao's financialization, transactional financial assets have been dominant and have been increasing the allocation ratio from 2017 to 2020, accounting for the major part of the entire financial asset holdings. In addition, Yunnan Baiyao has always kept long-term equity investment in the process of

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financialization, and it can be seen that in 2021, under the pressure of market public opinion and the supervision of the regulatory authorities, the original large number of investments in transactional financial assets dropped sharply, and then turned to long-term equity investment, which is a relatively low-risk, long return time and relatively stable financial asset investment.

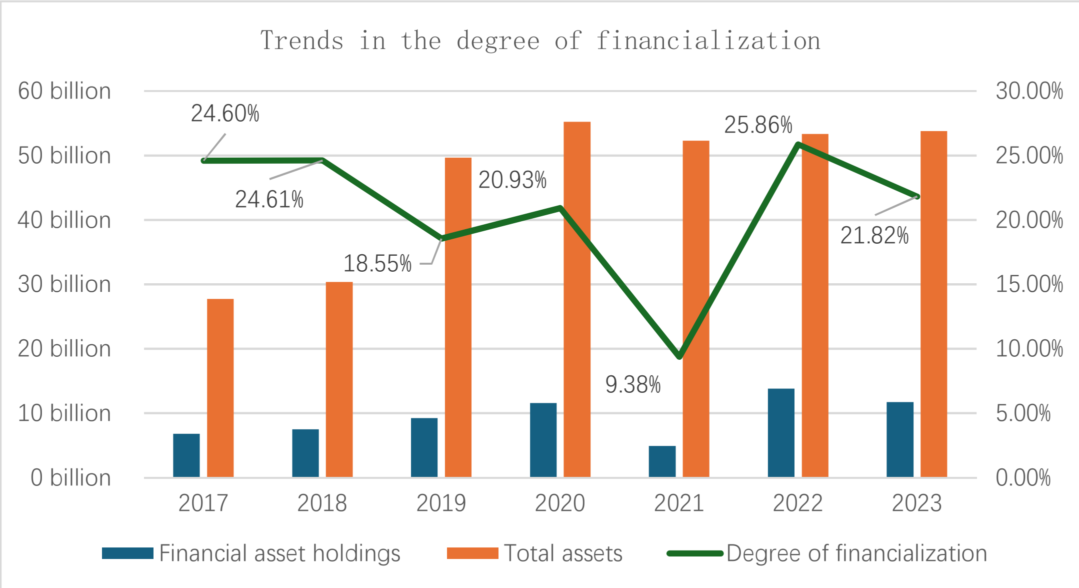

Figure 3. Yunnan Baiyao Financialization Trend
Source: Yunnan Baiyao Annual Report

Figure 3 shows that the degree of financialization of Yunnan Baiyao decreased from 24% to 18% from 2017 to 2019, the total amount of Yunnan Baiyao's total assets has been climbing, the main business market development is strong, and it is in the period of expansion, at this time, Yunnan Baiyao's total assets began to accumulate in large quantities, and the amount of its own idle funds has been increasing. Although the degree of financialization has decreased, Yunnan Baiyao is still investing in financial assets in terms of the amount of financial assets held.

After 2019, it enters the equity securities market with a slightly more aggressive investment strategy and the volume of invested financial assets expands continuously from 2017 to 2019. This indicates that before the market was weak, Yunnan Baiyao achieved rapid development by virtue of its own product competition. When the market of the main business is weak, Yunnan Baiyao makes up for the profit difference in the main business and thus carries out a series of financial investment activities.

In 2021, on the one hand, because of the market public opinion and the strengthening of departmental supervision, Yunnan Baiyao quickly tightened its financial assets, on the other hand, Yunnan Baiyao's securities investment income was not optimistic, in 2021, the closing book value of securities held by Yunnan Baiyao, such as stocks and funds, amounted to 9.76 billion yuan, and the loss of investment in securities was 850 million yuan, and the loss of change in fair value was 889 million yuan, and the total assets of Yunnan Baiyao were also affected by the impacted, shrinking by 2,927 million. In 2022, Yunnan Baiyao quickly turned around, with its investment in financial assets increasing by 64.43% year-on-year compared to 2021. The degree of financialization quickly climbed to 25.86%.

In 2023, Yunnan Baiyao adjusted its allocation of financial assets, restricted the excessive financialization of enterprises, regulated the allocation of related financial assets, and began to consciously control the enterprise's deconcentration, resulting in a slow decline in the degree of financialization.

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5. Impact of Financialization of Yunnan Baiyao on Debt Risk Magnitude under F-score Model

5.1. F-score Modeling Introduction

This paper combines the F-score model used by previous scholars to measure debt risk in the study of corporate financialization, which is important in measuring the debt risk of a company, taking into account the development of the financial situation of modern companies and the updating of their relevant standards, as well as taking into account the changes in cash flows.

Calculation formula:

$$F = -0.1774 + 1.1091X1 + 0.1074X2 + 1.9271X3 + 0.0302X4 + 0.4961X5 \quad (3)$$

Table 3. F, for composite score value

X1	(ending current assets - ending current liabilities) / ending total assets
X2	Retained earnings at the end of the period/total assets at the end of the period
X3	(net income after tax + depreciation)/average total liabilities
X4	Market value of shareholders' equity at the end of the period / Total liabilities at the end of the period
X5	(net income after tax + interest + depreciation) / average total assets

The selection of the five independent variables in the F-score model is based on financial theory with a threshold of 0.0274; if a particular F-score is lower than 0.0274, the company will be predicted as insolvent; conversely, if the F-score is higher than 0.0274, the company will be predicted as a continuing company.

5.2. Yunnan Baiyao Debt Risk Measurement Based on F-score Modeling

Based on formula (3), this paper selects the financial statement data of Yunnan Baiyao from 2017 to 2023 to calculate Yunnan Baiyao's debt risk, and the results are shown in Table 4 below.

Table 4. Yunnan Baiyao F-score values

year	2017	2018	2019	2020	2021	2022	2023
X1	0.63457	0.562821	0.706568	0.608921	0.626963	0.414821	0.438376811
X2	0.57	0.575864	0.387526	0.37899	0.359792	0.361038	0.383617699
X3	0.3551	0.34087	0.744736	0.397753	0.203114	0.227654	0.30209853
X4	1.897872	1.905528	3.29637	2.272181	2.773213	2.604241	2.875247035
X5	0.129187	0.124157	0.085508	0.111061	0.059025	0.063111	0.081800269
F-Score	1.393177	1.284705	2.225026	1.428885	1.06106	0.870123	1.059591914

Source: Yunnan Baiyao Annual Report

As can be seen from Table 4, the Yunnan Baiyao F-score has been above the threshold from 2017 to 2023, indicating that Yunnan Baiyao's debt risk is generally not fatal and the overall risk is controllable.

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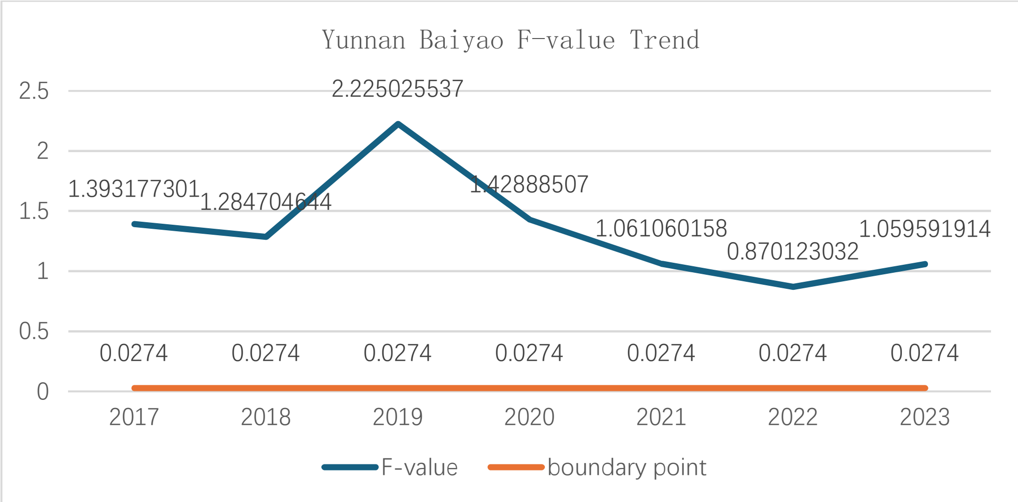

Figure 4. Trends in Yunnan Bai F-value
Source: Yunnan Baiyao Annual Report

From the trend point of view, Yunnan Baiyao's debt risk slowly highlighted from 2019, before 2019, Yunnan Baiyao financialization degree is shallow, the capital market on Yunnan Baiyao's influence is smaller, and the financial business associated with smaller, and Yunnan Baiyao has been to take a conservative investment and debt making Yunnan Baiyao's debt risk level continues to reduce, the ability to guard against debt risk continues to improve, the debt risk presents Low level.

5.3. Financialization of Yunnan Baiyao Versus F-score

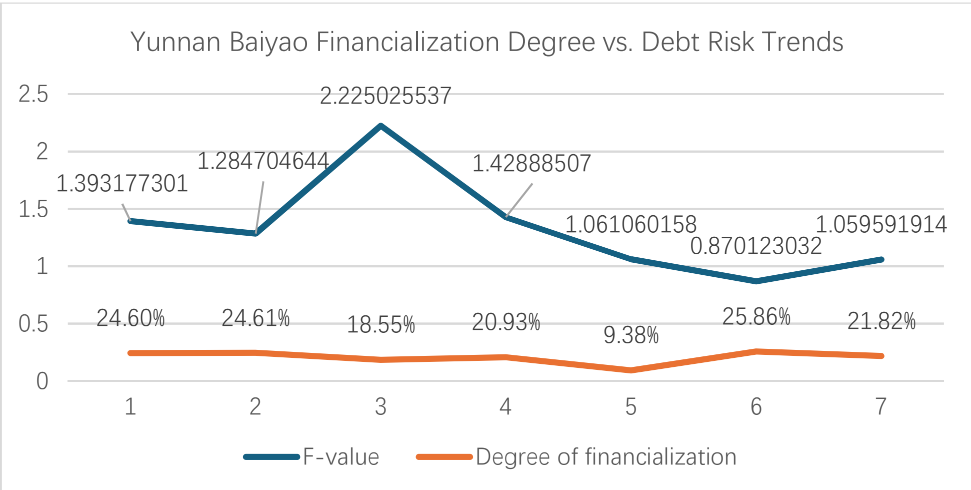

Figure 5. Yunnan Baiyao's Degree of Financialization vs. Debt Risk Trend
Source: Yunnan Baiyao Annual Report

Prior to 2019, Yunnan Baiyao had a low degree of financialization and invested in products of the virtual economy with relatively low risk, mostly money market funds and other lower-risk products. Under the premise of continuous development of its main business, Yunnan Baiyao utilizes low-risk financial products to moderately allocate financial assets, generating investment income that broadens the source of profit in addition to its main business, enhances Yunnan Baiyao's capital liquidity, and reduces Yunnan Baiyao's debt risk, with a high F-score.

After 2019, Yunnan Baiyao further deepens the degree of financialization, enters the stock securities and other high-risk and high-return financial areas among the close contact with financial institutions and sectors, by the fluctuations of the financial industry is also increasing,

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crowding out the main business to start the depth of the financialization, with the degree of financialization in the jump, the enterprise is facing the liquidity risk is larger, the F-score is lower as the Figure 5. 2023. With Yunnan Baiyao for the financial degree of regulation, and financial asset allocation tightening management, its degree of financialization has been alleviated to a certain extent, corporate asset allocation to the main business for the purpose of gradually tightening the allocation of financial assets, this initiative is conducive to the development of enterprises to the real, the funds back to the main business, enriching the main body of the operation of the use of funds, and thus reduce debt risk, F score is relatively elevated.

In summary, Yunnan Baiyao's debt risk is influenced by its degree of financialization is changing, in the case of increased financialization, the assumption of debt risk is higher, and vice versa, the debt risk is lower.

6. Conclusion and Recommendations

6.1. Conclusion of the Study

The impact of Yunnan Baiyao's financialization on debt risk is mainly manifested in the change of asset structure. Its impact path is that with the increase of financial assets configured by the enterprise, especially the rapid growth of investment real estate, the proportion of restricted assets gradually increases, the enterprise liquidity decreases, resulting in the decline of solvency and the rise of enterprise debt risk. It also shows that Nanbaiyao has deviated from the main business operation direction, with a strong sense of speculative arbitrage and the pursuit of high profits and short-term returns, which is the main factor leading to its debt risk.

The financialization process of Yunnan Baiyao leads to different magnitude of debt risk. The effect of Yunnan Baiyao's financialization on the size of debt risk under the F-score model is derived from the fact that Yunnan Baiyao's financialization process has different impacts on its debt risk.From 2017 to 2018, the degree of financialization is low, the F-score value is low, and the debt risk is small.The process of financialization accelerates after 2018, and the allocation of financial assets reaches the highest of 13,790.3 million yuan, and the value of the F-score rises, and the 2019 score value reaches 2.22 at the highest, showing a greater debt risk. Therefore, the size of the degree of financialization of Yunnan Baiyao affects the size of debt risk.

6.2. Related Recommendations

(i) Rationalization of asset structure

Yunnan Baiyao must rationally allocate financial assets according to the characteristics of the enterprise and maintain moderate financialization. Yunnan Baiyao should reasonably choose to allocate financial assets according to the nature and characteristics of its own industry, and must not blindly allocate financial assets or blindly invest in the virtual economy.

Yunnan Baiyao should adhere to its own strategy and development direction, coordinate the relationship between financial investment and physical investment, maintain an appropriate degree of financialization, and promote the good development of the enterprise while preventing financial risks and reasonably holding financial assets. According to its own situation and the characteristics of the pharmaceutical industry, it should determine the appropriate type of financial asset allocation and reasonably allocate the amount of financial assets according to the actual financial situation.

(ii) Enhanced risk management and control

With the process of enterprise financialization, Yunnan Baiyao should continuously strengthen its own internal risk management, establish a perfect risk management system, identify, assess and control all kinds of risks, and establish a risk response mechanism. Strengthen the early warning and prevention of external risks Enterprises should strengthen the early warning and

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prevention of external risks, understand the macroeconomic situation, keep abreast of market dynamics, and avoid the impact of external risks.

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