

# *The Relationship Between Share Repurchases and Corporate Performance: Evidence from Midea Group*

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**Abstract.** With the increasing prevalence of share repurchases in the A-share market, it has become a common practice for listed companies to optimize capital structures and convey business confidence via share repurchases. Taking Midea Group's share repurchase activities from 2021 to 2023 as the research object, this paper adopts the case study method to analyze the internal relationship between share repurchases and corporate performance from four dimensions: profitability, solvency, operating capacity, and growth capacity. This study finds that Midea Group implements regular share repurchases based on stable revenue and profits as well as sufficient cash flow, which effectively optimizes the capital structure and increases market confidence. Meanwhile, sound operating performance provides financial support for repurchases, and the two form a benign and mutually reinforcing relationship. This paper breaks through the previous one-way causality conclusion and verifies the applicability of the signal transmission theory. It provides a practical reference for listed companies in the household appliances and manufacturing industry to reasonably carry out share repurchase, balance enterprise development and shareholder return, and also provides a basis for investors to rationally judge repurchase behavior.

**Keywords:** share repurchase, corporate performance, signal transmission

## **1. Introduction**

In recent years, share repurchase activities of listed companies in the A-share market have become increasingly regular, and share repurchase has become a common method for listed companies to optimize their capital structure, give back to investors, and convey business confidence to the capital market. As a leading enterprise in China's household appliances industry, Midea Group has implemented large-scale share repurchases many times from 2021 to 2023, sending a positive signal to the capital market that it has sufficient cash flow, stable operating conditions, and good future development. A review of relevant studies shows that most existing literature concludes that there is a one-way causal relationship between stock repurchases and corporate performance [1]. In practice, enterprises often launch share repurchase programs only after predicting improvements in future operating efficiency, and the improvement in operations is the premise of repurchase, not the result [2].

The relationship between stock repurchases and corporate performance is the main research topic of the company. The existing literature shows that the announcement of stock repurchase will trigger

a linkage reaction between the stock and bond markets, and there is an obvious wealth transfer effect between shareholders and creditors, which will be affected by factors such as repurchase scale and enterprise default risk [3]. The degree of information asymmetry will significantly affect the market announcement effect of stock repurchase, and enterprises can transmit positive business signals to the market through repurchase behavior, which verifies the applicability of the signal transmission hypothesis in the A-share market [4]. In addition, stock repurchase also has the same group effect in the industry, and industry competition and management motivation are also important factors driving enterprises to implement repurchase [5]. Market reaction will be affected by the valuation level of enterprises and repurchase motivation, and the low valuation state will significantly enhance the credibility of repurchase signals. There are significant differences in investors' interpretation of repurchase announcements in different market environments [6]. Equity pledge, stock mispricing, and corporate governance level will significantly affect the stock repurchase decision of enterprises, and a perfect governance mechanism can effectively alleviate agency conflicts and restrain irrational repurchase behavior [7]. Stock repurchase can effectively curb the risk of stock price collapse and play a stabilizing role in the market by improving information transparency and stabilizing investor sentiment [8].

The existing literature analyzes stock repurchase behavior from the aspects of market reaction, corporate governance, and risk prevention and control, and there is still a research gap in the discussion of the two-way causal relationship between repurchase and corporate performance. This paper fills this gap. Using the case study method, this paper takes Midea Group's stock repurchase from 2021 to 2023 as an example and concludes that stock repurchase and corporate performance promote each other and are not one-way driven by analyzing the changes in corporate profitability, debt repayment, operation, and growth capabilities, which has theoretical and practical significance. In a theoretical sense, it breaks through the conclusion of one-way causality in previous studies, verifies the rationality of signal transmission theory, and enriches the case studies in the field of stock repurchase. In a practical sense, it provides a reference for listed companies to rationally implement stock repurchase, and also helps enterprises formulate repurchase strategies scientifically according to their own operating conditions.

## 2. Case overview

### 2.1. Company overview

Midea Group is headquartered in Shunde, Foshan, Guangdong Province, and its stock code is 000333. The company was established in 2000 and listed on the Shenzhen Stock Exchange in 2013. The company is mainly engaged in household appliances-related business, covering the four major sectors of household appliances, small household appliances, motors, and logistics. Meanwhile, the company has expanded its business to smart home, industrial technology, building technology, and other diversified fields. Its business scope covers household appliances R&D, manufacturing, sales, and related supporting services, and its global operation layout is improved. As a leading enterprise in the domestic household appliances industry, Midea Group has a solid operating foundation, abundant cash flow, stable financial situation, and outstanding comprehensive strength. It has been selected into the mainstream indices, such as the Shanghai and Shenzhen 300, for a long time, and has significant scale advantages and core competitiveness in the industry.

From 2020 to 2023, Midea Group's operations and development were stable, and its financial fundamentals performed well. The company's asset scale has increased year by year, with a total asset of nearly 486 billion yuan at the end of 2023, abundant monetary funds, and strong asset

liquidity. The liabilities of enterprises are mainly formed by daily operations; the ratio of short-term and long-term debts is reasonable; the overall financial risk is low, and the owner's equity is steadily improved. Revenue and profit maintained steady growth, profit quality was stable, while continuing to increase R&D investment and consolidate the foundation of development. Operating cash flow maintains a net inflow throughout the year, the main business repayment ability is outstanding, and sufficient capital reserves have laid a solid financial foundation for enterprises to carry out stock repurchase and return investors.

## 2.2. Motivation and situation of stock repurchase

Midea Group has started normal share repurchase since 2019. In 2021, the company used its own funds to carry out a large-scale repurchase, with an annual repurchase amount of 13.664 billion yuan for equity incentives and employee stock ownership plans. According to regulatory regulations, this part of the repurchase is regarded as a cash dividend, superimposed on 11.678 billion yuan of cash dividends in that year, with a total return of 25.342 billion yuan to shareholders in the whole year, reflecting the abundant cash flow and stable operating conditions of the enterprise. In 2022, the company continued to promote repurchases, with a total of more than 2.6 billion shares repurchased at the end of the year, so as to convey confidence in its own value and future development. In 2023, the share repurchase was carried out steadily, and the cumulative repurchase amount also exceeded 2.6 billion yuan. Through long-term normal repurchases, the company stabilized its market value and safeguarded shareholders' rights and interests, which also confirmed its steady performance and good development prospects.

Midea Group's primary motivation for implementing a normal share repurchase is to recognize the intrinsic value of the enterprise itself. The management believes that the company's share price is undervalued by the market, hoping to boost market confidence through repurchase [9]. Secondly, the enterprise has sufficient confidence in its future operating conditions, profitability, and long-term development prospects, relying on steady operating capacity and abundant cash flow, and continues to carry out repurchase plans. At the same time, share repurchase can optimize the existing capital structure of enterprises, transmit positive signals of good operation to the capital market, stabilize the market value performance of the company, further enhance the long-term returns of shareholders, and promote enterprises to achieve more stable long-term development while giving back to investors [10].

## 3. Comparative analysis of performance before and after repurchase

### 3.1. Changes in profitability

As shown in Figure 1, Midea Group's overall profitability exhibited a steady upward trend from 2021 to 2023. In 2021, the company realized a net profit of 28.574 billion yuan, with a gross profit margin and a net profit margin of 22.48% and 8.50%, respectively. In 2022, profitability rose slightly, with net profit attributable to the parent company reaching 29.554-billion-yuan, gross profit margin and net profit margin rising to 24.24% and 8.67%, respectively. In 2023, the company's profit growth rate accelerated significantly, with net profit attributable to the parent company reaching 33.720 billion yuan, gross profit margin and net profit margin of 26.49% and 9.16%, respectively, and profit quality and return on assets continued to improve. It can be seen that from 2021 to 2023, Midea Group's profitability is rising, its scale and profit efficiency are improving, and its profit growth is obvious in 2023. Continuous normal repurchase conveys to the market the

company's recognition of its own intrinsic value and long-term development prospects, effectively stabilizes market expectations, and creates a good capital market environment for the operation and development of enterprises.

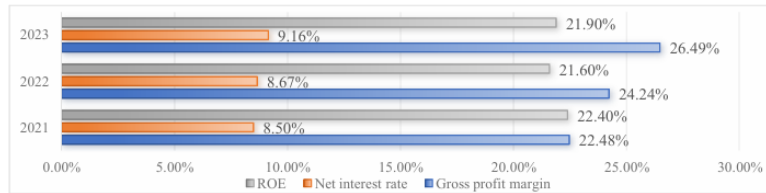


Figure 1. Profitability analysis (picture credit: original)

### 3.2. Change in solvency

As shown in Figure 2, Midea Group's solvency remained stable, and its financial position continued to improve from 2021 to 2023. The asset-liability ratio dropped from 65.20% in 2021 to 64.00% in 2022, and rose slightly to 64.10% in 2023, gradually reducing the pressure of long-term debt repayment. Net cash flow from operating activities rose from 35.092 billion yuan in 2021 to 57.903 billion yuan in 2023, and the level of cash flow guarantee increased significantly. On the whole, the company's debt structure continues to improve, debt repayment funds are sufficient, and its financial situation is safer and more stable. From this, it can be concluded that from 2021 to 2023, Midea Group's solvency continued to improve, its asset-liability ratio decreased year by year, its current ratio and cash ratio were relatively stable, its cash flow capacity increased significantly, and its overall solvency level continued to improve. Repurchase improves the capital structure and improves long-term financial stability.

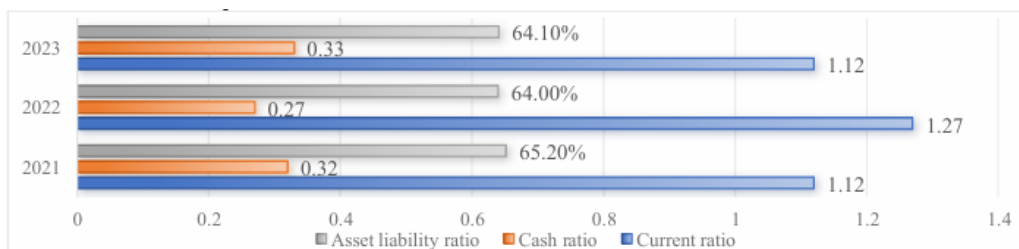


Figure 2. Comparison of solvency (picture credit: original)

### 3.3. Changes in operating capacity

As shown in Figure 3, from 2021 to 2023, the operating capacity of Midea Group has remained stable and efficient. The total asset turnover rate remains unchanged, the inventory turnover rate continues to improve, the scale of operating cash flow continues to grow, asset operation and inventory management are at a better level in the industry, and the overall operating efficiency is relatively stable. According to the analysis results, from 2021 to 2023, the operating capacity of Midea Group has maintained a stable and efficient state. The turnover rate of total assets and current assets fluctuated slightly, and the turnover rate of inventory and accounts receivable was at a good level, with high efficiency. In addition, repurchase funds are sourced from idle corporate cash flow, which not only avoids idle fund waste but also restricts irrational expansion by management. At the same time, stable business expectations also help to strengthen supply chain cooperation and ensure the turnover efficiency of inventory and accounts receivable. Repeated repurchase also shows that

the company's operation is stable, the supply chain partnership has been strengthened, and the operating capacity is more stable.

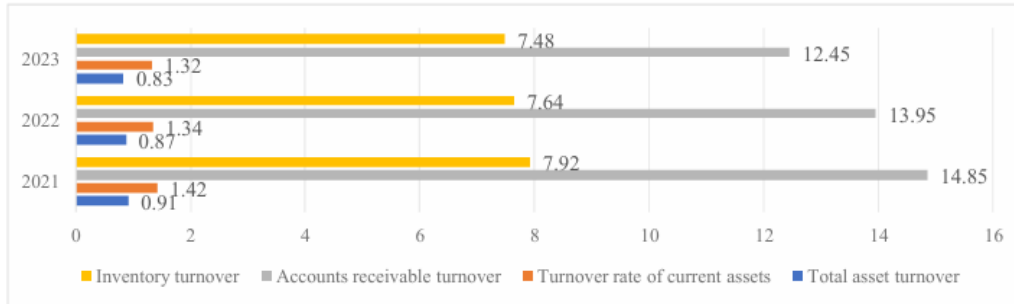


Figure 3. Operating capacity analysis (picture credit: original)

### 3.4. Growth capability change

As shown in Figure 4, from 2021 to 2023, the growth capacity of Midea Group continued to grow, and its scale and efficiency showed an upward trend. Operating income increased from 341.233 billion yuan in 2021 to 343.918 billion yuan in 2022, and further increased to 372.037 billion yuan in 2023, achieving sustained growth in three years. The net profit returned to the mother increased from 28.574 billion yuan to 29.554 billion yuan, reaching 33.720 billion yuan in 2023, and the profit scale continued to increase. In 2023, the growth rate of revenue and net profit increased, indicating that the company's business growth momentum has become stronger and the overall growth situation has stabilized. Although there are periodic fluctuations in the growth rate of operating income, net profit, and total assets of Midea Group from 2021 to 2023, the three indicators have rebounded significantly in 2023.

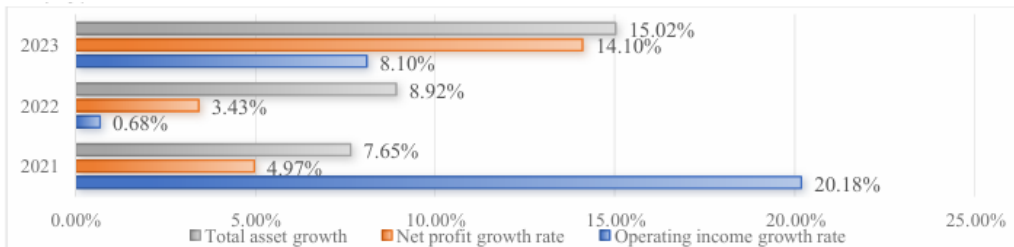


Figure 4. Growth capability analysis (picture credit: original)

### 3.5. The relationship between repurchase and performance

Midea Group's share repurchases and operating performance from 2021 to 2023 present a virtuous circle of mutual promotion and complementarity. On the one hand, during this period, the business development of the enterprise has steadily improved, and the profitability, debt repayment level, operational efficiency, and development ability have been continuously improved. Stable operating performance and abundant cash flow reserves have laid a solid financial foundation for the company to carry out a normal share repurchase. On the other hand, reasonable repurchase behavior effectively optimizes the capital structure of enterprises, sends positive business signals to the capital market, boosts investor confidence, and stabilizes the business environment of enterprises. Midea Group formulated a repurchase plan in combination with its own business rhythm, carried out operations on the premise of ensuring daily production and operation, and continuously increasing

R&D investment, took into account the long-term development of enterprises and short-term earnings of shareholders, and realized the improvement of company value and shareholder interests.

#### 4. Conclusion

Against the background of the increasing normalization of share repurchases in the A-share market, in view of the limitations of existing literature focusing on the one-way impact of share repurchase on corporate performance, this paper selects the normalized share repurchase event of Midea Group, a leading enterprise in household appliances industry, from 2021-2023 as the research object, and uses the case study method to analyze the implementation process and core motivation of Midea Group's share repurchase, and compares and analyzes the change trend of corporate performance before and after repurchase from four aspects: profitability, solvency, operational capacity and growth capacity. Research shows that Midea Group relies on sound operating fundamentals and abundant cash flow to carry out share repurchases, which not only effectively optimizes the capital structure of enterprises and sends positive operating signals to the capital market but also forms a virtuous circular relationship with enterprise operating performance.

The main contribution of this paper is to select Midea Group, a leading household appliances enterprise, as a case to analyze the internal relationship between share repurchase and business performance, which makes up for the gap that the existing literature mostly studies industry data and lacks in-depth case analysis of specific enterprises. The conclusions of the study are conducive to enriching the relevant research results of share repurchase in the household appliances industry, providing practical reference for domestic manufacturing listed companies to formulate repurchase plans and optimize capital operation, and also helping investors to more rationally identify the enterprise value behind repurchase behavior, providing case ideas and analysis directions for follow-up related research. This study only focuses on a single enterprise with a limited sample size, which makes it difficult to reflect the differences in repurchase activities across different types of enterprises, and the universality of the research is insufficient. Future research can broaden the sample scope, include listed companies in many industries and different scales for comparative analysis, extend the research cycle, further examine the impact of share repurchase on the long-term development of enterprises, and make the research conclusions more comprehensive and reliable.

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