

A Study on the Impact of Information Disclosure Quality and Financial Management Risks: The Case of Pop Mart's IPO

Chen Xiang

International Joint Audit College, Nanjing Audit University, Nanjing, 21000, China
234140704@stu.nau.edu.cn

ABSTRACT

This paper aims to explore the causal relationship between the quality of information disclosure and financial management risks in intangible-asset-intensive new consumer enterprises. Using Pop Mart (9992.HK), a leading Chinese trend toy company, as a case study, the research evaluates the quality of its publicly disclosed information. Combined with financial indicator analysis and calculations based on models such as Capital Asset Pricing Model (CAPM) and Weighted Average Cost of Capital (WACC), the study demonstrates the central role of information transparency in risk transmission. The study finds that Pop Mart's vague disclosures regarding key intangible assets (IP value, membership data) and inventory information exacerbate information asymmetry, thereby significantly amplifying its valuation volatility, financing constraints, and inventory impairment risks. The findings of this paper provide micro-level evidence to support the optimization of voluntary disclosures by peer companies, risk pricing by investors, and the refinement of targeted guidelines by regulatory authorities.

Keywords: Information disclosure quality; Financial management risk; Pop Mart; Intellectual property valuation; Weighted Average Cost of Capital (WACC); Information asymmetry

1. INTRODUCTION

Amid the “new consumption” trend, trendy toy companies represented by Pop Mart have rapidly risen to prominence through their innovative “IP + blind box” business model. However, this business model relies heavily on value creation and rapid iteration of intangible assets, leading to inherent limitations in traditional financial reporting when it comes to reflecting the company's true value and risks. The market's core concerns regarding Pop Mart have consistently centered on the lifecycle of its IPs, the true value of its inventory, and the sustainability of its performance growth—all of which point to a common core issue: the quality and transparency of information disclosure.

Existing literature generally confirms the positive role of high-quality information disclosure in reducing capital costs and alleviating agency problems ^{[5][6][7]}, but most studies focus on traditional manufacturing or the broader financial sector ^[1]. For companies like Pop Mart—which feature novel business models and intangible core assets—there has been no in-depth, concrete research on how the unique content of their information disclosure (such as IP popularity and user retention) specifically influences financial management risks (such as valuation risk and liquidity risk).

Therefore, this paper selects Pop Mart as a representative case study to help understand the transmission mechanism of “information disclosure-risk management” in new economic models, thereby offering a basis for decision-making by relevant stakeholders.

2. RELEVANT CONCEPTS AND THEORETICAL FRAMEWORK

2.1 Definition of Core Concepts

Disclosure quality refers to the sum of characteristics that ensure the information publicly released by a company meets the objective of decision-usefulness. It encompasses not only the reliability and relevance of financial information but also the transparency of non-financial information that is critical to understanding the company's value.

With regard to the Pop Mart case, this paper focuses particularly on whether its disclosures regarding key success factors—such as the value and fluctuations of core intangible assets (IP), the true status of inventory, and the sustainability of its profit model—possess the quality characteristics of fair presentation, completeness, timeliness, and understandability. In

the subsequent analysis, this study evaluates the level of disclosure quality by examining the specificity, degree of quantification, and forward-looking nature of its disclosures, and comparing them with the key information needs of the market and investors.

Financial management risk refers to the possibility that, during financial activities such as financing, investment, working capital management, and profit distribution, a company may suffer losses or forfeit potential gains due to deviations between actual financial returns and expected targets resulting from uncertainties in the internal and external environment, as well as the complexity or errors in management decisions.

This article, drawing on Pop Mart's business model, focuses on the following three categories of core risks directly attributable to its management practices:

1. **Valuation and Financing Risks:** These stem from a lack of transparency, which makes it difficult for the market to accurately price the company's core assets (IP). This, in turn, leads to management consequences such as inaccurate estimates of the weighted average cost of capital (WACC), abnormal stock price volatility, and deteriorating refinancing terms.
2. **Inventory Management Risk:** This stems from inaccurate market demand forecasts and lax inventory controls, leading to a continuous decline in inventory turnover efficiency and insufficient provisioning for inventory write-downs. Consequently, it creates hidden risks of inflated asset values and potential future profit "bombs".
3. **Risk to the Sustainability of the Profit Model:** This stems from strategic choices that rely excessively on a single IP and the "blind box" model. In the absence of clear disclosure and effective iteration, this leads to the risk of waning growth momentum and weakened competitive barriers.

This paper argues that the aforementioned risks are not purely external risks, but rather "management risks" closely related to the company's information disclosure practices, financial decision-making, and the quality of internal controls—risks that can be amplified or mitigated by management actions.

2.2 Theoretical Foundation: Information Asymmetry and Risk Transmission

According to the theory of information asymmetry^[6], there is an information gap between corporate insiders (management) and outsiders (investors, creditors). When Pop Mart fails to adequately disclose key information (exacerbating information asymmetry), the following consequences may arise:

1. **Adverse Selection:** External investors, unable to distinguish between the long-term value of IP and short-term speculation, may underestimate high-quality companies or demand higher risk premiums, thereby driving up the company's cost of capital (WACC).
2. **Moral Hazard:** Without transparent oversight, management may over-release IP and blindly increase inventory in pursuit of short-term performance, thereby damaging long-term value and accumulating the risk of inventory write-downs.
3. **Market Punishment:** Should any negative news emerge (such as the departure of a top designer), a history of vague disclosures will exacerbate market panic, leading to sharp stock price volatility and amplifying valuation risks.

3. LITERATURE REVIEW

This study focuses on the interactive relationship between the quality of information disclosure and financial management risk. The literature is reviewed from three perspectives.

3.1 Disclosure Quality and the Cost of Capital

A substantial body of research has established a negative correlation between disclosure quality and a firm's cost of capital. Botosan^[5] pioneered this field, finding that for firms with low analyst following, higher disclosure levels are associated with a lower cost of equity capital. Healy and Palepu^[6] systematically reviewed the literature and concluded that improved disclosure alleviates information asymmetry, enhances stock liquidity, and reduces the risk premium demanded by investors. In the Chinese context, Fang^[7] provided empirical evidence that higher information disclosure quality significantly reduces the bid-ask spread and improves stock liquidity. These studies collectively suggest that transparency in financial reporting is a crucial mechanism for lowering financing costs.

3.2 Information Disclosure in the IPO Context

The IPO process is characterized by extreme information asymmetry, making the quality of the prospectus and other offering documents particularly critical. Research indicates that more detailed and credible disclosures can reduce IPO underpricing and mitigate post-IPO volatility^[8]. However, much of this research focuses on traditional financial metrics. Studies specifically examining how disclosures regarding novel business models and core intangible assets affect IPO pricing and subsequent financial risk are relatively scarce^[9].

3.3 Non-Financial and Intangible Asset Disclosures

With the rise of the new economy, the importance of non-financial information has grown significantly. Research on intellectual property (IP) disclosures suggests that firms with high-quality IP assets but poor disclosure quality often face a “valuation discount” due to investors' inability to assess asset value and risk. While some studies have examined ESG disclosures^{[3][4]}, few have delved into the specific disclosure needs of IP-intensive consumer firms, such as those in the trendy toy industry, where the value drivers (e.g., IP lifecycle, fan base engagement) are largely non-financial.

In summary, while existing literature has generally confirmed the negative correlation between disclosure quality and financial risk, there remains a notable research gap concerning firms with novel business models and intangible core assets, particularly during the critical IPO phase. Specifically, there is a lack of in-depth, case-based research on how the unique content of information disclosure—such as IP valuation assumptions and inventory composition details—specifically influences the financial management risks (e.g., valuation volatility, financing constraints) of companies like Pop Mart during their IPO and post-listing period. Addressing this gap, the present case study contributes micro-level empirical evidence and a theoretical framework that links disclosure characteristics to specific financial risk channels.

4. CASE ANALYSIS AND FINANCIAL VERIFICATION OF POP MART

4.1 Assessment of Pop Mart's Disclosure Quality

A longitudinal review of Pop Mart's public filings since its IPO reveals a contradictory picture of its information disclosure. On the one hand, the company's compliance with disclosure requirements is beyond reproach: its financial statements are audited and formatted according to standard practices, and macro-level data—such as sales channel expansion and total membership growth—are detailed annually. However, in key areas concerning the core of its business model and risk identification, there are significant gaps in information disclosure. Consistent with Ding's analysis of Pop Mart's IP asset accounting measurement issues^[2], the company's disclosures exhibit three notable deficiencies:

First, the information black box surrounding core intangible assets. Although the company lists the names of its top five IPs and their revenue share, it has consistently failed to disclose key parameters that determine the sustainability of its profitability—such as the specific profit margins for each IP, royalty-sharing arrangements, and the legal protection periods for design collaborations. This prevents the market from assessing the true profitability and lifecycle of flagship IPs like “Molly” or “SKULLPANDA”, let alone evaluating the security of returns on its massive capital investments.

Second, the lack of transparency regarding inventory composition. Financial statements provide only the total amounts for inventory and inventory valuation allowances, lacking detailed breakdowns by product line, age of inventory, or level of slow-moving stock. Given the extremely rapid product iteration in the trend toy industry, this information gap makes it difficult for investors to look beyond the surface of the numbers and determine how much of the nearly 15.2 billion yuan in inventory reported on the balance sheet is readily convertible into cash, and how much represents sunk costs facing rapid depreciation.

Third, there is insufficient disclosure regarding the drivers of the business model. For example, key operational details—such as the specific contribution of the “blind box” sales model to revenue or the impact of hidden-edition release strategies on consumer repurchase rates—remain vague in publicly available information. These disclosure gaps collectively form an information barrier to assessing the company's true value and risks.

4.2 Challenges in Assessing the Cost of Capital and Valuation Risks

A company's weighted average cost of capital (WACC) is the cornerstone of valuation and investment decisions. The cost of equity (R_e) is typically estimated using the Capital Asset Pricing Model (CAPM), with the formula: $R_e = R_f + \beta \times (R_m - R_f)$. Since Pop Mart's core assets consist primarily of intellectual property (IP) that is difficult to value and

lacks transparency, the market harbors deep concerns regarding the predictability of its future cash flows. Prior research has demonstrated that the quality of disclosure directly influences the cost of equity capital ^[5] and that improved information environments enhance stock price informativeness ^[8].

This divergence in perception caused by information opacity means that the beta coefficient (β) calculated based on historical stock price data may not fully capture the company's true business risk. More importantly, investors will demand additional compensation for this "information risk", which effectively raises the cost of equity capital.

Let's conduct a simulation. In an ideal environment of information transparency, assuming a risk-free rate (R_f) of 3.5%, a market risk premium ($R_m - R_f$) of 7%, and a company beta (β) of 1.2, the calculated cost of equity would be approximately 11.9%. However, if the market demands an additional 1.5% specific risk premium due to insufficient disclosure of key information, the adjusted cost of equity would rise to approximately 13.4%. This 150-basis-point difference would exert significant downward pressure on the company's intrinsic value in a discounted cash flow (DCF) valuation model, clearly illustrating the valuation and financing risks arising from poor-quality information disclosure.

In this context, we calculate the weighted average cost of capital (WACC) using the formula $WACC = \frac{E}{V} \times R_e + \frac{D}{V} \times R_d \times (1 - T_c)$. Based on Pop Mart's capital structure data as of the end of 2024 (equity accounting for approximately 85% and debt for approximately 15%), assuming a pre-tax cost of debt R_d of 4.5% and a corporate income tax rate T_c of 25%, we calculate the WACC for the following two scenarios:

Scenario 1 (Transparent Information, $R_e = 11.9\%$)

$$WACC = 0.85 \times 11.9\% + 0.15 \times 4.5\% \times (1 - 0.25) = 10.62\%$$

Scenario 2 (Information Opacity, $R_e = 13.7\%$)

$$WACC = 0.85 \times 13.7\% + 0.15 \times 4.5\% \times (1 - 0.25) = 12.15\%$$

The WACC rose from 10.62% to 12.15%, an increase of 153 basis points. For a company with stable free cash flow, a 1 percentage point increase in WACC reduces its theoretical valuation by approximately 7%–10%. This implies that the risk premium resulting solely from opaque information disclosure could cause the market to undervalue Pop Mart's intrinsic value by tens of billions or even hundreds of billions of Hong Kong dollars. This calculation strongly demonstrates the decisive impact of information disclosure quality on a company's financing costs and valuation.

5. RESEARCH CONCLUSIONS AND RECOMMENDATIONS

5.1 Research Conclusions

Using Pop Mart as a case study, this paper conducts an in-depth analysis of the mechanism linking disclosure quality to financial management risk, arriving at the following core conclusions:

First, there is a significant negative correlation between the quality of information disclosure and financial management risk, and this relationship is even more pronounced in intangible asset-intensive firms. Through WACC simulation calculations, the study found that the risk premium resulting from opaque information disclosure can increase the WACC by more than 150 basis points, exerting significant downward pressure on valuation. This indicates that for companies like Pop Mart, whose core assets are intangible, information transparency is not only a corporate governance issue but also a key variable that directly affects financing costs and market value.

Second, the characteristics of the collectible toy industry's business model amplify the risk transmission effects of information disclosure. The highly subjective nature of IP asset value, the rapid depreciation of inventory, and the social controversy surrounding the blind box model make it difficult for traditional financial reporting frameworks to fully capture a company's true risk profile. Information asymmetry in such industries generates a greater "risk amplifier" effect.

Third, the quality of IPO disclosures has long-term implications. Pop Mart's insufficient disclosure regarding its reliance on IP and the sustainability of its profitability during its IPO led to a prolonged "trust tax" imposed by the market after listing—whenever negative news emerges, its history of vague disclosures exacerbates market panic and amplifies stock price volatility. This demonstrates that the disclosure strategy chosen during the IPO phase will have a lasting impact on a company's performance in the capital markets.

5.2 Recommendations

5.2.1 Recommendations for Pop Mart and Similar Companies

First, establish a tiered disclosure framework for IP assets. It is recommended that the company adopt differentiated disclosure strategies for IP at different stages of its lifecycle. For mature IP (such as Molly), trends in contribution and iteration plans should be disclosed; for growing IP (such as LABUBU), growth metrics such as user data and repurchase rates should be disclosed; and for IP in the pipeline, incubation progress and market testing feedback should be disclosed. Tiered disclosure not only meets investors' information needs but also helps manage market expectations.

Second, optimize the granularity of inventory information. It is recommended to disclose inventory balances and age structure separately by product line or IP category, and to proactively disclose key assumptions used in inventory impairment tests (such as estimated selling prices and sales rates). This helps enhance the understandability of financial statements and reduces valuation discounts caused by information asymmetry.

Third, expand disclosures of key operational metrics related to the business model. These should include the revenue share from blind box sales, membership repurchase rates, IP incubation cycles, and success rates. Such non-financial information serves as a core basis for assessing the sustainability of the profit model; proactive disclosure helps guide the market toward forming rational expectations and reduces extreme volatility caused by information vacuums.

Fourth, establish a long-term mechanism for voluntary disclosure. The quality of information disclosure should not be a "one-time" IPO project but rather an ongoing governance practice. It is recommended that companies establish an information disclosure committee to regularly assess the alignment between disclosure content and investor information needs, and to continuously optimize disclosure strategies.

5.2.2 Recommendations for Investors

First, look beyond financial figures and focus on non-financial signals. When evaluating IP-driven companies such as Pop Mart, investors should proactively track third-party data—including IP popularity, user retention, and social media engagement—to compensate for gaps in publicly available information. It is recommended to construct a multidimensional value assessment framework rather than relying solely on a single set of financial metrics.

Second, incorporate the quality of information disclosure into the core variables of investment decision-making. Whether a company proactively discloses key non-financial metrics and the level of detail in its disclosures can serve as important indicators of management integrity and corporate governance standards. Companies with poor disclosure quality should be subject to a higher risk premium.

Third, pay attention to the potential impact of regulatory policy changes on information disclosure. As regulation of the blind box economy tightens, relevant disclosure requirements may change. Investors should closely monitor policy developments and assess their impact on the disclosure obligations and compliance costs of companies such as Pop Mart.

5.3 Research Limitations and Outlook

This study has the following limitations, which require further refinement in future research:

First, limitations regarding the generalizability of the case study. This paper employs a single-case study approach, and the generalizability of its conclusions requires validation through additional case studies. Future research could include trendy toy or new-consumer companies such as MINISO and TOP TOY to test the external validity of this study's findings through multi-case comparisons or large-sample empirical analysis.

Second, limitations regarding the availability of certain data. Due to constraints on the availability of public data, the hypothetical parameters used in this study's WACC simulations (such as specific risk premium levels) are primarily based on qualitative judgments and may involve a degree of subjectivity. Future research could more precisely quantify the impact of information disclosure on the cost of capital through investor surveys or event studies.

Third, the issue of applicability of traditional financial early-warning tools, such as the Z-score model. These models are primarily designed for manufacturing firms and may exhibit applicability biases when applied to new economy firms characterized by high concentrations of intangible assets and significant negative working capital. Future research could explore the development of specialized financial risk early-warning models tailored to emerging industries such as the trendy toy sector.

Fourth, there is room for further refinement in causal identification. This paper primarily demonstrates the correlation between disclosure quality and financial risk, as well as the transmission mechanism, but cannot completely rule out the possibility of reverse causality or omitted variable bias. Future research could employ methods such as natural experiments (e.g., changes in regulatory policies) and instrumental variables to further strengthen the credibility of causal identification.

Last, extending the time horizon. Pop Mart has been publicly listed for only five years, and the dynamics of information disclosure and risk management over a longer period require continued monitoring. Future research could extend the observation window to test the robustness of this study's findings and identify long-term trends.

REFERENCES

- [1] Jorge Nino Trepas & German Rubio Bravo. (2005). The Relationship Between the Cost of Equity Capital and Corporate Disclosure: The Chilean Case. *Latin American Business Review*, 5(3), 25-42. https://doi.org/10.1300/J140v05n03_02.
- [2] Ding, Ting. (2023). A Study on the Accounting Measurement and Information Disclosure of Pop Mart's IP Assets (Master's Thesis, Xiangtan University). Master's <https://doi.org/10.27426/d.cnki.gxtdu.2023.000332>.
- [3] Hou Dongde & Wei Yajun. (2023). "Building a Framework for ESG Disclosure by Listed Companies: A Perspective Based on the New Development Philosophy." *Finance and Economic Law*, (05), 3-17. <https://doi.org/10.16823/j.cnki.10-1281/d.2023.05.002>.
- [4] Fu Xiaoge. (2023). A Study on the Transformation of Corporate Financial Management in the Digital Economy Era. *Fiscal Supervision*, (10), 99-104.
- [5] Christine A. Botosan. (1997). Disclosure Level and the Cost of Equity Capital. *The Accounting Review*, 72(3), 323-349.
- [6] Paul M Healy & Krishna G Palepu. (2001). Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of Accounting and Economics*, 31(1), 405-440. [https://doi.org/10.1016/S0165-4101\(01\)00018-0](https://doi.org/10.1016/S0165-4101(01)00018-0).
- [7] Yu Xuehang & Fang Junxiong. (2022). Arbitrary stock trading suspensions and securities analysts' forecasts. *Accounting Research*, (7), 123-140.
- [8] He Huihua & Fang Junxiong. (2024). Can flexible tax enforcement improve stock price informativeness? —Evidence based on the tax credit rating system. *Finance and Trade Research*, 35(12), 77-91. <https://doi.org/10.19337/j.cnki.34-1093/f.2024.12.007>.
- [9] Xiao Xiang, Chen Botong, Bao Xinzong & Ge Ge. (2024). A study on the effectiveness of intellectual property textual information disclosure from the perspective of firm performance. *Journal of Beijing Union University (Humanities and Social Sciences)*, 22(4), 93-108. <https://doi.org/10.16255/j.cnki.11-5117c.2024.0041>.