



An Analysis of Xueda Education's Financial Performance in the Context of Covid-19

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Abstract: The Covid-19 pandemic has had a significant impact on large enterprises in China, resulting in closures and staff layoffs, which have negatively affected the training education industry. This paper presents a case study of Xueda Education, a listed company, to analyze its financial situation from 2017-2020, the first three years of the pandemic, and 2020-2023, another three years of the pandemic. The study uses financial indicators to discuss the development problems of training education in terms of profitability, development capacity, solvency, and operating capacity. A side-by-side comparison method is used to compare Xueda Education's financial performance with two other companies in the same field. The study concludes that Xueda Education's profitability, development capacity, solvency, and operating capacity decreased, especially in terms of operating capacity. The short-term solvency of the debt servicing capacity decreased, while the long-term solvency capacity did not change significantly. The study proposes solutions for improving the financial risk system and finding new ways to sustain the company. This paper provides valuable insights for policymakers and researchers in the training education industry to address the impact of Covid-19 on enterprises and the industry.

Keywords: Covid-19, education and training, financial indicators, cross-sectional comparative analysis.

I. Introduction

Covid-19 hit the globe in the late of 2019 and in 2020, the whole world was affected by the pandemic, including China. China conducted strict prevention policy since 2020, with centralised quarantine for the infected or sub-close contacts. A system with code access to any public place was developed, requiring 72 or 48 hours for a negative nucleic acid result. Crowds are not allowed to gather and students are taught online in most places. These preventive measures have greatly controlled the spread of the epidemic and protected the lives and health of many people, but there are always two sides to the coin. These prevention measures brought negative impacts to the operations of many businesses, including the education and training industry. Offline classes were called off and many institutions were asked to shut down^[1].

The education and training industry is an important aid to the overall development of education, and the development of the education and training industry after Covid-19 has been in the spotlight. In 2021, the year after Covid-19 broke out, the Chinese government introduced a "double reduction" policy in order to reduce the academic burden of students in compulsory education in China, It aims to reduce the excessive burden of homework and the burden of off-campus training on students. This policy added to the woes of those training such as K12 education. Many of them are looking for a new way out^[2]. This paper selected a representative listed company in the education and training industry in China, Xueda Education, to study the financial performance of the education and training industry in the three years before and after the epidemic, and draw conclusions accordingly^[3,4].

Founded in 2001, Xueda Education is a fast-growing A-share listed company with a unique education model and a business focus on K12 education and training. Xueda Education has always adhered to the concept of "people-oriented and personalised education", and has built a rich business model including personalised education, full-time education, vocational education, cultural services and so on. In 2019, Xueda Education has 581 teaching locations, covering 30 provinces and 116 cities nationwide^[5].

II. Literature Review

Theoretical studies and practical explorations on financial performance are abundant at home and abroad, and there are many studies on the development of financial performance of enterprises in the context of Covid-19^[6,7,8]. In this paper, the author analyses the training needs of enterprises after the outbreak of Covid-19 and the advantages and disadvantages of the current training methods, and proposes strengthening and improvement measures to enhance the the application of "Internet+" thinking in training. Han Fengman analyses the impact of the epidemic on the training industry and how training institutions can transform and develop under the context, and how they can make use of the

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advantages of the Internet to carry out their business in a combined online and offline way^[9]. However, since Covid-19 has only a history of 3 years, the relevant studies are still few to a certain extent. This study enriches to a certain extent the theoretical results related to the study of corporate financial performance analysis in the context of Covid-19.^[10]

III. Innovations and shortcomings of the study

Innovation: The topic of this study is new. Xueda Education, a K12-based training and education company, was selected in the context of the epidemic. The company was affected by the "double reduction" policy in 2021 in the context of the epidemic^[11]. It is a new company in its chosen industry .

Shortcomings: Due to the limited academic level , access to information and practical experience of the author, this thesis has certain limitations. The paper failed to use more complex analytical models for analysis. As in the case of the annual report for 2022, the data for 2022 can only be used in the semi-annual report.

IV. Financial performance analysis of Xueda Education

In this paper, the financial data of Covid-19 for the first three years of 2017-2019 and the second three years of 2020-2022 are selected to analyse Xueda Education's financial performance in four aspects: profitability, growth capacity, solvency and operating capacity. The study was conducted by comparing with Only Education and Doushen Education.

(1) Profitability

Among the profitability indicators, two indicators, return on net assets and return on total assets, were selected for analysis in this paper.

Table 1: Cross-sectional comparative analysis of return on net assets (source: the author)

		Xueda Education	Only Education	Doushen Education
Before	2017	41.11%	9.74%	3.74%
Covid-19	2018	16.76%	-18.89%	-29.77%
	2019	15.14%	4.96%	0.68%
	2020	36.46%	-32.85%	-125.02%
After Covid-19	2021	-99.3%	-39.72%	-138.71%
	2022(1-6)	10.26%	30.83%	-140.51%

Table 2: Cross-sectional analysis of total return on assets (source: the author)

		Xueda Education	Only Education	Doushen Education
Before	2017	0.64%	3.86%	2.54%
Covid-19	2018	0.28%	-10.19%	-17.89%
	2019	0.34%	0.28%	54%
	2020	1.2%	-10.93%	-44.39%
After Covid-19	2021	15.44%	-9.49%	-17.58%
	2022(1-6)	1.4%	4.43%	-2.44%

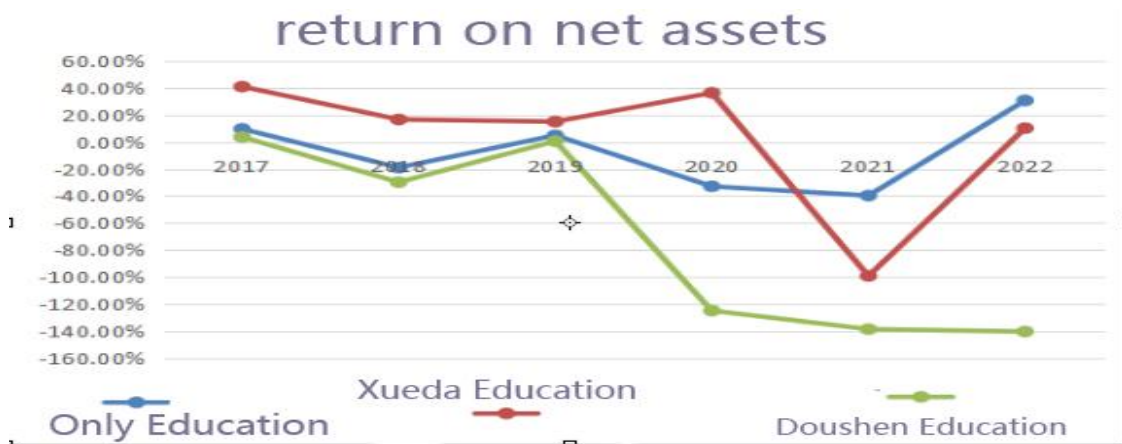


Figure 1: Cross-sectional analysis of return on net assets (source: the author)

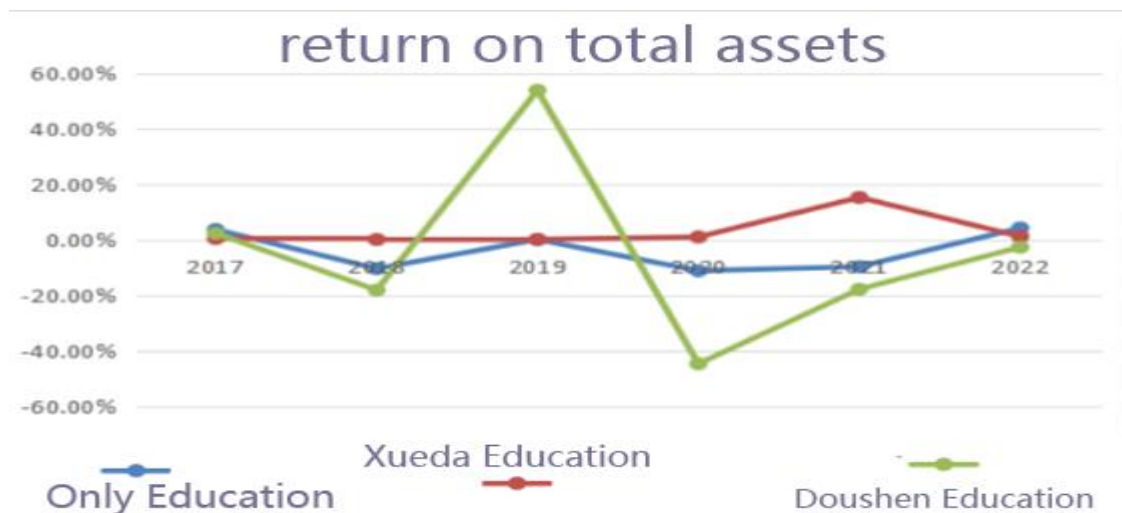


Figure 2: Cross-sectional comparative analysis of return on total assets (source: the author)

The formula for calculating return on net assets is as follows:

$$\text{Return on net assets} = \text{Net profit} / \text{Average net assets} \times 100\%$$

The formula for return on total assets is as follows:

$$\text{Return on total assets} = \text{Net profit} / \text{Average total assets} \times 100\%$$

From the above chart, it can be learned that Xueda Education's return on net assets is higher than Only Education's and Doushen Education's until 2021, and the return on total assets is in the Covid-19 explodes at the end of 2019 and many companies suffer a huge impact from Covid-19 in 2020. On the contrary, Xueda Education's return on net assets is 36.46% in 2020, an increase of 21.32% from 2019, and its return on total assets reaches 1.2% in 2020, again an increase of 0.86% from Total return on assets is 1.2% in 2020, also an increase of 0.86% from 2019, and is higher than Only Education and Doushen Education in 2020 in terms of both return on net assets and return on total assets. From the formulas for these two indicators, it can be seen that the growth of this indicator is inextricably linked to net profit. From Xueda Education's financial report, it can be seen that Xueda Education's net profit will be \$12.32 million in 2019 and \$42.78 million, indicating a significant increase in net profit in 2020, but it can also be seen that in 2019 it is \$2,992 million. In 2020 it is only \$2,430 million, this is because the source of Xueda Education's net profit growth is not from operating income, but from non-recurring income. From the financial report, it can be seen that Xueda Education's non-recurring income increased significantly, which explains why Xueda Education responded positively to the Covid-19 crisis by optimising its teaching model, focusing on teaching and research, and tightly controlling costs to minimise the impact of Covid-19. At the time, Xueda Education's profitability did not improve as much as the two indicators would suggest, nor was it as badly affected as other companies. However, the situation changes significantly in 2021, when Xueda Education's extracurricular training for compulsory education is severely impacted by the

enactment of the national "double reduction" policy, with a marked direct change in NAV to -99.3%, and the other two companies in the same category are similarly hard hit. The other two companies in the same category also suffered, with this indicator falling between Only Education and Doushen Education.

(2) Development capacity

Among the indicators of development capacity, the growth rates of operating income and net profit were selected for analysis.

Table 3: Cross-sectional analysis of sales growth rate (source: the author)

		Xueda Education	Only Education	Doushen Education
Before Covid-19	2017	115.14%	24.02%	14.73%
	2018	2.89%	21.58%	-9.66%
	2019	3.43%	14.12%	1.38%
	2020	-18.79%	-24.35%	-29.97%
After Covid-19	2021	4.1%	-12.24%	-19.05%
	2022(1-6)	-33.2%	-61.54%	-12.97%

Table 4: Cross-sectional comparative analysis of net profit growth rate (source: the author)

		Xueda Education	Only Education	Doushen Education
Before Covid-19	2017	124.71%	-32.67%	-27.66%
	2018	-46.88%	-316.68%	-787.9%
	2019	7.06%	120.3%	101.61%
	2020	215.09%	-558.82%	-115.14%
After Covid-19	2021	-1326.94%	18.22%	76.92%
	2022(1-6)	-57.98%	-63.08%	62.14%

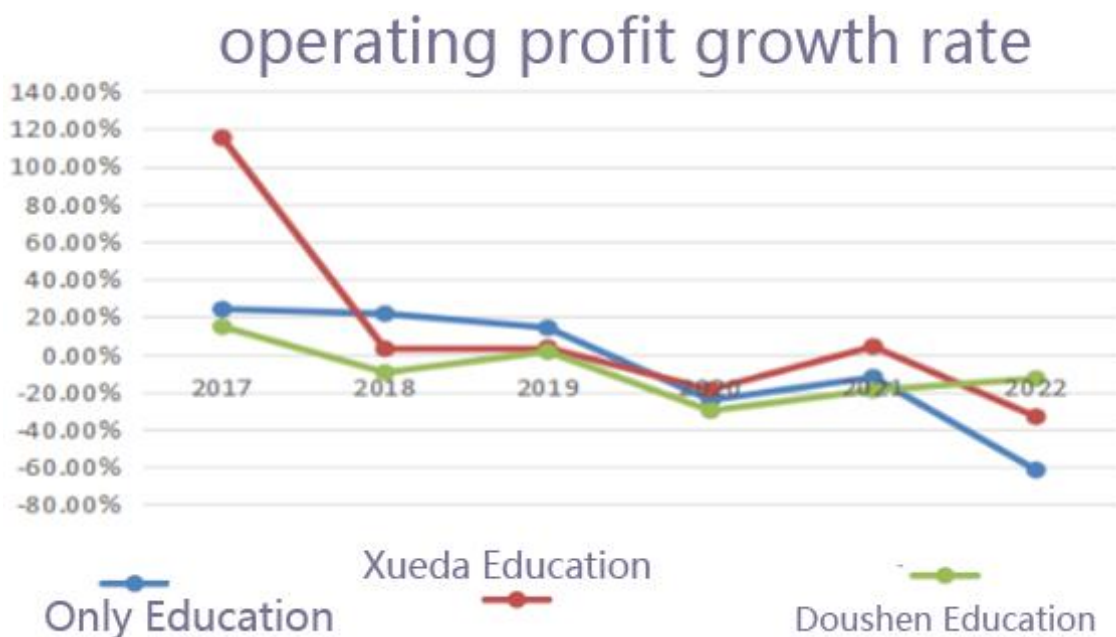


Figure 3: Comparative cross-sectional analysis of operating profit growth rate (source: the author)

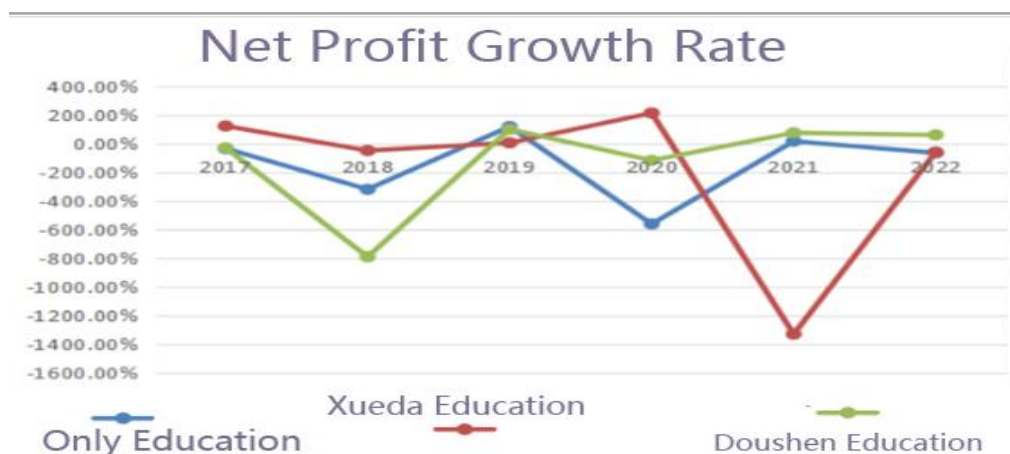


Figure 4: Cross-sectional Comparative Analysis of Net Profit Growth Rate (source: the author)

The formula for calculating the operating profit growth rate is:

$$\text{operating profit growth rate} = \frac{\text{operating profit growth amount}}{\text{total operating income of the previous year}} \times 100\%$$

The formula for calculating the net profit growth rate is:

$$\text{net profit growth rate} = \frac{(\text{net profit of the current period} - \text{net profit of the previous period})}{\text{net profit of the previous period}} \times 100\%$$

The above chart shows that Xueda Education's operating profit growth rate decreases significantly in 2020 when Covid-19 hits the country, with operating profit decreasing by 18.79% in 2020 compared to 2019. Although Xueda Education has taken active countermeasures, it is still more significantly impacted by the net profit. The net profit growth rate increases in 2020, which is known to be due to extraordinary gains and losses.

However, by 2021, the net profit growth rate had fallen sharply due to the impact of the national "double reduction" policy, as 99% of Xueda Education's main business is K12 education. Xueda Education's high school level accounts for 60% and junior high and primary school levels account for 40%. The "double reduction" policy has had a significant impact on Xueda Education as the state no longer allows extra-curricular tutoring for students in compulsory education. Xueda Education's ability to grow after Covid-19 has declined overall, although it recovered a bit by 2022.

(3) Solvency

Among the solvency indicators, two indicators, the current ratio and the gearing ratio, were selected for analysis.

Table 5: Cross-sectional analysis of current ratio (source: the author)

		Xueda Education	Only Education	Doushen Education
Before Covid-19	2017	0.428	1.367	1.722
	2018	0.436	1.261	0.935
	2019	0.417	0.927	0.837
	2020	0.381	0.837	0.73
After Covid-19	2021	0.422	0.682	0.545
	2022(1-6)	0.434	0.665	0.531

Table 6: Cross-sectional Comparative Analysis of Gearing Ratio (source: the author)

		Xueda Education	Only Education	Doushen Education
Before Covid-19	2017	98.17%	48.89%	31.53%
	2018	97.92%	58.85%	53.03%
	2019	97.47%	63.1%	53.23%
	2020	96.24%	73.86%	81.14%
After Covid-19	2021	88%	85.56%	98.45%
	2022(1-6)	85.31%	76.27%	100.86%

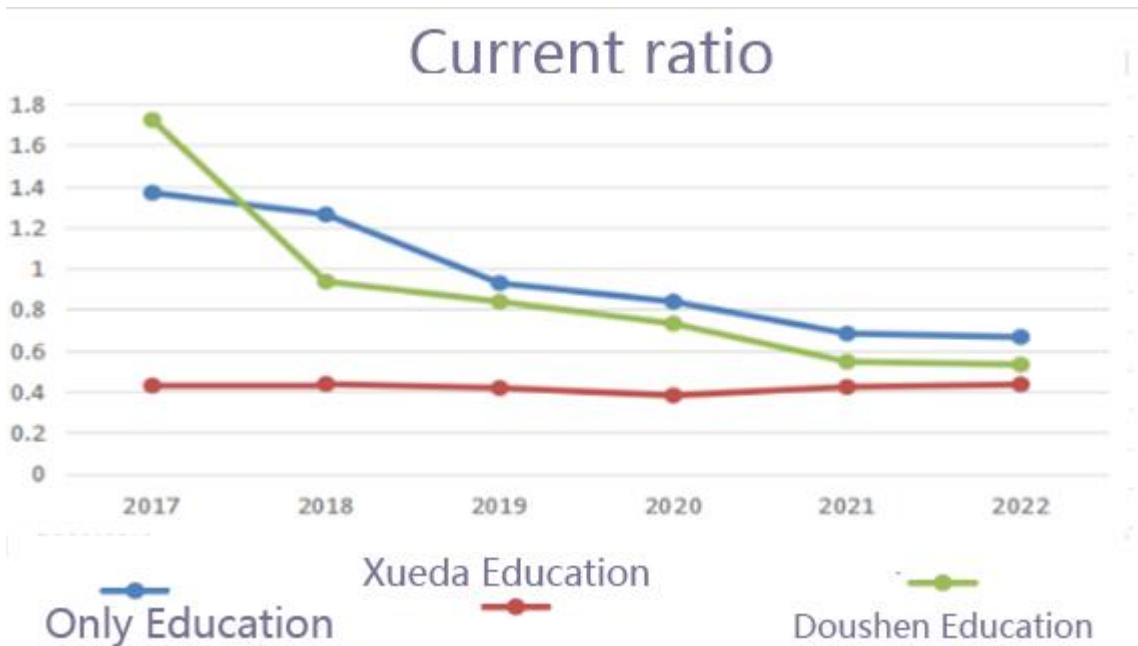


Figure 5: Current Ratio Horizontal Comparative Analysis (source: the author)

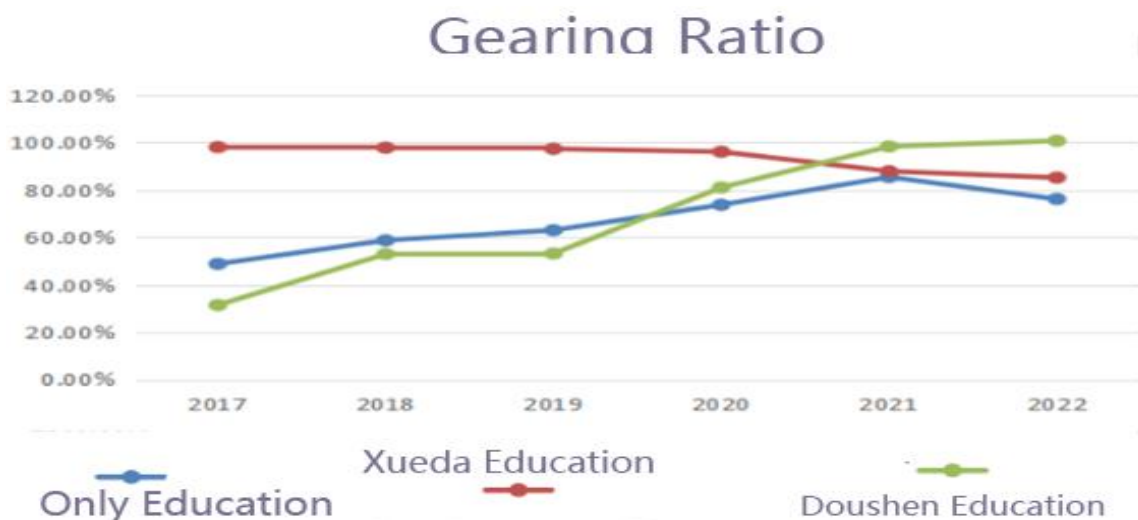


Figure 6: Cross-sectional Comparative Analysis of Gearing Ratio (source: the author)

The formula for calculating the current ratio is:

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

The formula for calculating the gearing ratio is:

$$\text{Gearing Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}} \times 100\%$$

As can be seen from the above graph, Xueda Education's current ratio is low compared to Only Education and Doushen Education, and it was only 0.381 at the time of the Covid-19 outbreak in 2020, the lowest in the last six years, indicating that Xueda Education's short-term solvency is low. Xueda Education's gearing ratio is also high, at 98.17%, 97.92% and 97.47% in 2017, 2018 and 2019 respectively, while the gearing ratios of Only Education and Doushen Education in the same period are almost half of Xueda's. While Xueda Education's gearing ratio did not change significantly after the Covid-19 outbreak in 2020, the gearing ratios of the other two companies also gradually increased, indicating that the education and training sector was more affected by Covid-19. Xueda Education has long been suffering debt problems, which have been exacerbated after Covid-19, and its short-term debt servicing capacity has weakened significantly.

(4) Operational capacity

Among the indicators of operating capacity, the total asset turnover ratio and the accounts receivable turnover ratio were selected for analysis.

Table 7: Cross-sectional Comparative Analysis of Total Assets Turnover Ratio (source: the author)

		Xueda Education	Only Education	Doushen Education
Before Covid-19	2017	0.8	0.637	0.273
	2018	0.799	0.663	0.25
	2019	0.826	0.814	0.264
	2020	0.683	0.694	0.227
After Covid-19	2021	0.725	0.797	0.277
	2022(1-6)	0.319	0.262	0.119

Table 8: Cross-sectional Comparative Analysis of Receivables Turnover Ratio (source: the author)

		Xueda Education	Only Education	Doushen Education
Before Covid-19	2017	101.4	26.45	2.317
	2018	115.3	24.69	2.201
	2019	85.57	22.48	2.814
	2020	63.62	16.9	2.232
After Covid-19	2021	74.92	26.7	2.599
	2022(1-6)	36.13	24.17	1.251

turnover of total assets

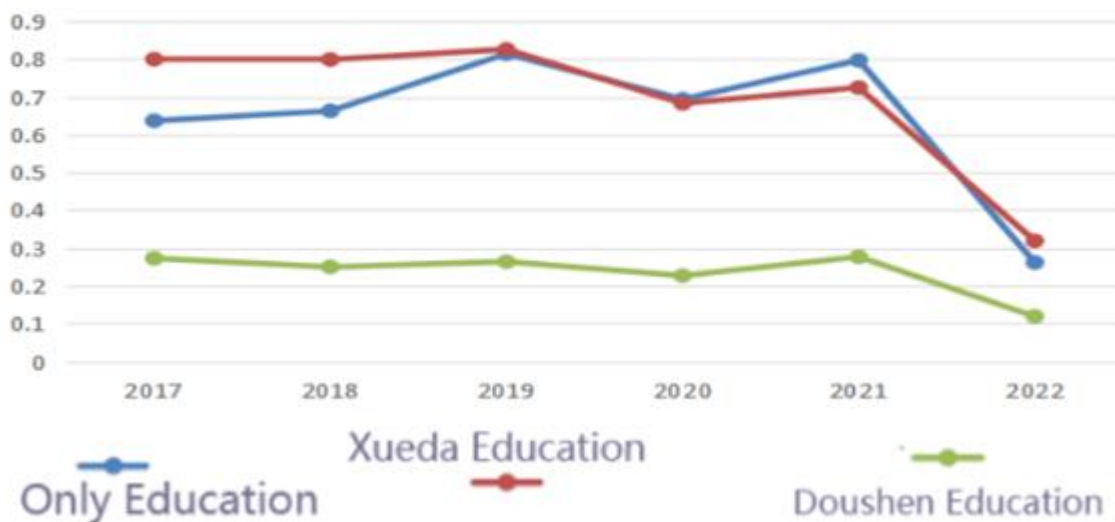


Figure 7: Cross-sectional comparative analysis of turnover of total assets (source: the author)

turnover of receivables

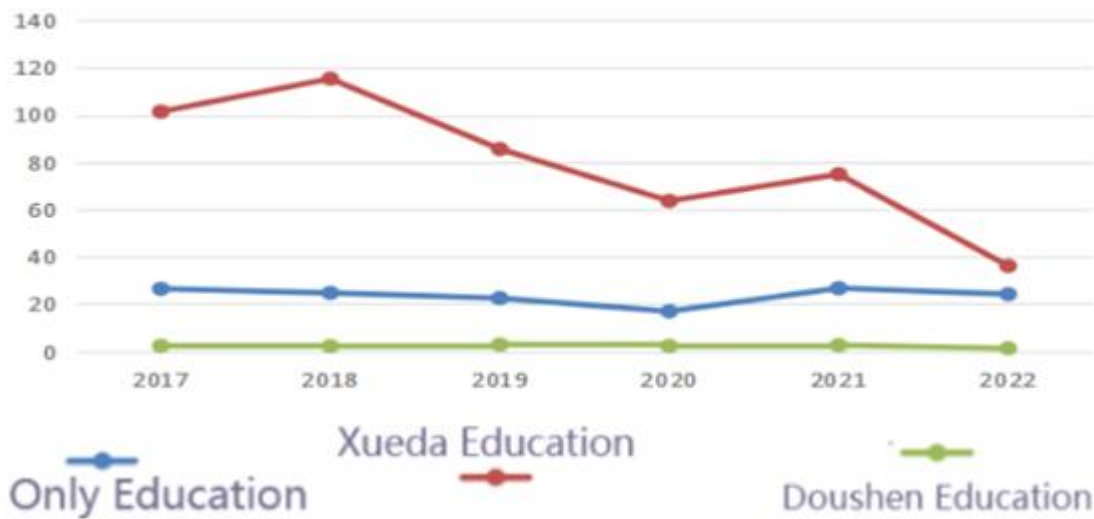


Figure 8: Cross-sectional comparative analysis of turnover of receivables (source: the author)

The formula for calculating the total asset turnover ratio is:

total asset turnover ratio = net operating income / average total assets;

The formula for calculating the accounts receivable turnover ratio is:

accounts receivable turnover ratio = net credit sales revenue / average accounts receivable balance.

The above chart shows that Xueda Education's total assets turnover ratio was high in the three years prior to Covid-19 in 2020, and was once higher than the other two companies, but after 2020, this trend started to change. Xueda Education's total assets turnover ratio started to decline, especially in 2021, when the State enacted the "double reduction" policy. The accounts receivable turnover ratio shows that Xueda Education was higher than the other two companies in the same industry, ranging between 85-102 in 2017, 2018 and 2019, while Only Education was between 20-30 in all three years. -However, in the three years 2020, 2021 and 2022, Xueda Education's accounts receivable turnover ratio is still higher than the other two companies, but the gap with the other two companies has clearly narrowed compared to the first three years of Covid-19, indicating that Xueda Education's accounts receivable turnover is still affected by the outbreak. Overall, Xueda Education's operating capacity after Covid-19, although higher than that of the other two companies in the same industry, has weakened.

V. Conclusion.

The analysis of Xueda Education's financial performance shows that although Xueda Education's profitability appears to have improved after Covid-19, the relevant indicators have not, and a further analysis of the financial statements shows that it has not really improved due to abnormal profits and losses. The development capacity decreases in the first year after Covid-19; the short-term solvency decreases significantly after Covid-19, while the long-term solvency does not change significantly after Covid-19; the operating capacity, although high compared to the other two companies in the industry, decreases significantly after Covid-19.

Overall, Xueda Education's financial performance declines somewhat after Covid-19, especially in the second year after Covid-19, 2021, when the "double reduction" policy was carried out by the state. It caused a major setback to the education and training industry^[12]. Xueda Education should seek to transform and expand new businesses, such as vocational education and artificial intelligence education, to find a new way out for the company and help it continue to grow.

VI. Recommendations.

1. Improve the financial risk system.

The problem of Xueda Education's debt has been a long-standing one, which did not come to the fore in the absence of major changes in the social and market environment. Xueda Education's high level of debt will have a serious impact on the company's development and will pose a financial risk. Therefore, Xueda Education should improve its financial risk system, identify problems in a timely manner, implement gate-keeping, monitor and deal with all risks in a timely manner to ensure the operation of the enterprise's finances.

2. Expand new business model.

It has been three years since the outbreak of Covid-19. China opened the country in the end of 2022 with a new start to all industries. Xueda Education's main business is K12 education, of which compulsory education accounts for 40%. Under the "double reduction" policy, Xueda Education has also called a complete halt to its business. Xueda Education should focus more on areas such as vocational education, art training and big data education and training. In addition to this, it should continue to optimise its 'internet+' and integrate online and offline classes more, as in the case of New Oriental Education, which has kept up with the times and caught the live streaming express by converting to online business.

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