

# Financial Performance of Off-campus Training Industry under the Background of "Double Reduction" Policy

## -- Take Company X as an Example

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### Abstract

In July 2021, the "double reduction" policy was introduced. Under this background, what kind of waves will Chinese off-campus training market experience? By analyzing the financial statements of company X in the second and third quarters of 2021, it is found that its stock performance, profitability performance and growth ability performance have all suffered a huge impact. As a giant in Chinese off-campus training industry, company X's financial performance reflects that the off-campus training industry is going through a "cold winter". In the context of the new policy, this paper gives the following suggestions: 1. Change thinking and seek cooperation with public schools. 2. Diversified transformation and emphasis on online education. 3. The strong man breaks his wrist and develops quality education. 4. Strong alliances and mergers with similar companies.

### Keywords

"Double Reduction" Policy; Off-campus Training Industry; Financial Statement Analysis.

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## 1. Introduction

In July 2021, the General Office of the Central Committee of the Communist Party of China issued the "Opinions on Further Reducing the Burden of Students' Homework and Off-campus Training in Compulsory Education" (hereinafter referred to as the "double reduction" policy). The opinion requires that off-campus education and training institutions shall not use winter and summer vacations, weekends and holidays to engage in subject training. This means that in the future, the only time to legally conduct subject-based training is on weekday evenings during the semester. The introduction of the "double reduction" policy has dealt a head-on blow to the highly competitive education and training industry in China. The person in charge of an education and training institution in Beijing said: "We need to digest the 'double reduction' policy before we can figure out where to go next." Under this policy background, what kind of waves will my country's education and training market see? In the context of the new policy, where should the education and training industry go?

This article selects company X, a giant in Chinese off-campus training market, and studies its stock performance, profitability performance and growth performance by analyzing its financial statements in the second and third quarters of 2021, and peeks into Chinese off-campus training market from the side. The development of the off-campus training industry under the new policy situation.

## 2. Methodology

### 2.1 The Off-campus Training Industry Overview

Since China's entry into the WTO, China's economic development has made great achievements. Especially in recent years, China's economic development has entered a new normal. The country has

called for economic development and transformation, and the education and training industry has become an important part of the service industry. In recent years, with the development of China's economy, the living standards and consumption capacity of the people have been continuously improved, and parents have paid more and more attention to their children's education. The education industry market has shown a vigorous development trend and has become a shining market hotspot in my country's economic field. Especially since the COVID-19 in 2020, in response to the call of the Ministry of Education to "suspend classes and not stop learning", online education has suddenly emerged. The education and training industry has developed rapidly in recent years, and the market has been improving. Especially with the combination of online education, the industry has experienced explosive development.

## **2.2 The Off-campus Training Industry'S PEST Analyze**

### **2.2.1 Political Environment**

The strategy of rejuvenating the country through science and education is a basic national policy of China. China implements the policy of "actively encouraging, vigorously supporting, correctly guiding, and managing according to law" for private education. For example, in 1982, the concept of "running schools by social forces" was first proposed; in 1997, the government promulgated the "Private Education Promotion Law"; in 2016 and 2018, further amendments were made. It encourages all sectors of society to donate and support education, and actively formulate Relevant laws and regulations are required to ensure the development of private education. The state has continuously promulgated relevant laws and regulations on private education. The domestic private education policy environment is good.

### **2.2.2 Economic Environment**

In recent years, as the world's second largest economy, China's per capita disposable income of residents has been increasing, and residents' consumption has been diversified, especially in education. In 2017, China's per capita disposable income was 25,974 yuan, and then it rose year by year, reaching 35,128 yuan in 2021, a year-on-year increase of 35.24%. In 2017, the per capita expenditure on education and entertainment of Chinese residents was 2,086 yuan, while in 2021, the per capita expenditure on education and entertainment of Chinese residents was 2,599 yuan, a year-on-year increase of 24.59%. It can be seen that the proportion of Chinese residents' expenditure on education has risen rapidly, and the economic environment of the domestic education industry is good.

### **2.2.3 Social Environment**

In Chinese families, parents attach great importance to children's education. To some extent, parents even think that the success of children's education is the success of the family, and education is considered to be one of the ways for children to succeed in life. Nowadays, social competition is becoming more and more fierce, and parents are more willing to invest in education. Under this social culture, the development of the education industry has a relatively rich fertile ground, which provides a large market for off-campus education training courses.

### **2.2.4 Technical Environment**

Since the beginning of the 21st century, China has continuously increased its investment in science and technology. The combination of science and technology and education has given birth to "Internet + Education" and promoted the application of science and technology in education [1]. After more than ten years of development, online education in primary and secondary schools has gone through the initial phase, especially the birth of 5G, which has prompted China's education to show a booming trend. In the education market, many large technology-based education companies have emerged.

## **2.3 Introduction of Company X and Analysis of its Advantages**

Company X was registered and established in Xiamen Market Supervision and Administration Bureau on July 2, 1992. In 2015, it completed the acquisition of one of China's education and training giant companies. The company's main business was changed from equipment procurement, leasing

and property leasing to Education and training services, adhering to the mission of "providing the most suitable education for each child", took the lead in creating a one-to-one personalized tutoring model. After years of continuous provision of high-quality services, it has established a wide range of popularity and good reputation in the industry, and it has become a leading brand in the after-school tutoring industry [2]. Company X focuses on offline (physical) training institutions to provide customers with professional education and training business, and actively explores and deploys the business model of online education. In recent years, the overall operation of X Company's education and training business has been stable.

First of all, Company X has the advantage of being the first mover in the market. X Company is the first educational institution in China to launch an online tutoring service website. It is a group that focuses on using high-quality educational resources and advanced information technology to serve the field of primary and secondary education in China, focusing on providing personalized tutoring for primary and secondary school students. Its original one-to-one tutoring teaching mode, personalized group tutoring, art examination and cultural class tutoring and other educational models have been well received, which has laid a good foundation for its rapid occupation of the Chinese education and training market [3]. Secondly, Company X has the advantage of scale. Company X has set up more than 600 learning centers in more than 100 cities across the country, covering the whole of China. Compared with general education and training institutions, it has a considerable scale advantage. Its scale advantage has obvious manifestations in teachers, teaching environment and service quality Thirdly, Company X has a financing advantage. In the 2021 Fortune China Top 500 list released by Fortune Chinese website in 2021, Company X ranked 187th. Compared with other education and training institutions, X Company has abundant financial support, strong financing ability and superior management level. Fourthly, Chinese education market is in huge demand. According to statistics from the National Bureau of Statistics, in 2020, there will be 42.34 million students in high school education nationwide, 50.68 million students in junior high school education, and 113.39 million students in ordinary primary schools. The education market has a large population base, and the market Great potential. And the finally, with the continuous development of China's economy, the per capita disposable income of residents is constantly increasing, and the consumption of residents is diversified, especially the expenditure on education continues to increase, and the education industry market is improving.

### 3. Results and Discussion

#### 3.1 Stock Performance

$$\text{Earnings per share} = \frac{\text{current net profit attributable to ordinary shareholders}}{\text{weighted average number of ordinary shares outstanding}} \quad (1)$$

$$\text{Net assets per share} = \frac{\text{shareholders' equity}}{\text{weighted average number of ordinary shares outstanding}} \quad (2)$$

$$\text{Undistributed earnings per share} = \frac{\text{total retained earnings}}{\text{weighted average number of ordinary shares outstanding}} \quad (3)$$

The above three formulas represent the stock performance of a company. It is generally believed that the higher the number of earnings per share, net assets per share and retained earnings per share, the better the performance of the company's stock. For a company's stakeholders, the company's stock performance is not only the performance of the company's production and operation conditions, but also an important weather vane for its choice and thinking [4].

**Table 1.** Performance of per share

| Metrics of per share             | Q2      | Q3       |
|----------------------------------|---------|----------|
| Earning per share                | 0.89RMB | -0.56RMB |
| Net assets per share             | 9.10RMB | 8.55RMB  |
| Undistributed earnings per share | 0.78RMB | 0.22RMB  |

As can be seen from Table 1, the earnings per share of Company X in the second quarter was 0.89 yuan, while in the third quarter it was -0.56 yuan, a year-on-year decrease of 163.06%. Net assets per share in the second quarter were 9.10 yuan, compared with 8.55 yuan in the third quarter, a year-on-year decrease of 6.08%. The undistributed profit per share in the second quarter was 0.78 yuan, while the third quarter was 0.22 yuan, a year-on-year decrease of 71.54%. It is obvious that Company X's stock performance in the third quarter was not as good as in the second quarter, which shows that the "double reduction" policy has brought an impact on the stock performance of Company X.

### 3.2 Profitability Performance

$$\text{Return on Equity} = \text{Net Profit} / \text{Average Net Assets} * 100\% \quad (4)$$

$$\text{Return on total assets} = \text{profit before interest and tax} / \text{total average assets of the enterprise} * 100\% \quad (5)$$

$$\text{Gross profit margin} = \text{sales gross profit} / \text{operating income} * 100\% \quad (6)$$

$$\text{Net interest rate} = \text{net profit} / \text{main business income} * 100\% \quad (7)$$

The above four formulas represent the profitability performance of a company. The return on total assets is used to evaluate the overall profitability of the enterprise. It is generally believed that the larger the value of the total return on assets, the better. The higher the return on total assets index, the higher the level of input and output of the enterprise, the more effective the asset operation of the enterprise [5]. Profitability refers to the ability of an enterprise to use resources to obtain profits. All in all, an enterprise is ultimately for profit, and profitability can be said to be the driving force and source of an enterprise's continuous production and reproduction.

**Table 2.** Profitability performance

| Profitability Metrics | Q2     | Q3      |
|-----------------------|--------|---------|
| Roe                   | 10.33% | -6.35%  |
| Rota                  | 2.15%  | -1.5%   |
| Gross profit margin   | 38.75% | 19.73%  |
| Net interest rate     | 11.74% | -11.72% |

It can be seen from Table 2 that the ROE of X Company in the second quarter was 10.33%, while it was -6.35% in the third quarter, a year-on-year decrease of 161.47%. Return on total assets was 2.15% in the second quarter, compared to -1.5% in the third quarter, a year-on-year decrease of 169.77%. This shows that the level of input and output of company X has dropped a lot, and the company's asset operation is in crisis. Gross profit margin in the second quarter was 38.75%, compared to 19.73% in the third quarter, a year-on-year decrease of 49.08%. The net profit margin in the second quarter

was 11.74%, compared with -11.72% in the third quarter, a year-on-year decrease of 199.83%. The net profit margin turned from positive to negative, indicating that Company X's profitability was in crisis. It can be clearly seen that the return on equity, return on total assets, gross profit margin and net profit margin of company X in the third quarter are not as good as those in the second quarter, and its profitability has dropped significantly, which shows the profitability of the "double reduction" policy for company X brought a huge impact.

### 3.3 Performance of Growth Ability

Usually, several indicators in Table 3 are used to measure the growth ability of an enterprise. The larger the value of each index, the stronger the growth ability of the enterprise and the greater the growth potential [6]. Enterprise growth capability analysis is an analysis of an enterprise's ability to expand its operations, which is used to examine the capability of an enterprise to expand its operations by increasing its annual income or obtaining funds through other financing methods. Enterprise growth capability refers to the future development trend and speed of an enterprise, including the size of the enterprise. The expansion, the increase in profit and owner's equity, reflects the future prospects of the business.

**Table 3.** Growth ability performance

| Growth Capability Indicator      | Q2                | Q3                |
|----------------------------------|-------------------|-------------------|
| Total operating income           | 890.2 million RMB | 570.2 million RMB |
| Net profit                       | 105.4 million RMB | -66.01million RMB |
| Total operating income increased | 27.81%            | -10.77%           |
| Net profit increased             | 75.99%            | -390.92%          |

It can be seen from Table 3 that the total operating income of X company in the second quarter was 890.2 million yuan, while that in the third quarter was 570.2 million yuan, a year-on-year decrease of 10.77%, indicating that the operating income of X company has shrunk significantly. The net profit of Company X in the second quarter was 105.4 million yuan, while it was -66.01 million yuan in the third quarter, a year-on-year decrease of 390.92%. It is not difficult to see that the introduction of the "double reduction" policy has brought a huge impact on the growth ability of Company X, various growth ability indicators have declined, and negative growth has occurred.

In short, from the perspective of company X's stock performance, profitability and growth ability, the introduction of the double-reduction policy made its financial performance hit hard. As one of the leading companies in China's off-campus training market, X Company's financial performance under the double reduction policy is enough to show that China's off-campus training market has experienced great turbulence, and the entire off-campus training market is going through a cold winter.

## 4. Conclusion

Through the previous analysis of the financial statements of Company X in the second and third quarters of 2021, a giant in the Chinese education and training market, it is not difficult to see that the stock performance and profitability performance of Company X in the third quarter Under the impact of the "double reduction" policy, there has been a sharp decline, and even many indicators have negative numbers, which reflects from the side that the education and training industry is going through a "cold winter period". There has always been a view in the market that off-campus training institutions should not replace on-campus education [7]. In this context, what should the education and training industry do? Therefore, this article provides the following ideas for Chinese off-campus training enterprises for reference.

#### **4.1 Change Your Thinking and Seek Public School Cooperation.**

Under the requirements of the double reduction policy, off-campus education and training institutions are not allowed to use winter and summer vacations, weekends and holidays to engage in subject training, which means that the off-campus training industry has lost a lot of workable time. First of all, the off-campus training industry can seek the cooperation of public schools, use its own advantages to develop high-quality course content and enter the after-school delayed service business [8], and create high-quality after-school services together with schools to effectively reduce students' homework pressure and extra-curricular training burden, which not only responds to the call of the state but also promotes business transformation. Secondly, the off-campus training industry is not the opponent of the public school, but should be the assistant of the public school. The off-campus training industry can integrate the original advantageous resources and launch practical products related to student assistance and burden reduction.

#### **4.2 Diversified Transformation and Emphasis on Online Education.**

Under the impact of the "double reduction" policy, the off-campus education and training industry "surviving with a broken arm" is a last resort. During this period, it will inevitably experience a series of setbacks and hardships. The combination of technology and education is the development trend of education globalization. This is an important moment for high-quality off-campus education and training institutions to stand out and the education market to further sublimate. Whether the transformation can be realized is related to the survival of education and training enterprises. At this time, first of all, the education and training industry can use the advantages of the original courses to create AI companion learning products that combine online software and hardware. In addition, it can also make full use of online platforms to create high-quality online diversified courses, develop into other vocational education fields, art fields, etc., and diversify and transform.

#### **4.3 A Strong Man Breaks His Wrist and Develops Quality Education.**

The off-campus training industry should reduce the scale of disciplinary business, vigorously develop other businesses, such as developing quality programs, music, art, sports and technology, and reduce the proportion of basic education courses. It can create a unique quality education base, expand the types of quality education, and enrich the after-school life of primary and secondary school students. For example, Pea Dou Thinking will complete the comprehensive upgrade of the quality curriculum system in the near future, launching courses such as art, programming, eloquence and expression art, and 51Talk has officially launched the "language literacy course" focusing on speaking + reading [9].

#### **4.4 Strong Alliances and Mergers with Similar Companies.**

Under the background of the double reduction policy, many education and training enterprises have been hit hard, and the comprehensive strength of enterprises is not as good as before. At this time, some small and medium-sized enterprises can stop their losses in time and sell themselves to large enterprises, and some large enterprises can cooperate in depth to achieve complementary advantages. In the context of the double reduction policy, strong alliances have been combined to overcome difficulties and have achieved economies of scale.

All in all, the implementation of the "double reduction" policy is not only a major adjustment to China's education pattern, but also a major change in educational concepts [10]. In the future, more and more discipline-based training institutions will join the ranks of transformation, and new entrants will also face competition. In fact, the "double reduction" policy is not to completely disappear off-campus educational institutions, but to standardize and strictly manage the chaos of the barbaric growth of off-campus training institutions, promote the standardized development of the off-campus training industry, promote the decapitalization of education, and ensure the standardized and healthy development of education [11]. In the short term, for training institutions of various disciplines, it will of course bring pains to cut off the original dominant discipline training. But in the long run, China still has a huge educated demographic dividend and a huge extended education market. The

off-campus training industry can still make a lot of difference in the fields of interest education, quality education, adult education and vocational education.

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