

Analysis of Financial Statements of Listed Companies——Taking Aier Eye Hospital as an Example

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Abstract: Based on the annual financial statements of Aier Eye Hospital from 2016 to 2020, this article researches its economic performance in detail from the perspectives of the strategy, competitiveness, risk and performance during the COVID-19 pandemic. An objective evaluation has been made and some relevant suggestions on its future development have been put forward in this article.

1. Company introduction

Aier Eye Hospital Group Co, Ltd was founded in 2003 and successfully listed on gem of Shenzhen Stock Exchange on October 30, 2009. It functions as a leading ophthalmic medical group (eye-care service provider) with domestic and global footprint and high-standard medical care capacity, serving patients across Asia, Europe, and North America. So far up to 720 ophthalmic hospitals and centers have been establish across the world. The core businesses of the company focus on medical services and optometry services respectively. AIER has successfully explored the business model in line with China's national and market condition through continuous practice the "hierarchical chain" to fully utilize advantages in talent, technology and management so as to achieve better clinical outcome, to improve service standard and to optimize communication between patients and medical personnel.

2. Strategy analysis

2.1 The leading status

The scale of enterprise resources and profitability should be taken into account when deciding the industry ranking. As shown in Table 1, the total market value, net assets, net profits and ROE of Aier all rank high in the medical industry domestically, which obviously reflects the all-round and qualified competence of Aier.

Table 1. The indexes of Aier ranking in the domestic medical service industry (until December 2021).

	Total market value (Unit: billion yuan)	Net assets (Unit: billion yuan)	Net profits (Unit: billion yuan)	ROE
Aier	235.1	11.92	2.003	18.9%
Medical industry (average)	38.11	4.279	0.372	-21.7%
Ranking	2/35	3/35	2/35	5/35

2.2 The expansionary strategy

The ratio of cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets to net cash flow from operating activities could play an important role in measuring its growth capacity. According to the cash flow statement of Aier from 2016 to 2020, the statistics are shown below.

Table 2. The expansionary cash indexes of Aier (unit: 100 billion yuan).

	2016	2017	2018	2019	2020
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets	3.15	6.06	8.11	7.46	8.94
Net cash flow from operating activities	6.75	13.30	14.00	20.78	33.44
Ratio	0.47	0.46	0.58	0.36	0.27

From Table.2, the ratios of the two indexes are all effectively controlled within the range of [0.2, 0.6], which reveals a reasonably good trend of self-management expansion.

Besides, the expansion can also be realized through outbound investment. Three main indexes are picked out from the balance sheet and income statement of Aier.

Table 3. The expansionary indexes of Aier (unit: 100 billion yuan).

	2016	2017	2018	2019	2020
Total assets	40.66	93.13	96.26	118.95	155.41
Gross revenue	40.01	59.63	80.08	99.9	119.12
Total equity	29.37	54.72	59.71	70.23	106.52

The greatest rise occurred from 2016 to 2017. According to the 2017 annual financial statements of Aier, its subsidiary, Aier (USA) International Holdings Co., LTD, has successfully acquired 75% stake of AW Healthcare Management LLC, and Aier ophthalmic international (Europe) co., LTD has acquired 86.83% stake of the largest ophthalmic chain in Europe, Clínica Baviera S.A. Through these acquisitions, Aier becomes the world's largest chain of eye medical institutions, strongly enhancing its comprehensive strength and promoting the strategic layout of global development.

To sum up, Aier always maintains an optimum expansion strategy.

3. Competitiveness analysis

3.1 Industry competitiveness

Current assets, the core assets of which include notes receivable, accounts receivable, advances, notes payable, accounts payable and prepayments, are of great significance to the measurement of competitiveness in one industry. The difference between notes payable, accounts payable, advances and notes receivable, accounts receivable, and prepayments is applied to evaluate the industry competitiveness of Aier. The results are shown below.

Table 4. The industry competitiveness indexes of Aier (unit: 100 billion yuan).

	2016	2017	2018	2019	2020
Notes payable and accounts payable	4.20	7.11	9.43	10.92	14.54
advance receipts	0.42	0.85	0.93	1.51	0.00
Notes receivable and accounts receivable	2.84	5.14	8.83	11.80	14.16
Advance payment	0.91	1.29	1.06	1.02	1.39
Different	0.87	1.53	0.47	-0.39	-1.01

As shown above, the different maintains positive before 2018, but becomes negative since 2019. Generally speaking, the positive value represents the surplus of the company's own funds, which can be adjusted freely to prevent risks. However, if negative, it reveals that the own capital is occupied by upstream and downstream companies, thus resulting in the weak competitiveness in the industry. According to significant equity investment acquired in the 2019 and 2020 annual financial statements of Aier, the change arises from its acquisition, capital increase and new establishment to the investee companies, the funds of which all come from the own capital.

Its expansionary strategy is to blame for the recently negative different. While taking the indexes like profits and total assets into account, Aier stills functions as the leading enterprise in medical

service industry. It is undeniable that Aier is likely to encounter some risk in the operation of own capital and future solvency.

3.2 Profit competitiveness

Gross profit and gross profit margin can be calculated from the income statement. As shown in Figure 1, the gross profit rate takes on a continuous rise annually, which provides a higher competitive edge and enables Aier to maintain the majority of market share.

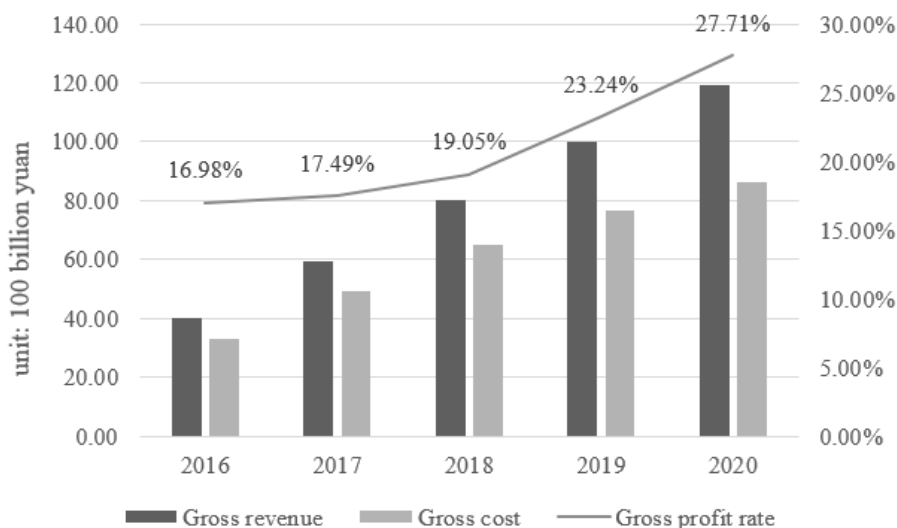


Figure 1. The profit competitiveness indexes of Aier.

4. Risk analysis

4.1 Operational risk

Operating risk can be analyzed in terms of liquidity ratio and inventory turnover ratio. Revealed in Table 5, the inventory turnover ratio shows an approximately rising tendency, which means the high efficiency in converting the inventory into cash or accounts receivable. In addition, inventory turnover rate also indicates the faster company's sales turnover and the less occupation of assets. The rise of inventory turnover ratio could be considered as the progress in stock management. At the same time, the low liquidity ratio, which is below the generally accepted reasonable 2:1 standard, reflects that Aier is weak in its short-term solvency and might face potential debt risk.

Table 5. The operational risk indexes of Aier.

	2016	2017	2018	2019	2020
inventory turnover ratio	11.31	13.33	13.41	13.81	13.43
liquidity ratio	1.70	1.74	1.58	1.40	1.69

4.2 Financial risk

Although the total assets, gross liability and total owners' equity of Aier all revealed a general upward trend, its asset-liability ratio tends to fluctuate with a cycle of three years, firstly increasing and then declining. The change occurred during 2016 and 2017 should be paid special attention to, of which the rise of total assets grew up to 136.76% and the total owners' equity increased rapidly as well. Combined with publicly disclosed information, the rise of these indexes is attributed to the huge change in equity caused by new investment of shareholders, cancellation of restricted stock repurchases, the fifth and sixth term of stock option exercise. The changes of total assets and gross liability tend to be steady and slight since 2017 with high likelihood of asset restructuring. It could be preliminarily concluded that Aier faces low financial risk for the reason that the asset-liability ratio remains at the level between 30% and 40%.

Table 6. The financial risk indexes of Aier (unit: 100 billion yuan).

	2016	2017	2018	2019	2020
Total assets	40.66	93.13	96.27	118.95	155.41
Gross liability	11.29	38.41	36.56	48.72	48.89
Capital reserve	5.30	22.52	13.37	5.61	23.77
Total owner's equity attributable to parent company	27.81	52.16	56.93	65.94	98.54
Total owners' equity	29.37	54.72	59.71	70.23	106.52
Asset-liability ratio	27.77%	41.24%	37.98%	40.96%	31.46%

5. Performance during the COVID-19 pandemic

There is no denying that the COVID-19 pandemic gives most companies a terrible blow and plays a key role in evaluating the capacity of companies to deal with emergency public health events. Data of income for four quarters in 2020 are specifically listed to analyze its capacity to recover from the COVID-19 pandemic.

Table 7. The income comparison of Aier (unit: 100 billion yuan).

	Q1	Q2	Q3	Q4
2019	22.45	47.49	29.83	22.58
2020	16.42	41.64	44.02	33.47
The year-on-year growth rate	-26.86%	-12.32%	47.55%	48.21%

As shown in Table 7, Aier suffered much from the pandemic in the first half of 2020. Compared with previous years, there was a significant decline in its number of outpatient visits, operations, prime operating revenue, which decreased by 16.53%, 21.13% and 12.32% respectively. However, the income in the second half of 2020 successfully recovered and increased by 19.24% compared to that in 2019.

The key point of comparing growth rate from negative to positive is worth further analysis. According to Figure 2, the turning points take place from January to March and from May to July.

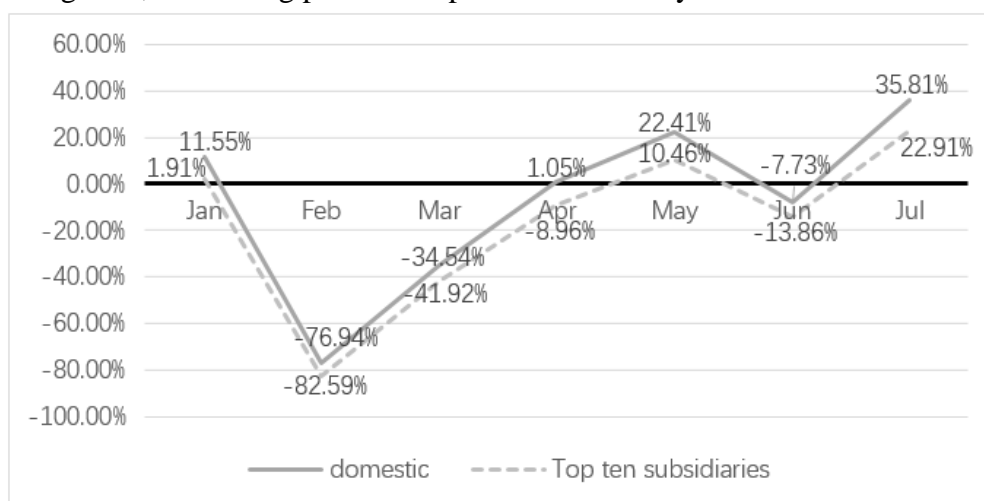


Figure 2. The comparing income growth rate of Aier.

The exacerbation of the COVID-19 pandemic during January and February leads to the suspension of outpatient service and operations in most hospitals, thus causing the rapid decrease in the income. As the pandemic becomes under control in China, about 287 out of 484 medical institutions of Aier have resumed treatment at the end of February. However, the global spreading of the COVID-19 pandemic during the middle of 2020 has hindered the normal operations of the overseas medical institutions and caused the slight decline in the income performance. Fortunately, the mass consumption demands erupt after June because the public depend on electronic devices too much

during the first half of 2020, which affects their eyesight. A rapid rise of income has occurred in July and Aier continues to remain the upward trend since then.

In general, Aier successfully survived and overcome the COVID-19 pandemic thanks to its powerful comprehensive strength and advanced management strategy.

6. Conclusions

Through the detailed analysis in the statistics and statements of the financial statements of Aier from 2016 to 2020, it is safe to conclude that Aier is granted superiority in strategic management, market competitiveness, profitability and the capacity to cope with risk, which is well acknowledged by the majority of investment institutions and individual investors and is worth continuous additional investment. While at the same time, Aier is likely to encounter potential risk in its operation. It is supposed to be much sensitive to policy changes, market competition and changes in equity and apply scientific methods to control costs, thus leading to the overall financial position continuing to move forward. Shareholders should be rewarded much more than the present and the market competitiveness needs to be further sharpened so that Aier would benefit from its prospects in the future.

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