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Research on "Clearance" Dividends of Enterprises: Based on Offcn Education & Technology Co., Ltd.

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Abstract: In recent years, there has been a deformed "clearance" dividends mode in the capital market. For example, the "clearance" dividends of Offcn Education & Technology Co., Ltd. for two consecutive years in 2018 and 2019 have attracted the attention of the majority of shareholders and the China Securities Regulatory Commission (CSRC). The reasons behind it are the worthy in-depth research and analysis by the academic community. This paper will first introduce the brief situation of the "clearance" dividends of Offcn Education & Technology Co., Ltd., then analyze the legitimacy of the capital source of the "clearance" dividends, whether the "clearance" dividends belong to the "Ponzi dividend" and the reason of "clearance" dividend, thirdly study the risks faced by the "clearance" dividends, and finally give the enlightenment and suggestions of this paper.

Keywords: "Clearance" dividends; "Ponzi dividend"; Causes and risks; Enlightenment and suggestions

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1. Introduction

With the continuous development and maturity of China's capital market, investors and the public, pay more attention to the dividend distribution policy of listed companies. The number of listed enterprises in China in 2019 is 3980, among which 2659 are dividends. Enterprises that do not share out dividends still account for a considerable proportion and most of them have a low proportion of dividends. However, in the past two years, in addition to the phenomenon of less or even no dividends, a new phenomenon has emerged: "clearance" dividends. The so-called "clearance" refers to all sold without leaving. The "clearance" dividends are that the company distributes all the "family assets" to investors in the form of dividends, which is not only the vast majority of profits realized in the current year, but also the retained earnings of previous years. For example, Offcn Education & Technology Co., Ltd. which is analyzed and studied in this paper, adopts the "clearance" dividends [1].

2. Introduction to the "clearance" dividends of Offcn Education & Technology Co., Ltd.

At the same time, Offcn Education & Technology Co., Ltd. released its annual report in early March 2020, announcing its dividend plan. The plan shows that Offcn Education & Technology Co., Ltd. plans to distribute cash dividends of RMB 2.40 yuan per 10 shares to all shareholders, with a total cash dividend of more than RMB 1.48 billion yuan. It will not give bonus shares or convert capital reserve into share capital. In 2019, the net profit of Offcn Education & Technology Co., Ltd. attributable to shareholders of listed companies was RMB 1.805 billion yuan, but the amount of cash dividends was as high as RMB 1.48 billion yuan, accounting for 82% of the net profit attributable to shareholders of listed companies and 97% of the profits available for distribution in the current period. In fact, this is not the first time that Offcn Education & Technology Co., Ltd. has carried out such a huge cash dividend. In 2018, the net profit of Offcn Education & Technology Co., Ltd. attributable to the shareholders of the listed company was RMB 1.153 billion yuan, but the amount of cash dividends was as high as RMB 1.419 billion yuan, accounting for 123% of the net profit attributable to the shareholders of the listed company and 99% of the distributable profit of the current period. This clearing dividend is equivalent to that Offcn Education & Technology Co., Ltd. should divide almost all the money earned after backdoor listing without leaving "surplus food".

The reply of Offcn Education & Technology Co., Ltd. did not dispel the doubts of the market. Is the capital source of "clearance" dividends legal? Is it a "Ponzi dividend"? What is the reason for the "clearance" dividends? What are the risks faced by the "clearance" dividends scheme? All these are worthy of in-depth study.

3. Analysis of the "clearance" dividends of Offcn Education & Technology Co., Ltd.

3.1. Is the "clearance" dividend of Offcn Education & Technology Co., Ltd. legal?

Through inquiry of relevant materials, it is learned that, shareholders' exercise of earnings distribution right must meet two conditions: First, from the entity the company needs to have actual profits available for distribution. Second, the company's profit distribution plan has been approved by the board of shareholders or the shareholders' meeting. When the above two conditions are not met, shareholders' earnings distribution right can only be expected rights and interests at the legal level.

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3.2. Is there any suspicion of "Ponzi dividend" in the "clearance" dividends of Offcn Education & Technology Co., Ltd.?

Ponzi dividend refers to the dividend behavior of listed companies with the nature of "Ponzi scheme," that is, some listed companies do not have the dividend ability and have no free cash for distribution, but still use the cash from equity or creditor's rights financing for dividend [2].

In its reply, Offcn Education & Technology Co., Ltd. said that the company has the ability to repay shareholders and the capital market through a large proportion of cash dividends. The company's cash dividend will not have a significant adverse impact on the normal operation of the company. The company carries out its business by collecting fees in advance, and the cash flow of operating activities is good. We analyzed the company's financial statements in 2018. At the end of 2018, the balance of cash and cash equivalents was 649 million yuan, the net cash flow from operating activities was 1.408 billion yuan, and the cash dividend of 10 shares was 2.3 yuan, reaching 1.419 billion yuan. At the end of 2018, cash and cash equivalents and net cash flow from operating activities were less than the amount of dividend distribution, so it can be preliminarily determined that the free funds of Offcn Education & Technology Co., Ltd. cannot support the "clearance" dividend.

In addition, the net operating cash flow per share reflects the enterprise's maximum ability to distribute dividends. If it exceeds this limit, it may borrow dividends. In 2018, the net operating cash flow was RMB 1.408 billion yuan, the number of common shares outstanding was 6,167,399,389, the net operating cash flow per share was RMB 0.2283 yuan, the cash dividend of 10 shares was RMB 2.3 per share, and RMB 0.23 per share was greater than the net operating cash flow per share. Therefore, it can be inferred that it is difficult for Offcn Education & Technology Co., Ltd. to ensure the dividend only by relying on the operating cash flow and monetary funds in 2018.

Offcn Education & Technology Co., Ltd. announced that May 13, 2019 is the ex-dividend day, so it needs to make "preparations" for dividends before May 13, 2019. The quarterly report of the first quarter of 2019 shows that the monetary capital is 534 million yuan, and 1.419 billion yuan needs to be allocated before May 13, 2019. The available monetary capital is obviously not enough for dividend distribution. In less than two months, nearly 900 million monetary capital needs to be raised for bonus distribution, and there also should be enough funds to ensure the normal operation of the enterprise. The balance of cash and cash equivalents left in the account on June 30, 2019 was RMB 1.404 billion yuan, the balance of cash and cash equivalents on the account on March 31, 2019 was RMB 534 million yuan, and the dividend was RMB 1.419 billion yuan. Through calculation, it can be concluded that from March 31, 2019 to June 30, 2019, Offcn Education & Technology Co., Ltd. actually increased monetary capital by RMB 2.289 billion yuan.

How did such a huge amount of money get in a short time? It is found from the statement that the financial expenses in the first quarter increased by 381%, from 7.8314 million yuan to 37.7212 million yuan. The financial report shows that it is due to the increase of short-term loans of financial institutions in the current period. Specifically, on the basis of emergency loans of 780 million yuan in December 2018, it borrowed 360 million yuan of short-term loans from Huaxia Bank in January 2019. Short term borrowings are far from meeting the demand. In addition, we found that its advance receipts increased from 1.92 billion yuan on January 1, 2019 to 4.36 billion yuan on March 31, 2019, with an increase of 2.44 billion yuan and an average monthly increase of 810 million yuan. If calculated before May 13, there will be more advance receipts.

Thus, what is the 2.44 billion yuan used for? Is it used for dividends? According to our calculation, trading financial assets increased from 2.253 billion yuan on January 1, 2019 to 5.143 billion yuan on March 31, 2019, with an increase of 2.89 billion yuan. Because the changes in other items in the balance sheet of Offcn Education & Technology Co., Ltd. are very small, the increase in advances received of 2.44 billion yuan, plus 360 million yuan of short-term loans and 115 million yuan of decrease in monetary funds are equal to 2.915 billion yuan, which is very close to the increase in trading financial assets of 2.893 billion yuan. The author speculates that Offcn Education & Technology Co., Ltd. has purchased trading financial assets with advance receipts or advance receipts and some short-term loans. We also analyzed the 2019 interim report of Offcn Education & Technology Co., Ltd. and found that its trading financial assets decreased from 5.144 billion yuan on March 31, 2019 to 4.603 billion yuan, with a decrease of 541 million yuan and an investment income of 53.9719 million yuan. During this time, there was a "clearance" dividends. It can be inferred that Offcn Education & Technology Co., Ltd. is eager to cash in trading financial assets to prepare for dividends. At the end of the first quarter, 534 million yuan of the monetary capital, plus 541 million yuan from the sale of trading financial assets totally is 1.075 billion yuan. The remaining capital gap was supplemented by a large number of advances received continuously.

According to this, the author can infer that the monetary funds used in the dividend and daily operation of Offcn Education & Technology Co., Ltd. are mainly supported by the advance receipts. Offcn Education

& Technology Co., Ltd. purchases trading financial assets with advances received or even short-term loans, and sells trading financial assets before dividends, so as to piece up the funds for dividends.

The author analyzed the dividend data of Offcn Education & Technology Co., Ltd. in 2019. At the end of 2019, the balance of cash and cash equivalents was 2.724 billion yuan, the net cash flow of operating activities was 2.474 billion yuan, and the cash of dividend was 2.40 yuan of 10 shares, with an amount of 1.48 billion yuan. It can be preliminarily inferred that the free funds of Offcn Education & Technology Co., Ltd. can support the “clearance” dividends. The net operating cash flow per share is 0.4011 yuan, and the dividend of 0.24 yuan per share is greater than the net operating cash flow per share. Therefore, it can be inferred that Offcn Education & Technology Co., Ltd. can ensure this dividend only by relying on the operating cash flow and monetary funds in 2019.

To sum up, the author infers that in order to ensure the “clearance” dividends in 2018, Offcn Education & Technology Co., Ltd. first borrowed 780 million yuan of short-term loans at the end of 2018 and 360 million yuan of short-term loans in January 2019, then used the advance receipts or even short-term loans in 2019 to buy transactional financial assets, and sold the transactional financial assets before bonus distribution to piece up the dividend funds. As the accounts received in advance belong to current liabilities, in essence, Offcn Education & Technology Co., Ltd. uses debt to pay dividends. The cash dividends distributed by Offcn Education & Technology Co., Ltd. have the characteristics of “Ponzi dividend.” In 2019, the operating cash flow and monetary capital of Offcn Education & Technology Co., Ltd. can guarantee dividends. The cash dividends distributed do not have the characteristics of “Ponzi dividend.”

3.3. Reasons for “clearance” dividends - major shareholders enjoy the fruits of victory as early as possible

According to the author’s analysis, in 2018 and 2019, Offcn Education & Technology Co., Ltd. achieved an operating revenue of about 6.24 billion yuan and 9.18 billion yuan, with a year-on-year increase of about 55% and 47.12%, and a net profit of 1.152 billion yuan and 1.804 billion yuan, with a year-on-year increase of about 118% and 56.52% respectively. Of the total profits in the two years, only 57 million yuan remained in the company. As of June 30, 2020, the number of shares held by the top 10 shareholders of Offcn Education & Technology Co., Ltd. accounted for 88.51%, and the top three shareholders were Zhongfang Lu, Yongxin Li and Zhendong Wang, with the shareholding ratios of 41.36%, 18.35% and 15.61% respectively, totaling 75.32%. Among them, Zhongfang Lu and Yongxin Li are mother-child relationships and actual controllers of the company. Yongxin Li is the chairman of Offcn Education & Technology Co., Ltd., and Zhendong Wang is the director and general manager of the company. This means that out of a total dividend of 2.899 billion, these three people have a cumulative dividend of 2.183 billion by shareholding ratio. “Clearance” dividends are equivalent to that Offcn Education & Technology Co., Ltd. should divide almost all the money earned after backdoor listing without leaving “surplus grain.” The author speculates that in order to rush to enjoy the fruits of listing victory, the management of Offcn Education & Technology Co., Ltd. obeys the wishes of major shareholders and chooses huge dividends.

4. The “clearance” dividends of Offcn Education & Technology Co., Ltd. faces the risk of tight cash flow

On the surface, the cash flow of Offcn Education & Technology Co., Ltd. is good. In 2018 and 2019, the company’s net operating cash flow was RMB 1.408 billion yuan and RMB 2.474 billion yuan respectively. However, the company’s short-term borrowings also increased significantly in the same period. At the end of 2018 and 2019, the balance was about 1.61 billion yuan and 2.87 billion yuan respectively, with a significant year-on-year increase of 1.51 billion yuan and 1.26 billion yuan. Combined with the net operating cash inflow, the net cash flow reached more than 2.9 billion yuan and 3.7 billion yuan respectively. Under such circumstances, the consumption of monetary funds for Offcn Education & Technology Co., Ltd. is very fast. At the end of 2018 and 2019, the book monetary capital balance of the company was about 650 million yuan and 2.72 billion yuan respectively. In other words, in these two years, the cash consumed by the company reached 2.25 billion yuan and 1 billion yuan respectively, totaling 3.35 billion yuan. Among them, cash dividends consumed 2.899 billion yuan.

Offcn Education & Technology Co., Ltd. said that cash dividends will not bring serious financial burden. It can make full use of operating cash flow in daily operation. If it is insufficient to cover capital needs, it can be solved through short-term loans. But in fact, in 2019, the company's financial expenses reached 204 million yuan, with a year-on-year increase of 8181.92%. Large cash dividends also put some pressure on the debt-paying ability of public education. By the end of 2019, the company's monetary capital and trading financial assets had a total balance of RMB 2.72 billion yuan and RMB 1.75 billion yuan. Although it can cover short-term loans of RMB 2.87 billion yuan, considering that there are still current liabilities such as advance receipts of RMB 2.634 billion, the situation is not as optimistic as the company said. After calculation, its current flow ratio is 0.75, less than 1, indicating that it is facing great debt pressure.

In sharp contrast to the sacking of major shareholders' funds, Offcn Education & Technology Co., Ltd. has repeatedly suffered delayed complaints about the refund of agreed classes, and there are problems such as difficult and slow refund. In July 2020, Beijing Haidian District Market Supervision Administration issued a consumption warning on the cautious selection of education and training institutions, and named and publicized the list of four education and training institutions with a large number of complaints. Offcn Education & Technology Co., Ltd. was impressively on the paper. According to the financial report data, by the end of 2019, the company had received training fees in advance of RMB 2.634 billion yuan, and the contract liabilities reached RMB 5.472 billion yuan by the end of the first quarter of 2020. There may be a potential risk of large-scale refund in the charging mode of Offcn Education & Technology Co., Ltd., especially in early 2020, when COVID-19 broke out. Under the condition of tight economic conditions, various uncertainties increased, which aggravated the risk of large-scale refund. The Shenzhen Stock Exchange also asked the company to explain this in its inquiry letter. The company said the impact of the epidemic was controllable. However, according to the financial report data, in 2019, its online training business revenue was about 1.04 billion yuan, with an increase of 133.5% over the same period, but it accounted for only about 11% of the revenue, and the operating revenue in the first quarter of 2020 decreased by 6.22% compared with the first quarter of 2019.

The "clearance" dividends have separated the company's most liquid free cash flow, which has a certain impact on the company's liquidity. In addition, the short-term borrowings of Offcn Education & Technology Co., Ltd. have increased greatly. When the short-term borrowings expire and large-scale contract liabilities cannot be converted into income, it is easy to face the risk of tight cash flow.

5. Countermeasures to improve the dividend policy of listed companies in China

5.1. Listed companies should formulate appropriate and stable dividend distribution policies

Listed companies should formulate feasible dividend distribution policies according to their actual situation. Listed companies should not sacrifice their long-term development for immediate interests. They should link cash dividends with their profits, cash flows, and other financial data as well as formulate appropriate dividend policies based on their long-term development goals.

Listed companies should try their best to maintain the stability of dividend distribution policies each year, or have a relatively stable growth rate to avoid ups and downs of dividend policies. According to the "signal transmission theory," investors take the change of dividend policy as a signal of the company's financial situation, especially the change of profitability. Decreases in dividends or lower-than-expected growth will make investors think the company is in bad shape and the future profit will decrease, resulting in the decline of stock prices.

5.2. Listed companies should strive to improve the quality of profits

Listed companies should not only pay attention to the size of profitability, but also pay attention to the level of profit quality. At the same time, having greater profitability and higher profit quality is the premise and foundation of dividend distribution. China's company law stipulates that the basic premise of dividend distribution is that the company needs actual distributable profits. The company's distribution of cash dividends is to distribute the "real money" of monetary funds to shareholders. The actual profits available for distribution do not necessarily become monetary funds. Therefore, listed companies should increase revenue and reduce expenditure, strive to improve their profitability, strengthen the management of accounts receivable, improve the quality of profits, and improve the net cash ratio of sales and net profit cash ratio.

5.3. Give play to the external supervision role of institutional investors in dividend distribution

The government and companies can improve the provisions on the introduction of institutional investors from the perspective of laws and regulations, improve their own governance, supervision, incentive and restraint mechanisms, and actively give play to the external supervision role of institutional investors on listed companies, especially the controlling shareholders. The introduction of institutional investors can improve the corporate governance structure, enhance its operating efficiency and competitiveness, form the pressure of agency competition for the original shareholders, optimize the ownership structure and reduce the agency cost.

Disclosure statement

The authors declare no conflict of interest.

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