

Research on Financial Analysis of Luckin Coffee

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Key words: financial statements; operating status; the development strategy

Abstract. Choosing Luckin Coffee as the research object, this paper analyzed its financial statements. More specifically, it stated the solvency, the operating ability, the profitability and the development ability of Luckin Coffee in detail. It is found that the advantages and disadvantages of Luckin Coffee can lead to some typical attributes, including the corporate profitability low in potential and efficiency, high development cost, the high risk of short-term debt. This paper also put forward several strategies to settle these problems, targeting in improving the future financial benefit of the enterprise.

1. Introduction

1.1 Purpose of financial analysis

Financial analysis refers to that the enterprise stakeholders use a series of special analysis technology and method to analyze and evaluate the profitability of the operation ability of solvency and development condition based on accounting reports and other related information. The profitability of the operation ability are relevant to the investment business activities and distribution activities of financing activities which belong to the enterprise and other economic organizations in the past and present. To make investors, creditors, enterprise operators and others concerned about enterprise organization or individual and understand the past, the enterprise status was evaluated, the future was predicted and the right decision was made by provided accurate information or on the basis of the economic application of the discipline. According to the financial statements of Luckin Coffee in the past two years, this paper analyzed the overall situation of the group from four aspects, including the enterprise's profitability, operating ability, debt-paying ability and development ability and predicted the company's future development prospects.

1.2 Study Overview

This paper took Luckin Coffee's financial statement data in 2017 and 2018 as the research object. By comparing the changes of the balance sheet, income statement and cash flow statement of Luckin Coffee, its solvency, operating capacity, profitability and development ability were analyzed and then the corresponding improvement strategies were proposed, which provided certain reference for the development of Luckin Coffee.

2. Group Strategy and Accounting Analysis

2.1 Strategic Analysis

As a typical representative of China's new retail coffee, Luckin Coffee dedicated to becoming the leading high-quality coffee brand and professional coffee service provider in China[1]. By optimizing product raw materials, exquisite coffee technology, innovative business model and leading mobile Internet technology, Luckin Coffee strives to bring consumers a new experience of higher-quality coffee consumption and promote the popularization and development of coffee culture in China.

2.2 Accounting Analysis

The interpretation of balance sheet is mainly analyzed from the aspects of enterprise asset scale and

structure, asset quality, liability scale and structure, operating income and cash flow.

2.2.1 Asset size and structure analysis

As the proportion of various assets in the total assets of an enterprise, asset structure mainly refers to the proportion of fixed investment, securities investment and liquidity investment. Generally speaking, enterprises pay more attention to the liquidity of capital which is the proportion of current assets to total assets. The current assets of Luckin Coffee Co., Ltd. are 2428676,000 yuan (RMB), which has increased compared with the previous year. This change is mainly due to the increase of cash and cash equivalents and net receivables in combination with the increase of fixed assets, which is helpful to form a realistic production capacity[2]. Moreover, the total assets are 3485076,000 yuan (RMB) and the assets structure is 69.69%. And the current assets of Luckin Coffee account for a large proportion of the total assets, which belongs to the conservative assets structure. Under this kind of assets structure, the liquidity of the company's assets is better, which reduces the risk of the company. However, the proportion of non-current assets with higher income level is smaller, the company's profitability level is lower. At the same time, it also reduces the risk and benefit level of the company.

Apart from that, asset quality is the basis of operational efficiency. Operational efficiency refers to the effective degree of enterprises by using their assets. It reflects the turnover status of enterprises' funds. The turnover speed of assets is the main index to measure the operational efficiency of enterprises. The total asset turnover rate of Luckin Coffee in 2018 is -83.62%, which is lower than the average level of the industry. The faster the speed is, the more opportunities assets can be used, the higher efficiency is, and vice versa, the worse the efficiency is[3]. Through the analysis of Luckin Coffee assets turnover rate, it shows that its asset utilization efficiency is not strong. It may also be that in the past two years, with the expansion of market share, the number of stores in the country has increased so much that business income has been neglected, that is to say, high-speed growth has been achieved with huge losses. This is also one of the corporate strategies, which is helpful to occupy more market share and attract more customers.

2.2.2 Liability scale and structure analysis

Liabilities are the outflow items of future cash flow of enterprises. The total liabilities of Luckin Coffee in 2017 are 388,295,000 yuan (RMB), and the total liabilities of Luckin Coffee in 2018 are 780,890,000 yuan (RMB). The liabilities of Luckin Coffee are gradually decreasing. If an enterprise has too many liabilities, the impact on the enterprise will be as follows: 1) Serious risk of bankruptcy and bankruptcy of enterprises through debt management. Though enterprises can raise a large amount of funds, the effect of the use of funds is crucial. In the production and operation process, if the operator does not pay attention to the market dynamics and the product sales are not smooth, the recovery of funds will be tough, which will inevitably make the enterprise unable to pay back the principal and interest of matured debts and shareholders' remuneration, resulting in revenue and expenditure financial risks. This risk is a holistic one, which will adversely affect the repayment of all debts and the payment of shareholders. Especially when the loss occurs (which means receives fail to offset), the shareholder's rights and interests will also be reduced, thus reducing the total amount of assets as a guarantee of debt repayment. The greater the enterprise lost, the smaller the ability to repay debt with assets will have. This means that enterprises are facing business failure. 2) Excessive debt and unreasonable term structure lead to cash financial risk. Profit statement reflects the main source and composition of enterprise operating performance, judging the quality and risk of net profit, which is beneficial for users to predict the sustainability of net profit and make correct decisions. In 2018, the proportion of shareholders' equity and liabilities was 55% and 45% respectively. The proportion of assets and liabilities was not high and the financial risk was small. Only through the above analysis, it is difficult to judge whether this financial structure is appropriate[3]. Additionally, only according to the profitability of the enterprise, can we use the ownership structure to explain.

2.2.3 Operating income analysis

Luckin Coffee business income states the income in 2017 was -112 414,000 yuan (RMB) and in 2018 was -1598 006,000 yuan (RMB), which shows a lot of decline. Net profit was -112,742,000

yuan (RMB) in 2017 and – 1,619,152,000 yuan (RMB) in 2018. At the same time, net profit also declined.

2.2.4 Cash flow analysis

The cash flow generated by Luckin Coffee business activities in 2017 is -190052,000 yuan, in 2018 is -1310,694,000 yuan (RMB), the cash flow generated by investment activities in 2017 is -145,844,000 yuan (RMB), in 2018 is -128,3218,000 yuan (RMB), the cash flow generated by Luckin Coffee financing activities in 2017 is 774,438,000 yuan (RMB), in 2018 is 398,402,000 yuan (RMB). As can be seen from above, cash flow generated by business activities decreased dramatically, indicating that cash received by the group in selling goods and providing services, tax and fee returns received, and cash received in connection with other business activities decreased; cash flow generated by investment activities of Luckin Coffee Company decreased, mainly due to capital expansion leading to cash flow. The decrease in volume is the main reason for cash outflows from investment activities, and the increase in cash outflows from financing activities indicates that the pace of enterprises absorbing capital or borrowing debt is accelerating. Linked to the net cash flow of investment, the net cash flow generated by investment activities is - 1283218,000 yuan (RMB), and the net cash flow of investment is also quite obvious. This means that the enterprise has accelerated the pace of investment and business expansion, which may mean that the enterprise has a new profit growth point, net cash flow related to business activities and business activities[4]. The cash flow outflow was - 1310,694,000 yuan (RMB). If the cash flow of operating activities is obvious, it means that some of the capital absorbed or borrowed lead to supplements the insufficiency of operating funds.

3. Analysis summary

3.1 Analysis of Debt-paying Ability and Operating Ability of Enterprises

Solvency refers to the ability of an enterprise to repay various liabilities. According to the analysis of enterprise's solvency, creditors can make corresponding lending decisions to ensure the safety of funds; for investors, they can observe financial risks, predict the difficulty of raising funds and calculate the cost of raising funds; for operators, they can analyze the financial situation, evaluate the degree of risk, predict the prospect of raising funds and make relevant decisions[5]. Financial activities with operating capital and liquidity ratio are important indicators to analyze the short-term solvency of enterprises. The operating capital of Luckin Coffee in 2017 was -129 187 thousand yuan (RMB), the operating capital in 2018 was 164 7786 thousand yuan (RMB), and the liquidity ratio in 2017 is 66.73%, the average of the same industry is 2, 311.01% in 2018, and the average of the same industry is 2. Although it was lower than the average level of the same industry in 2017, it showed a growth trend and exceeded the average level of the industry in 2018. It is also found that the liquidity of the company's assets and the short-term solvency are gradually enhanced. The asset-liability ratio of Luckin Coffee was 33% in 2017 and 115% in 2018, which shows that the financial risk is relatively high. When the cash flow is insufficient, the capital chain will break. If the debt cannot be repaid in time, it will lead to the bankruptcy of the enterprise. Therefore, the company should pay attention to it[6]. The analysis of operation capability can evaluate the liquidity of enterprise assets, the benefit of utilization and the potential of enterprise assets utilization. The total assets turnover rate of Luckin Coffee was - 33.36% and - 45.85% in 2017 and 2018 respectively. The continuous decline indicates that the total assets turnover of the company has slowed down and the sales ability has weakened. This may be related to the expansion of the company's stores in recent two years and the excessive development of new products. Nevertheless, over-concentration of stores leads to higher sales costs and various products. Shop sales ability is not strong, and excessive development of new products leads to higher operating costs, the company should improve marketing strategies and open up sales channels.

3.2 Analysis of Enterprises' Profitability and Development Ability

The analysis of enterprise's profitability can reflect and measure the enterprise's operating

performance and reveal the problems existing in the enterprise's operation and management. The return on net assets is the core index to reflect profitability. The return on net assets of Luckin Coffee was 84% in 2017, and the return on net assets was 2.19 in 2018. It is understood that its rapid expansion after the rapid listing is one of the culprits. With the expansion of the market, market costs and higher operating costs as well as product costs remain high. Although good results have been achieved in total income, net profit is still not impressive and it has become the focus of attention of investors and creditors. Besides, development capability of enterprise usually refers to the development trend and potential of enterprise's future production and operation activities. Enterprises are supposed to pursue healthy and sustainable growth so that the rise of shareholder's wealth and increase of the value of enterprises can be achieved. The analysis of enterprise development capability can predict the future growth of enterprises, and then evaluate it. Assessment of the value of the enterprise, the total asset growth rate of Luckin Coffee in 2018 is 934.28%. The asset growth rate is positive, indicating that the company's asset scale has increased in the current period and the asset growth rate has increased considerably[7].

4. Suggestions

It is suggested that some funds should be invested in financial projects to obtain stable interest. Apart from that, the current good sales situation is maintained so that investors and creditors have sufficient confidence in future development.

In addition, data show that with the expansion of stores, the number of employees is increasing, and management costs are also rising. It is suggested that the recruitment mechanism, pre-job training, performance appraisal and reward and punishment measures of deerskin coffee should be further promoted in the future development. They should start from the first step of recruitment and the skilled management personnel needs selecting to avoid unnecessary management costs.

More importantly, with the expansion of stores, the distribution of some stores is more intensive, which has no good effect on expanding the market and achieving greater net profit. Therefore, we should rationally divide the market and make sure not to expand the market blindly. Although the outstanding performance of Luckin Coffee in developing new products and expanding to lightweight foods will help to expand sales, new products must be developed appropriately in order to make some necessary expenditure on R&D costs.

5. Conclusion

Luckin coffee is a new kind of Internet company, which was founded in 2017. Its slogan is professional coffee fresh type with self-developed APP and entity stores as the carrier. For customers and enterprise users, the professional fresh coffee and better services experience were provided. Through the report analysis, the net profit in 2018 was -1.619152 billion yuan, Luckin Coffee business revenues was - 1.598006 billion yuan. Net profit in 2018 continued losses, which can be said to be in huge losses for rapid growth. As running ideas gradually becomes mature, the operation of the store is stable, and the net interest rate of Luckin Coffee has been improved. However, the price war and large-scale marketing in the initial stage of opening still caused the company's net interest rate loss of 228.5% in the first three quarters.

In order to improve the operating conditions, it is recommended that the current good sales situation be maintained and the investment information of creditors be maintained. Secondly, the management of recruitment and training should be strengthened to reduce the management cost. Last but not least, it is necessary to control the scale of market development and strengthen r&d investment reasonably. The above strategies can be used for reference to improve Luckin Coffee's financial situation.

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