



**ATA Creativity Global 2019 Third Quarter Financial Results Conference Call
TRANSCRIPT**

November 14, 2019 at 8 p.m. ET

SPEAKERS

Carolyne Sohn – Vice President, The Equity Group

Kevin Ma – Chairman and Chief Executive Officer, ATA

Jun Zhang – President, ATA

Amy Tung – Chief Financial Officer, ATA

Operator:

Good day and welcome, everyone, to the ATA Creativity Global 2019 Third Quarter Financial Results Conference Call hosted by Carolyne Sohn. My name is Krisz, and I'm your event manager today. [Operator Instructions]. And now I would like to pass the call over to Carolyne. Please go ahead.

Ms. Carolyne Sohn:

Thank you, Krisz, and hello, everyone. Thank you for joining us.

The press release announcing ATA Creativity Global's, or ACG's, results for the third quarter ended September 30, 2019, is available at the IR Section of the Company's website at www.atai.net.cn. As part of this conference call, the Company has an accompanying slide presentation available on the Company's website. A replay of this broadcast will also be made available at ACG's website for the next 90 days.

Before we get started, I would like to remind everyone that this conference call and any accompanying information discussed herein contains certain forward-looking statements within the meaning of the safe harbor provision of the Private Securities Litigation Reform Act of 1995. Although the Company believes that the expectations reflected in its forward-looking statements are reasonable as of today,

those statements are subject to risks and uncertainties that could cause the actual results to differ dramatically from those projected. There can be no assurance that those expectations will prove to be correct. Information about the risks associated with investing in ACG is included in its filings with the Securities and Exchange Commission, which we encourage you to review before making an investment decision.

The Company does not assume any obligation to update any forward-looking statements as a result of new information, future events, changes in market conditions, or otherwise, except as required by law. Regarding the disclaimer language, I would also like to refer you to slide 2 of the conference call presentation for further information.

All U.S. dollar amounts in this conference call, relating to financial results for the third quarter and nine months ended September 30, 2019, are converted from RMB using an exchange rate of 7.1477 RMB: 1.00 USD, the noon buying rate as of September 30, 2019. All historical conversions are accurate as of the time reported, unless otherwise noted. The Company reports its financial results under U.S. GAAP in RMB, and all percentages calculated in the presentation are based on RMB unless otherwise noted.

For those of you following along with the accompanying PowerPoint presentation, there is an overview of the Company on slide 3. In addition, we are more than happy to take investor questions through our webcast portal or via email to the Company.

On today's call, the Company's CFO Ms. Amy Tung will provide a brief overview of operating and financial highlights for the third quarter of 2019 and then ACG's Chairman and CEO Mr. Kevin Ma and newly appointed President Mr. Jun Zhang will conclude the remarks with a discussion of Huanqiyimeng's latest developments, the Company's outlook as well as its long-term growth strategy before opening the floor for questions.

With that, I'll turn the call over to ACG's CFO, Ms. Amy Tung. Please go ahead, Amy.

Ms. Amy Tung:

Thank you, Carolyne, and welcome everyone. Good evening to those in America. We appreciate everyone's time. To those of you following along with the presentation, I will begin on slide 5, which lists operating highlights for the third quarter of 2019.

On our previous call, we had noted that we had closed the acquisition of 87.46% equity interest in Beijing Huanqiuyimeng Education Consultation Corp. (“Huanqiuyimeng”), a leading provider of educational services for students in China interested in applying for overseas art study. On October 17, 2019, our Company had the pleasure of visiting the Nasdaq Marketsite and ringing the opening bell. That day, the Company announced the closing of the acquisition of the remaining 12.54% equity interest in Huanqiuyimeng.

As a result, Huanqiuyimeng is now a wholly owned subsidiary of ACG. Details on this acquisition can be found in the Forms 6-K filed by ACG on August 6, 2019, and October 17, 2019.

In September at our Annual General Meeting, shareholders approved the Company’s name change to ATA Creativity Global. The Company’s stock ticker symbol also changed to “AACG” with its American Depositary Shares commencing trading under the new symbol as of market open on October 17, 2019. We made these changes to signify the ushering in of a new era for the Company, beginning with our first major acquisition of Huanqiuyimeng.

With the completion of this acquisition, we will begin sharing certain operating metrics with the investment community on a quarterly basis. For the third quarter, it is important to note that these results only include those from Huanqiuyimeng from August 6th thru September 30th, 2019, as August 6th is the date that ACG assumed control of the company.

We have been working closely with Huanqiuyimeng to integrate all of its existing personnel and processes into ACG’s operations, and have essentially completed this process.

As you can see on slide 6, we are looking to expand partnerships with institutions while adding programmatic offerings and services by leveraging the economic strength of our business with investments in education resources. By doing so, we intend to accelerate Huanqiuyimeng’s enrollment growth trajectory in 2020.

Given this is the first quarterly call we have had since the closing, we wanted to outline the metrics we intend to provide investors going forward. We evaluated what we, as managers, budget for on a regular basis and outline what are particularly insightful statistics. First is credit hours, which we define as the standard unit measuring educational credit for Huanqiuyimeng’s Portfolio Training Program. Each credit hour translates into roughly one hour of time committed.

The second figure is student enrollment, which takes into account the particular individual that signs up for our programs. For example, if a student enrolls in both portfolio training and educational travel

services, the student is counted twice in enrollment, as one student in portfolio training and one student in other programs.

Huanqiuyimeng achieved 16.1% year-over-year growth in credit hours delivered during the partial third quarter, delivering a total of 34,988 credit hours. Student enrollment for the period was 838, out of which 550 were enrolled in the Portfolio Training program, Huanqiuyimeng's main line of business that primarily consists of one-on-one training for students focused in arts and creative studies.

You will see a breakout of the credit hours delivered during the period compared to the prior-year comparable period on slide 7. The Portfolio Training Program consists of time-based programs and project-based programs. Students who elect the time-based program enroll in a certain number of consulting/training hours over the contract term, whereas students who elect the project-based program are not limited by the number of consulting/training hours. Instead, they will be guided through a certain number of projects needed to complete a portfolio, which will be predetermined and agreed upon the signing of a contract. Under project-based programs, the number of credit hours required to complete a project may vary depending on the background and requirements of the students.

As we execute on Huanqiuyimeng's growth initiatives, we expect to accelerate enrollment growth in the portfolio training and other business segments going forward.

Moving to slide 8 and key financial highlights. As with the enrollment and credit hour information I just shared, the financials shared here include contributions from Huanqiuyimeng for only a portion of the third quarter: from August 6th thru September 30th, 2019.

Total net revenues for the period increased to RMB42.4 million, compared to RMB1.0 million in the third quarter of 2018 as a result of revenue contributions from the Huanqiuyimeng business acquisition, which consisted primarily of revenues from its Portfolio Training segment.

Gross margin was 39.1% during the 2019 third quarter, compared to negative gross margin of 46.0% in the prior-year period when the Company did not have substantive operations.

Net loss from continuing operations attributable to ACG was RMB24.4 million for the period, compared to RMB8.9 million in the prior-year period, primarily due to increased operating expenses. This includes higher SG&A expenses of RMB26.8 million from the newly acquired Huanqiuyimeng operations and increased operating expenses consisting of RMB1.5 million in professional and consulting fees related to the Huanqiuyimeng acquisition and higher share-based compensation expense of RMB1.8 million.

Lastly, we continue to be in a solid financial position with US\$14.7 million in cash and cash equivalents.

We provide a more detailed summary of our financial results for the third quarter and year to date, compared with the respective prior-year periods on slides 9 and 10. However, as I mentioned before, the prior-year periods reflect financials when the company did not have substantive operations.

We provide additional detail on our capital position and balance sheet on slide 11. The information shown here does take into account the closing of the Huanquiuyimeng acquisition.

Working capital deficit was US\$19.7 million, and total shareholders' equity was US\$43.4 million at September 30, 2019, compared to working capital of US\$28.2 million and shareholders' equity of US\$40.2 million, respectively, as of December 31, 2018.

We believe we are well positioned to execute on several growth initiatives using internal capital, and I'd now like to turn it over to Kevin who will expand upon our outlook and growth strategy. Kevin?

Mr. Kevin Ma:

Thank you, Amy. We are very pleased to have completed the acquisition of Huanquiuyimeng and are working toward a seamless integration of its personnel and operations into ATA Creativity Global. As Amy noted earlier, our Company is embarking on a new beginning. Having changed our name and ticker symbol to reflect the direction in which ACG is now headed, we are fully focused on the growing international education market where China is the largest source of students studying internationally.

I'd now like to hand the floor over to Jun Zhang, ACG's president, to provide an update on our strategic growth initiatives for Huanquiuyimeng. Jun will make his remarks in Mandarin, which will be followed by an English translation.

Mr. Jun Zhang:

Thank you, Kevin。

对于 13 页幻灯片展示的全球发展方针，各位可能还有印象在上一次业绩电话会中介绍过，我们正在努力推进中国各校区的招生，并持续增强教学水平、探索创新的教学方法，以更好地通过面授和远程授课服务于我们的学生。此外，我们在寻求更充分地利用现在中国校区的同时，也将有选择地在中国和海外开设新的校区。

正如 Amy 介绍，环球艺盟目前的主要业务是作品集培训服务，我们将通过地域扩展及提高现有校区使用率持续发展此业务；同时我们也将丰富其他产品及业务线，例如和院校合作的艺术课程培训、艺术主题的游学和留学咨询服务等。

我们对未来的机遇感到兴奋，并相信 ACG 完全有能力成为中国最大的优质艺术创意教育及留学服务提供商之一，我们期待在 2019 年结束以后再向投资界通报最新的业务进展，谢谢。

Ms. Carlyne Sohn [translation]:

Thank you, Kevin. Slide 13 may look familiar to some of you as we first introduced these initiatives on our last earnings call.

We are working to accelerate enrollment at our existing centers in China, implementing technologies and exploring ways in which we can better support our students both in-person and remotely. We are also looking to maximize utilization of our existing centers in China while looking at opportunities to selectively open new centers in China and overseas in the future.

As Amy mentioned, Huanquiuyimeng's main line of business at the moment is portfolio training. While we aim to expand this program through geographic growth and maximizing capacity at existing centers, we look to enhance our products and business lines by establishing art classes at partnership schools and offering art-themed educational travel and overseas study counseling services.

We are excited about the opportunities ahead and believe ACG is well positioned to become the largest provider of quality art and creativity education and study abroad experiences in China. We look forward to updating the investment community on our progress as we approach the end of 2019.

Kevin?

Mr. Kevin Ma:

Thanks, Jun and Carlyne.

In closing, the acquisition of Huanquiuyimeng marks the first major step forward in our long-term growth strategy of becoming a leading international education service provider with a special focus on the rapidly expanding art and creativity education market.

With nearly 3,000 offers from overseas institutions extended to Huanqiuyimeng students, we believe they have earned their reputation for excellence in art and creativity education.

Slide 14 outlines our over-arching growth strategy. We look forward to lending our expertise to begin serving more students all over China who are passionate about pursuing a future in art and other creative fields, as well as those students who would simply like to learn about and experience other parts of the world.

And as we continue working closely with Huanqiuyimeng, we are also exploring other M&A opportunities within the education space that may be a good fit with our business portfolio.

With that, operator, let's open it up for questions.

Question-and-Answer Session

There were no questions on the call.

Mr. Kevin Ma:

Thanks again to all of you for joining us. If anyone has questions for us, please feel free to reach out directly to us or our investor relations firm The Equity Group. We look forward to speaking with you all during our next quarterly call and as always, welcome any visitors to our office in Beijing. Thank you.