



ATA Creativity Global
Second Quarter 2024 Financial Results Conference Call
TRANSCRIPT
August 7, 2024 at 9:00 p.m. ET

SPEAKERS

Alice Zhang – Investor Relations, The Equity Group

Ruobai Sima – Chief Financial Officer, ACG

Jun Zhang – President, ACG

Kevin Ma – Chairman & Chief Executive Officer, ACG

Operator:

Greetings. Welcome to ATA Creativity Global's Second Quarter 2024 Financial Results Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note this conference is being recorded. I will now turn the conference over to Alice Zhang of the Equity Group. Thank you, you may begin.

Ms. Alice Zhang:

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

The press release announcing ATA Creativity Global's, or ACG's, results for the second quarter and six months ended June 30, 2024, 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 its 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. These forward-looking statements can be identified by terms such as "anticipate", "believe", "could," "estimate," "expect", "forecast", "future", "intend," "look forward to," "outlook," "guidance," "plan", "should," "will," and similar terms and include, among other things, statements regarding ACG's future growth and results of operations; ACG's plans for mergers and acquisitions generally; ACG's growth strategy, anticipated growth prospects and subsequent business activities; ACG's 2024 guidance; market demand for, and market acceptance and competitiveness of, ACG's portfolio training programs and other education services.

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 second quarter and six months ended June 30, 2024, are converted from RMB using an exchange rate of 7.2672 RMB: 1.00 USD, the noon buying rate as of June 30, 2024. 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 during today's Q&A session or via email to the Company. If you wish to ask questions, you can send your questions to the email address azhang@equityny.com, and please specify whether you would like to have your name read during the Q&A session.

On today's call, the Company's CFO Mr. Ruobai Sima will provide a brief overview of operating and financial highlights for the second quarter of 2024. Chairman and CEO Mr. Kevin Ma and President Mr. Jun Zhang will follow with an update on the Company's outlook and its long-term growth strategy before opening the floor for questions.

With that, I'll turn the call over to ACG's CFO, Mr. Ruobai Sima. Please go ahead, Mr. Sima.

Mr. Ruobai Sima:

Thank you, Alice, and welcome everyone. Good evening to those in America. We appreciate everyone's time.

We were pleased to see student demand for portfolio training services continue to expand in Second Quarter 2024. This is our core business and primary driver of growth, contributing RMB40.2 million in revenues during the period, up 41.9% year over year. As a result, we achieved significant top-line growth, a 42.8% increase in total net revenues to RMB41.8 (51.8) million.

During Second Quarter 2024, student enrollment was 1,084, an increase of 16.8% from the prior-year period. Of those students, 612 were enrolled in ACG's portfolio training programs,

compared to 540 in the second quarter of last year. 42,841 portfolio training credit hours were delivered during the period, up 49.3% year over year. We are excited to see continued expansion across all of our businesses, including research-based learning and overseas study counselling services. We strongly believe in the value our comprehensive offerings provide to students and expect that the enrollment growth we have seen thus far in the year will support strong performance in the second half of 2024. Our investments in expanding the teaching and sales staff have contributed to those results and will serve as the foundation for future growth.

With that, let's move to financials for Second Quarter 2024.

Total net revenues for Second Quarter 2024 was RMB41.8 (51.8) million, an increase of 42.8% from RMB36.2 million in the Second Quarter of 2023.

Gross margin improved to 49.6% during Second Quarter 2024, from 39.5% in the prior-year period, primarily as a result of significantly increased revenues.

Net loss attributable to ACG was RMB16.8 million during the Second Quarter 2024, compared to RMB17.2 million in the prior-year period. Bottom-line results were impacted by a 30.2% increase in operating expenses related to increased G&A expenses for higher professional fees and support for business expansion and increased sales expenses due to performance bonuses in line with increased sales and the hiring of additional sales personnel.

During the first half of 2024, total net revenues increased 27.2% to RMB99.9 million, compared to RMB78.6 million in the prior-year period.

Gross margin improved to 47.7% from 42.1% in the prior-year period.

Net loss attributable to ACG was RMB34.7 million, compared to RMB35.0 million.

Moving to the balance sheet, we reported US\$5.5 million in cash and cash equivalents at the end of Second Quarter 2024.

Working capital deficit was US\$40.7 million, and total shareholders' equity was US\$11.0 million at June 30, 2024, compared to working capital deficit of US\$34.4 million and shareholders' equity of US\$15.9 million, respectively, at December 31, 2023.

With that, I'd like to turn it over to Kevin who will expand upon our outlook and growth strategy. Kevin?

Mr. Kevin Ma:

Thank you, Sima.

We were pleased to see ACG's portfolio of offerings continue to resonate with students, translating into meaningful financial results. As our portfolio training services business grows, we believe the demand for overseas study counselling and research-based learning services will

also expand. During the First Half of 2024, we made mindful investments to add resources to help drive student enrollment and support a growing student population, which is imperative to enabling positive student outcomes and our ability to achieve long-term success.

We reported RMB99.9 million in net revenues in First Half 2024. As the second half of the year has historically been stronger than the first, a trend we anticipate will continue in 2024, we are reiterating our revenue expectations for the year ending December 31, 2024. We expect total revenues will be in the range of RMB233 million to RMB255 million, which represents a 5% to 15% increase from Fiscal Year 2023. ACG remains focused on growing our student base and expanding our current business while exploring potential acquisition opportunities, and as any material developments arise, we will be sure to update the markets and re-evaluate guidance as appreciated (appropriate).

ACG is proud of its ability to identify and fulfill students' needs in an evolving social and creative environment. This is the cornerstone of our product design and execution, especially as our students have increasingly come from diverse academic and creative backgrounds.

To that end, we have not only continued to engage teaching staff in the sales and course design process, but we also hosted the ACG Arts Education Exhibition in April across five major cities in China, including Beijing, Shanghai, Shenzhen. At the exhibition, we invited former and current admission committee office (officers) from prestigious overseas universities such as MIT and Stanford University, to join us in sharing their insights on overseas study applications and career planning. The exhibition was met with extraordinary interest across all of our service offerings. Through a series of marketing efforts, we continue to increase our market exposure and engage with students who are interested in potentially exploring creative arts education in the future.

During Second Quarter 2024, we successfully hosted the first session of the United Nations Sustainable Development Goals Arts Boot Camp to 70 students. Participating students ranged from high school to college age, and they came together to create group projects on sustainability topics with a variety of applications, such as climate change, re-generative energy, and environmental protection. Our Master Classes have also gathered small groups of students in their respective areas of interest, allowing them to walk away with individual artworks in visual communication, photograph (photography), as well as interior design, and (which) we hope will strengthen their portfolios for overseas school application.

We are very excited for many of our graduating students who will embark on the next phase of their creative arts education at overseas institutions this fall. For Fall 2024 admission, we have seen significant growth in the number of offers received by ACG students. Those offers have come from schools all over the world, including top institutions such as Harvard, Oxford, and University of Pennsylvania, as well as top arts institutions such as School of Visual Arts, the Pratt Institute and Parsons School of Design. We believe this positive trend in received offers is a positive indicator of increased student demand for overseas student opportunities, which bodes well for our overseas study counselling services business. We believe those trends will continue into the coming application period.

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

Jun, please go ahead.

Mr. Jun Zhang:

Thank you, Kevin.

在为 ACG 业务拓展进行投资的过程中，我们的产品和服务质量一直是首先要考虑的因素。归根结底，我们全面的服务和在这段旅程中给学生提供支持的能力才是真正让一切变得不同的原因。我们很高兴今年夏天举办了各种研学项目，涵盖了广泛的艺术主题和身临其境的文化实践体验。

基于 5 月第一期的活动成功举办，在 7 月，我们举办了第二期联合国可持续发展目标的艺术集训营。该活动再次受到了参与学生的高度评价。

除了著名的艺术院校的讲师在线教授的大师班以外，我们还在敦煌和川西举办了两个非遗赋新创意营，由罗德岛设计学院和耶鲁大学的讲师带领，探索中国传统艺术的美。在敦煌，学生们参观了莫高窟和榆林窟，学习了敦煌彩塑和矿石颜料画。在川西，学生们接触了民族音乐和传统文化，体验了藏族文化。

我们相信，这些类型的体验为学生们提供了一个独特的学习机会和视角，让他们能够探索他们所知道的和熟悉的世界之外的内容。适应和开放思维的能力对于计划出国留学的人来说尤其有价值，他们必须制作出一个扎实的作品集用于申请，展示对不同文化和传统的理解和热爱。今年夏天，我们还通过夏校和访问的形式，将学生们带到海外，去日本、美国和英国。

我们深知教育是学生在学术和专业上取得终身成功的基石，ACG 因此（为）能够与世界知名机构建立和保持高度合作关系而感到自豪，我们期待着扩大我们的合作网络，为学生提供更多的世界级的教育资源。

我们预计很快进入海外留学申请季，并准备在这个充满压力和激动人心的时刻为我们的学生提供值得信赖的指导和支持。我们仍将全心投入，致力于帮助学生取得优秀的成果，并期待着在秋季来临之际，度过一个繁忙而富有成效的夏天。

在 2024 年的剩余时间里，我们注重于发展当前的业务，其中包括作品集培训服务、留学咨询和研学服务。我们仍然对 ACG 在市场上卓越的能力充满信心，同时将继续投资于运营基础设施的建设，以确保我们能够为学生提供他们所期望的卓越教育和支持体系。

好，现在，交还给 Kevin。

Ms. Alice Zhang [Translation]:

Thank you, Kevin.

As we have invested in the expansion of ACG's business, the quality of our products and services have stayed top of mind. At the end of the day, our well-rounded offerings and the ability to support students in this journey are what really make all the difference. We have been pleased to host a variety of research-based learning experiences this summer, covering a wide range of arts topics and immersive hands-on cultural experiences.

In July, we hosted a second session of the United Nations Sustainable Development Goals Arts Boot Camp inspired by the success of our May session, which was once again highly rated by participating students.

In addition to online Master Classes taught by prestigious arts institution lecturers, we also hosted two Intangible Cultural Heritage-themed camps in Dunhuang, Gansu Province and west Sichuan Province, which were led by instructors from Rhode Island School of Design and Yale University, to explore the beauty of China's traditional arts. In Dunhuang, students visited Mogao Caves and Yulin Caves to study Dunhuang-styled colored sculptures and mineral paintings. In west Sichuan, students were exposed to ethnic music and cultural traditions, and experience Tibetan culture.

We believe these types of experiences provide students with a unique learning opportunity and perspective, allowing them to go beyond the world they know and are familiar with. The ability to adapt and be open-minded is particularly valuable for those who plan to study overseas and must create a solid application portfolio that demonstrates an understanding of and love for different cultures and traditions. We are also bringing students overseas this summer, to Japan, the United States and to the United Kingdom through summer schools and campus visits.

Understanding that education is the cornerstone of a student's lifetime success both academically and professionally, ACG has prided itself on our ability to establish and maintain highly collaborative relationships with world renowned institutions, and we look forward to growing our partnership network to access more world-class education resources for our students.

We expect to enter the overseas study application season soon and are prepared to serve as a trusted guide and supporter to our students during this stressful but exciting time. We remain fully committed to our mission of enabling positive student outcomes and look forward to a busy and productive remainder of the summer as we head into the fall.

In the balance of 2024, we are focused on growing our current business, which includes portfolio training services, overseas study counselling and research-based learning services. We remain very confident in ACG's superior competency in the market while continuing to invest in the operational infrastructure to ensure that we are able to provide students with the exceptional education and support system they have come to expect.

With that, I'll turn it back over to Kevin.

Mr. Kevin Ma:

Thanks, Jun.

We were pleased (with) our progress in the First Half of 2024 and are optimistic that the positive momentum we have established thus far will enable us to finish the year on a strong note. As a leading player in China's creative arts education market, we are proud to say that we always strive to find ways to improve ourselves and help our students to achieve their full potential. We believe we are on the track to carry out our growth initiatives and drive success for our students, and for ACG's shareholders.

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

Question-and-Answer Session

Operator:

Thank you. {Operator instructions}

There were no questions during 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 are always available to speak to investors and look forward to speaking with you all during our next earnings call. Thank you.

Operator:

This will conclude today's conference. You may disconnect your lines at this time and thank you for your participation.
