



**ATA Creativity Global Third Quarter 2021 Financial Results Conference Call  
TRANSCRIPT**

**November 10, 2021 at 8 p.m. ET**

**SPEAKERS**

Carolyne Sohn – Vice President, The Equity Group

Kevin Ma – Chairman and Chief Executive Officer, ACG

Jun Zhang – President, ACG

Amy Tung – Chief Financial Officer, ACG

**Operator:**

Greetings. Welcome to the ATA Creativity Global Third Quarter 2021 Financial Results Conference. 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 your host, Carolyne Sohn. Thank you, you may begin.

**Ms. Carolyne Sohn:**

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 third quarter ended September 30, 2021, is available at the IR Section of the Company's website at [www.atai.net.cn](http://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,” “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; market demand for, and market acceptance and competitiveness of ACG’s portfolio training programs and other education services; the impact of the COVID-19 pandemic and the Opinion on ACG and its operations; and ACG’s plan and anticipated benefits of the measures implemented in response to the COVID-19 pandemic.

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 third quarter ended September 30, 2021, are converted from RMB using an exchange rate of 6.4434 RMB: 1.00 USD, the noon buying rate as of September 30, 2021. 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.

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 2021. 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, 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.

We are pleased to have achieved strong top line growth while improving gross margins year over year during the third quarter of 2021. This was primarily contributed by increased services delivered during the period across all our major lines of business, mainly the portfolio training programs and research-based learning services. This growth was also supported by stable overall enrollment in the variety of programs we offer. Specifically we saw increasingly positive reception and interest in our research-based learning offerings.

Our primary offering, the portfolio training program, enrolled 625 students during the period, which remained steady from the same period last year. We delivered 44,640 credit hours for portfolio training programs, which is a slight increase from Q3 2020. We were pleased to see project-based program credit hours increase over 29% year over year during the third quarter, a result of our conscious effort to shift our portfolio training mix toward project-based programs versus time-based programs, which has increased operational efficiencies that have translated into revenues and margin improvements.

We continue to explore ways in which we can better serve our students by investing in the development of new offerings and our IT platform, which we believe will serve as a foundation for future growth. Our revenues generated from the research-based learning services business saw a notable increase from the prior-year period, and we anticipate the demand for these types of experiential learning opportunities will continue to grow. This summer, we offered themed domestic tours, internships, academic projects as well as various online bootcamps, and on-site workshop programs in partnership with our overseas institution partners as well as certain industry partners, and we look forward to making these types of offerings available throughout the year.

With that, let's move to financials for the third quarter and first nine months of the year.

Total net revenues for the third quarter of 2021 increased 31.0% to RMB55.3 million, from RMB42.2 million in the third quarter of 2020. This was primarily driven by increased contributions from portfolio training and research-based learning services for which we delivered more services when compared with the prior-year period when more restrictions on service delivery were in place due to the COVID-19 pandemic.

Gross margin improved to 51.4% during the 2021 third quarter, up from 37.4% in the prior-year period. The improvement was primarily driven by the increased revenues and operating efficiencies gained from the ongoing shift of ACG's portfolio training program mix toward project-based programs and related cost optimization efforts.

Net loss attributable to ACG was RMB26.2 million, which compared to a net loss attributable to ACG of RMB14.9 million in the prior-year period. This was primarily a result of increased operating expenses related to the final RMB10.0 million to fund ACG's research project with the Research Institute of Future Education and Assessment of Tsinghua University this year, which was deferred from the prior sequential quarter, as well as increased selling expenses related to higher sales performance bonuses and increased legal and professional expenses.

Turning to the first nine months of 2021, net revenue was RMB129.6 million, up 28.0% from RMB101.3 million in the same period of 2020.

Gross margin improved to 45.7%, from 33.7% in the prior-year period.

Net loss attributable to ACG improved to RMB31.1 million, compared to net loss of RMB67.4 million.

Moving to the balance sheet, we continue to be in a solid financial position with US\$11.7 million in cash and cash equivalents.

Working capital deficit was US\$31.3 million, and total shareholders' equity was US\$30.1 million at September 30, 2021, compared to working capital deficit of US\$23.6 million and shareholders' equity of US\$30.5 million, respectively, at December 31, 2020.

With that, 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 were pleased to see our enrollments remain stable during a period of uncertainty and change in the China education industry. The global pandemic has had a significant impact on several companies that were unable to continue operating under the challenging circumstances when occasional restrictions and quarantines were implemented in China. This was then exacerbated by the new Opinion released by the

government in late July, which focused on companies providing after-school academic course tutoring services for students receiving compulsory education.

ACG was able to successfully navigate and rise above the hurdles presented by COVID-19, and we don't anticipate adverse material impact on our business as a result of the recently announced Opinion. Despite ongoing concerns with regards to the pandemic, we delivered a strong quarter of performance in the third quarter of 2021, highlighted by over 30% growth on the top line and year-over-year improvement in gross margins.

As Amy noted earlier, we are seeing increased demand for our research-based learning services, which tend to be short-term programs that provide project-based hands-on learning experience, and we are exploring different options for expanding our offerings within this service line.

We believe we are well positioned to grow our existing lines of business with our current portfolio of program offerings but are being mindful of the changing education landscape and how the needs of our students and potential future students are evolving as well. While the public health situation in China has remained relatively stable, we remain vigilant and continue to monitor any health concerns closely as we enter the flu season.

Despite the uncertainties within the education industry, we intend to continue investing in our business and establishing partnerships within the industry, which will serve as a foundation for future growth.

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.

我们很高兴今年夏天提供的一系列可以提供选择的课程收到热烈的反响，尽管今年夏天我们仍然无法提供国际游学项目，但我们看到学生们依然保持强烈的学习和体验新事物的渴望。在过去的这个夏天，我们继续探索开拓国内主题游学项目的地点，例如安徽省的西溪。我们还与国内外艺术产业的新伙伴合作，推出一系列新的产品。例如，我们与不同领域的商业伙伴合作推出 **Open Hack** 的系列项目，能让参与的学生有机会到一些企业真正的工作现场，例如名车设计、

时装设计工坊进行实践学习，同时这些学生将参与项目完结阶段举办的作品展示比赛，而其中部分作品出色的学生会获得申请未来进入这些企业工作或实习的机会。这些项目受到了我们学生的一致好评。

我们从被暂时压制的需求中看到扩大研学服务业务的机会，并且注意到这些项目的签约人数自夏季以后依然保持强劲。

正如 Kevin 所提到的，教育格局正在发生变化，我们不仅在扩充我们的课程项目，同时也在努力地调整项目结构以期更灵活地满足学生的需求。尽管因为疫情的影响，有些公司被迫关门，而其他的一些公司仍然继续挣扎，我们已经过渡并相信我们有能力为这些希望接受创意艺术教育的学生提供优质的服务。通过全国 20 多个校区以及过往学生进入世界上著名艺术学院的优秀记录，我们有信心 ACG 能从竞争对手中脱颖而出。

接下来交给 Kevin。

**Ms. Carlyne Sohn [translation]:**

Thank you, Kevin.

We were pleased with the resounding favorable response to our alternative programs this summer. Despite not being able to offer our usual international study abroad programs this past summer, we saw that students remained eager to learn and experience new things. We continued to explore various sites for themed domestic travel programs during the past summer, such as Xi'xi in the province of Anhui. We also cooperated with new partners within the arts-related industry, both domestic and overseas, in launching new offerings. For example, we partnered with different businesses to launch the Open Hack series programs, which gave students hands-on learning opportunities on site at various enterprises, such as certain famous car design and fashion design workshops. These students participated in a workpiece showcase competition held at the closing of the program, and certain students who demonstrated excellent workmanship were invited to apply for future work or internship positions within these enterprises. These programs were very well received by our students.

We see an opportunity here to expand our research-based learning services business due to current pent-up demand and are seeing that enrollment in these programs has remained strong beyond the summer months.

As Kevin mentioned, the education landscape is changing, and we are working to not only expand our course offerings but the way in which we structure our programs to offer students more flexibility to

meet their needs. While some companies have been forced to close their doors and several others remaining continue to struggle as a result of the pandemic, we have turned a corner and believe we are well positioned to serve these students who wish to pursue an education in the creative arts. With over 20 campus locations nationwide and a proven track record of our students going on to well-known creative institutions around the world, we remain confident in ACG's ability to stand out from our competitors.

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

**Mr. Kevin Ma:**

Thanks, Jun and Carolyne.

In closing, ACG has proven its ability to overcome challenging circumstances and emerge stronger on the other side. We continue to navigate the changing environment particularly from a regulatory perspective but remain confident that we will be able to execute on our growth initiatives despite the uncertainties surrounding the education industry in China today. We continue to strive toward becoming the leading international provider of creative arts education in China by putting our students first. We look forward to bringing our students new experience and learning opportunities as they look to enhance their education.

Everyone, please stay safe and healthy.

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

### **Question-and-Answer Session**

*There were no questions on the call.*

**Kevin:**

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 quarterly call. Thank you.

**Operator:**

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation and have a great evening.