



**ATA Creativity Global 2019 Fourth Quarter and Year-end Financial Results Conference Call
TRANSCRIPT**

March 30, 2020 at 9 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 Fourth Quarter and Year-end Financial Results Conference Call hosted by Carolyne Sohn. [Operator Instructions]. And with that, I would now like to hand the call over to Carolyne. Please go ahead, ma'am.

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 fourth quarter and year ended December 31, 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 fourth quarter and year ended December 31, 2019, are converted from RMB using an exchange rate of 6.9618 RMB: 1.00 USD, the noon buying rate as of December 31, 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 fourth quarter of 2019 and then ACG's Chairman and CEO Mr. Kevin Ma and President Mr. Jun Zhang will conclude the remarks with a discussion of Huanqiuyimeng'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 fourth quarter of 2019.

After completing the acquisition of the remaining 12.54% equity interest in Beijing Huanqiuyimeng Education Consultation Corp. (or for short: "Huanqiuyimeng") in September 2019, we felt it was

appropriate to change our corporate name and ticker symbol as a reflection of the significant changes to our Company. We became ATA Creativity Global, and our stock ticker symbol also changed to “AACG” with the ADSs commencing trading under the new symbol as of market open on October 17, 2019.

In December, we completed a private placement with CL-TCC, a company focused on investments in culture and education, which will result in gross proceeds of approximately US\$10.0 million from the sale of about 5.7 million common shares of the Company. We plan to use these proceeds to fund day-to-day operations and our M&A activities. Details of this transaction can be found in the Form 6-K we filed on December 18, 2019.

It is important to note that our results for the fourth quarter of 2019 incorporate the full quarter’s results from Huanqiuyimeng while third quarter 2019 results incorporated only about two months of results.

In this regard, we are pleased to report 19.3% year-over-year growth in credit hours delivered for Huanqiuyimeng’s portfolio training programs, from approximately 43,750 credit hours in Q4 2018 to approximately 52,200 in Q4 2019.

We are pleased to have completed the organizational restructuring and integration of Huanqiuyimeng following the acquisition. We have several enrollment initiatives in place but wanted to take a moment to address concerns surrounding the Coronavirus outbreak and how it has affected our operations.

Turning to slide 6... First, we have made the health and safety of our students, faculty, staff and employees our top priority. As a precaution, employees have been working remotely since returning from the Lunar New Year holiday. Students with any on-campus coursework have been given the option to fulfill their classes via online format. Quite a few have opted to do this, but some prefer the traditional classroom format and have postponed their coursework. To date, we have seen some impact from the Coronavirus on the portfolio training programs and are closely monitoring the situation as we are sure to offer all available options to our students.

Our sales contract pipeline has slowed somewhat as a result of sales and marketing personnel being unable to come into the office. We are relying primarily on online sales channels and referrals during this time and expect to have traditional channels reopen once the Coronavirus is under control.

And of course, educational travel. Understandably, we have had some delays and cancellations of tours during this winter season; however, winter tends to be slower for travel and does not represent a major portion of our revenues. To conclude on this topic, we understand that the situation surrounding the

Coronavirus is constantly changing. We will do our best to keep investors apprised of any changes for our business as things progress.

On slide 7, we provide some operating metrics for Huanqiuyimeng. Credit hours are the standard unit measuring educational credit for Huanqiuyimeng's Portfolio Training Program. Each credit hour translates into roughly one hour of time committed.

Student enrollment takes into account the particular individual that signs up for our programs. 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 19.3% year-over-year growth in credit hours delivered during the fourth quarter, delivering a total of 52,202 credit hours. Student enrollment for the period was 1,042, out of which 585 were enrolled in the Portfolio Training program, Huanqiuyimeng's main line of business that primarily consists of training for students focused in arts and creative studies.

We provide a breakout of the credit hours delivered during the period compared to the prior-year comparable period. 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, whereas students who elect the project-based program are not limited by the number of consulting/training hours but will be guided through a certain number of projects needed to complete a portfolio. 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.

Revenue is recognized proportionately per credit hour delivered regardless of which type of program a student has chosen to enroll in. However, as the total credit hours of project-based programs are not predetermined, the progress of a project-based program, which is measured by credit hours delivered compared against the total credit hours expected to be delivered, is re-evaluated at each quarterly and annual financial reporting date.

As with the partial 2019 third quarter, there was an increase in the number of credit hours delivered under project-based programs and a slight decrease under the time-based category. Students that possess basic skills and are aiming to only complete a portfolio, so for example, a student with a bachelor's degree in the arts applying for master's, will tend to favor the project-based programs as it appears to be the less expensive option for completing a portfolio with a defined cost. Time-based programs are more flexible for students that perhaps want to fine-tune their skillset, say a high-school student applying for a degree. Instead of starting their portfolio right away, they may want additional guidance and

mentorship, an opportunity to work with teachers for some basic foundational skills, and will choose the time-based program.

Either option has its benefits depending on the particular student's needs, which is why they both exist in the market. We are pleased to be serving all types of students pursuing creative studies.

Moving to slide 8 and key financial highlights for the fourth quarter and year-end. As with the enrollment and credit hour information I just shared, the financials shared here include contributions from Huanqiuyimeng for the full fourth quarter of 2019. But the year-end numbers include only about five months of contributions from Huanqiuyimeng as we gained control of the Company beginning August 6, 2019.

Additionally, we have applied acquisition accounting and made purchase price allocation adjustments (PPA) to various assets acquired and liabilities assumed from the Huanqiuyimeng Acquisition. As a result, certain line items will include adjustments from amortization of the difference between the carrying value in Huanqiuyimeng's book and the fair value assessed from the PPA process applied to the Huanqiuyimeng Acquisition. I will highlight where we saw some impact on our financials due to this PPA adjustment for the 2019 fourth quarter and year.

Total net revenues for the fourth quarter of 2019 increased to RMB54.1 million, compared to RMB0.2 million in the fourth quarter of 2019 as a result of revenue contributions from the recently acquired Huanqiuyimeng, which consisted primarily of revenues from its Portfolio Training programs. Net revenues for this quarter include a PPA adjustment decrease of RMB9.2 million.

Gross margin was 38.6% during the 2019 fourth quarter, compared to negative gross margin of 10.5% in the prior-year period when the Company did not have substantive operations. Excluding the PPA adjustment to net revenues, gross margin for the 2019 fourth quarter would have been 47.5%.

Net loss from continuing operations attributable to ACG was RMB70.8 million for the period, compared to a net loss of RMB23.8 million in the prior-year period, as a result of increased operating expenses incurred related to the organizational restructuring and day-to-day operations of the acquired Huanqiuyimeng business.

Moving to financial highlights for the full year... total net revenues for 2019 increased to RMB97.8 million, compared to RMB1.3 million in the prior year as a result of the Huanqiuyimeng acquisition. Total net revenues for the year include a PPA adjustment decrease of RMB15.3 million.

Gross margin was 36.7% for 2019, compared to negative gross margin of 217.6% in the prior year. Excluding the PPA adjustment to net revenues, gross margin for Fiscal Year 2019 would have been 45.2%.

And net loss from continuing operations attributable to ACG was RMB127.0 million in 2019, compared to net loss of RMB63.7 million in 2018, primarily due to increased operating expenses related to the Huanquiuyimeng operations as mentioned earlier.

Lastly, we continue to be in a solid financial position with US\$22.1 million in cash and cash equivalents.

We provide a more detailed summary of our financial results for the fourth quarter and full year, 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\$11.7 million, and total shareholders' equity was US\$43.9 million at December 31, 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 are pleased to have strengthened the balance sheet even from Q3 and remain well positioned to continue executing on our growth initiatives. 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 organizational restructuring and integration of Huanquiuyimeng into ACG operations. While we continue to focus on growing enrollments at Huanquiuyimeng and looking at additional opportunities in the international education market, our attention has currently been on how we can continue to serve and meet the immediate needs of our students during the Coronavirus outbreak. As Amy noted earlier, we continue to monitor these developments very closely and are keeping the health and safety of our students, staff and personnel (of) our first priority.

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 Huanqiuyimeng. Jun will make his remarks in Mandarin, which will be followed by an English translation.

Mr. Jun Zhang:

谢谢 Kevin。

幻灯片 13 页列出了我们的总体增长计划，我们在上次业绩公告电话会议中对此进行了讨论。

冠状病毒的爆发向我们展示了在这种情况下开发和实施线上授课技术的重要性。由于我们准备了系统方案，尽管在此情况下，环球艺盟仍能够照常为学生提供服务。我们将继续努力改进这些技术和系统方案，以确保最新的工具和技术能为我们的学生所用。

在我们拓展中国各地现有的校区的同时，我们也在寻求与欧洲和美国等地的院校建立合作伙伴关系，为需要更多灵活性、时间和支持（的）学生搭建好进入国外大学或学院（学习）之前的桥梁。我们期待在未来几个月中分享更多我们努力的成果。

尽管在 2020 年的开始伴随着一些不可预见的挑战，我相信我们具备足够的能力，在此情况下将继续尽最大努力为学生提供支持。我们将继续致力于我们的发展计划，并相信我们能够成为中国最大的留学体验及优质艺术创意教育的服务提供商之一。

Ms. Carolyn Sohn [translation]:

Thank you, Kevin. Slide 13 lists our overall growth initiatives, which we discussed in some details on our last earnings call.

The Coronavirus outbreak has demonstrated to us how critical developing and implementing technologies to allow for remote learning is in situations like this. Because we had systems in place, Huanqiuyimeng has been able to operate business as usual, for the most part, when it comes to serving our students. We will continue working to improve on these technologies and systems to ensure that our students are learning with the latest tools and technology available.

As we work to maximize capacity at our existing centers throughout China, we are also exploring the possibility of partnerships with institutions primarily in Europe and the United States to serve as a bridge for students who require additional flexibility, time and support before moving forward with an

education at a recognized university or institute. We look forward to sharing more about these efforts in the coming months.

While 2020 opened with some unforeseen challenges, we are well equipped to continue supporting our students as best we can under the circumstances. We continue working on our growth initiatives and believe we are well positioned to become one of the largest providers of quality art and creativity education and study abroad experiences in China.

Kevin?

Mr. Kevin Ma:

Thanks, Jun and Carolyne.

To conclude, we are in a good place with Huanqiuyimeng fully integrated into our reorganized operations. However, we continue to look for options to expand into the future. This acquisition marked our first 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.

We continue exploring other M&A opportunities within the education space that may be a good fit with our business portfolio and are excited about the growth opportunities we see. We are pleased with what we have accomplished thus far but look forward to serving more students who are looking to pursue careers in art and other creative fields.

Finally, I would like to say a heartfelt thank you to all of our employees, associates, family, and friends of our Company for their extra efforts and support over the past several weeks. It has not gone unnoticed.

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.