



**ATA Creativity Global 2020 Fourth Quarter and Year-end Financial Results Conference Call
TRANSCRIPT**

March 29, 2021 at 9 p.m. ET

SPEAKERS

Carolyne Sohn – Vice President, The Equity Group

Jun Zhang – President, ACG

Amy Tung – Chief Financial Officer, ACG

Operator:

Greetings and welcome to the ATA Creativity Global Fourth Quarter and Full-year 2020 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions]

I would not like to turn the conference over to your host, Carolyne Sohn of The Equity Group. 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 fourth quarter and year ended December 31, 2020, 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”, “expect”, “future”, “plan”, “outlook”, and “will” 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 ability to operate efficiently and maintain continued financial strength under unusual circumstances; ACG’s growth strategy, anticipated growth prospects and subsequent business activities; market demand for ACG’s portfolio training programs and other education services; the impact of the COVID-19 outbreak on ACG and its operations; and ACG’s plan and anticipated benefits of the measures implemented in response to the COVID-19 outbreak.

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 fourth quarter and year ended December 31, 2020, are converted from RMB using an exchange rate of 6.5250 RMB: 1.00 USD, the noon buying rate as of December 31, 2020. 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 fourth quarter and full year 2020 and then President Mr. Jun Zhang will conclude the remarks with a discussion of 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.

In 2020, the global COVID-19 pandemic presented a series of challenges to people and businesses at a level that nobody could have predicted. The virus has had tragic consequences for so many. At ATA Creativity Global, we were very fortunate to have been in a position to navigate the changes created by the critical public health situation in China in the first half of 2020.

Having closed on our acquisition of Huanqiuyimeng in early August of 2019, our two companies had substantially assimilated by early 2020 when the significance of the pandemic was becoming increasingly apparent. This played a key role in our successful transitioning of coursework to the online platform. We also worked to upgrade technology systems that support the daily operations of the combined company and leveraged our leadership in finance, management and analysis. We are proud that the team here at ACG demonstrated a strength and resilience under these unprecedented circumstances, putting the well-being of our students and staff first by transitioning all in-person coursework to online delivery in early February. And I'd also like to applaud students, as well as the teachers and staff supporting them, for their perseverance and dedication to the continued pursuit of their creative education.

The public health situation in China improved as we headed toward the middle of the year, and nearly all of our training centers were able to resume traditional in-person delivery of coursework by late second quarter. We did see that some students continued to pursue their coursework online even when traditional delivery became available again, and we are pleased to continue offering online options for coursework, generally more introductory and lecture style in nature, which lend itself to this delivery method and offer students increased flexibility.

We have worked through enrollment deferrals and the more significant impact to our international educational tours and study abroad offerings due to travel restrictions as a result of the pandemic by developing certain domestic art-themed travel programs and online bootcamp alternatives partnering with well-known overseas art schools and institutions. These programs that were newly developed during the 2020 year are part of our research-based learning business, formerly known as the educational travel business.

We are pleased that our students have been able to continue their studies with a certain level of normalcy at ACG, especially during the busy fourth quarter term when many of them are working to complete their portfolios ahead of application deadlines.

For the fourth quarter of 2020, credit hours delivered for our portfolio training programs decreased from the prior year period. As with the preceding 2020 periods, this was primarily a reflection of the continuing COVID-19 environment. However, there was a 2.8% sequential increase from the number of portfolio training credit hours delivered and reported in Q3. We provide a year-over-year quarterly breakdown of these credit hours and additional operating metrics on the next slide.

Student enrollment for the period was 1,122, out of which 636 were enrolled in the Portfolio Training Program. The Portfolio Training Program consists of time-based programs and project-based programs, and we provide a breakout of the credit hours delivered during the period compared to the prior-year comparable period in our presentation.

Revenue is recognized proportionately per credit hour delivered. 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 I mentioned earlier, the fourth quarter tends to be the period in which we deliver the most credit hours as many students are working to complete their portfolios ahead of year-end application deadlines. And while we did see a year-over-year decrease in credit hours delivered, we are pleased to have achieved sequential increases in this metric since Q1 2020 when we began to see the initial effects of the COVID-19 pandemic take hold.

With that, let's move to financials for the quarter.

I wanted to remind everyone that for the results shown for this period, 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 fourth quarter and full year 2020.

Total net revenues for the fourth quarter of 2020 increased 12.4% to RMB60.8 million, from RMB54.1 million in the fourth quarter of 2019. Net revenues for this quarter include a PPA adjustment decrease of RMB6.0 million.

Gross margin was 48.5% during the 2020 fourth quarter, a significant increase from 38.6% in the prior-year period. Excluding the PPA adjustment to net revenues, gross margin for the 2020 fourth quarter would have been 53.1%.

Net loss attributable to ACG improved to RMB24.8 million for the period, compared to a net loss of RMB70.9 million in the prior-year period. This was primarily the result of an RMB30.0 million decrease in loss from operations and an RMB20.7 million decrease in impairment loss of long-term investments.

Moving to financial highlights for full year 2020... It is important to note that results for 2020 include a full year's worth of contributions from Huanqiuyimeng while 2019 includes only about five months of contributions.

Total net revenues for the annual period were RMB162.2 million, compared to RMB97.8 million in the prior year. Total net revenues for the period include a PPA adjustment decrease of RMB24.0 million.

Gross margin improved to 39.2% for 2020, compared to 36.7% in the prior year. Excluding the PPA adjustment to net revenues, gross margin for 2020 would have been 47.1%. This was a direct result of our internal cost restructuring and expense savings initiatives to increase overall operational efficiencies to offset the impact the COVID-19 pandemic has had on our business.

And net loss attributable to ACG was RMB92.2 million in 2020, compared to net loss of RMB122.3 million in the prior year. This improvement was primarily driven by an RMB10.3 million decrease in loss from continuing operations and an RMB25.1 million decrease in long-term investment impairment and provision charges from the prior year.

Finally, we continue to be in a solid financial position with US\$17.3 million in cash and cash equivalents on the balance sheet.

Working capital deficit was US\$23.6 million, and total shareholders' equity was US\$30.5 million at December 31, 2020, compared to working capital deficit of US\$11.7 million and shareholders' equity of US\$43.9 million, respectively, at December 31, 2019.

Last May, our Board of Directors authorized the repurchase of up to US\$1.0 million of the Company's issued and outstanding ADSs from time to time in open market and through privately negotiated transactions. As a part of this share repurchase plan, the Company repurchased 450,337 ADSs at an average stock price of \$1.2631 during the course of the year. The plan expired on December 31, 2020.

With that, I'd now like to turn it over to Jun who will expand upon our outlook, growth strategy and current initiatives before opening it up for Q&A. Kevin unfortunately had an urgent matter to attend to and was unable to join us today. Jun will make his remarks in Mandarin, which will be followed by an English translation. Jun, please go ahead.

Mr. Jun Zhang:

Thank you, Amy.

尽管我們在 2020 年吸取了宝贵的经验，但是我认为大多数都会愿意将它置于身后。我为 ACG 的每一个团结一致克服我们所面临的挑战而感到自豪，我相信我们公司现在为此而变得更加强大。

我们利用可以作各种课程和专业授课的技术平台，不仅使我们能够覆盖更广泛的学生群体，而且使我们能够优化我们的教学资源，让在其他地区可能没有机会接触到一些备受追捧老师的学生，可以向这些老师学习。现在，我们为学生提供一个更方便、更易于访问的支持系统，而我们正在开发一个内部系统以更密切地监视销售线索。

尽管 ACG 以其关注个人的课程而被熟知，但我们相信，如果执行得当，它也可以转换到在线课程。在中国公共卫生状况保持稳定的情况下，能够继续为我们传统的面对面授课和通过远程培训的方式相结合，为我们以前可能无法服务的学生提供服务，将有助于推动未来的入学人数增长。

我们在 2020 年所做的工作让 ACG 更好地定位以赢取 2021 年的增长机会。

我们很高兴地看到，在第四季度新签约人数保持稳定的情况下，作品集培训课时略有增长，这是因为许多学生仍在努力地完成他们的作品集。随着一些院校的录取通知书的陆续发出，部分学生已经开始看到自己努力的学习的成果，但大多数学生将会在年中收到自己的录取通知书。

随着中国的公共卫生状况得到有效控制，我们会在继续提供线下课程的同时，保持部分线上课程的选择。我们正在努力地构建自己的在线课程体系。

去年我们提供了国内游学项目作为国际游学的备选方案。其中一个国内游学项目在四川，那里为学生提供了探索自然的绝佳营地。除此之外，我们还提供在线训练营和实习机会等项目。我们将继续发掘潜在的新产品，并为能够在极不寻常的 2020 年找到机会开拓我们的发展前景而感到自豪。

我们相信 2020 年奠定的基础将会为公司未来的发展提供更多机会，特别是当越来越多的国家寻求为公民接种疫苗，最终实现群体免疫后，新冠疫情的影响将渐渐消退。

今年夏季全球旅行的状态还有待观察，但我们正在进行相应的规划，并希望根据合作院校是否计划举办常规的暑期项目或类似项目，来满足大家对留学的浓厚兴趣和极高需求。ACG 保持灵活和快速的适应能力，我们也在提前规划着各种方案以应对不同情况的发生。

正如以前提到的，我们正在开发一个方便销售线索管理及跟踪的内部系统，将能够允许销售团队访问集中管理的信息。我们相信，这将加强各营销渠道的整体能力，并使我们能够充分地发挥新兴的在线和移动销售优势。

如果说我们从 2020 年学到了什么，那就是技术对未来发展的重要性。在这方面，我们致力于投入资源，以继续利用先进的技术，并随着新功能的推出而改进我们的平台。即使疫情过后，这仍将是我们的持续发展的重要因素。面对面的交流和互动当然是有价值的，对于学生尤其重要，但是我们越来越看到，在如今的视频教室和视频会议中，许多互动同样有效，也同样有参与感。无论采取何种模式，我们的目标都是确保学生在接受创意教育时能够获得足够的资源和支持。

总括而言，ACG 对未来的机会感到乐观。我们对于全球疫情将过去，全世界各地将很快再次开放抱有希望。我们财务状况仍然保持稳固，而且在 2020 年运营效率提高的结果将会在 2021 年更为显著。

最后，我要感谢我们的学生和员工，以及我们的合作伙伴，家人和朋友的一贯支持。大家请保持安康。

Ms. Carolyn Sohn [translation]:

Thank you, Amy.

I think most everyone is glad to put 2020 behind us, despite the valuable lessons we have learned. I am proud of the way everyone at ACG came together to overcome the challenges we faced, and I believe our Company is now stronger for it.

We utilize technology platforms that we can now leverage as a delivery method for various courses and majors, which will allow us to not only reach a wider student population but also enable us to take advantage of our teaching resources, making highly sought after teachers available to students in other geographic areas who might not otherwise have had the opportunity to learn from these instructors. We now have a more convenient and accessible support system for students and are also developing an internal system to more closely monitor sales leads.

While ACG is known for the personal attention of its programs, we believe this can also translate to online programs if executed properly. As the public health situation in China remains stable, the combination of being able to continue our traditional in-person delivery of coursework and serving students we may not have been able to serve previously via distance learning will help drive enrollment growth in future periods.

The work we did in 2020 has positioned ACG well to capitalize on our growth opportunities in 2021.

We were pleased to see enrollments remain stable during the fourth quarter with portfolio training credit hours increasing slightly as many students worked to complete their portfolios. Some students have already begun to see the results of their hard work as acceptance letters from some institutions have started to go out, but the majority will be in the middle part of the year.

With the public health situation in China effectively contained, we continue to offer in-person delivery of coursework with an option to complete some courses online, and we are working to build out our online offerings.

As an alternative to international travel, we offered domestic educational tours this past year, one of which took place in Sichuan, that provided students with a wonderful opportunity to explore and experience nature. We also offered online bootcamps and internship opportunities. We continue to explore the potential of new offerings and are proud to have found opportunities to increase our growth prospects in the extremely unusual year of 2020.

We believe the groundwork we have laid in 2020 will afford us many opportunities for future growth, especially as the effects of COVID-19 subside with more and more countries looking to vaccinate their citizens and eventually reach herd immunity.

It remains to be seen how worldwide travel will be impacted this summer, but we are planning accordingly and are looking to accommodate the high demand for and interest in studying abroad depending on whether partner institutions plan to hold their usual summer programs or a variation of them. ACG remains nimble and quick to adapt, and we are planning ahead to accommodate varying scenarios.

As noted earlier, we are preparing to launch a new internal system for lead management and development, which will allow the sales team to access centralized information. We believe this will bolster overall sales efforts from all channels and allow us to take even greater advantage of our newer online and mobile marketing initiatives.

If we learned anything from 2020, it was that technology is the absolute way of the future. In that regard, we are dedicated to investing resources to continue utilizing the best technologies and advancing our platform as newer capabilities become available. This will continue to be an important element in our growth initiatives even after the pandemic is behind us. There is certainly value in meeting and interacting face to face, especially as a student, but increasingly, we are seeing that a lot of interaction is just as effective and personable online in today's world of video classrooms and meetings. Regardless of mode, our goal is to ensure that students have the necessary access to the resources and support they need when it comes to pursuing their creative education.

To conclude, ACG is optimistic about the opportunities ahead. We are hopeful to be able to put the global pandemic behind us and that the world will begin to open up again soon. We remain in a solid financial position, even more so with the increased operating efficiencies gained over the course of 2020 and into 2021.

I'd like to thank our students and employees, as well as our associates, families, and friends for their ongoing support. 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.

Ms. Amy Tung:

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 teleconference. You may now disconnect your lines at this time. Thank you for your participation and have a wonderful day.