



**ATA Creativity Global Fourth Quarter and Year End 2021 Financial Results
Conference Call
TRANSCRIPT
March 17, 2022 at 9 p.m. ET**

SPEAKERS

Alice Zhang – Investor Relations, The Equity Group
Amy Tung – Chief Financial Officer, ACG
Kevin Ma – Chairman and Chief Executive Officer, ACG
Jun Zhang – President, ACG

Operator:

Greetings. Welcome to ATA Creativity Global Fourth Quarter and Year End 2021 Financial Results. 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, Ms. 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 fourth quarter and year ended December 31, 2021, 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," "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 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 fourth quarter and year ended December 31, 2021, are converted from RMB using an exchange rate of 6.3726 RMB: 1.00 USD, the noon buying rate as of December 31, 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 fourth quarter and year-end 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, Alice, and welcome everyone. Good evening to those in America. We appreciate everyone's time.

We are pleased with the solid 24.7% growth in revenues and substantial improvement in gross margin we achieved during the full-year 2021. This was primarily driven by the increase in services provided during the year as we were able to scale our operations more effectively, significantly reducing the Company's losses from the prior year.

2021 revenue growth was primarily supported by increased contributions from portfolio training as we delivered more services as the effects of the COVID-19 pandemic gradually subsided particularly during the second half of the year. Our research-based learning services also contributed to top line growth as many of these programs were developed in response to the pandemic. These experiential learning opportunities have been well received by our students and continue to be in high demand.

Our core portfolio training program enrolled 569 students during the fourth quarter of 2021, compared to 636 students in the prior-year period. Enrollments tend to be an indicator of future credit hours delivered, and the decrease from the prior-year period is a reflection of the increasingly fierce competition we are seeing within the market.

We have been proactive in addressing the increased competition particularly during the second half of 2021 by closely monitoring and enhancing our marketing and promotional strategies. We plan to allocate a larger portion of our marketing resources in 2022 to popular social media platforms in China such as Douyin (which is similar to Tik Tok in the US), Zhihu (which is similar to Quora in the U.S.) and Dianping with a goal of developing our private pool of leads for our brand. These newer platforms have proven to resonate more with young people, generating leads that have higher potential conversion rates to sales.

During the fourth quarter of 2021, we delivered 53,538 credit hours for our portfolio training programs. Notable increases in both time-based program and project-based program credit hours delivered resulted in a 17.8% increase from the fourth quarter of 2020. While it is less apparent in this reporting period, we have continued to make a conscious effort to shift our portfolio training mix in favor of project-based programs versus time-based programs. This shift was translated into increased revenues and improved margins due to greater operational efficiencies.

We have also continued to explore ways in which ACG can better serve a greater population of students from diverse backgrounds. We recently announced the opening of our International Arts Foundation Program Center in Beijing and the Shuren-ACG Arts Center, both of which opened their doors in September 2021 and are expanding our offerings to include authorized qualifications and accredited classes to students that may have different needs and desires that traditional programs do not fulfill.

With that, let's move to financials for the fourth quarter and full year 2021.

Total net revenues for the fourth quarter of 2021 increased 19.3% to RMB72.6 million, from RMB60.8 million in the fourth quarter of 2020. This was primarily driven by increased contributions from portfolio training services delivered either in person through ACG's nationwide training center network or through online platform, which represented nearly 75% of total net revenues during the period.

Gross margin improved to 62.8% during the 2021 fourth quarter, up from 48.5% in the prior-year period. The improvement was driven by the increased revenues and reduced cost of revenues primarily contributed by improved operating efficiencies 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 improved to RMB2.5 million, compared to net loss attributable to ACG of RMB24.8 million in the prior-year period. This notable improvement was primarily a result of an RMB16.0 million increase in gross profit as well as significantly decreased operating expenses. While we continued to invest in our R&D, we were able to reduce G&A expenses by approximately RMB6.2 million. The decrease in operating expenses was also a result of an RMB3.1 million decrease in impairment loss of intangible and other non-current assets and RMB5.9 million provision for loan receivable and other receivables.

Turning to the full year 2021 results, net revenue was RMB202.2 million, up 24.7% from RMB162.2 million in 2020. This increase was driven primarily by growth in portfolio training as well as research-based learning services.

Gross margin improved to 51.8%, from 39.2% in the prior-year period.

Net loss attributable to ACG improved to RMB33.6 million, compared to net loss of RMB92.2 million. This improvement was primarily driven by an investment gain of RMB33.5 million from the disposal of ACG's K-12 education assessment business during the second quarter of 2021 and an RMB41.1 million improvement in loss from operations.

Moving to the balance sheet, we continue to be in a solid financial position with US\$11.2 million in cash and cash equivalents.

Working capital deficit was US\$30.2 million, and total shareholders' equity was US\$30.0 million at December 31, 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 deliver solid top line growth in Fiscal Year 2021, which along with our ability to increasingly scale our business and realize efficiencies, enabled the Company to significantly narrow losses compared to the prior year.

In 2021, studying abroad continued to be a challenge for our students due to certain travel restrictions related to the ongoing global pandemic. Our enrollments remained stable during the fourth quarter despite increased competition in the creative arts education market in the second half of 2021.

There was also some uncertainty related to regulatory changes for companies involved in the China education industry. The new Opinion released by the government in late July has led to many after-school academic tutoring companies either closing their doors or changing their business focus. Due to the nature of our business, ACG was not directly impacted by the Opinion, but we did see a need to continue differentiating ACG from our competitors.

As Amy noted earlier, we are seeing increased demand for our research-based learning services, which tend to be shorter programs that provide project-based hands-on learning experience. You may recall that we developed research-based learning services in response to the pandemic and are pleased to see this business' potential for future growth.

At the same time, we continue to explore different ways to expand our offerings.

We believe we are well positioned to grow our existing lines of business with our current portfolio of program offerings. While we are mindful of the fierce competition within the market, we remain focused on serving our students and addressing their evolving needs. We are optimistic about the opportunities ahead of us in 2022 and look forward to maintaining our leading position in creative arts education as we continue to drive positive outcomes for all our students.

And on that related note, I am thrilled to report that of the applications submitted in 2021, ACG students who participated in the portfolio training programs and overseas study counseling programs have received a number of offers of admission and scholarships for 2022. These schools include the likes of Carnegie Mellon University and New York University, as well as prestigious arts colleges such as Rhode Island School of Design, Parsons School of Design, School of the Art Institute of Chicago, Pratt Institute, and Art Center College of Design.

We are extremely proud of our students and intend to continue investing in our business and establishing partnerships within the industry, which will serve as a foundation for our 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:

谢谢Kevin。

在疫情期间和之后，我们快速做出决策和应对的能力对于 ACG 的成功至关重要。由于疫情的一些影响在整个 2021 年持续存在，考虑到学生和教师的健康，我们持续开发了各种短项目，包括在线训练营、实习、国内游学和一些主题研学项目。例如，我们与南京金地未来学校合作的南京非物质文化遗产项目，向学生介绍了手工设计和制作精美的金银制品的过程，该项目受到了参与学生的一致好评。

此外，我们还开发了新产品来扩大我们服务的学生群体。最近开设的 ACG 国际艺术预科中心和树人ACG国际艺术中心为 ACG服务于之前可能没有机会在海外艺术院校升读的高中生提供了出路。

我们很自豪能够为计划在 ACG 国际预科中心申请海外本科艺术课程的学生提供为期一年经认证的全日制国际艺术和相关入门课程。我们还为那些孩子没有资格在北京上公立高中，但有兴趣修读我们在树人ACG艺术中心创意艺术教育课程的家庭提供服务桥梁。

我们已经获得 Pearson 批准的资格，例如 BTEC 国际 3 级和 4 级资格以及 A Level 艺术与设计资格，为可能需要更多时间来决定是否出国留学的学生提供额外的灵活性。

通过包括艺术学院和大学以及国际艺术高中在内的国际艺术教育机构的密切合作，我们期待为越来越多在学术和专业追求上有不同需求的学生提供服务。

我们也从当前被压制的需求和持续强劲的签约人数看到扩大我们研学服务的业务机会。

我们不仅计划继续扩大我们提供的课程种类，还继续扩展我们的项目结构，让学生可灵活地满足他们的需求。虽然一些公司被迫关门，而另外一些公司则被迫在 2021 年彻底改变他们的商业模式，但 ACG 仍能够驾驭市场不确定性。我们相信这些反映 ACG 强大的运营基础，该基础建立在我们为学生提供最优质的教育服务，透过我们在全中国 20 多个校区的支持，我们经验丰富的教师在帮助学生实现进修梦想的良好记录，以及我们与知名的合作伙伴的深厚关系。考虑到所有的优势，我们对 ACG 从竞争对手中脱颖而出仍然充满着信心。

接下来交给 Kevin。

Ms. Alice Zhang [translations]:

Thank you, Kevin.

Our ability to make decisions and evolve quickly has been critical to ACG's success both during and following the pandemic. As some of the effects of the pandemic continued to linger throughout 2021, we continued to develop additional short-term programs with our students' and teachers' health in mind, including online bootcamps, internships, domestic travel and certain themed research-based learning programs. For example, we partnered with the RGS Guilford Nanjing school on the Nanjing Intangible Cultural Heritage program. The RGS Guildford Nanjing school is the first Chinese international school of prestigious British school Royal Grammar School (Guilford), where they educate students from Grades 1 through 12. This program introduces students to designing and crafting handmade silver and gold products, which are extremely beautiful and delicate. This program was well received by the participating students.

In addition, we have developed new offerings to expand the student population we serve. The recent opening of ACG's International Arts Foundation Program Center and the Shuren-ACG Arts

Center paves the way for ACG to serve high school students who may not otherwise have had the opportunity to pursue study abroad experiences at overseas art colleges.

We are proud to be providing one-year accredited full-time international arts and relevant introductory curriculum to students planning to apply for overseas undergraduate art programs at the ACG International Arts Foundation Program Center. We are also serving as a bridge for those families whose children are not eligible to attend public high school in Beijing but are interested in pursuing a creative arts education through our programs at the Shuren-ACG Arts Center.

The qualifications for which we have received approval from Pearson, such as the BTEC International Level 3 and Level 4 qualifications and the A Level Art & Design qualification, provide additional flexibility for students who may need more time to decide whether they wish to pursue studies abroad.

By working closely with international education providers including arts colleges and universities, and international high schools, we look forward to serving a growing population of students with diverse needs in their academic and professional pursuits.

We also see an opportunity to expand our research-based learning services business due to current pent-up demand and the continuously strong enrollment in these programs.

We are prepared not only to continue expanding 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 others have been forced to completely change their business model in 2021, ACG was able to navigate the uncertainties of the market. We believe this is a reflection of ACG's strong operational foundation, which is built upon providing the highest quality education services to our students and supported by our more than 20 campus locations nationwide, our experienced teachers with proven track records in helping students realizing their further study dreams, as well as our deep relationships with renowned partners. Taking all of these strengths into account, 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 Alice.

In closing, we are optimistic about the opportunities ahead of us in 2022 and look forward to maintaining our leading position in creative arts education as we continue to drive positive outcomes for all our students. We continue to strive toward becoming the leading international provider of creative arts education in China by putting our students first and seizing new market opportunities. We look forward to bringing our students new experiences and learning opportunities as they look to enhance their education.

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 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 day.
