



**ATA Creativity Global First Quarter 2022 Financial Results Conference Call
TRANSCRIPT
May 12, 2022 at 9 p.m. ET**

SPEAKERS

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

Operator:

Greetings. Welcome to ATA Creativity Global First Quarter 2022 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] As a reminder, this conference is being recorded.

I will now turn the conference over to your host, Alice Zhang of The Equity Group. Please go ahead.

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 first quarter ended March 31, 2022, 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 ACG's portfolio training programs and other education services mainly including research-based learning and overseas study counselling services; the impact of

COVID-19 on ACG and its operations; and ACG's plan and anticipated benefits of the measures implemented in response to COVID-19.

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 first quarter ended March 31, 2022, are converted from RMB using an exchange rate of 6.3393 RMB: 1.00 USD, the noon buying rate as of March 31, 2022. 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 Chairman and CEO Mr. Kevin Ma will give some brief opening remarks before turning the floor over to CFO Mr. Ruobai Sima who will provide a brief overview of operating and financial highlights for the first quarter of 2022. Kevin 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 Chairman and CEO, Mr. Kevin Ma. Please go ahead, Kevin.

Mr. Kevin Ma:

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

I am pleased to be here today with Jun and Sima, our newly appointed Chief Financial Officer. Sima succeeds Amy Tung who has decided to step down as CFO for personal reasons. Amy has been with ACG for over 15 years, serving various roles within finance and operations. She has played a key role in our development over these years, and we are grateful for her expertise, enthusiasm, and many valuable contributions over the years. Not only do I consider her a close

colleague but a friend. Amy will remain with ACG in an advisory capacity over the next few quarters to ensure a smooth transition, and we appreciate her ongoing support.

Mr. Sima brings to ACG 17 years of experience in finance and accounting, as well as strategic financial planning and execution, at public and private companies in the financial, automotive and travel industries. Prior to joining ACG, Mr. Sima served as CFO at various automotive services companies. We are confident that his extensive expertise in finance and accounting will be an invaluable addition to our leadership team.

With that, I will turn it over to Sima to over first quarter highlights.

Mr. Ruobai Sima:

Ok, and thank you, Kevin, for the kind introduction.

I want to begin by sharing how excited I am to be joining ACG at this time in its history. While we are being faced with some challenges caused by the ongoing pandemic environment and increasing competition, ACG has a strong track record of delivering positive student outcomes and it is a reputable institution in the creative arts education space. We are well positioned to overcome these short-term hurdles, and I am very grateful to have this opportunity to be a part of ACG's incredible bright future.

2022 got off to a very good start and we saw a modest increase in student enrollment. Although credit hours delivered remained stable during the first quarter, we were able to achieve a 12.1% increase in net revenues, as well as notable year-over-year improvement in gross profit and margin. This was primarily driven by increased revenue contributions from our portfolio training and overseas study counselling services as well as the continued product shift from time-based programs toward project-based programs.

In addition, our research-based learning opportunities have been well received by students and continue to be in high demand. As a few of our core cities continue to face pandemic-related lockdown restrictions, we have shifted our delivery method to online where appropriate, offering students greater flexibility and ongoing support despite not being able to take in-person classes.

Our core portfolio training program enrolled 537 students during the first quarter of 2022, compared to 528 students in the prior-year period. Enrollments tend to be an indicator of future credit hours delivered, and we were pleased that enrollments remained stable year over year despite the resurgence of COVID-19 in certain major cities.

During the first quarter of 2022, we delivered 27,494 credit hours for our portfolio training programs. While total credit hours remained flat, we have continued to see an ongoing shift in our portfolio training mix in favor of project-based programs versus time-based programs. Project-based program credit hours increased 23.0% while time-based program credit hours decreased by 19.0%. Our continuous efforts to shift the program mix contributes to improved operational efficiencies, giving us the opportunity to grow revenues while improving gross margin.

We have also continued to explore ways in which ACG can better serve a greater population of students from diverse backgrounds. We have received positive feedback from the students who are attending our International Arts Foundation Program Center in Beijing and the Shuren-ACG Arts Center, both of which opened their doors in September 2021 in order to help students with diverse needs to pursue their further study goals in creative arts.

With that, let's move to financials for the first quarter of 2022.

Total net revenues for the first quarter of 2022 increased 12.1% to RMB42.1 million, from RMB37.6 million in the first quarter of 2021. This was primarily driven by an increase in services delivered for portfolio training and overseas study counselling. Portfolio training services were delivered either in person through ACG's nationwide training center network or via online platform, which represented around 63.3% of total net revenues during the period.

Gross margin improved to 45.7% during the 2022 first quarter, up from 39.6% in the prior-year period. The improvement was primarily driven by the increased proportion of revenues from portfolio training and overseas study counselling services and 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 RMB15.9 million during the first quarter of 2022, compared to RMB19.0 million in the prior-year period.

Moving to the balance sheet, we continue to be in a solid financial position with US\$9.8 million in cash and cash equivalents.

Working capital deficit was US\$32.3 million, and total shareholders' equity was US\$27.6 million at March 31, 2022, compared to working capital deficit of US\$30.2 million and shareholders' equity of US\$30.0 million, respectively, at December 31, 2021.

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 with the stable performance delivered in the first quarter of 2022. During the period, China experienced Omicron-related local COVID-19 resurgences in a few of our key cities, like Shanghai, Shenzhen and Suzhou, which also led to certain travel restrictions across the country. The situation has since worsened with mandatory lockdowns taking place in major cities. Some of our learning centers have had to close and cease in-person instruction. While we are still offering in-person services to our students in the cities where our campuses have remained open, we are providing an online course delivery option for students impacted by lockdowns in certain cities.

In the short term, this may have an impact on business as there will always be students who prefer in-person instruction; however, we believe we are well equipped to overcome the ongoing challenges presented by the pandemic. The majority of our students are determined to continue pursuing their studies in the face of adversity, and we are prepared to support them to the best of our ability.

As Sima noted earlier, our research-based learning services, which tend to be shorter programs that provide project-based hands-on learning experience, remain quite popular. We originally developed these programs in response to the pandemic which grants more flexibility to interested students in terms of learning objectives, service delivery forms and required project time. We are pleased to see it growing since the launch of online research-based learnings programs in 2020 and are excited about its growth potential beyond the post-pandemic era.

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.

We believe we are well positioned to grow our business with the current portfolio of program offerings. As more countries begin to ease travel restrictions, we believe the research-based learning and overseas counselling services businesses will be able to reach their full potential. 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.

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。

自 2020 年年初疫情爆发以来，我们一直在努力继续开发我们的在线平台。两年多前，当新冠疫情史无前例地影响到全世界的人们时，我们便清楚地知道我们需要一个灵活且技术上稳定的远程授课方法。

我们持续在运营上投入资源以快速应对疫情相关的影响，并始终专注于为我们的学生提供最优质的教育服务，即使我们的一些校区因当地疫情反复而暂时关闭。

ACG 持续在可行情况下开发额外的线上和线下短期项目，包括在线训练营、实习、国内游学以及特定主题的研学项目。例如，在第一季度，我们在海南三亚西岛举办了环保设计

实践营，为超过 20 个学生提供了独特的体验，使他们能够创造循环利用海洋产品并向当地艺术家学习。学生们有机会创作个人和团体的艺术作品和项目，他们的一些作品还被选入西岛保护中心进行展览。本次活动得到参与学生的一致好评。

我们认为，中国的疫情状况可能会在未来的几周内有所改善，并且随着形势趋于平缓，我们对于 2022 年的剩余期间主要城市可以恢复一定程度的正常状态保持乐观。我们计划在即将到来的夏季举办短期夏令营和主题游学项目。我们决心继续开发满足不同学生群体需求的项目，并一如既往地以最优质的教育和教学经验等方式支持他们。我们的运营优势，成长前景基于我们资深教师的经验、我们不断发展能够更好地与恰当的学生群体产生共鸣的销售和营销策略、我们提高运营效率的不懈努力，以及国内和国际合作伙伴建立的关系，包括大学和学院、教育机构、中国的国际高中等等。

我们相信我们在短期内的财务状况良好，但一直在探索适当的融资、投资和并购机会，以实现我们的长期增长。

ACG 的使命是提供优质的教学体验，培养和增强学生的创造力。我们有信心保持我们在中国创造艺术教育市场的竞争优势和领先地位。在 2022 年，我们期待为越来越多多元化需求的学生提供创造艺术教育服务。

接下来，交回给 Kevin。

Ms. Alice Zhang [translations]:

Thank you, Kevin.

Since the beginning of the pandemic in early 2020, we have worked to continue developing our online platform. The need to be nimble and flexible, the need to have a technologically sound remote delivery method for our courses, became absolutely clear when the unprecedented circumstances of COVID-19 affected people all over the world over two years ago.

We have continued to devote resources into quickly reacting to COVID-related influences on our operation and have remained focused on providing the best-quality education services for our students even when some of our campuses are temporarily closed due to local resurgences.

ACG has continued to develop additional short-term programs both online and in-person where feasible, including online bootcamps, internships, domestic travel and certain themed research-based learning programs. For example, during the first quarter, we organized an environmental protection cultural and creative design camp at Xidao, an island in Sanya, Hainan Province, offering a unique experience for over 20 students who were able to create recycling marine products and learn from local artists. The students had the opportunity to work on individual and group art piece and projects, and some of their work was selected into the exhibitions at the Xidao Protection Center. This program was well received by the participating students.

We believe the public health situation in China may improve over the next several weeks and remain optimistic about the remainder of 2022 as the situation is tamed and major cities can resume some level of normalcy. We continue to plan for short-term summer camps and themed travels in the coming summer. We are determined to continue developing programs that cater to the needs of different student populations, and to support them in every way we can like we always do with the best quality education and teaching experiences. Our operational strengths and growth prospects are based upon the experience of our veteran teachers, our continuously evolving sales and marketing strategies to better resonate with the appropriate student population, our ongoing efforts to improve operating efficiencies, as well as established relationships with domestic and international partners including universities and colleges, education institutions, international high schools in China and more.

We believe we are well positioned financially in the near term but have been exploring financing, investing and M&A opportunities where appropriate to enable our long-term growth.

ACG's mission is to provide quality learning experiences that cultivate and enhance students' creativity. We are confident in our abilities to maintain our competitive advantages and leading position in the creative arts education market in China. In 2022, we look forward to serving a growing population of students with diversified needs in pursuing their creative arts education.

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

Mr. Kevin Ma:

Thanks, Jun and Alice.

In closing, we are optimistic about ACG's prospects in 2022 and look forward to continuing to serve our students regardless of what the situation is locally. We are committed to our mission of empowering students to achieve success in the creative arts and will continue exploring ways in which we can expand our offerings to help more students in their pursuit of a creative arts 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.
