



**ATA Creativity Global Second Quarter 2022 Financial Results Conference
Call
TRANSCRIPT
August 11, 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 Second Quarter 2022 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] 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 second quarter and six months ended June 30, 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, 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 the second quarter and six months ended June 30, 2022, are converted from RMB using an exchange rate of 6.6981 RMB: 1.00 USD, the noon buying rate as of June 30, 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. You may send emails to me, Alice Zhang, by emailing azhang@equityny.com.

On today's call, the Company's CFO Mr. Ruobai Sima will provide a brief overview (sic-interview) of operating and financial highlights for the second quarter of 2022. 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, Mr. Ruobai Sima. Please go ahead, Sima.

Mr. Ruobai Sima:

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

During the second quarter of 2022, we were pleased to continue supporting our students who chose to continue pursuing their creative arts education via online delivery due to local resurgences of COVID-19 in some of our core cities including Shanghai and Beijing. From late March to early June, we temporarily closed some of our training centers to comply with local

lockdown procedures. We are pleased that these restrictions have since been lifted, and we are able to serve our students in person once again.

Total student enrollment remained stable at 1,018 during the period, compared to 1,051 in the second quarter of 2021. As a result of the temporary training center closures and citywide lockdowns, total credit hours delivered for portfolio training programs decreased by 10.8% compared to the prior year period, which impacted our financials during the period.

The impact on portfolio training and research-based learning revenues was partially offset by increased revenue contributions from overseas study counselling services. With the public health situation in China improving once again, we expect demand for our portfolio training and research-based learning programs to rebound. We continue to see significant demand for overseas arts student study programs and we are confident in ACG's ability to increase its market share in the international creative arts education industry.

During the second quarter of 2022, we delivered a total of 25,387 credit hours for our portfolio training programs. We have continued to encourage the ongoing shift in our portfolio training mix in favor of project-based programs versus time-based programs. This is evident in the breakdown where project-based program credit hours account for 57.8% of total credit hours delivered during the period.

With that, let's move to financial highlights for the second quarter and first half of the year.

Total net revenues for the second quarter of 2022 were RMB34 million, compared to RMB36.8 million in the second quarter of 2021. As mentioned earlier, the decrease was primarily due to the decreased contributions from the portfolio training and research-based learning services that were impacted by local COVID-19 resurgences and subsequent lockdowns in some of our key cities including Shanghai and Beijing.

Gross margin was 35.6%, compared to 43.4% in the prior-year period. The decrease was primarily due to decreased revenues during the period while cost of revenues remained relatively stable year over year.

Net loss attributable to ACG was RMB22.1 million, which compares to a net income attributable to ACG of RMB14.1 million in the prior-year period. The difference here was primarily due to a one-time investment gain for RMB33.5 million as a result of the disposal of the Company's K-12 education assessment business in the Second Quarter of 2021.

Turning to the first half of 2022, net revenue increased slightly to RMB76.2 million, compared to RMB74.4 million in the same period of 2021.

Gross margin remained stable at 41.2%, compared to 41.5% in the prior-year period.

Net loss attributable to ACG was RMB37.9 million, compared to RMB4.9 million.

Moving to the balance sheet, we continue to be in a solid financial position with US\$9 million in cash and cash equivalents.

Working capital deficit was US\$33.4 million, and total shareholders' equity was US\$22.9 million at June 30, 2022, compared to working capital deficit of US\$30.2 million and shareholders' equity of US\$30 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.

While the ongoing pandemic environment created some unexpected circumstances during the first half of the year, we were pleased with ACG's ability to quickly adapt as necessary. Cities where our training centers were impacted by local lockdowns include second-tier cities such as Suzhou, as well as top-tier cities where we serve a lot of our students, such as Shanghai, Beijing and Guangzhou. We admire the tenacity demonstrated by the students that chose to continue their studies with ACG, even in online format. Our mission is to deliver a quality curriculum and ongoing support for our students regardless of whether it is in person or remote.

In Second Quarter 2022, we continued to offer specially curated, high-quality learning experiences via online format such as the ACG Overseas Master program. We introduced the program to our students when the pandemic first began in early 2020, and we have seen interest in these programs grow over the past two years even when the public health situation was improving.

During the quarter, we also deployed strategies to streamline our organizational structure. We began introducing full-time teaching staff into ACG's internal management roles to help drive potential growth for the Company. By including them in our sales and product development efforts, in addition to their day-to-day teaching responsibilities, we were able to quickly incorporate the feedback they received from our students into improving our operations. We believe this presents an opportunity for us to create a more direct line of communication with our target customers, specifically our students, to better understand and be prepared to meet evolving market needs.

We believe our current portfolio of offerings and our efforts to enhance our curriculum to be related to today's student and the society we live in continues to differentiate ACG in the creative arts education marketplace. We are optimistic about our outlook in the second half of 2022 and look forward to the coming application season where we can help drive positive outcomes for 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:

谢谢 Kevin。

我们在 2020(sic-2022)年初为应对新冠疫情爆发而落实的系统 and 程序为公司奠定了坚实的基础，并使我们能够在面对意外情况时保持灵活性。自 2020 年以来，我们一直在投入建设、维护、完善服务提供的技术手段，以确保我们的学生获得顺畅、愉快的学习体验。我们知道未来的运营环境将继续处于随时可能恶化的疫情环境中，我们仍然保持高度关注，密切监控、管理各校区的情况。

在这个暑假，我们与景德镇著名的陶瓷艺术中心合作，推出了名为“万象瓷生”的独家项目，学生们通过该项目学习了青花、陶瓷成型、玻璃绘画和热熔技巧。他们还参观了世界知名的艺术家的工作室，体验了大师作品的创作过程，并获得展示自己创作作品的机会。

在运营方面，ACG 继续投入升级我们的教学系统，在主要的业务线上持续开发新项目。为了满足学生群体的各种需求，我们将继续提供在线服务，积极灵活地调整、升级和定制我们的教育产品。此外，ACG 还将继续推出反映创意艺术行业不断发展的新项目，包括与元宇宙、NFT 等内容相关的项目。

在 2022 年剩下的时间里，我们将继续专注于支持我们的学生进行创意艺术学习。正如 Kevin 所说，对于选择去海外继续深造的学生来说，我们预计将在秋天进入一个繁忙的申请季。我们也将继续致力于巩固和机构合作伙伴的关系，并坚信凭借一流的师资队伍、帮助精准定位潜在的学生受众的新营销策略、以及优化我们内部组织架构的努力将帮助我们的业务持续发展。

ACG 的使命是提供优质的学习体验，培养和增强学生的创造力。我们坚定地相信，我们的产品、一流的员工以及帮助学生获得优异成绩的历史经验将成为我们区别于同行的竞争优势。

接下来，交回给 Kevin。

Ms. Alice Zhang [translations]:

Thank you, Kevin.

The systems and procedures that we had put into place in response to the COVID-19 pandemic in early 2020 have provided a strong foundation for our organization and have enabled us to be flexible when we are faced with unexpected circumstances. Since 2020, we have continued to invest in building, maintaining and advancing the technology supporting our service delivery to ensure a seamless and pleasant learning experience for our enrolled students. We understand that we continue to operate in an ongoing pandemic environment that could worsen at any given moment, and we remain alert in monitoring the situations at our training centers.

This summer, we cooperated with one of the famous ceramic art centers in Jingdezhen and launched an exclusive program named “Wan Xiang Ci Sheng”, through which our students learned about blue-and-white porcelain, ceramic shaping, glass painting and hot-melting techniques. The students also visited the studios of some world renowned artists to experience the creation process of master works and had the opportunity to exhibit their own works towards the end of the program.

On the operations side, ACG continues to invest in upgrading our teaching system and developing new programs across major business lines. We will continue to provide online offerings and remain committed to being flexible and responsive in adjusting, upgrading and customizing our educational products, as we acknowledge the various needs of our student population. In addition, ACG will introduce new programs that reflect the ever-evolving creative arts industry, including programs with cutting-edge contents related to Metaverse, NFTs, and more.

In the remainder of 2022, we will continue to focus on supporting our students in their creative arts studies. As Kevin mentioned, we expect to enter a busy application season this fall for those who choose to further their education overseas. We are also committed to solidifying our relationships with our institutional partners and remain confident that our first-class teaching staff, new marketing strategies that allow us to precisely target our potential student audience, and the efforts to streamline our internal organization structure will enable us to grow the business.

ACG’s mission is to provide quality learning experiences that cultivate and enhance students’ creativity. We continue to believe that our offerings, top-rate staff and history of helping our students achieve positive outcomes will differentiate us from our competitors.

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

Mr. Kevin Ma:

Thanks, Jun and Alice.

In conclusion, we are proud to be serving a diverse student population and are pleased with the financial results we have been able to achieve despite the challenges encountered thus far in 2022. ACG is committed to assisting our students with pursuing their goals in the creative arts world, and we expect to continue improving and expanding our portfolio of offerings to better serve them over the long term.

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 all for your participation.
