



**ATA Creativity Global Third Quarter 2022 Financial Results Conference Call
TRANSCRIPT
November 30, 2022 at 8 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 Third 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 Cheri, and hello everyone. Thank you for joining us. The press release announcing ATA Creativity Global's, or ACG's, results for the third quarter ended September 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 third quarter ended September 30, 2022, are converted from RMB using an exchange rate of 7.1135 RMB: 1.00 USD, the noon buying rate as of September 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. If you wish to ask questions, you can send your questions to the email address azhang@equityny.com, and please specify whether you would like to have your name read during the Q&A session.

On today's call, the Company's CFO Mr. Ruobai Sima will provide a brief overview of operating and financial highlights for the third 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, Mr. Sima.

Mr. Ruobai Sima:

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

We remained focused on providing quality arts education and services for our students during Third Quarter 2022, which is when the busy overseas study application season begins. Total revenue for the period was impacted by decreased contributions from portfolio training services as a result of periodic lockdowns in some of our key cities in response to local COVID-19 resurgences. However, demand for our research-based learning programs remained steady as students have consistently expressed how important personalizing their creative education

experience is to them with many regarding it as part of their unique overseas study application package.

Our primary offering, the portfolio training program, enrolled 616 students during the period, which is stable compared to the same period last year. We delivered 36,031 credit hours for portfolio training programs, a decrease from the prior-year period primarily due to the occasional lockdowns in key cities such as Shenzhen and Chengdu. Although total credit hours went down, project-based program credit hours increased noticeably as a proportion of total credit hours, as a result of our ongoing efforts to shift more students to project-based versus time-based program credit hours. Project-based programs are designed with more flexibility and customization to allow our students to achieve their goals more effectively with potentially fewer credit hours needed in comparison to time-based programs. Therefore, total revenues did not decrease as drastically as the decline in total credit hours.

During Third Quarter 2022, we introduced a new platform for students and teaching staff to keep them manage and track their progress. The platform aims to help both students and ACG teachers follow study goals easier and make timely adjustments. During the period, we also launched multiple new programs in different subject areas, many of which feature a combination of online and offline study experiences and lectures from overseas prestigious arts school professors. We expect to make these offerings available to students with developing new programs in mind.

With that, let's move to financials for the third quarter and first nine months of the year.

Total net revenues for the third quarter of 2022 were RMB52.1 million, compared to RMB55.3 million in the third quarter of 2021. The decrease was primarily due to decreased revenue contributions from portfolio training services caused by the local COVID-19 resurgence and subsequent lockdowns that I noted earlier.

Gross margin was 45.1% during the 2022 third quarter compared to 51.4% in the prior-year period, primarily due to decreased revenues from portfolio training services, which was (is) impacted by local COVID-19 resurgences in certain core cities during the quarter.

Net loss attributable to ACG improved to RMB12.0 million, which compared to a net loss attributable to ACG of RMB26.2 million in the prior-year period. This improvement was primarily a result of decreased general and administrative expenses related to the final one-time funding support of RMB10.0 million to Tsinghua University that was paid in the prior-year period, as well as RMB6.0 million impairment loss of investment recorded in the prior-year period.

Turning to the first nine months of 2022, net revenue was RMB128.3 million, compared to RMB129.6 million in the same period of 2021.

Gross margin was 42.8% compared to 45.7% in the prior-year period.

Net loss attributable to ACG was RMB49.9 million compared to net loss of RMB31.1 million, primarily due to one-time RMB33.5 million investment gain resulting from disposal of the Company's K-12 education assessment business in June 2021. The investment gain was partially offset by decreased G&A expenses of RMB10.0 million related to the funding support to Tsinghua University incurred in prior-year period, as well as RMB6.0 million impairment loss in relation to investment recorded in the prior-year period that I noted earlier.

Moving back to balance sheet, we believe we are in a solid financial position with US\$8.4 million in cash and cash equivalents. Working capital deficit was US\$32.7 million, and total shareholders' equity was US\$20.0 million at September 30, 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 take pride in our students' perseverance over the past couple of years. They have had to overcome adversity and rather uncertain circumstances due to the pandemic time and again. Their determination to continue pursuing their studies has only been made possible by the dedication of our incredible teaching and support staff, as well as our ability to seamlessly transition to a remote course delivery platform as necessary. Due to this ability to act quickly and effectively, we have by and large continued with our regular day-to-day learning activities during this period, particularly when some of our training center locations were impacted by local lockdowns and had to temporarily shut down due to local COVID-19 resurgence. In light of this, it is truly rewarding to see ACG's students working harder during this 2022 application season, taking the next exciting steps forward in their creative study journeys.

During the third quarter of 2022, we introduced various programs to help students build a comprehensive application portfolio. These programs include art themes like fine arts, design, animation and games, and are designed for students at different stages of their art studies, both those that are applying for art schools overseas and those who are interested in exploring their interests in arts. These programs included Central Saint Martins Art & Design Program, Sheridan Animation & Games Summer Camp, and our exclusive and innovative Metaverse Summer School, all of which were delivered in a combination of both in-person and online format.

We have started to observe a gradual opening up of international travel as many of our students have left home to pursue their arts study overseas. As we remain vigilant in monitoring the pandemic situation, we hope to see our students' learning experiences also return to some semblance of normalcy soon.

We remain committed to continuously providing quality curriculum and making sure our portfolio of offerings addresses the needs of our students. We believe our growth strategy is supported by

our ability to stay relevant, to understand where creative arts study is headed and reflect that in our curriculum development. We anticipate closing 2022 with a strong fourth quarter as this period coincides with key application deadlines for many of our students, and we are honored to be serving them during this exciting time.

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.

在第三季度，我们继续为学生提供灵活的上课模式选项，特别是那些受到当地疫情反复影响的学生。除了能够为学生提供无缝衔接的教育体验之外，我们相信每个季度推出新课程的承诺使我们能够更好地满足学生不断变化的需求。我们想在这里强调一下我们本季度推出的一个项目，即(在) 2022 年 UWEE 卢浮宫国际艺术展集训课程，旨在宣传“同一个世界同一个未来”的主题。参与的学生在沉浸式的艺术创作中接受 30 个小时的课程培训，并接触各种艺术风格和院校类型。所有课程都以小型讨论模式进行，学生可以选择在线或面对面的形式参与。参与的学生精选艺术品将在卢浮宫博物馆展出，并获得证书和竞赛委员会国际艺术家的推荐信，我们相信这会为学生的艺术作品集添加不凡的亮点。

在第四季度，我们推出更多的主题丰富的项目，包括由纽约大学教授讲授的视觉艺术海外大师课，以及两个以东京冥想与治愈型空间和后疫情时代下的元宇宙为主题的工作营供学生选择。此外，我们正在帮助学生们完成留学申请的最后阶段，并期待在 2023 年开始陆续收到录取通知书，与他们一起展望未来。

在 2022 年剩下的时间里，展望 2023 年，我们对摆在我们面前的机遇仍保持乐观态度。我们继续受益于长期的院校合作伙伴关系，这使我们能够让世界一流的教师参与我们的课程和教授，并与全球顶级的艺术机构提供高质量的联合课程。最重要的是，我们相信长期以来我们在推动学生取得积极成果的历史方面，将使 ACG 从竞争对手中脱颖而出。

我们一直在探索新的方法，以继续丰富学生的学习体验，这一使命不会改变。我们相信 ACG 有能力推动未来的增长，并努力成为多元化艺术体验服务领域的国际供应商。

接下来交回给 Kevin。

Ms. Alice Zhang [translation]:

Thank you, Kevin.

During the third quarter, we continued to provide flexible course delivery options for our students, particularly those who had been impacted by local resurgences. In addition to our ability to provide a seamless education experience for our students, we believe our commitment to introducing new programs every quarter allows us to better meet the evolving needs of our students. We also launched a program during the quarter that I'd like to highlight here, which is the Intensive Training Class for the 2022 UWEE International Art Exhibition, designed to promote the theme of 'One World One Future.' Participating students spent 30 hours in immersive art creation courses and exposed themselves to various artistic styles and schools. All classes were given in a smaller discussion type setting that students could choose to take in online or in-person format. Select artwork from participating students will be exhibited at the Louvre Museum along with certificates and reference letters from international artists on the competition committee, which we believe adds to a significant highlight to the students' portfolio of artwork.

So far during the fourth quarter, we have launched more programs with diversified topics, including an Overseas Master Class in Visual Arts lectured by professors from New York University, two workshops focused on topics such as Tokyo Urban Meditation Cabins and the Metaverse in the Post-pandemic Era with different themes for students to choose from. In addition, we are supporting our students through the final stages of the overseas study application process and look forward to seeing what lies ahead for (of) them when offers begin coming in in 2023.

In the remainder of 2022 and as we look ahead into 2023, we remain optimistic about the opportunities before us. We continue to benefit from our long-term institutional partnerships which allows us to have world-class teachers give lectures in our programs and provide quality joint programs with top arts institutions around the globe. Most importantly, we believe our long history of driving positive student outcomes sets ACG apart from the competitors.

We are always exploring new ways in which we can continue to enrich the learning experiences of our students, and this mission will not change. We believe ACG is well positioned to drive future growth as we strive to be a leading international provider of diversified arts study experience offerings.

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

Mr. Kevin Ma:

Thanks, Jun and Alice.

In closing, ACG continues to put its students first. We have found a way to navigate the uncertainty presented by the ongoing pandemic environment, and we are well positioned to execute on our growth strategies. As the world gradually opens up, we believe this will benefit and nurture growth across all our business lines.

With that, operator, let's open it up for questions.

Question-and-Answer Session

Operator:

Thank you. {Operator instructions} Alice?

Ms. Alice Zhang:

Thank you, Cheri. I appreciate it. At the beginning of the call, we received a number of different questions relating to the company's operations. Specifically, I will ask one to the management team while we wait for questions to queue up.

The first question I received is this: What are you seeing in terms of demand for overseas arts study counselling? Is the demand still there or is it waning? What trends have you observed over the course of the pandemic? That's my first question.

Mr. Ruobai Sima:

Thank you, Alice. Thank you for the question. Despite some challenges due to the ongoing pandemic environment, we are seeing that demand for study abroad is still here among students. Travel restrictions that were implemented in early 2020 at the start of the pandemic inevitably impacted many students' ability to pursue their study abroad option, and as a result, we saw a decrease in demand for our overseas study counselling services. In 2021, we saw students expressing a clear preference to pursuing their studies in the UK versus in the US, which used to be the most popular destination country for ACG's students. This change may be attributable to several factors, including the COVID-19, visa-related travel difficulties and geopolitical tensions. During Third Quarter 2022, we went through the overseas study program application peak season where we observed the number of students pursuing this path show signs of recovery though not back to pre-pandemic levels. Regardless, our focus is to ensure that our veteran teaching and support staff continue to drive positive outcomes for our students. Despite the short-term setbacks, we remain optimistic about the long-term prospects of our business in a post-pandemic era, and we remain committed to helping our students achieving their creative study goals, whatever they might be. Thank you.

Ms. Alice Zhang:

Thank you, Mr. Sima, I do have a second question, which is: Periodical travel restrictions and lockdowns in major cities of China are still there in place, and in that case, how much visibility do you have into the financial outlook for Q4 and into 2023? Do you anticipate any further impact on the financials from the pandemic in the remainder of 2022?

Mr. Ruobai Sima:

It would not be prudent for us to guess as to what will occur when it comes to the public health situation in China as circumstances remain fluid during the flu season and this is ongoing pandemic environment. Our experience over the past two years has emphasized the importance of building

a reliable remote learning delivery platform that allows us the flexibility of continuing to provide our quality curriculum to students when the situation warrants it. Our teaching staff is well trained and adjusted so that they are able to teach effectively whether they are in person or on a computer monitor. We expect our top line to grow sequentially from Q3 of 2022 to Q4 as the fourth quarter is typically our strongest in terms of net revenues from portfolio training services as key application deadlines for many of our students fall in Q4. There remains some uncertainty surrounding the ongoing pandemic environment, but we will continue to keep the investment community apprised of our outlook as we work on our budget for 2023. Thank you.

Ms. Alice Zhang:

Thank you, Mr. Sima. Cheri, that's all the questions we got. I will now turn the call back to you for live Q&A questions.

Operator:

Thank you. {Operator instructions} We will pause for a brief moment to see if any questions come in.

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 full year 2022 call. Thank you.

Operator:

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

