



**ATA Creativity Global Fourth Quarter and Full Year 2022 Financial Results
Conference Call
TRANSCRIPT
March 30, 2023 at 9 p.m. ET**

SPEAKERS

Alice Zhang – Investor Relations, The Equity Group

Ruobai Sima – Chief Financial Officer, ACG

Jun Zhang – President, ACG

Operator:

Greetings. Welcome to ATA Creativity Global Fourth Quarter and Year-end 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. 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, 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 fourth quarter and year ended December 31, 2022, are converted from RMB using an exchange rate of 6.8972 RMB: 1.00 USD, the noon buying rate as of December 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. 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 fourth quarter and full-year 2022. As Chairman and CEO Mr. Kevin Ma is unable to be here today, Mr. Sima will join President Mr. Jun Zhang in providing an update on the Company's outlook and 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.

Serving our students remained our top priority in 2022, and we were proud of the continued resilience of both our students and teaching staff throughout the year as we faced an unpredictable ongoing pandemic environment. Despite our core portfolio training business being impacted by periodic lockdowns in some of our key cities in response to local COVID-19 resurgences, we were

pleased to see stable demand for those programs and increased demand for research-based learning programs, overseas study counselling, and other educational services. During Fourth Quarter 2022, we achieved an 8.2% increase in total revenues to RMB78.5 million, which contributed to the positive bottom-line results for the period, net income attributable to ACG of RMB2.0 million. Total revenues saw a modest 2.3% increase for full-year 2022, which was primarily due to increased contributions from other educational services and portfolio training services. Excluding the one-time RMB33.5 million investment gain from the disposal of our K-12 business recognized in Fiscal Year 2021, we significantly narrowed losses year over year.

Total student enrollment for Fourth Quarter 2022 was 908, compared to 1,052 in the prior-year period. Keep in mind, the 908 excludes the number of enrolled students in the foreign language training services, which we primarily operated under an entity that ACG deconsolidated in Third Quarter 2022. Excluding these 167 students in the prior-year period, total enrollment increased year over year. Of the 908 students, 574 were enrolled in our portfolio training programs, compared to 569 students in the prior-year period. We were pleased to see a continued shift in credit hours delivered from time-based programs to project-based programs, with project-based credit hours increasing 31.9% year over year, accounting for nearly 2/3 of total credit hours delivered during the quarter. We have continued to consciously shift students towards the more flexible project-based program, designed to be tailored to students' needs and potentially with a higher unit price. Portfolio training program revenues increased to RMB57.8 million in the Fourth Quarter 2022, compared to RMB54.2 million in the prior-year period.

With that, let's move to financials for the fourth quarter and full year 2022.

Total net revenues for Fourth Quarter 2022 increased 8.2% to RMB78.5 million, from RMB72.6 million in the fourth quarter of 2021. This was primarily driven by increased contributions from portfolio training services and other educational services, which is related to services delivered for new cooperation projects with schools and training organizations. Revenues from portfolio training services represented approximately 73.6% of total net revenues during the period.

Gross margin was 60.6% during Fourth Quarter 2022, compared to 62.8% in the prior-year period. The gross margin decrease was primarily a result of increased cost of services related to higher compensation expenses for ACG's teaching staff as they become more engaged in ACG's international [sic: internal] management processes to enhance the efficiency and quality of service delivery as well as help drive sales and student engagement.

Net income attributable to ACG was RMB2.0 million, compared to net loss attributable to ACG of RMB2.5 million in the prior-year period.

Turning to the full year of 2022 results, net revenue was RMB206.8 million, up 2.3% from RMB202.2 million in 2021. This increase was driven primarily by increased revenue contributions from other educational services, which is mainly related to services delivered for new cooperation projects with schools and training organizations, and portfolio training services, as noted earlier.

Gross margin was 49.6%, from 51.8% in the prior year.

Net loss attributable to ACG was RMB47.9 million, compared to net loss of RMB33.6 million. This was primarily due to an RMB33.5 million investment gain related to the disposal of the K-12 education assessment business in the prior-year period, which was offset by decreased general and administrative expenses of RMB10.0 million related to the Tsinghua University funding support paid in the prior-year period, as well as an RMB6.0 million impairment loss on investment recorded in the prior-year period.

Moving to balance sheet, we continue to be in a solid financial position with US\$8.0 million in cash and cash equivalents.

Working capital deficit was US\$33.0 million, and total shareholders' equity was US\$20.8 million at December 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.

Now turning our attention to ACG's outlook and growth strategy...

Over the course of 2022, ACG remained steadfast in its commitment to helping its students achieve positive outcomes. We are very pleased that our students have continued to pursue their studies with ACG, thereby demonstrating their confidence and faith in our ability to provide them with the quality programming and emotional support they deserve and need for them to realize their creative study and career dreams. All this has been made more challenging by the ongoing pandemic environment, but I would like to recognize our teaching and support staff for their dedication to the students, regardless of whether classes are delivered in-person or online. The remote course delivery platform has provided us the flexibility to change class delivery format overnight as necessary in recent years. This has been invaluable to students and teachers during the periodic lockdowns and temporary campus closures that occurred in 2022.

Our portfolio training programs continue to see stable demand and even delivered modest revenue growth despite the impact COVID-19 continued to have on our business in 2022. Because of our ability to deliver stable top line results while controlling expenses, we have continued to narrow losses excluding one-time items.

During 2022, ACG continued to curate and launch various research-based learning programs for students to enhance students' creative journeys. As international travel was highly restricted in China during the year, we focused our attention domestically and hosted programs such as the environmental protection-themed design camp in Sanya, Hainan Province; the ceramic arts-themed exclusive program in Jingdezhen, Jiangxi Province; and an Intense Training Class for the 2022 UWEE International Art Exhibition. We also offered courses surrounding more contemporary topics, such as NFTs and Metaverse. All these programs were created with the idea that participating students walk away with an enhanced understanding of a particular subject matter through a real-life experience. Some of those may also result in creations that can be added to student art portfolios.

We continue to serve as a trusted advisor to students looking to apply to overseas arts colleges and universities, providing high-quality curricula and hands-on experiences to admission counselling services. We are thrilled to share some of the initial 2023 fall admission results we have heard

from our students. Some have begun to receive offers from prestigious creative institutions, such as the Fashion Design Program at Parsons School Design, which is known to be quite competitive. Other schools including (include) Rhode Island School of Design, Royal College of Art, New York University and University of Oxford.

We opened the ACG International Arts Foundation Program Center in Beijing in 2021, and are pleased to share that all the enrolled students at the Center have started their first year in college in the UK. We are excited that ACG's programs designed for students that are unable to follow the traditional high school path have played a crucial role in helping these students achieve the next step of their creative arts education journey.

We continue to believe that our growth relies on the continuous investment in our institution and fostering long-term relationships with our institutional partners. As we look forward in 2023, we are optimistic about the near-term outlook for our business as international travel continues to pick up and more students realize that their desire to study overseas is more possible today than perhaps it was these past couple of years. We look forward to continuing driving positive outcomes for all students.

I'd 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 Sima。

我们的学生在追求艺术学习时表现出了极大的专注和决心。作为他们在这一旅程中值得信赖的合作伙伴，ACG 一直努力确保我们的产品具备一流的水平：具有可教性并与实际生活密切相关。

在 2023 年第一季度，我们的特色之一是为上海时装周设计的 Open Hack 项目。为期 5 天的项目中，参与的学生将制作品牌策划书，从头开始设计时尚 Lookbook，并有机会采访时尚偶像和影响者，还能赢得 3 月举办的 2023 年上海时装周 VIP 入场券。此外，由于该项目专为希望在简历中增添亮点的学生设计，他们不仅能收获作为专业时装周团队一员的第一手经验，还会在项目完成后获得推荐信和实习证书。

ACG 最初在新冠疫情期间推出线上研学项目。我们能够做到这一点，主要是因为我们与包括艺术院校和大学在内的国际教育机构建立了强大的合作伙伴关系。这些课程也受到了参与学生的好评。由于过去几年国际旅行对许多学生来说并不可行，我们制定了鼓励学生探索中国非物质文化遗产的项目。“非物质文化遗产”被联合国教科文组织定义为“被各社区、群体，有时是个人，视为其文化遗产组成部分的各种社会实践、观念表述、表现形式、知识、技能以及相关工具、实物、手工艺品和文化场所。”我们了解这类学习经历对

申请海外艺术学校的价值。2023 年，我们继续为学生提供这类课程，以及其他能够跟上艺术界最新趋势的课程，就像我们在疫情后时代提供的元宇宙相关课程一样。随着国际旅行的持续回升以及中国取消新冠清零政策，我们正在与国际合作伙伴密切联系，计划在 2023 年以后恢复国际暑期夏校项目。

正如 Kevin (Sima) 提到的，ACG 国际艺术预科中心取得了重大成功，最初入学的学生目前都在英国大学就读第一年。我们很高兴在 2022 年招收比之前多两倍的学生，并期待在未来的一年里指导他们。我们对 ACG 国际艺术预科中心为非传统学习路径的学生创造新的机会感到兴奋。

我们对我们在创意艺术教育领域的竞争地位充满信心。2023 年，我们准备通过寻求与区域市场现有的（和）潜在学术合作伙伴不同形式的合作来优化 ACG 的教学资源。我们期待通过我们的不断扩大产品组合为更多具有不同需求的学生提供服务。这得益于我们在全国各大城市拥有校区和一流教学人员的强大运营基础，提供并交付积极学生成果的历史记录以及强大的合作伙伴基础。

接下来交给 Kevin (Sima)。

Ms. Alice Zhang [translation]:

Thank you, Mr. Sima.

Our students have demonstrated a great deal of dedication and determination in their pursuit of arts study. And as their trusted partner along this journey, ACG has strived to ensure that our offerings remain first-rate: educational and relevant to real world experience.

In First Quarter 2023, one of our featured programs is the Open Hack Project designed for Shanghai Fashion Week 2023. During this five-day-long project, participating students will create branding proposals, start a fashion lookbook from scratch, and have an opportunity to interview fashion icons and influencers. Students could also win VIP access to Shanghai Fashion Week 2023, which took place this month. Additionally, as this project is designed for students who are looking to add highlights to their resume, not only will they gain first-hand experience working as part of a professional fashion week team, but also complete the project with reference letters and internship certificates.

ACG initially introduced online research-based learning programs during the COVID-19 pandemic. We were able to do so primarily thanks to a strong partnership base with international education providers including arts colleges and universities, and these programs have been well received by participating students. As international travel was not feasible for many students over the past couple of years, we developed programs to encourage students to explore cultural heritage by visiting cultural heritage sites in China. “Intangible cultural heritage” is a term used by UNESCO to describe culture beyond monuments and collections of objects. As described by UNESCO, intangible cultural heritage also includes “traditions or living expressions inherited from our ancestors and passed on to our descendants, such as oral traditions, performing arts, social practices, rituals, festive events, knowledge and practices concerning nature and the

universe or the knowledge and skills to produce traditional crafts.” We understand how valuable these types of learning experiences are for students applying to overseas arts schools. In 2023, we plan to continue offering these programs to our students, as well as other programs to keep up with the latest trends in the arts world, just like what we did with the Metaverse in the Post-pandemic Era program. As international travel continues to pick up and as China has lifted its zero-COVID policy, we are working closely with our international partners on resuming international summer school programs for the first time since 2020.

As Mr. Sima mentioned earlier, the ACG International Arts Foundation Program Center achieved great success with its initial class, all of whom are currently in their first year of college in the UK. We were pleased to enroll a larger class of students in 2022 and look forward to guiding them in the year ahead. We are excited about the new opportunities that the ACG International Arts Foundation Program Center has created for the students with non-traditional study paths.

We remain confident in our competitive position in the creative arts education industry. In 2023, we are prepared to optimize ACG’s instructional resources by seeking different forms of cooperation with existing and potential academic partners in regional markets. We look forward to serving more students with diverse needs with our growing portfolio of offerings. This is supported by our strong operational foundation with on-site access in various cities nationwide and first-rate teaching staff, our track record of delivering positive student outcomes, as well as our strong partnership base.

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

Mr. Ruobai Sima:

Thanks, Jun and Alice.

In closing, we are excited about the opportunities ahead of us in 2023. We remain optimistic about taking the lead in race on the runway of China’s creative arts education industry and will continue striving to become an international leader. We cannot wait to see what our students will achieve in 2023 and are committed to be the provider of new experiences, valuable guidance, as well as the supporter along their arts study journey.

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

Question-and-Answer Session

There were no questions during the Q&A session.

Operator:

Thank you. This will conclude our question-and-answer session. I would like to turn the conference back over to Mr. Sima for closing comments.

Mr. Ruobai Sima:

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:

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