



**ATA Creativity Global First Quarter 2023 Financial Results Conference Call
TRANSCRIPT
May 11, 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 First Quarter 2023 Financial Results 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.

It is my pleasure to introduce you to your host, Alice Zhang of The Equity Group. Thank you Alice, you may begin.

Ms. Alice Zhang:

Thank you, Camilla, 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, 2023, 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, including initiatives taken by ACG as China's public health situation has improved; market demand for, and market acceptance and competitiveness of, ACG's portfolio training

programs and other education services; and the impact of the COVID-19 pandemic on ACG and its operations.

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, 2023, are converted from RMB using an exchange rate of 6.8676 RMB: 1.00 USD, the noon buying rate as of March 31, 2023. 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 First Quarter 2023. As Chairman and CEO Mr. Kevin Ma is unable to be here today due to personal reasons, 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.

2023 got off to a strong start for ACG with students and teaching staff back in the classroom across our 21 training centers nationwide. We were very pleased to report a 10.0% increase in student enrollment during the first quarter, which was driven by a notable increase in portfolio training students. We realized stable total net revenues of RMB42.3 million, which was supported by the portfolio training services and overseas study counselling services businesses. Everyone at ACG

is working hard in anticipation of launching our overseas summer camps and other programs that will be held during the summer for the first time since the pandemic began in 2020 and we have seen strong demand from students for these summer programs.

Total student enrollment for First Quarter 2023 was 1,097, an increase of 10.0% from 997 in the prior-year period. If we exclude the 171 students who were enrolled in the foreign language training business that we disposed of in Third Quarter 2022, the enrollment increase would have been 32.8%. Enrollment in our core portfolio training program increased more than 20% with 648 students enrolled during First Quarter 2023, compared to 537 students in the prior-year period.

We delivered 27,630 credit hours for our portfolio training programs with the more flexible project-based portfolio training programs accounting for approximately 2/3 of all portfolio training credit hours delivered. We continue to encourage our students to opt for the project-based program, and the more favorable mix has contributed to improved operational efficiencies, giving us the opportunity to grow revenues without sacrificing the quality of teaching.

With that, let's move to financials for First Quarter 2023.

Total net revenues for First Quarter 2023 remained stable at RMB42.3 million, compared to RMB42.1 million in the first quarter of 2022. This was primarily driven by portfolio training and overseas study counselling services. Portfolio training services represented 64.6% of total net revenues during the period.

Gross margin was 44.3% during First Quarter 2023, compared to 45.7% in the prior-year period. The decrease in gross margin was primarily due to increased cost of services related to higher compensation expenses incurred for certain teaching staff who were engaged in enhancing the efficiency and the quality of service delivery, an initiative that began in the second quarter of 2022.

Net loss attributable to ACG was RMB17.8 million during First Quarter 2023, compared to RMB15.9 million in the prior-year period, which was primarily a result of increased sales expenses related to performance bonuses awarded in line with the enrollment growth during the period.

Moving to the balance sheet, we continue to be in a solid financial position with US\$9.6 million in cash and cash equivalents.

Working capital deficit was US\$35.5 million, and total shareholders' equity was US\$18.4 million at March 31, 2022 (2023), compared to working capital deficit of US\$33.0 million and shareholders' equity of US\$20.8 million, respectively, at December 31, 2022.

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

We are delighted to welcome all of our students back in person at our training centers at the start of 2023. With the pandemic largely behind us, we were pleased to have achieved such strong enrollment being driven by our core portfolio training services business, resulting in consistent revenues for the quarter driven by portfolio training and overseas study counselling services as

many students are preparing to apply for overseas education since many countries, including China, have relaxed travel restrictions.

We recently launched a rebranding strategy, introducing a new, contemporary logo and motto “Beyond the Difference”. We believe these new elements better reflect our goal of helping students find the courage and determination to be their authentic selves and embrace original thought and expression, and we think today’s students will identify with our philosophy and approach to creative education. ACG prides itself on being an innovative and forward-thinking organization, and we hope to instill in our students a love for creativity and sharing of ideas amongst different people from different places and life circumstances.

Enrollment during First Quarter 2023 appears to mark the start of a more positive trend within our research-based learning services business as many students have signed up for our various overseas camps planned for this summer. These programs were historically strong drivers for our business during the summer season, and we anticipate thinking (taking) full advantage of the strong demand of (for) these programs in 2023. We continue to work closely with our overseas institutional partners and teaching staff and look forward to delivering rewarding experiences to our students. Jun will expand upon our efforts here shortly.

We would also like to congratulate students who endured the different (difficult) college application process and are finally being rewarded for their efforts with admission letters from their dream schools. For the applications submitted in academic year 2022, ACG students have had continued success with offers of admission coming from prestigious art schools such as Berklee College of Music, Royal College of Art, Harvard University, Columbia University, and the list goes on. We are proud of these students who have persevered through an uncertain pandemic environment and are thrilled to see them continue pursuing their creative educations at the schools for (of) their choice.

We are optimistic that we are by and large operating in a post-pandemic era as we are observing tailwinds in our business due to the improved public health situation and opening up for (of) international travel. We believe we are well positioned to continue executing our growth initiatives, including expanding our partnership base as well as our portfolio of offerings. With the help of our reputable institutional partners and our ability to continuously adapt our offerings to serve the changing market, we are eager to continue delivering positive student outcomes and strengthening our reputation in the creative arts education industry.

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。

我们很荣幸能够为这么多（在）充满挑战的过去几年（中）仍然致力于创意艺术学习的学生提供服务。在此期间，我们的目标是继续为学生们提供高质量的课程、师资、服务，完整地指导他们完成具有竞争力的作品集，并通过让学生切身感受艺术来丰富他们的体验。我们希望这一切最终（能）使学生从其他的申请艺术学校的人群区别开来，获得全面的学习体验。我们相信，我们在学生取得积极成果方面的良好记录能使我们从竞争中脱颖而出，并且希望在现有基础上，通过为学生提供一流的艺术教育体验来继续发展我们的业务。

ACG 继续提供沉浸式的研学项目。我们对目前正在招生的海外夏季研修项目感到兴奋。其中一个为伦敦艺术大学的夏校项目，参与的学生将能够在伦敦艺术大学的校园参加为艺术学习各个阶段设计的课程，并实时融入英语交流的环境。

我们还提供将在荷兰和丹麦举办的“未来设计”探索工作营项目。在此期间，学生将了解当前和未来的设计趋势，并接触多学科交叉学习的方法，最终独立完成设计提案。

参与这些项目的学生（将）在项目结束时获得结业证书，并有机会与特定创意艺术领域的一些顶级专家进行一对一的学习。我们很高兴今年能够提供这些暑期课程，并且十分期待听到学生们的反馈。我们致力于为学生提供有价值的、有深度的研学体验。

我们认为 2023 年第一季度标志着我们的业务的拐点。随着年初国内和国际旅游限制放宽（的）良好的运营环境，我们看到越来越多的学生重新参与创意艺术学习和追求出国留学的机会。我们有信心可以为广泛的学生群体提供服务，包括那些遵循传统教育模式的学生和那些选择非传统学习路径的学生，并继续积极探索各种服务选项，以满足各类学生的需求。

我们的使命依然是提供优质的学习体验，培养和提高学生的创造力。当下，在后疫情环境下，我们相信并已经充分准备好利用复苏的市场环境，巩固我们在中国创意艺术教育市场的领先地位。

接下来，交回给 Sima。

Ms. Alice Zhang [translation]:

Thank you, Mr. Sima.

We are honored to have served so many students who have remained committed to their creative arts educations during the past few challenging years. Our goal during this time has been to continue providing a quality curriculum, access and support from teachers and staff, guiding them from start to finish on a competitive portfolio, and enriching their education with hands-on, arts-related experiences. Our hope is that all of this will eventually culminate in a student having a well-rounded education and experience that would set them apart from others who are applying for art school. We believe our track record of positive student outcomes sets us apart from the competition, and we expect to build on the current momentum and continue to grow our business by providing superior arts education experiences to our students.

ACG has continued to offer immersive research-based learning projects. We are excited about the overseas summer camps we are currently enrolling students in. One of the projects is the summer school at University of the Arts London, where participating students will be able to take courses designed for each stage of their arts study on the UAL campus and immediately engage in an English-speaking environment.

We are also offering a “Future of Design” Exploration Workcamp hosted in the Netherlands and Denmark, during which students will learn about current and future design trends and be exposed to interdisciplinary methodologies. The goal is for students to independently create a design proposal.

Students who participate in these projects will receive certificates of completion at the end of the camps and one-on-one study opportunities with some of the greatest minds in their particular areas of creative arts. We are very excited to be offering these summer programs this year and cannot wait to hear from students about their experiences. We continue to be committed to offering valuable, insightful research-based learning experiences to our students.

We believe First Quarter 2023 marked an inflection point for our business. With a favorable operating environment given relaxed domestic and international travel restrictions at the beginning of the year, we are seeing an increasing number of students re-engage in their pursuit of a creative arts education and study abroad opportunities. We are confident in our ability to serve a wide range of students, both those who have followed a more traditional education and those who have opted to follow a non-traditional path of study, and continue to actively explore various services options to meet the needs of all student types.

Our mission continues to be to provide quality learning experiences that cultivate and enhance students’ creativity. In a post-pandemic environment, we believe we are well-prepared to take advantage of the recovering market and strengthening our leading position in the creative arts education market in China.

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

Mr. Ruobai Sima:

Thanks, Jun and Alice.

In closing, we are excited about ACG’s prospects in 2023 and feel confident in our ability to seize the opportunities ahead of us. Our top priority remains our students, and we look forward to continuing to explore ways in which we can expand our services to better support their creative arts journeys.

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

Question-and-Answer Session

Operator:

Thank you. {Operator instructions}

Ms. Alice Zhang:

As we wait for questions to queue, I received some questions via email from William Gregozeski from Greenridge Global that I would like to pose to the management team. I'll start with this one. Was there any COVID related impact on the First Quarter numbers? Or is it a true reflection of the period?

Mr. Ruobai Sima:

Thank you. I think, yes, of course, I think there are some pent-up demand during the -- after the COVID period. But maybe for one figure, I think for the sales volume, I think, which is very directly reflect the market situation changes, I think compare for the last quarter-- for the same quarter last year, I think we have taken a very great increase. And maybe the total sales is around RMB50 million to around RMB80 million. But also we compare with the same figure and this for the same period in 2019, I mean the period before the COVID-19 occurred. And I think we also take a very big increase from it. The total sales volume increase from RMB60 million to RMB80 million. I think in that way it means that this increase is not only from the COVID impact, it's also from some natural increase. Besides these, I think we note that this increase is not the similar increase from enrollment numbers, but also increase about the unit price. So in that way, I think that figure can reflect the real situation about the increase during the period of the year. Thank you.

Ms. Alice Zhang:

Thanks, Mr. Sima for the answer. The second question I have is, can we expect to see student enrollment and credit hours increase on a year-on-year basis for the remainder of 2023?

Mr. Ruobai Sima:

Yes. I think we hope that this trend can be continued. I think our portfolio got bigger and bigger. And currently we still believe that this increase will keep in an increase trend for the following of the year.

Ms. Alice Zhang:

Great. Appreciate the answer. One last question from Bill is, where do you think you need to be in terms of enrollment or credit hours to reach profitability? And do you have the cash to get there?

Mr. Ruobai Sima:

I think in order to get profitability is not a simple question to just simply increase enrollment or credit hours. I think, of course, and for the marketing side, I think that our sales volume increase

is one way and besides this we also try to develop more new business lines, and also we have made our pricing methodology more closer to reflect the market situation changes. And besides these maybe we will also focus on our internal controls. I think we've made our operating more efficient, and we'll focus on cost controls and the teaching management and more efficient in theory. In that way we can enhance our operating efficiencies. By those approaches, I think we will make our cash management balanced and in that way I think we can get there to make our profitability. Thank you.

Ms. Alice Zhang:

Great, thank you. That's all the questions from Bill. I'll hand it back to the main Q&A session now. Thank you.

Operator:

Thank you. [Operator Instructions] There are no questions at this time. I would like to turn the floor over to Mr. Sima, CFO, 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 concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.
