



**ATA Creativity Global Second Quarter 2023 Financial Results Conference  
Call  
TRANSCRIPT  
August 10, 2023 at 9 p.m. ET**

**SPEAKERS**

Alice Zhang – Investor Relations, The Equity Group

Ruobai Sima – Chief Financial Officer, ACG

Kevin Ma- Chairman and CEO, 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, 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, 2023, is available at the IR Section of the Company's website at [www.atai.net.cn](http://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 and adjustments (taken) by ACG as China eased COVID-19 pandemic-related restrictions; market demand for, and market acceptance and competitiveness of, ACG's portfolio training programs and other education services.

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, 2023, are converted from RMB using an exchange rate of 7.2513 RMB: 1.00 USD, the noon buying rate as of June 30, 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](mailto: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 second quarter of 2023. 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 were pleased to see positive enrollment trends from the first quarter of 2023 continue into the second quarter. We saw some pent-up demand at the start of the year when domestic and international travel restrictions were lifted in China; however, enrollment levels normalized over the course of the Second Quarter of 2023.

Total student enrollment for the Second Quarter 2023 was 928, compared to 1,018 in the prior-year period. However, excluding 155 students who were enrolled in the foreign language training business that we disposed of in Third Quarter 2022, student enrollment actually increased 7.5% year over year.

We also achieved stable growth in net revenues compared to the prior-year period, which was primarily due to increased services delivered for portfolio training and overseas study counselling. We delivered 28,698 credit hours for the portfolio training programs in Q2, a 13.0% increase from the prior-year period. As a result of increased gross profit and lower operating expenses, we also reported improved year-over-year bottom-line results.

We were particularly excited about our overseas summer programs this year as this is the first summer we resumed offering this type for (of) programming since the COVID-19 pandemic. We saw strong demand for these offerings, many of which have been delivered at this point in time, and have been thrilled with the positive feedback we have received from students thus far. We remain excited about the prospects of all major lines of business in the remainder of the year.

With that, I will quickly review the financials.

Total net revenues for Second Quarter 2023 increased 6.5% to RMB36.2 million, compared to RMB34.0 million in the Second Quarter of 2022. This was primarily driven by increased revenues from portfolio training and overseas study counselling services, despite a lack of revenue from the disposed of foreign language training services business. Portfolio training services represented 78.1% of the total net revenues during the period.

Gross margin improved to 39.5% during Second Quarter 2023, compared to 35.6% in the prior-year period. The increase in gross margin was primarily due to increased net revenues while the cost of revenue remained relatively stable from the prior-year period.

Net loss attributable (attributable) to ACG narrowed to RMB17.2 million during Second Quarter 2023, compared to RMB22.1 million in the prior-year period, which was primarily a result of increased net revenues and decreased operating expenses during the period.

Turning to the first half of 2023, net revenue increased to RMB78.6 million, compared to RMB76.2 million in the prior-year period.

Gross margin improved to 42.1%, from 41.2% in the prior-year period.

Net loss attributable to ACG narrowed to RMB35.0 million, compared to RMB37.9 million, primarily due to decreased operating expenses.

Moving to the balance sheet, we continue to be in a solid financial position with US\$5.8 (US\$7.8) million in cash and cash equivalents.

Working capital deficit was US\$35.9 million, and total shareholders' equity was US\$15.2 million at June 30, 2023, compared to working capital deficit of US\$33.0 million and shareholders' equity of US\$20.8 million, respectively, at December 31, 2022.

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.

Riding the positive momentum we experienced at the beginning of 2023 with the lifting of pandemic-related restrictions, we continued to see growing demand for our offerings, particularly in portfolio training and overseas study counselling services, which more than offset a lack of revenue contributions from the foreign language training services we disposed of in Third Quarter 2022. We saw a wave of new students enroll during First Quarter 2023, which eased to normalized levels in Second Quarter 2023. We anticipate student enrollment will continue to grow at a stable rate in the improved market environment.

Overseas study counselling services continues to gain momentum as an increasing number of students are looking to apply for overseas arts schools and institutions. We leverage our teaching resources and international institutional partnerships to support our students with equity (quality) academic programs and comprehensive counselling services, working as a trusted advisor throughout the application process.

We remain optimistic about the potential of our business as more and more students seek to initiate or re-initiate their arts study journey in a post-pandemic environment. We are extremely proud to be part of their journey and take pride in our comprehensive high-quality offerings and first-class teaching staff, extensive educational resources, and above all, the positive student outcomes resulting from an education with ACG. We will continue to explore ways to expand our portfolio of services which targets a wide spectrum of arts-related topics for all kinds of students in different stages of their study, and look forward to serving an increasing population of students as a leader in the creative arts education industry in China.

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.

接着我们从过去几年面对外部环境挑战的状态中调整过来，迎接同学们回到校区，完全恢复了与学生面对面沟通与交流，ACG 度过了收入（收获）颇丰的上半年。我们一直致力

于充分发挥学生们的艺术创作潜力，并帮助他们从学术和专业上获得成功。我们对学生在疫情期间表现出的毅力现象（印象）深刻，并为他们取得的成绩倍感自豪。

自 2023 年初以来，我们注意到学生对我们的项目的需求不断增加（增长）。许多学生寻求参与各类实践项目以及能够探索国内外其他领域（地域）的项目机会。我们相信 ACG 能够最大限度地利用在研学和项目策划方面的优势，以适应不断变化的艺术世界，并培养学生在相关领域的敏感性。我们相信对学生们来说这些项目也是他们在学校教育之外非常有价值的经验。

今年夏天，除了常规的实习、训练营、夏校项目外，我们将继续组织国内非物质文化遗产主题的研学营，覆盖中国云南省、贵州省和甘肃省的三个地点。这些独特的项目使参与的学生能够真正地沉浸在当地的环境中，向专家学习各种技能，包括摄像和电影拍摄、少数民族文化、矿石绘画和彩绘雕塑等。

这些国内项目之外，ACG 还将与中日教育交流协会联合推出在日本东京举办的创新设计研修营。该项目将为学生提供涵盖六大内容模块的沉浸式体验，参访地点不仅有东京大学和早稻田大学的校园，还包括艺术场馆、特色街区和艺术家工作室。参与的学生将有机会进行艺术领域的跨学科探索，获得接触日本当地不同的艺术风格和学校的机会。本项目旨在帮助可能对出国留学感兴趣的学生，带领他们学习如何从多视角解读国外艺术与文化，学习日本文化在历史和传统中展现的同时探索现代创新设计。我们相信这个项目，以及我们今年夏天的所有的其他项目，将成为疫情之后恢复海外课程的良好起点，我们迫不及待地想听到学生们的反馈。

从今年夏天开始，大多数想申请国外院校的学生已经开始紧锣密鼓地准备他们的作品集。我们的同事也一直在与学生密切沟通他们想呈现的想法和创意，而这些将成为学生作品集的关键部分，能够见证学生们在申请过程中的努力变成结果总是令人无比欣慰的。

ACG 在创意艺术领域一直保持着领先地位。我们的能力源于我们在为学生带来积极成果方面的良好记录，在世界各地主要艺术领域拥有丰富经验的优秀教职员，与著名艺术机构建立强大且不断发展的关系网络，以及推出学生感兴趣的相关产品的能力。ACG 全面的产品类别和服务旨在为大量多样化的学生群体提供服务，我们将继续努力提高 ACG 在不同年龄段学生中的品牌知名度。通过引入更多的优质艺术教育资源，我们将致力于为学生们提供更多更优质的服务选项。

接下来，交回给 Kevin。

**Ms. Alice Zhang [translation]:**

Thank you, Kevin.

It has been a truly rewarding first half of the year for ACG as we welcomed students back to campus in person, fully returning to the face-to-face communication and interaction with our students that has been more challenging to come by in recent years. Our goal has always been to

help students explore the full potential of their arts pursuits and achieve what they define as success from an academic and professional perspective. We have been impressed by the perseverance demonstrated by several of our students during the pandemic and are particularly proud of their achievements.

Since the beginning of 2023, there has been growing demand for our programs with many students seeking to experience hands-on projects or educational tours that provide an opportunity to explore other parts of the country or the world. We are confident that ACG will be able to maximize our strengths in research-based learning, curating projects and programs that adapt to the changing world of the arts and nurture students' sensibilities in related fields, which we believe is incredibly valuable beyond their schooling.

This summer, on top of regular internships, bootcamps and summer school programs, we continue to host domestic intangible cultural heritage-themed camps, covering three heritage sites across China in Yunnan Province, Guizhou Province, and Gansu Province. These unique programs allow participating students to really immerse themselves in a local environment and learn from experts in various skills, including photography and film, ethnic minority group cultures, mineral ore painting and painted sculptures.

In addition to these domestic programs, ACG will also launch a Design Innovation Camp Experience in Tokyo, Japan, co-hosted by the Sino-Japanese Education Exchange Association. This project will provide students with an immersive experience covering six content modules not only at the campuses of the University of Tokyo and Waseda University, but also at arts venues, local neighborhoods, and art studios. Participating students will have the opportunity to explore inter-disciplinary arts study, and gain local access to different artistic styles and schools of Japan. This program aims to help students who may be interested in studying abroad to learn how to understand foreign arts and culture from multiple perspectives, looking from both a historical and traditional presentation and modern design and display of Japanese culture. We believe this program, along with all our other programs this summer, will serve as a good starting point for resuming our overseas programs since the pandemic, and we cannot wait to hear the feedback from our students.

Starting this summer, most students who want to apply for overseas schools have started to work intensively on their portfolios. Our staff have been working closely with students on their presentation ideas and projects that will become key pieces of their portfolio, and it is always gratifying to see the culmination of these students' hard work as they undergo the application process.

ACG has maintained a leading role in the creative arts field. Our competency stems from a proven track record of delivering positive student outcomes, our amazing teaching staff with experiences in all major areas of art around the world, a strong and growing network of relationships with renowned arts institutes, and the ability to launch relevant products of interest to students. ACG's comprehensive set of offerings and services is meant to serve a large, diverse student population, and we continue working to increase our brand awareness amongst students of different age groups. By introducing more options for superior educational arts experiences, we aim to better serve these students.

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

**Mr. Kevin Ma:**

Thanks, Jun and Alice.

We were pleased with ACG's achievements in the First Half of 2023 and are excited about the opportunities for the remainder of the year. We are always seeking ways to improve our students' experiences, and believe we are well equipped to execute our growth strategies by expanding our services to meet their demands.

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

### **Question-and-Answer Session**

**Operator:**

Thank you. {Operator instructions}

*There were no questions during 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:**

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

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