



**ATA Creativity Global Third Quarter 2023 Financial Results Conference Call
TRANSCRIPT
November 13, 2023 at 8 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’s Third 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] Please note this conference is being recorded. I will now turn the conference over to 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 third quarter and nine months ended September 30, 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 and adjustments 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 third quarter and nine months ended September 30, 2023, are converted from RMB using an exchange rate of 7.2960 RMB: 1.00 USD, the noon buying rate as of September 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, 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 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 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 with our solid financial performance during Third Quarter 2023, reporting a 14.1% increase in net revenues, primarily as a result of increased contributions from portfolio training and research-based learning services. As we were able to resume in-person overseas summer camps this summer for the first time since the COVID-19 pandemic began in 2020, revenues from research-based learning services more than doubled from the prior-year period, and we have been thrilled with the enthusiasm and positive student feedback received thus far. Increased revenues coupled with decreased operating expenses enabled us to significantly narrow losses during the quarter.

Total student enrollment for Third Quarter 2023 was 1,093, compared to 1,106 in the prior-year period. However, we did see a slight increase in enrollment in our core portfolio training programs. During the period, portfolio training credit hours delivered increased 24.1% to 44,723 with credit hours delivered for project-based programs increasing nearly 35% year over year. We believe this demonstrates that our students have been leveraging ACG's teaching resources more efficiently, as project-based credit hours accounted for 69.5% of all portfolio training credit hours delivered.

During the summer, we hosted six overseas programs, bringing students to countries such as the U.K. and Japan where they had the opportunity to explore a variety of art genres at prestigious university campuses and engage in real-world applications. The successful delivery of these programs has reinforced our belief that ACG is fulfilling a growing demand for overseas learning programs, and we are excited to continue presenting these opportunities to our students in the future.

With that, I will quickly review financials.

Total net revenues for Third Quarter 2023 increased 14.1% to RMB59.9(59.5) million, compared to RMB52.1 million in the Third Quarter of 2022. This was primarily driven by increased revenues from portfolio training and research-based learning services. Portfolio training services represented 77.5% of total net revenues during the period.

Gross margin improved to 49.2% during Third Quarter 2023, compared to 45.1% in the prior-year period. The increase in gross margin was primarily due to increased net revenues compared to the prior-year period.

As a result of the increased gross profit and decreased operating expenses, net loss attributable to ACG narrowed to RMB7.3 million during Third Quarter 2023, compared to RMB12.0 million in the prior-year period.

Turning to year-to-date results for the nine months ended September 30, 2023, net revenue increased 7.6% to RMB138.0 million, from RMB128.3 million in the prior-year period.

Gross margin improved to 45.1%, from 42.8% in the prior-year period.

Net loss attributable to ACG narrowed to RMB42.2 million, compared to RMB49.9 million, primarily due to increased revenues and decreased operating expenses.

Moving to the balance sheet, we continue to be in a solid financial position with US\$9.0 million in cash and cash equivalents.

Working capital deficit was US\$36.0 million, and total shareholders' equity was US\$14.2 million at September 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.

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

We were pleased to see the positive momentum from the first half of the year continue into the second half with the encouraging operating results coming from our core portfolio training services business. As a result, ACG achieved a solid 14.1% increase in total net revenues, improved gross margins and significantly narrowed losses during the Third Quarter 2023. Our sales results during the period indicate that students remain interested in initiating and continuing their arts educations and have chosen ACG as their trusted institution to guide and support them as they make their way along their creative journeys.

During this quarter, ACG also reported positive cash flow from operations, which increased our cash and cash equivalents by 19.1% to RMB65.5 million.

Total portfolio training credit hours delivered increased by 24.1% in Third Quarter 2023, with the number of students enrolled increasing from 616 to 651 year over year. We continue to view portfolio training as our primary line of business, which serves as the main channel through which current enrolled students can take part in value-added services to further enrich their creative education experience. This includes our experiential learning offerings under research-based learning services, overseas study counselling, and so on. All of these services together offer a comprehensive experience for students who are working toward completing their personal portfolios and planning to apply to other arts institutions.

We successfully hosted a total of 11 in-person summer programs during Third Quarter 2023, six overseas and five domestic. We were excited to bring these offerings back in this year, and given the tremendously positive reception, we look forward to planning and executing more overseas research-based learning programs in the future, providing attractive and relevant learning programs on a variety of art topics.

As we enter the 2023-24 academic year and start to prepare for the upcoming application season, we are thrilled to announce preliminary admission results for students that submitted applications in 2023. Thus far, ACG students have received offers from prestigious institutions worldwide from both arts-focused and non-arts-focused universities in 2023, including MIT, Harvard, University of Oxford, as well as Parsons, Rhode Island School of Design, and Royal College of Art. We are incredibly proud of all the hard work our students have put in to yield these impressive results, and we are grateful to have been a part of their journeys. We remain committed to serving students and enabling these types of positive education and career outcomes for those wishing to pursue arts study.

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:

谢谢司马。

2023 年对 ACG 来说是一个具有重要意义的一年。随着中国和世界其他地区逐渐进入后疫情时代并恢复正常运营环境，我们的业务也建立了一些积极的势头。我们全面恢复了各个校区的线下授课，并自 2022 (2020)年以来首次推出海外暑期项目，将 100 多名学生带到了不同国家，让他们在创意艺术的学习和应用中获得身临其境的体验。ACG 对于学术课程的质量和从专业出发的角度提供的支持感到自豪。我们将不断探索与更多机构和企业合作的方式，提供不同的机会来帮助学生们磨练他们的技能，让他们在实践中利用这些技能。

在 2023 年余下的时间里，我们将推出常规的在线大师班和其他体验项目。针对希望获得一些专业经验的学生，我们推出名企体验项目。通过该项目，学生将切身参与全球知名企业的企划。参与的学生将有机会从事并接触到各种职位，涵盖建筑设计、游戏设计、交互设计、时尚设计等。学生们将获得世界级企业的工作经验和能够助力他们大学申请的推荐信。我们相信，让学生们实际参与并成为知名公司专业团队的一员的项目形式，能够很好的为学生提供实践经验。

今年 10 月，我们还进行一年一度的上海时装周项目，为学生们提供时装周 VIP 门票，以及在参与时装周的中国艺术家品牌进行实习的机会。被选中的学生能够体验秀场后台和订货会，与营销和品牌团队合作。我们相信，这种体验对于（对）时尚设计和时尚品牌运营感兴趣的学生来说至关重要。我们也很高兴参与的学生从他们合作的品牌那里得到积极的反馈。

马上，我们又进入入学申请的提交忙季。在 ACG，我们努力地为学生在各自的艺术领域及招生过程中提供一流的支持。对于我们许多学生来说，这是一个关键的时期。看着我们的教职员工与他们密切交流合作，最终确定并完善他们的作品集，是一件令人兴奋的事情。正如司马提到，我们的学生已经收到了众多知名学校的录取通知书，我们期待着帮助下一届学生在 2024 年取得类似的成功。

多年来，我们一直致力于成为中国创意（艺术）教育行业的领军者。我们的能力源于对市场 and 学术趋势的深刻理解和持续监控，源于经验丰富、业绩良好的教学团队，源于我们在形成和维护合作机构伙伴关系方面的持续努力。除此之外，我们还专注于提供内部（内容）丰富的相关联、高质量的产品，我们相信这些产品是我们业务增长的核心。我们仍将致力于提供培养年轻一代对艺术的欣赏和启蒙（的）产品，并继续探索如何越来越多的在创造性艺术学习方面有不同需求的学生提供服务。

接下来，交给司马。

Ms. Alice Zhang [translation]:

Thank you, Mr. Sima.

2023 has been an important year for ACG. We have been able to build some positive momentum in our business as China and the rest of the world continue to operate in a post-pandemic, near-normal, type of environment, which enabled us to fully resume in-person instruction at our network of training centers and offer our overseas summer programs for the first time since 2020, bringing more than 100 students to various countries of interest and allowing them to receive an immersive experience in creative arts study and application. ACG prides itself not only on the quality of its academic programming but also on the support it provides from a professional development perspective. We continue to explore ways in which we can cooperate with more institutes and firms that can help provide students with various opportunities to hone their skills and utilize them in real-world scenarios.

In the remainder of 2023, we have our regular online Master Class programs lined up, along with other experiential offerings. For students looking to gain some professional experience, we are introducing a Part-time Assistant (“PTA”) Program, through which they will work with global well-established brands on real-world projects in an engaging environment. Participating students will have the opportunity to work and support various positions, covering architecture design, games design, user interaction design, fashion design, and so on. Students will walk away with world-class company working experience, as well as reference letters that will improve their college application competency. We believe programs like this are critical in providing students with hands-on experience by being part of a real-world professional team at reputable companies.

This October, we also held our annual Shanghai Fashion Week program, providing students with Fashion Week VIP tickets and an opportunity to intern at Fashion Week with Chinese artist brands. Selected students were able to experience the runway backstage and order-placement meetings, as well as working with marketing and branding teams. We believe this kind of experience is crucial for students interested in a career in fashion design and fashion brand operations, and were pleased that participating students received positive feedback from the brands they worked with.

We will soon be entering a busy season of application submission for many schools. At ACG, we strive to provide our students with best-in-class support in their respective arts field, as well as during the admissions process. It is a critical time for many of our students, and watching our teaching staff working closely with them to finalize and perfect their portfolios has been truly exciting. As Mr. Sima mentioned, our students have received tremendous success with offers from a number of renowned schools worldwide, and we look forward to helping this next class of students garner similar success in 2024.

For years, we have worked to become a leading player in China’s creative arts education industry. Our competency stems from a deep understanding and constant monitoring of the market and academic trends, an experienced teaching team with a proven track record, and our continuous efforts in forming and maintaining our institutional partner network. On top of these capabilities, we are focused on providing relevant, high-quality offerings that are substantial in contents, which we believe lies at the center of our business growth. We remain committed to offering products that cultivate and nurture the appreciation and enlightenment of arts of the

younger generation, and continue to explore ways to serve a growing base of students with diverse needs in creative arts study.

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

Mr. Ruobai Sima:

Thanks, Jun and Alice.

We look forward to concluding 2023 on a strong note. We remained focused on providing our students with carefully curated class offerings, and believe we are in a position where we can execute our growth strategies by leveraging our advantages.

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. Ruobai Sima:

Thank you, operator. And 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 the Fiscal 2023 earnings call. Thank you.

Operator:

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