



**ATA Creativity Global Fourth Quarter and Year-End 2023 Financial Results
Conference Call
TRANSCRIPT
March 26, 2024 at 9 p.m. ET**

SPEAKERS

Carolyne Sohn – Investor Relations, The Equity Group
Ruobai Sima – Chief Financial Officer, ACG
Jun Zhang – President, ACG

Operator:

Greetings. Welcome to ATA Creativity Global’s Fourth Quarter and Year-End 2023 Financial Results Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Carolyne Sohn, Vice President. Thank you, Carolyne, you may begin.

Ms. Carolyne Sohn:

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, 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,” “guidance,” “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; ACG’s 2024 guidance; 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 Fourth Quarter and year ended December 31, 2023, are converted from RMB using an exchange rate of 7.0999 RMB to 1.00 U.S. dollar, the noon buying rate as of December 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 fourth quarter and full year of 2023. 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 2024 guidance, 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, Carolyne, and welcome everyone. Good evening to those in America. We appreciate everyone's time.

2023 was an important year for ACG. It was the first year since the COVID-19 pandemic where we were able to deliver a complete year of in-person class delivery while continuing to make select courses available via online delivery. I am pleased to report that the Company achieved RMB221.6 million in revenues for full year 2023, a 7.2% increase year over year. This was a result of renewed student interest in our portfolio training, overseas study counselling and research-based learning services as COVID-related travel restrictions and local shutdowns were lifted at the start of 2023, enabling students to return to an on-campus experience and resume planning for overseas study.

Over the course of 2023, we also continued to realign operating costs and were able to marginally decrease overall operating expenses. As a result of the increased revenues and decreased operating expenses, we significantly improved our bottom line, narrowing net loss by 29.7% for full year 2023.

We were excited to host overseas summer camps for the first time since the pandemic and were pleased that students continued to find these offerings valuable to their overall experience at ACG, enriching their academic study while reinforcing their desire to pursue a career in the arts.

Total student enrollment for Fourth Quarter 2023 was 1,011, compared to 908 in the prior-year period. Student enrollment increased 11.3% year over year, mainly as a result of more students who enrolled in our portfolio training services and overseas study counselling services. During the period, portfolio training credit hours delivered increased 3.3% to 48,421. At the same time, we continued to deliver a variety of experiential programs to our students. As we have received positive student feedback on these offerings, we expect to introduce additional relevant hands-on type of programs in the future.

With that, I will quickly review financials.

Total net revenues for Fourth Quarter 2023 increased 6.5% to RMB83.6 million, compared to RMB78.5 million in the Fourth Quarter of 2022. This was primarily driven by increased revenues from portfolio training and overseas study counselling services. Portfolio training services represented 77.4% of total net revenues during the period.

Gross margin improved to 62.6% during Fourth Quarter 2023, compared to 60.6% in the prior-year period. The increase in gross margin was primarily due to increased net revenues.

We reported net income attributable to ACG of RMB8.6 million during Fourth Quarter 2023, an increase of 324.1% from RMB2.0 million in the prior-year period.

Turning to full-year results of 2023, net revenues increased 7.2% to RMB221.6 million, from RMB206.8 million in the prior-year period.

Gross margin improved to 51.7%, from 49.6% in the prior year.

Net loss attributable to ACG narrowed to RMB33.7 million, compared to net loss of RMB47.9 million, primarily due to increased revenues and decreased operating expenses.

Moving to the balance sheet, we continue to strengthen our financial position, ending the year US\$8.5 million in cash and cash equivalents, a 9.4% increase from the end of 2022.

Working capital deficit was US\$34.4 million, and total shareholders' equity was US\$15.9 million at December 31, 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...

With the lifting of pandemic-related restrictions at the start of 2023, we were very pleased to be able to resume in-person class delivery at all our training center locations throughout China. Especially with education and creative arts, there is just no substitute for face-to-face collaboration between students and their peers and between students and their professors. We believe it is a critical element of our mission of delivering positive student outcomes.

In 2024, our portfolio training services offering remains the core component of our business. It is also the key part of our curriculum that prepares students to create a complete portfolio of their work while they are at ACG, which is a prerequisite to applying to overseas arts colleges and grad schools. Through portfolio training services, we promote our offerings in research-based learning and overseas study counselling services, which make for a comprehensive and well-rounded student experience here at ACG. In addition to focusing on growing our existing business, we are also proactively exploring partnerships with creative arts institutions around the world.

During Fourth Quarter 2023, we successfully hosted multiple winter programs, including our regular Master Class, the October Shanghai Fashion Week program, and the Part-Time Assist (Assistant) program. These programs allow participating students to put some of their academic knowledge into practice by providing opportunities to work in a professional setting and gaining a better understanding of how the concepts they have explored in the classroom are applied in real-world scenarios. We were pleased with the positive reception by both our students and our enterprise partners with whom our students worked closely.

As of March 2024, many of our students have received favorable admission results from renowned arts institutions and programs worldwide. These positive outcomes inspire our continuous efforts in helping students achieve their academic goals. We look forward to hearing more good news from our students who have demonstrated unparalleled determination and creativity throughout their journeys.

That said, we are pleased to provide the following revenue guidance for Fiscal Year 2024. For the year ending December 31, 2024, we expect total net revenues of between RMB233 million to RMB255 million, which represents a 5% to 15% increase from Fiscal Year 2023. Please note that the revenue guidance for Fiscal Year 2024 does not consider any potential acquisitions or other business transactions we may complete in 2024. As any material developments arise, we will be sure to update the markets and re-evaluate guidance as appropriate.

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 年对我们的学生来说是出色的一年，我们很高兴能够提供一整年的稳定运营。我们相信这对我们能够有一个安心的教学环境并提供出色的成果很重要。在这里我想感谢我们的教学人员，感谢他们的努力和决心，推动了学生取得积极成果。感谢我们的学生，感谢他们的毅力和对 ACG 的信任。我们很自豪能够为各种类型的学生提供优质的服务，如果没有我们全体员工的奉献精神 and 强大的机构合作伙伴关系网，这是不可能实现的。

自 2024 年初，我们的常规研学项目，包括 Open Hack 上海时装周 2024 年时尚挑战营，招收了新的学生。参与的学生将有机会采访时尚设计师，了解全球流行趋势，定制品牌提升案（制定品牌提案）和时尚的 Lookbook 设计。项目还将提供实习机会和推荐信。今年第一个上海时装周项目将在三月底进行，第二个计划在十月份。我们还举行了若干大师班，邀请来自伦敦艺术大学、罗德岛设计学院等著名艺术学院的教授和讲师，涵盖了广泛的艺术主题，包括建筑设计、用户交互设计、动画漫画。我们努力通过不断收集学生们的反馈提出学生感兴趣和需要的产品，并确保我们对艺术学术界和行业新趋势的把握。我们相信这些产品不仅具有相关性且领先于行业，还对各种艺术形式感兴趣的学生带来价值。

此外，自疫情以来，我们在今年寒假首次恢复了全美艺术访校项目，将 12 名学生带到了罗德岛、纽约、洛杉矶等八所顶级艺术院校，包括帕森斯设计学院，罗德岛设计学院，和普瑞特艺术学院。我们很高兴能够为参与的学生提供体验不同的校园环境和机会，让他们更好地规划未来的留学生活。

我们还想强调我们在扩大我们所服务的学生群体方面所做的努力——为来自非传统学术背景的学生提供额外的服务。例如，我们于 2021 年成立的 ACG 国际艺术预科中心与新加坡莱佛士高等教育学院合作推出了一个新的文凭课程，为初中毕业生推出了四年制学士学位课程。在校学生将在预科中心学习一年的预科课程，然后在新加坡学习三年制学士学位课程，获得学士学位。这个新的文凭课程，以及目前预科中心提供的其他课程，将为学生打下坚实的基础，最终帮助他们申请并获得英国、意大利、日本院校的录取。发展新的合作项目并招收更多的学生进入 ACG 预科中心，这增强了我们为不断增长的潜在的学生群体提供服务的能力，使我们有信心为他们带来积极成果。

2024 年，我们仍然专注于对学生服务。我们相信，我们全面的优质项目及各种衍生服务、过往那些帮助学生取得优异成绩的记录、以及我们不断扩大的合作伙伴关系机构网络，都代表我们在中国创意艺术教育市场的核心竞争力。我们做好了充分准备，在这个分散的市场中继续扩大我们的份额，并期待继续为我们所有的利益相关者争取更好的发展。

接下来交给司马。

Ms. Carolyn Sohn [translation]:

Thank you, Mr. Sima.

2023 was a fantastic year for our students, and we were pleased to be able to deliver a full year of stable operation, which we believe is important to our community's peace of mind and

capacity for delivering outstanding work. I would like to take a moment to thank our teaching staff for their commitment to driving positive student outcomes and our students for their perseverance and entrusting ACG with their creative arts journeys. We are proud to have served all types of students with our quality offerings, which would not have been possible without the dedication of our entire staff and our strong network of institutional partnerships.

Since the beginning of 2024, we have enrolled students into our regular research-based learning programs, such as the March Open Hack Shanghai Fashion Week program. Participating students will have the opportunity to interview designers and explore global fashion trends, while creating branding proposals and fashion lookbook designs. The program also provides internship opportunities and reference letters. The first Shanghai Fashion Week program takes place in late March, and the second will be in October. We also offered several Master Classes with professors and lecturers from prestigious arts schools such as the University of Arts London and Rhode Island School of Design, covering a wide range of arts topics including architecture design, user interface design, animation and comics and so on. We strive to introduce offerings that reflect student interests and demand by eliciting continuous feedback from the student community and ensuring that we understand new trends in arts academia and industry, with the belief that such offerings are not only relevant and state-of-the-art, but also bring value for students interested in various art forms.

In addition, for the first time since the pandemic, we resumed our Arts Study Tour to US Universities this winter break, and brought 12 students to the campuses of eight top arts institutions in Rhode Island, New York and Los Angeles, including Parsons The New School for Design, Rhode Island School of Design, and Pratt Institute, etc. We were pleased to provide participating students with an opportunity to experience a variety of different campuses, allowing them to better envision what it would be like to study at these institutions.

I would also like to highlight our efforts in expanding the student population we serve—by providing additional offerings to students coming from non-traditional academic backgrounds. For example, the ACG International Arts Foundation Program Center, which we founded in 2021, initiated a new diploma program in cooperation with Singapore-based Raffles College of Higher Education, introducing a four-year bachelor's program for junior high school graduates. Enrolled students will spend a year in our Beijing Center for a foundation program, and then study in Singapore for a three-year bachelor's program, after which they will receive a bachelor's degree. This new diploma program, as well as other offerings currently available at the Foundation Center, supports students in building a solid foundation with an ultimate goal of applying and gaining admission to select colleges in the U.K., Italy, and Japan. The ability to expand these programs and enroll more students into the ACG Foundation Center has strengthened our confidence in serving a growing group of potential students and driving positive outcomes for them.

In 2024, we remained focused on serving our students. We believe our comprehensive portfolio of quality academic and ancillary offerings, our history of enabling excellent student outcomes, and our growing network of institutional partnerships represent our core competency in the creative arts education market in China. We are well positioned to continue growing our share in

this fragmented market and look forward to continuing to strive for better on behalf of all our stakeholders.

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

Mr. Ruobai Sima:

Thanks, Jun and Carlyne.

In closing, we are excited about ACG's outlook for 2024. As a leading player in the China creative arts education space, we are committed to providing high-quality, relevant, and valuable experience for our students. We also continue to explore opportunities to enhance our business and value proposition, which we believe will increase shareholder value, and are enthusiastic about some of these prospects.

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:

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 earnings call. Thank you.

Operator:

This concludes today's teleconference. You may disconnect your lines at this time and thank you for your participation.