

January 15, 2025

AMBOW EDUCATION HOLDING LTD. (NYSEAM: AMBO)

Based in Cupertino, California, Ambow Education Holding Ltd. is an artificial intelligence (AI)-driven, education- and collaboration focused technology company. Through its dynamic, patented hardware and software solution and open-platform HybriU, Ambow seeks to empower educators, students, educational institutions and corporate organizations with advanced learning, lecture capture, connectivity, and 3D technologies. Ambow is at the forefront of integrating AI into education and events, leveraging cutting-edge technology to transform learning experiences, professional gatherings, and corporate organizational operations.

INVESTMENT HIGHLIGHTS

- * In our view, Ambow's proprietary HybriU AI Digital Education Solution (HybriU) is well positioned to participate in the digitalization of the educational industry. HybriU features sophisticated, AI-powered software and hardware that create hybrid classrooms and event spaces with advanced technologies, including instant translation and simultaneous content creation, that can promote both online and offline adoption. Its AI engine enables precise offline image capture and accelerates the production of high-quality courses.
- * In addition, the HybriU platform equips enterprises with solutions that promote enhanced collaboration and unified workforce training and cross-border efficiency. The HybriU Enterprise Synergy Suite is designed to promote AI-driven, collaborative solutions that enable organizations to centralize project brainstorming, decision making and implementation. The system can also help companies to build libraries for long-term practices.
- * We see HybriU's capabilities enabling customers to significantly reduce operational costs by offering courses and events remotely, led by a central instructor or event leader. In addition, the platform enables instructors to focus on educational rigor, allowing the AI functionality to monitor and enhance user engagement.

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KEY STATISTICS

| Key Stock Statistics | |
|------------------------|---------------|
| Recent price (1/14/25) | \$2.02 |
| 52 week high/low | \$6.30/\$1.00 |
| ADS outstanding (M) | 2.8 |
| Market Cap (\$M) | 5.7 |
| Dividend | NA |
| Yield | NA |

Sector Overview

| | |
|---------------------|------------------------|
| Sector | Information Technology |
| Sector % of S&P 500 | 32.5% |

Financials (\$M, As of 6/30/24)

| | |
|-----------------------|-----|
| Cash & Mkt Securities | 9.0 |
| Debt | 2.7 |
| Working Capital | 4.5 |
| Current Ratio | 1.6 |
| Total Debt/Equity (%) | 41 |
| Payout ratio | NA |
| Revenue (\$M, TTM) | 7.8 |
| Net Income (\$M) TTM | NA |
| Net Margin | NA |

Risk

| | |
|-----------------|------|
| Beta | 0.72 |
| Inst. ownership | 0% |

Valuation

| | |
|-------------------|-----|
| P/E forward EPS | NA |
| Price/Sales (TTM) | 0.7 |
| Price/Book (TTM) | 0.9 |

Top Holders

| |
|---------------------------|
| Ceihl Partners Ltd |
| New Flourish Holdings Ltd |
| New Summit Global Ltd |

Management

| | |
|----------------------------|---|
| Chairman/Pres/CEO/Act. CFO | Dr. Jin Huang |
| Pres/COO - New School A&D | Ms. Chiao-Ling Hsu |
| Company Website | https://www.ambow.com |

PRICE CHART



COMPANY SPONSORED REPORT. SEE LAST PAGE FOR DISCLOSURES.

- * We expect Ambow to invest in the launch of HybriU in the U.S. by building sales infrastructure over time while also utilizing technology resellers and a partnering network. Outside the U.S., we expect it to license its technology. To that end, in October 2024, the company entered into a \$1.3 million nonexclusive licensing agreement with Singapore-based Inspiring Futures Pte. Ltd., granting licensing authorization in international markets.
- * As of June 30, 2024, the company had \$9 million in cash resources on its balance sheet and \$4.5 million in working capital to support the commercial rollout of HybriU. With minimal debt and a prudent, controlled growth strategy that achieved positive net income for the first half of 2024, Ambow Education has the potential, in our view, to achieve full-year profitability as early as the full-year 2024.

BUSINESS DESCRIPTION

Founded in 2000 and headquartered in Cupertino, California, Ambow Education Holding Ltd. is an emerging provider of AI-driven educational software and hardware tailored for hybrid learning environments, with broad applications across various markets. In early 2024, Ambow introduced its proprietary HybriU solution, a patented hardware and software platform that empowers educational institutions to seamlessly deliver classes both offline and online, integrating in-person and remote instruction for a fully hybrid learning experience.

Since its inception, Ambow has evolved from its initial focus on the Chinese market to establishing a U.S. presence in 2017, transitioning from a technology-driven company to providing educational services and then refocusing on its core technology strengths. During this period, Ambow streamlined and consolidated its educational services to enhance focus and efficiency. Currently, Ambow delivers career-oriented postsecondary education through its subsidiary, New School of Architecture & Design in San Diego, which offers a variety of master’s and bachelor’s degree programs. New School serves as a foundational platform to showcase the capabilities of Ambow’s HybriU solution. Between 2017 and 2023, Ambow operated Bay State College, which closed at the end of the 2022-23 academic year.

With the launch of HybriU, we see Ambow establishing more of a commercial presence, from its previous focus on technology development. It views the primary markets for HybriU to be large, top-tier U.S. universities, as well as smaller, regional colleges that offer career-oriented programs, appealing to institutions with resources to invest in its class-based model, as well as those that

may benefit from attracting students from multiple campuses or remote, online settings.

Furthermore, through its HybriU Enterprise Synergy Suite, we see industry-leading corporations being able to better connect their global workforces, regional offices, external trainers, and internal teams to collaborate on projects and enhance their productivity. This approach broadens educational access and participation on a global scale as well as supports the dynamic needs of today’s diverse learning and training environments.

In our view, HybriU has a multiple-year lead to market over anything currently in development, and we think its combination of trademark, copyright, trade secret laws, and confidentiality agreements protecting its brand and proprietary technology represent a significant barrier to entry for competitors.

To date, the system has been utilized by various groups, including nursing schools across multiple campuses, which we see providing a strong value proposition to the platform’s use across broad, networked geographies. In addition, financial consultancies have utilized HybriU to globally train employees on issues including new financial regulations and risk management strategies, enabling organizations to provide uniform, updated training through live and recorded modules. Last, the platform has been deployed to provide medical training, as HybriU’s 3D solutions can deliver immersive training experiences to enhance learning outcomes.

We see Ambow deploying multiple commercial strategies to launch HybriU, commercializing in the United States on its own, both through direct channels as well as through technology resellers, while partnering internationally through technology licensing agreements. We expect the company to generate recurring revenue from selling its base AI UniBox solutions and collecting box setup, license, and maintenance fees.

We expect the company to expand its sales network over the next few years while managing its operating resources to grow in a prudent manner. We see the potential for larger deals, including with universities and producers of corporate events, to include revenue-sharing models and for terms to become enhanced as the platform is further validated in the marketplace. We also see potential for Ambow to license the HybriU technology so that it can be embedded into larger technology platforms.

Given its nascent commercial activities to date, Ambow has focused on driving brand awareness campaigns through social media, including cooperation with influencers. In addition, the company has been working to optimize search engine engagement with leading companies including Google. Last, Ambow

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| PEER COMPARISON | | | | | | | | | | | |
|-----------------------------|--------------|-------------------|-------------------|------------------|------------------|-----------------------|---------------------|---------------------|-----------|------|-----------|
| Company | Ticker | Recent Price (\$) | 52-Week High (\$) | 52-Week Low (\$) | Mkt. Cap (\$MIL) | 1-yr Price Change (%) | 1-yr Rev Growth (%) | 1-yr EPS Growth (%) | P/E Ratio | Beta | Yield (%) |
| AMBOW EDUCATION HOLDING LTD | NYSEAM: AMBO | 2.02 | 6.30 | 1.00 | 6 | 36 | NM | NM | NM | 0.72 | NA |
| ZSPACE INC | NASDAQ: ZSPC | 10.23 | 32.69 | 5.25 | 234 | -54 | NM | NM | NM | NA | NA |
| COURSERA INC | NYSE:COUR | 8.47 | 20.73 | 6.29 | 1340 | -57 | 21 | NM | NM | 1.44 | NA |
| DOCEBO INC | NASDAQ: DCBO | 42.21 | 56.41 | 33.81 | 1276 | -5 | 27 | NM | NM | 1.36 | NA |

has hosted marketing events and industry summits in conjunction with prestigious educational conferences and events to enhance its corporate visibility.

COMPETITIVE ADVANTAGE

In our view, HybriU is well positioned to contribute to advancing the digitalization of education solutions by bridging online and offline instruction. HybriU is the first available total solution, integrating innovative AI, lecture capture, connectivity, immersive technologies, and a comprehensive management platform for educational purposes. We see HybriU as differentiated from platforms like Zoom, Google Meet, and Microsoft Teams by integrating AI-driven software and hardware solutions that transcend mere online interactions.

In addition to the integrated functionality of HybriU, we see many technological features that serve as key areas of differentiation compared with other platforms either in commercial use or in late-stage development. Most notably, in our view, is its ability to eliminate boundaries between academia and industry and create an immersive and dynamic learning environment, utilizing both 2D and 3D LED formats.

The platform also includes a suite of management tools that enables automatic content generation so that teachers can focus on teaching, instead of managing the delivery of the content at the expense of the learning experience. Its technology tools permit administrators to directly monitor live classes for quality assurance and improvement over time, promoting consistent adherence to educational standards.

HybriU also features multilingual support that can significantly expand the applicability of the content across multiple geographies around the world, promoting “borderless education.” In addition, the solution reduces the cost of delivering content, without having to hire multiple instructors to teach in individual languages. We see these features representing a significant value proposition to its educational clients, as such flexibility should promote enrollment goals for smaller schools that may reside in more remote locations.

The HybriU platform is built upon the innovative use of AI to streamline the teaching process and elevate the learning experience by offering high-quality video, integrated with automatically generated and seamlessly connected computers to live rooms. The system uses sophisticated algorithms to continuously track the teacher’s movements and focal points during lectures, automatically switching modes in order to ensure that the camera always captures the most relevant interactions and demonstrations, making the learning experience akin to being physically present in the classroom and enhancing engagement.

In addition to enhancing live learning environments, the platform also features a lecture capture system, including transcription that can be reviewed and edited by instructors, and other tools that can be archived and repurposed to extend the shelf life of material and, thus, improving the return on investment for clients.

Additionally, we are encouraged by HybriU’s applicability in the corporate setting. Ambow has launched its HybriU Enterprise Synergy Suite, which is designed to be scalable and promote collaborative corporate team solutions that can help organizations to

improve productivity through AI-driven technologies, including multi-camera integration, meeting recording, transcription and summarizing, with library building and multi-language capabilities.

We view positively how HybriU is scalable and can be installed within a short period of time. We estimate that the company can fully complete installation of the platform within 45 days from the time of order, including the manufacturing of hardware and the delivery of system components. Despite limited capital resources, we expect the company to be able to leverage its relationship with manufacturers and financial terms with its clients and partners to maintain sufficient capital to fulfill new client orders.

ANALYST COMMENTARY: EARNINGS AND FINANCIALS

Ambow Education Holding Ltd. American depositary shares (ADSs) of its Class A shares trade on the NYSE American exchange under the symbol AMBO. The ADSs recently traded around \$2.00, below the midpoint of their 52-week range between \$1.00 and \$6.30, and its market capitalization was only \$6 million.

The company currently has only 2.8 million ADSs outstanding, on a 1:20 ratio with its approximately 57 million shares outstanding (52.4 million Class A shares, with one vote per share/4.7 million Class C shares, with 10 votes per share). All Class C shares are owned by Chief Executive Officer Jin Huang.

As of June 30, 2024, Ambow Education had \$9.0 million in cash resources on its balance sheet and approximately \$2.7 million in debt. Current assets of \$11.4 million exceeded current liabilities of \$6.9 million, resulting in working capital of \$4.5 million and a current ratio of 1.6. Since inception, its accumulated deficit was \$510 million, and its shareholder equity as of June 30, 2024, was a positive \$6.6 million.

With the early 2024 launch of HybriU, we view Ambow’s revenue growth trajectory more akin to a start-up company. In December 2024, the company reported financial results for the first half of 2024, in which it generated \$4.8 million, representing a 21.3% decline over the prior year period, largely attributable to the closure of Bay State College at the end of the 2022-23 academic year.

Still, we view positively Ambow’s alignment of revenue growth with its expenses, which contributed to positive net income for the first half of 2024 and think that its current cash balance and potential for nondilutive capital from additional licensing activities should allow the company to support the HybriU launch while raising capital over time, on what we would anticipate being more favorable terms.

Prior to 2023, its revenues had primarily come from its operation of Bay State College and New School. As HybriU has neared commercialization, the company has refined its strategy and divested noncore assets, closing Bay State College in 2023 and disposing of its interests in Ambow China in 2022 for \$12 million in cash. While Ambow’s revenue growth was previously subject to seasonal fluctuations, due to student enrollment and service day considerations, we expect HybriU to smooth out revenue trends as the sales model shifts to hardware sales and service/maintenance fees.

We expect Ambow to roll out HybriU in a controlled manner, increasing operating expenses over time, as revenue growth sup-

ports further investment. We expect the majority of its revenues to come from the sale of HybriU UniBoxes, supported by licensing and service fees. We see gross margins being sustained above 50% (54.2% in the first half of 2024, compared with 32.8% during the same period in 2023), as the company achieves economies of scale on its hardware production and installation and ability to service a growing client roster. Given this prudent approach, we see Ambow achieving operating profit and bottom-line profitability early in HybriU's commercial cycle, as early as the full year 2024, and think its operating margin could approach 20% by the latter part of the decade.

In 2023, net cash used in operating activities was \$300,000, compared with cash used of \$5.6 million and \$3.2 million for the years ended December 31, 2022, and December 31, 2021, respectively. Net cash provided by financing activities (continuing operations) was \$2.8 million in the year ended December 31, 2023, compared with \$3.0 million in the prior-year period. Financing activities have mostly consisted of proceeds from short-term borrowings, partially offset by related repayments, and from the issuance of ordinary shares and warrants.

Ambow Education does not pay a dividend, and we do not expect it to initiate such a dividend program for the foreseeable future.

MANAGEMENT

Jin Huang is Ambow Education's founder and has served as Ambow's president and CEO and as a member of its board of directors since inception. She has also served as its acting chief financial officer since September 2022. Dr. Huang has over 15 years of academic and industry experience in Silicon Valley and previously was a founding engineer at Avant, where she was responsible for product design and engineering management. Dr. Huang was instrumental in the establishment of the China Distance Education Standardization Committee, which formed the basis for China's software engineering discipline, as well as its first software college. Ambow also developed China's first IT training system, which has been applied to hundreds of universities throughout the country. Dr. Huang holds a bachelor's degree in computer science, a master's degree in computer science, and a Ph.D. in electronic engineering from the University of Electronic Science & Technology of China.

Chiao-Ling Hsu has served as Ambow's chief operating officer since June 2015. She has been president of New School of Architecture & Design since October 2023, following a stint as interim president in 2022. Ms. Hsu has over 15 years of operating and management experience in the education industry. Since 2011, she has served as CEO of Hwa Kang Foundation and as executive director of the Innovative Biz Group in the School of Continuing Education (SCE) at Chinese Culture University in Taipei. From 2012 to 2014, Ms. Hsu also was vice chairperson at the Center for Credentialing & Education in Greensboro, North Carolina. Previously, Ms. Hsu held several leadership positions in the SCE, including chief operating officer.

As a result of her ownership of all 4.7 million Class C shares, which carry 10:1 voting rights, Dr. Huang had 48% of Ambow's voting power, as of June 30, 2024.

As of June 30, 2024, Ambow's board of directors consisted of four directors, three of which are nonexecutive and classified as "independent directors," which we view positively for corporate governance purposes. We also view positively Ambow Education's institution of a code of ethics, which is designed to ensure that its employees and directors act in accordance with the letter and spirit of company laws and regulations.

Lastly, we think that its auditor, Guangdong Prouden, which is registered with the Public Company Accounting Oversight Board (PCAOB), is a positive for the transparency and validation of its financial statements.

RISKS

Risks for an investment in Ambow Education Holding include its dependence on the commercial adoption of its HybriU platform, which despite limited direct competition as an integrated and proprietary, AI-driven solution, is still unproven in the educational marketplace. Over the long term, there is potential for larger technology companies that have superior resources to develop competing solutions and to invest in scaling commercial operations. The company also faces challenges related to ramping and scaling its operations with modest current resources. Any action by Congress that significantly reduces funding for Title IV programs or the ability of its school and students to participate in these programs could materially harm its business. In addition, the possibility of dilution to its Class A share/ADS holders exists as Ambow raises additional capital over time.

RECENT DEVELOPMENTS

In our view, Ambow Education laid the foundation for its future growth across 2024. We expect the company to continue to expand its sales infrastructure over time, while managing its capital allocation to grow in a prudent manner.

In December 2024, Ambow appointed Guangdong Prouden as its corporate auditor.

In October 2024, the company announced that it entered into a \$1.3 million nonexclusive licensing agreement with Singapore-based Inspiring Futures Pte. Ltd., granting licensing authorization for the production of the HybriU AI UniBox and the sale of the HybriU technology service in international markets.

In April 2024, Ambow Education presented HybriU at the ASU+GSV conference and organized an open house at the New School of Architecture & Design Campus to exhibit the company's cutting-edge HybriU AI educational technologies and solutions.

In March 2024, Ambow Education appointed Norm Allgood as fractional head of HybriU. Under the newly established position, Mr. Allgood is responsible for leading the dissemination and implementation of HybriU.

Steve Silver,
Argus Research Analyst

INCOME STATEMENT

| Growth Analysis (\$M) | 2021 | 2022 | 2023 | Q1 2024 | Q2 2024 |
|--|-------------|-------------|-------------|----------------|----------------|
| Revenue | 17.8 | 14.8 | 9.2 | 2.4 | 2.4 |
| Gross Profit | 2.4 | 0.3 | 2.5 | 1.2 | 1.3 |
| SG&A | 11.1 | 9.1 | 6.3 | 1.6 | 1.2 |
| R&D | NA | NA | 0.5 | 0.1 | 0.1 |
| Operating Income | -8.6 | -8.8 | -4.3 | -0.5 | 0.1 |
| Interest Expense | 0.2 | -0.1 | -0.1 | 0.0 | 0.0 |
| Pretax Income | -7.2 | -8.4 | -3.2 | -0.4 | 0.1 |
| Tax Rate (%) | NM | NM | NM | NM | NM |
| Net income | -6.7 | -14.1 | -3.2 | 0.1 | 0.1 |
| EPS | -2.32 | -5.75 | -1.20 | 0.03 | 0.04 |
| Diluted ADS | 2.3 | 2.5 | 2.8 | 2.9 | 2.9 |
| Dividend | NA | NA | NA | NA | NA |
| Growth Rates (%) | | | | | |
| Revenue | NM | -17% | -38% | NM | NM |
| Operating Income | NM | NM | NM | NM | NM |
| Net Income | NM | NM | NM | NM | NM |
| EPS | NM | NM | NM | NM | NM |
| Valuation Analysis | | | | | |
| Price (\$): | 56.80 | 12.10 | 6.96 | NA | NA |
| Price (\$): | 8.17 | 2.31 | 1.25 | NA | NA |
| PE: High | NA | NA | NA | NA | NA |
| PE: Low | NA | NA | NA | NA | NA |
| PS: High | NA | NA | NA | NA | NA |
| PS: Low | NA | NA | NA | NA | NA |
| Yield: High | NA | NA | NA | NA | NA |
| Yield: Low | NA | NA | NA | NA | NA |
| Financial & Risk Analysis (\$M) | | | | | |
| Cash/ST Investments/Restricted Cash | 4.2 | 7.7 | 10.1 | NA | 9.0 |
| Working Capital | -34.4 | 3.9 | 2.7 | NA | 4.5 |
| Current Ratio | 0.6 | 1.3 | 1.3 | NA | 1.6 |
| Total Debt/Equity (%) | 4 | 47 | 61 | NA | 41 |
| Ratio Analysis | | | | | |
| Gross Profit Margin | 14% | 2% | 27% | 52% | 56% |
| Operating Margin | NM | NM | NM | NM | 3% |
| Net Margin | NM | NM | NM | 4% | 5% |
| Return on Assets (%) | NM | NM | NM | NM | NM |
| Return on Equity (%) | NM | NM | NM | NM | NM |
| Op Inc/Int Exp | NM | NM | NM | NM | NM |
| Div Payout | NM | NM | NM | NM | NM |

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