



**ATA Inc. Fiscal 2013 Fourth Quarter and Year-end Financial Results Conference Call
TRANSCRIPT**

May 30, 2013 at 8 a.m. ET

SPEAKERS

Carolyn Yu – Senior Associate, The Equity Group
Benson Tsang – Chief Financial Officer & Chief Accounting Officer, ATA
Kevin Ma – Chairman and Chief Executive Officer, ATA

Q&A PARTICIPANTS

Mark Marostica, Piper Jaffray

Operator:

Greetings, and welcome to the ATA Fiscal 2013 Fourth Quarter and Year End Financial Results. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Carolyn Yu of the Equity Group. Thank you, Ms. Yu. You may now begin.

Ms. Carolyn Yu:

Thank you, operator, and good morning, everyone. Thank you for joining us.

Copies of the press release announcing ATA's fiscal 2013 fourth quarter and year-end results are available at the IR Section of the Company's website at www.ata.net.cn.

As part of this conference call, the Company has an accompanying slide presentation available on the Company's website. You are also welcome to contact our office at 212-836-9600, and we would be happy to send you a copy. In addition, a replay of this broadcast will be made available at ATA'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. 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 ATA 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 two of the conference call presentation for further information.

All U.S. dollar amounts in this conference call relating to financial results for the Company's most recent quarter ended March 31, 2013, are converted from RMB using an exchange rate of 6.2108 RMB to 1 U.S. dollar. 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 three. The Company's CFO Mr. Benson Tsang will provide an overview of operational and financial highlights for Fourth Quarter and Fiscal Year 2013, beginning with slide four. The Company's Chairman and CEO Mr. Kevin Ma will then provide closing remarks.

With that, I'll turn the call over to ATA's CFO, Mr. Benson Tsang. Please go ahead, Benson.

Mr. Benson Tsang:

Thank you, Carolyne, and good morning, everyone.

Today we will provide an overview of our financial and operating highlights and discuss our outlook and growth strategies for Fiscal Year 2014.

Slide five shows some operating highlights for Fiscal Year 2013. During Fiscal Year 2013, we delivered 8.7 million billable exams, approximately 8.9 percent increase over the 8 million delivered in Fiscal Year 2012. The growth in the number of tests delivered was largely due to the successful delivery of 1.4 million exams for the first computer-based China CPA exam in October, as well as increased volumes of exams delivered for the China Banking Association.

During Fourth Quarter 2013, we delivered 1.1 million billable exams, compared to 1.3 million in the prior-year period. This decrease was primarily the result of weaker demand for the securities exam due to challenging conditions in the financial sectors in China.

During Fiscal Year 2013, we also completed campus recruitment projects for a number of large corporations, both domestic firms and multinationals. During Fourth Quarter 2013, we took on campus recruitment projects for a number of banks, including Bank of Guizhou and a new client Fudian Bank. Each bank had specific needs, and ATA tailored each exam to their needs.

During this past fiscal year, we also highlighted the importance of diversifying ATA's business away from its reliance on government-sponsored exams and made significant investments in growing our TOEIC and HR Select businesses. The results from our sales and marketing push were short of our expectations. We are making adjustments to improve these efforts, which Kevin will discuss in greater detail later on.

On the right-hand side of the presentation is a map of our extensive nationwide network of about 2,800 test centers, which enables ATA to deliver large-scale exams simultaneously and cost-effectively for our clients. We believe we are the only provider of this kind of large-scale testing solution in China.

Now I would like to discuss our financial highlights for the quarter and fiscal year on slide six.

We achieved better-than-expected net revenue results for Fourth Quarter 2013, and as a result, beat consensus estimates for the quarter.

However, we faced a number of challenges in Fiscal Year 2013, and our gross margin continued to be impacted by a year-over-year decrease in SAC exam volumes, which resulted in lower contributions as a percentage of revenue, decreased revenue contributions from online continuing education services for the financial securities industry, and implementation expenses to ensure client satisfaction and smooth delivery of the new China CPA exam.

As a result of these challenges, we revised our net revenue and non-GAAP net income guidance during Third Quarter 2013 but managed to exceed our guidance due to stronger-than-expected Fourth Quarter 2013 revenues. Fiscal Year 2013 net revenues increased about 4 percent to 367 million from RMB352 million in the prior-year period, largely due to increased revenues from traditional testing services.

On slide seven, we show our Fourth Quarter 2013 results compared with our analysts' estimates. We were pleased to have exceeded market consensus estimates, including those for net revenues and gross profit.

On the next slide, we break out revenues for Fourth Quarter 2013 and Fiscal Year 2013 by our businesses, which can be broken down broadly into two areas, testing services and test preparation and training solutions.

At 86 percent, our core segment of testing services was a significant percentage of our total revenue in the 2013 fourth quarter.

Testing services include exams ranging from professional certification exams in various industries, such as securities and futures, to exams resulting from our private sector business, which include TOEIC and HR Select exams.

During Fiscal Year 2013, the new CPA exam and increased volumes of the banking exam contributed to the growth we saw in our traditional testing services segment. During the period, we also saw some growth in our TOEIC and HR Select businesses but lower revenue contributions from test prep and training solutions and other revenue.

On the next slide, we have provided a breakdown of the Company's financial results for the quarter. Gross profit for Fourth Quarter 2013 was 57 percent, compared to 54.3 percent in the prior-year period, as a result of realizing revenues for a number of exams whose corresponding costs were recognized in Third Quarter 2013.

We reported net loss of RMB6.1 million compared to net income of RMB3.3 million in the prior-year period, primarily due to increased operating expenses related to the streamlined exercise.

Diluted losses per ADS were 28 cents RMB in Fourth Quarter 2013, compared to diluted earnings per ADS of 14 cents RMB in the prior-year period.

You can see a summary of financial results for Fiscal Year 2013 on slide ten.

Net income for Fiscal Year 2013 was RMB23.2 million for the period, or diluted earnings per ADS of RMB1 dollar.

On slide 11, we provide a supplemental chart of quarterly numbers adjusted for share-based compensation expense and foreign currency exchange gains and losses. Please feel free to review it in its entirety, but I would like to highlight that, excluding these items, adjusted net loss for Fourth Quarter 2013 was RMB2.8 million compared to adjusted net income of RMB5.9 million in the prior-year period.

Diluted losses per ADS during Fourth Quarter 2013 on a non-GAAP basis was RMB0.12.

Our adjusted net income for Fiscal Year 2013 was RMB36 million, compared to RMB64.5 million in the prior-year period. And diluted earnings per ADS on a non-GAAP basis was RMB1.58.

We continue to be supported by free cash flow and a solid balance sheet, which we have highlighted on slide 12.

As of March 31, 2013, we had about US\$46.7 million in cash. We have no long-term debt or short-term borrowings and continue to follow the strict cost structure that has served us well over the past several years.

Finally, I would like to discuss our outlook for Fiscal Year 2014.

Fiscal 2013 was a challenging year for ATA in light of the state of the global economy, which had an impact on China, as well as the transitions in government, which caused some delays in discussions surrounding new potential projects and existing negotiations.

Due to a slowdown in the financial sector, ATA delivered lower volumes of the SAC exam in Fiscal Year 2013. As we stated in last quarter's earnings call, we believe the sector has begun to show signs of recovery, and ATA is working with the SAC to offer the exam an additional six times in Fiscal Year 2014 in select cities on predetermined dates and times.

We will continue working to execute on our growth strategies, while maintaining our commitment to our test takers and clients, providing them with valuable, quality certification and skill assessment services.

Slide 13 shows our annual guidance for Fiscal Year 2014. We expect net revenues for Fiscal Year 2014 to be between RMB403 million to RMB423 million, and non-GAAP net income to be between RMB37 million and RMB47 million.

In addition, based on existing exam schedules, we expect first quarter net revenues will be in the range of RMB78 million to RMB88 million.

Please keep in mind that this guidance is based on our own internal growth projections, and we will continue to evaluate our projections on an ongoing basis.

With that, I would like to turn it over to our Chairman, Mr. Kevin Ma, for remarks.

Mr. Kevin Ma:

Thank you, Benson.

Going into Fiscal Year 2014, we remain confident and optimistic about growing our share in the testing market. Now that the Company has completed its corporate review, we believe we now have the proper foundation that will allow ATA to operate more efficiently going forward. It will also enable us to achieve greater results in the initiatives we are working on in Fiscal Year 2014.

ATA has the technology, a strong selection of test content from trusted firms, excellent client relationships, as well as what we believe to be the largest nationwide network of test centers in China to support our strategies for growth, which we list on slide 15.

A large number of exams continue to be delivered in paper-based format in China. In Fiscal Year 2013, we secured a major contract that made ATA the service provider for the CPA exam, and we are currently working to transition other paper-based exams to ATA's more efficient and cost-effective computer-based platform. In this regard, the growth we achieve in our traditional testing business within the public sector will provide the capital we need to grow our private sector business.

Additionally, we made some necessary changes to our sales and marketing approach for our TOEIC and HR Select businesses for corporate clients. In Fiscal Year 2014, we will focus on targeting the leads we established in Fiscal Year 2013 to drive this business forward. In Fiscal Year 2013, we introduced companies to the benefits of improved assessment tools and campus recruitment with ATA, and we believe that this additional time and education will result in new business wins for our Company in the new fiscal year.

With respect to TOEIC, we aim to establish the exam as the benchmark for English in the workforce in China by working with well-known global companies that require English as a skill. We are also working with universities and colleges to educate students about the benefits of taking TOEIC as a measure of their English language capabilities in a professional setting.

ATA has also begun working on an exciting new project called the mobile testing system, or MTS. The MTS will allow ATA to bring its computer-based exam delivery capabilities to clients outside of China, and we expect to complete the development and rollout of this new product in the next few quarters. We are very pleased to share with you that Cambridge ESOL has selected ATA's MTS as its platform for its global junior English exams.

We continue to explore the addition of new test titles for potential test candidates and in industries we don't currently serve.

As our base of test takers grows with time, we will also continue taking a proactive approach to marketing our exams and services to students, job seekers, and potential employers.

We believe that there continue to be many growth opportunities in China for ATA, and we look forward to achieving new milestones in this new fiscal year while generating excess cash flow to fund our growth.

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

Operator:

Thank you. We will now be conducting our question and answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question comes from the line of Mark Marostica with Piper Jaffray. Please proceed with your question.

Mr. Mark Marostica:

Thank you and congratulations on the quarter.

My first question is a two part question about your overall revenue guidance for fiscal '14. The first part is whether the guidance reflects any contribution from exams that are new to the company or, you know, pipeline exams, if you will, or does the guidance represent only existing exams?

And then, secondly, for your traditional business, could you comment on your pipeline of new potential paper and pencil conversions to electronic, computer-based testing to help us understand where we might see some potential upside?

Mr. Benson Tsang:

Mark, thank you for the questions.

Regarding the first part of your question regarding the revenue guidance, 403 million to 423 million, we--towards the bottom of the range, we are assuming very limited contribution for new business, uh, the new initiative later on our highlights. And towards the high end of the range, that will reflect contribution from the business initiatives.

The initiative I'm referring to, number one, is the cooperation we have with Cambridge ESOL--uh, ESOL. Currently, we anticipate we'll start rolling out some projects in some cities for Cambridge. And we do anticipate we will get limited revenue from this cooperation.

Another initiative is regarding the paper-based conversion to--converted to computer-based examination. Currently, we have a few projects in discussion, and we have not concluded any.

So, in the high end of the guidance range, if we manage to conclude some of the contracts, we expect we'll be moving towards the high end of the revenue guidance.

And there are some other business initiatives we started this year as we started to look into continuing education area. We approached different government related or control associations, we approached them and offered them we can help them to implement a continuing education program to increase the quality or the knowledge of their members. And by doing that, we are hoping it's a starting point for us to introduce the testing services to them, as well.

So, these are the initiatives the company put together this year. And we are hoping we can crystallize some of them, and we can achieve the high end of the revenue guidance.

Mr. Mark Marostica:

Thank you for that color. Um, regarding again the guidance, how should we think about the quarterly mix or flow of revenue throughout the year, given the additional SAC exams that will be offered? I think you said six in different cities?

Mr. Benson Tsang:

Yeah. In terms of the SAC exam in particular--and this year, when we built our internal budget, we took a cautious approach. We are assuming we can deliver the same volume of tests as 2013, which will be approximately 1.8 million tests.

We also anticipate that the split of the SAC exam volume will be evenly throughout each quarter. And overall, for the revenue for the 403 to 423, we anticipate the split will be very similar to what we saw in 2013. Approximately 40 percent of the revenue will be in the first half, and 60 percent will be in the second half.

Mr. Mark Marostica:

Great. And then along the same lines regarding the guidance, but this time looking a little bit more on the profitability. With your efforts on the cost control side seemingly largely behind you now, I'm curious how we should think about the operating margins for the company in the first quarter and then for the full year as well?

Mr. Benson Tsang:

Okay. In terms of the gross margin, we anticipate we'll see improvement in 2014. We anticipate on a full-year basis, we target we will achieve 49 to 51 percent as our gross margin. Specific to Q1 or first half, we anticipate on a non-GAAP basis, the net income will probably in the range of negative 3 to negative 5 million for first half, which is quite similar to what we achieved in 2013. And the majority or 100 percent of the revenue or net income will come from the second half of the year.

Mr. Mark Marostica:

Okay, thank you for that, Benson.

And then, onto the commentary around the health of the business, it sounds like you're seeing some sense of stabilization at least in the SAC. Could you comment on just the general health of the

economic backdrop for you and what it means for the business? Just trying to get a sense if you're seeing some stabilization or even improvement in the outlook.

Mr. Benson Tsang:

In general, what we see in the testing market in China, if you look at the 2013 result, we see a pretty decent growth in the traditional testing business. We strongly believe the trend to converting paper-based exam to computer-based exam is clear to us and is also evidenced by the percentage growth in our traditional testing revenue.

And we are comfortable we will continue to see revenue growth in this particular area.

If we refer to the financial sector in particular, we experienced challenges in 2013, and we started to see financial securities and financial futures is settled down now. And we do not anticipate to see a further significant drop in this area. So far, we see it's pretty stable.

But, in another sector within the, uh--another sector within the financial sector, which is the banking area, we still experienced pretty good contribution from this area. And for the exam to be provided in Q1, we anticipate single digit growth in this area.

So, overall, I think in the financial sector including the banking, financial securities and financial futures, we anticipate we may achieve a single digit growth in 2014. And overall, in the testing area, we see quite a few opportunities. And the team currently are working hard and trying to crystallize some of the contracts in 2014.

Mr. Mark Marostica:

Okay, great.

And then, just one last question concerning the guidance again, if you will. The contribution from traditional versus private testing, I'm curious what that would look like or what you're assuming for fiscal '14 and how that compares to the results of fiscal '13?

Mr. Benson Tsang:

If in terms of the revenue, we anticipate the split will be very similar. We anticipate the public area or the traditional testing side will contribute roughly about 75 percent, and the private sector will be about 25 percent. I think that will be pretty consistent.

And in terms of the revenue or the net income, on a non-GAAP basis, we consider the majority of the contribution will be still from the traditional business. But we anticipate we'll see improvement in the net income contribution from the private sector.

Mr. Mark Marostica:

Okay, thank you. I'll turn it over for now.

Mr. Benson Tsang:

Thank you.

Operator:

Thank you.

And as a reminder, ladies and gentlemen, if you would like to ask a question at this time, please press star, one on your telephone keypad. Again, a confirmation tone will indicate your line is in the question queue.

One moment please while we poll for further questions.

It appears there are no further questions at this time. I would like to turn the floor back over to Mr. Kevin Ma for any concluding remarks.

Mr. Kevin Ma:

Thanks again to all of you for joining us. We look forward to speaking with you again after we report our, uh, quarter in August. As always, we welcome any visitors to our office in Beijing. Thank you.

Operator:

Thank you.

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.