



## **ATA Inc. Fiscal 2015 Second Quarter Financial Results Conference Call TRANSCRIPT**

**November 11, 2014 at 8 a.m. ET**

### **SPEAKERS**

Adam Prior – Senior Vice President, The Equity Group

Kevin Ma – Chairman and Chief Executive Officer, ATA

Benson Tsang – Chief Financial Officer & Chief Accounting Officer, ATA

### **Operator:**

Good day, ladies and gentlemen, and welcome to the ATA financial results FY 2015 second quarter and six months conference call. My name is [inaudible], and I will be your operator for today. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session toward the end of the conference. If at any time you require operator assistance, please press star, zero, and the operator would be happy to assist you. I'd also like to remind all participants that this conference is being recorded. Now I'd like to turn the call over to Mr. Adam Prior of The Equity Group. Please go ahead, sir.

### **Mr. Adam Prior:**

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

Copies of the press release announcing ATA's fiscal 2015 second quarter results are available at the IR section of the Company's website at [www.ata.net.cn](http://www.ata.net.cn).

As a part of this conference call, the Company has an accompanying slide presentation available on its website. You are also welcome to contact our office at 212-836-9600, and we will 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 these 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 2 of the conference call presentation for further information.

All dollar amounts in this conference call relating to financial results for the Company's most recent quarter ended September 30, 2014, are converted from RMB using an exchange rate of RMB6.1380 to US\$1.00. All historical conversions are accurate as of the time reported unless otherwise noted. The Company reports its financial results under US 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. The Company's CFO Benson Tsang will provide an overview of operational and financial highlights for Second Quarter 2015, beginning with Slide 4. The Company's Chairman and CEO Mr. Kevin Ma will then discuss ATA's outlook and growth strategy for the remainder of FY 2015 before opening the floor for questions.

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

**Mr. Benson Tsang:**

Thank you, Adam, and good morning, everyone. Today I will provide an overview of our operating and financial highlights for Second Quarter 2015, and then briefly discuss our outlook for Fiscal Year 2015 and beyond. I would like to begin on slide 5, which lists some of our operating highlights.

During Second Quarter 2015, we delivered approximately 3.0 million billable exams. Over 1.6 million of these were for the CPA exam, which we were pleased to successfully deliver for the third consecutive year using ATA's technologies.

ATA continues to focus on creating new and innovative technologies and partnerships to help bring consumers and our education clientele together. We continued to make progress on these consumer-focused initiatives, such as the joint venture with New Oriental. The name of the new JV company is Beijing ZhiShang Education Technology Co., Ltd. Both ATA and New Oriental have infused funds to the new company, and we continue working closely with New Oriental on forming a strong leadership team. The Board of Directors has been formed, and the transitional management team for the JV company, consisting primarily of members of New Oriental's experienced online business team, are preparing a detailed business plan and building the online platform. We expect the online career education and training web-based Learning Management System to be ready by early 2015, and our goal is to grow this platform into the largest online career education resource in China in 3-5 years.

In June, ATA introduced its own mobile app called 考试导航, or Exam Inventory Navigator in English. We released an update to the app in August, which added new content, such as test prep information for various exam subjects, and increased functionality. Users can now visualize the exam process with a timeline detailing each step, from exam preparation to delivery to the results being

issued. The update also allows users to customize their subscriptions for receiving exam information and supports one-click log-ins via third-party platforms including QQ, Weibo, and Renren. We were pleased to have grown the number of activated users from approximately 60,000 at the end of First Quarter 2015 to approximately 400,000 at the end of Second Quarter 2015. Our goal is to continue to drive functionality through the app and ultimately transition a wide base of active users to utilize ATA's IT infrastructure to better themselves, and ultimately enhance our Company's profit potential.

Finally, we recently announced a new partnership with Master Mind Education, a provider of digitized services to K-12 after-school tutoring institutions in China. First, ATA has been chosen by Master Mind to be the provider of equipment, service and support for its MTS technology, which will enable instructors within the Master Mind network to use the MTS box and technology to disseminate educational content wirelessly. An initial order for 2,500 MTS boxes has been placed by Master Mind, of which 500 has been delivered. The rest is expected to be delivered in the coming weeks. As we delved deeper into Master Mind, we realized we had come upon an exciting opportunity that would allow ATA to expand into the K-12 space.

As a result, ATA also entered into an agreement to make a strategic investment of US\$5 million in Master Mind, representing a 33% stake in the company. We believe that both companies will mutually benefit from combining our expertise in assessment and training technologies with Master Mind's knowledge of China's after-school tutoring market and established network of K-12 after-school tutoring institutions. Kevin will expand upon this partnership and our growth strategies later on during the call, but we feel this was an opportunity to leverage ATA's strong balance sheet to create value in the long term.

On the right-hand side of the presentation is a map of our extensive nationwide network of over 3,000 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.

Moving on to our financial highlights for the quarter as shown on slide 6, we exceeded our net revenue guidance for Second Quarter 2015.

Net revenues for the quarter continued to be impacted by the termination of the exclusive distributor contract between ETS and ATA for TOEIC and its related products in fiscal 2014, but the effects were offset by revenues from the CPA exam, which took place in Second Quarter 2015 versus Third Quarter 2014. The exam had historically taken place in the second quarter in past years, but given its transition from a paper-based format to computer-based, testing was delayed in fiscal years 2013 and 2014.

Gross margin in Second Quarter 2015 was impacted by the change in timing of the CPA exam, which has a slightly lower margin than most of ATA's exams.

Lastly, in regards to guidance. We are maintaining our net revenue and non-GAAP net income guidance for Fiscal Year 2015 at this time. However, due to prolonged contract negotiations with prospective and existing clients in our traditional testing business caused by changes in the political environment, we continue to face uncertainty in the short term. While we cannot determine the exact timing of when certain government exams will be scheduled, we know the long-term positive trends transitioning to computer-based testing has not changed. In addition, we are ramping up other growth strategies that we feel will be vital to ATA's growth and development, and Kevin will touch on that later.

On the next slide, we break out revenues for Second Quarter 2015 by our businesses, which can be broken down broadly into two areas, testing services and test preparation & training solutions.

At about 94%, our core segment of testing services was a significant percentage of our total revenue in the 2015 second quarter.

On the next slide, we have provided a breakdown of the Company's financial results for the quarter.

Gross profit increased about 111% to RMB46.5 million, compared to RMB22.0 million in the prior-year period, due to the change in timing of the CPA exam. Gross margin for Second Quarter 2015 was 45.4%, compared to 48.7% in the prior-year period, for the reasons I stated earlier.

Net income was RMB8.8 million, compared to net loss of RMB4.3 million in the prior-year period.

Diluted earnings per ADS were RMB0.38, in Second Quarter 2015, compared to diluted losses per ADS of RMB0.19 in the prior-year period.

On the next slide, we have provided a breakdown of the Company's financial results for the first half of the fiscal year.

Gross profit increased about 34% to RMB94.0 million, compared to RMB70.0 million in the prior-year period. Gross margin for Second Quarter 2015 was 50.3%, compared to 51.1% in the prior-year period.

Net income increased about 164% to RMB13.4 million, for the period, or diluted earnings per ADS of RMB0.56, compared to RMB5.1 million in the prior-year period, as a result of the change in timing of the CPA exam.

Please turn to slide 10 where we provide a supplemental chart of quarterly numbers adjusted for share-based compensation expense and foreign currency exchange gains/losses.

I'd like to highlight that excluding these items, adjusted net income for Second Quarter 2015 was RMB11.0 million, compared to adjusted net loss of RMB2.7 million in the prior-year period. Diluted earnings per ADS during Second Quarter 2015 on a non-GAAP basis was RMB0.48, compared to diluted losses per ADS on a non-GAAP basis of RMB0.12 in the prior-year period.

Adjusted net income for First Half 2015 increased about 137% to RMB19.8 million from RMB8.3 million in the prior-year period, and diluted earnings per ADS on a non-GAAP basis was RMB0.84.

We continue to be supported by free cash flow and a solid balance sheet, which we've highlighted on slide 11.

As of September 30, 2014, we had about US\$41 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.

On August 5, 2014, the Company continued a steady tradition of giving back to its shareholders through repurchases and special dividends by authorizing the repurchase of up to US\$5 million of its issued and outstanding ADSs from time to time in open market and privately negotiated transactions. By the end of Second Quarter 2015, the Company had repurchased about 123,000 ADSs at an average stock price of US\$4.63. This share repurchase plan is in effect until January 31, 2015.

Please turn to Slide 12 for our Third Quarter guidance

We expect third quarter net revenues will be in the range of RMB110.0 million to RMB120.0 million.

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

With that, I'd like to turn it over to our Chairman and CEO, Mr. Kevin Ma, to provide some more detail on our outlook for FY 2015.

**Mr. Kevin Ma:**

Thank you, Benson.

It is an exciting time in ATA's history. Since I co-founded the Company in 1999, we have seen technology become increasingly accepted as a tool by which to fairly determine and assess a person's knowledge and skill level. ATA has worked hard to adapt to a changing market.

We began by building relationships with government bodies that needed a trusted and experienced third party to help them administer large-scale assessment and certification exams. Today we have worked with a number of these government associations for over 10 years and continue to build upon and strengthen these relationships.

A few years ago, we extended our core competence of testing services to corporate clients, so they may make the most suitable choices for new hires and be able to appropriately incentivize the most productive employees of their firms. Today we are proud to be working with many globally recognized customers in a range of industries, such as HSBC in banking, PICC in insurance, and LG in high tech.

In Fiscal Year 2015, we continue to serve our government and corporate clients, but as Benson just mentioned, we have experienced longer-than-expected contract negotiations as a result of the current political environment, which may impact our outlook for the fiscal year. However, Fiscal Year 2015 marks yet another phase in ATA's growth, and we are focusing our new initiatives on the consumer, which you can see on slide 14 of the presentation. ATA's mobile application Exam Inventory Navigator is one of these initiatives, and we are very pleased with its initial reception. We hope to continue making this tool increasingly useful to our users.

As we previously shared, we firmly believe in a strategy of establishing strong partnerships with different industry leaders. ATA's expertise in testing technologies and start-to-finish procedures is applicable to a number of different sectors, and we continue to explore opportunities for collaboration.

In this regard, we continue working closely with New Oriental on the joint venture that we announced in July. The company name has been decided, and the current leadership team is working on the business plan while building out the new online career education and training platform for working professionals in China, which we expect to launch for the healthcare, accounting, and finance industries in early 2015.

Earlier in the call, Benson also mentioned our recently announced partnership with and strategic investment in Master Mind Education, which marks ATA's expansion into the K-12 education space in

China. Given our years of experience in serving working professionals, college graduates, and other test takers, we felt the K-12 education space was a natural extension where ATA could fulfill a need.

We are excited to work with the team at Master Mind on integrating ATA's MTS technology into their digitization services for the K-12 after-school tutoring market, and look forward to a close collaboration in penetrating our integrated testing capabilities into Master Mind's network of after-school tutoring institutions as it grows.

I would like to share two other business initiatives that we have just recently commenced. First one, we work with Foreign Language Teaching and Research Press, which is called 外研社 in Chinese, one of the largest foreign language and university textbook publishers in China.

ATA helps to develop digitized exercise, practice test and examination for select English syllabus and textbooks of Wai Yan She (外研社). This will provide convenience, better and timely assessment of each student's progress, and eventually enhance their learning capabilities. This initiative will provide ATA a channel to enter in the K-12 and university student English training and testing markets.

In mid-October, we successfully organized and held the first computer test for New Concept Test of English in two Chinese cities using ATA MTS technology.

Second, we are exploring a business cooperation with LinkedIn China. We are providing a self-assessment tool "MySelf" which helps its members to better assess their career strength. This, in turn, will help its members plan their career.

"MySelf" is currently offered to all LinkedIn China members through its website. "MySelf" is a professional assessment tool developed and owned by world-renowned Saville Consulting. ATA has worked with Saville for years and has the exclusive right for distribution and use of this tool in China.

We are excited that this potential opportunity will extend ATA's contribution and presence in the human resources market.

As we focus on serving consumers with our new initiatives, ATA is mindful of the power of information. As shown on slide 15, we believe that collecting, analyzing, and acting on the information shared with us is a valuable tool not only for ATA but for our partners and consumers themselves. For example, a teacher can better track and understand a student's progress if he/she can see what assignments a student completed, how well the student understood the content based on assessment, etc. Based on this information, additional tutoring may be recommended in certain subject areas the student appeared to struggle with. The same logic can be applied to a recent college graduate looking for a job, or an employee looking to advance in their career.

We continue to be in the early stages of executing on our new growth strategy but are pleased with our progress thus far. We look forward to sharing more detail on these initiatives with the investment community over the next few months.

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

**Operator:**

Thank you, sir. Ladies and gentlemen, if you wish to ask an audio question, please press star, then one on your touchtone telephone. If your question has been answered and you wish to withdraw your question, press star followed by two. Please press star, one to proceed. Please stand by for your first question.

Sir, we have no questions in the queue. Again, ladies and gentlemen, if you wish to ask a question, please press star, then one on your phone.

Thank you. We have no questions in the queue. Now I would like to turn the call over to Mr. Kevin Ma for closing remarks. Please go ahead.

**Mr. Kevin Ma:**

Thanks again to all of you for joining us. If anyone has questions for us, please feel free to reach out to Benson or myself, as well as our investor relations firm The Equity Group. We look forward to speaking with you again during our Third Quarter 2015 financial results call. As always, we welcome any investors to our office in Beijing. Thank you.

**Operator:**

Thank you. Thank you, ladies and gentlemen. That concludes your conference call for today. You may now disconnect. Thank you for joining, and have a very good day.