



**ATA Inc. Fiscal 2016 First Quarter Financial Results Conference Call
TRANSCRIPT**

August 13, 2015 at 8 a.m. ET

SPEAKERS

Carolyne Sohn – Senior Associate, The Equity Group

Kevin Ma – Chairman and Chief Executive Officer, ATA

Shelly Jiang – Interim Chief Financial Officer, ATA

Operator:

Great day, ladies and gentlemen, and welcome to the ATA Inc. Fiscal Year 2016 first quarter financial results conference call. My name is Katina, and I'll be your coordinator for today. At this time, all participants are in a listen only mode. Later we will facilitate a question-and-answer session. To pose a question at any time, please key star-one on your touch-tone telephone. If at any time during the call you require assistance, please key star followed by a zero, and a coordinator will be happy to assist you. I would now like to turn the presentation over to your host for today's call. Ms. Carolyne Sohn, please proceed.

Ms. Carolyne Sohn:

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

Copies of the press release announcing ATA's fiscal 2016 first quarter results are available at the IR section of the Company's website at www.atai.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 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 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 U.S. dollar amounts in this conference call relating to financial results for the Company's most recent quarter ended June 30, 2015, are converted from RMB using an exchange rate of RMB6.2000 to US\$1.00, the noon buying rate as of June 30, 2015. 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. The Company's Interim CFO Ms. Shelly Jiang will provide an overview of operational and financial highlights for First Quarter 2016, 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 2016 before opening the floor for questions.

With that, I'll turn the call over to ATA's Interim CFO, Ms. Shelly Jiang. Please go ahead, Shelly.

Ms. Shelly Jiang:

Thank you, Carlyne and welcome everyone. Today I will provide an overview of our operating and financial highlights for our fiscal first quarter, and then briefly discuss our outlook for Fiscal Year 2016 and beyond. I would like to begin on slide 5, which lists some of our operating highlights.

During First Quarter 2016, we delivered approximately 2.5 million billable tests, an increase of 11.6% over the prior-year period as a result of a significant increase in SAC exam volumes delivered during the period.

We continued to develop new relationships within the private sector of the banking industry and began administering campus recruitment exams for a number of local banks, such as Zhongyuan Bank in Henan province and Bank of Ningxia.

Additionally, over the past couple of months, ATA was selected as the testing services provider for two computer-based exams. The first one is the National Patent Agent Qualification Exam, which was previously conducted as a paper & pencil exam and is generally held once a year in November across various test sites and cities at the same time across China. And second, the newly instituted Fund Practitioners Certification Exam. We believe that winning these new projects is a testament to ATA's superior service offerings, and we are confident ATA is well positioned to take advantage of this positive momentum to continue winning new business.

ATA also continued to make progress on its consumer initiatives. ATA began working closely with Beijing Zhishang on the continued development of its self-developed mobile app Exam Inventory Navigator, or 考试导航. Its activated user base was at 680,000 at the end of First Quarter 2016.

Following this initial transition period, we expect to continue increasing the app's functionality and ease of use for our test takers.

We are very pleased that Satech, one of our investee companies, launched its new Cece TOEFL product in July 2015, adding to its premier product Cece SAT, which launched in late 2014. Cece TOEFL provides online test preparation and training tools for students looking to improve their reading comprehension, listening, oral and writing skills in English as they prepare for the TOEFL, a very popular exam for foreign students seeking to study at an English-speaking university or college. Cece TOEFL is now available online at www.cecetoefl.com and we are very pleased with the initial reception of the product. Satech expects to launch the mobile application for Cece TOEFL in Second Quarter 2016.

Moving on to our financial highlights for First Quarter 2016 as shown on slide 6, we reported net revenues of RMB97.5 million, which exceeded the top end of our net revenue guidance for the period.

Gross margin was impacted slightly due to costs for certain client exams being recognized in First Quarter 2016 while corresponding revenues will be recognized in Second Quarter 2016. The Company achieved gross margin of 55.5% in First Quarter 2016, compared to 56.3% in the prior fiscal quarter. Despite the discrepancy in timing of costs and corresponding revenues, we achieved net income of RMB6.1 million, a 33.3% increase from RMB4.6 million in the prior-year period.

Following a strong fiscal first quarter, the Company is reiterating its previously announced net revenue and non-GAAP net income guidance for Fiscal Year 2016, which I will discuss in further detail later on this call.

On the next slide, we break out revenues for First Quarter 2016 by our businesses, which can be broken down broadly into two areas, testing services and test preparation & training solutions. Testing services accounted for about 93.7% of our revenues in First Quarter 2016.

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

Gross profit increased 13.9% to RMB54.1 million, from RMB47.5 million in the prior-year period. This increase was primarily a result of increased SAC exam volumes during the period, which contributed to increased revenues from the testing services business.

Net income increased 33.3% to RMB6.1 million, or about US\$1.0 million, from RMB4.6 million in the prior-year period. Diluted earnings per ADS were RMB0.26, or US\$0.04, in First Quarter 2016, compared to RMB0.18 in the prior-year period.

On slide 9, we provide a supplemental chart of quarterly numbers adjusted for share-based compensation expense and foreign currency exchange gains/losses.

Excluding these items, adjusted net income for First Quarter 2016 was RMB10.0 million, or US\$1.6 million, compared to RMB8.7 million in the prior-year period. Diluted earnings per ADS during First Quarter 2016 on a non-GAAP basis were RMB0.44, compared to RMB0.36 in the prior-year period.

We continue to be supported by free cash flow and a solid balance sheet, which we've highlighted on slide 10. As of June 30, 2015, we had about US\$35.5 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.

As shown on slide 11, we expect Second Quarter 2016 net revenues will be in the range of RMB46 million to RMB56 million. The significant decrease from the net revenues of over RMB100 million in Second Quarter 2015 is due to the CPA exam taking place during Third Quarter 2016, for which we expect to recognize revenues during the same period. Last year, the CPA exam took place during our fiscal second quarter.

We expect FY 2016 net revenues to be between RMB360 million and RMB380 million and non-GAAP net income guidance to be between RMB28 million and RMB38 million.

Please keep in mind that this guidance is based on our own 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 details on our growth strategy and outlook for FY 2016.

Mr. Kevin Ma:

Thank you, Shelly.

To accelerate the growth of our core testing business, we announced in May 2015 that we are exploring the potential listing of our testing services business on the New Third Board in China. We are in the process of restructuring our testing services business into a wholly-owned subsidiary of ATA in preparation for the potential New Third Board listing. As this business is primarily conducted with organizations within China, we believe prospective clients will be more willing to engage ATA's services if they recognize ATA as a native Chinese company, which we believe listing on the New Third Board will demonstrate.

I would like to reiterate that we expect to own a substantial majority of the outstanding equity interest of the testing services business and to continue to consolidate the financial results of the business into ATA, following a potentially successful New Third Board listing.

Slide 13 lists our overall growth strategies. The potential New Third Board listing is part of our plan to strengthen ATA's position as a leader in China's testing and assessment market.

We are focused on continuing to provide our existing clients with quality service and support with the latest testing technologies, and are working to expand upon these relationships while establishing new ones.

In Fiscal Year 2016, we continue to work toward building up our consumer initiatives. The first of these initiatives began just over a year ago and are still in the development and implementation stages. Through these efforts, we have entered a number of new education markets that we believe provide growth potential as natural extensions of our core competency in assessment technologies.

As we move forward on our growth initiatives, we remain committed to operating on the strict cost structure that has allowed the Company to successfully scale its operations and generate positive cash flow to finance its long-term growth.

Slide 14 lists our consumer initiatives and target markets.

As Shelly mentioned earlier, we are very pleased with the recent launch of the Cece TOEFL product by our investee company Satech in July. Cece SAT, which Satech launched in late 2014, has been met with much success, and we aspire to the same for the TOEFL product, which combines professional evaluation with effective learning tools to help students with improving their reading comprehension, listening, reading, and writing skills in English. Cece TOEFL is currently available online, and we anticipate the mobile application will soon be available as well.

During First Quarter 2016, we worked closely with Beijing Zhishang to familiarize their team with the existing capabilities of our self-developed mobile application Exam Inventory Navigator. The app was designed to provide our test takers with easy access to information on our exams and any related information to the exam process, and we are thrilled that the app seems to be meeting this goal. As of June 30, 2015, the app had 680,000 activated users, and we look forward to partnering with Zhi Shang on improving the functionality and usefulness of the app.

Our overall goal with these initiatives is to engage directly with the consumer as a client of ATA so they may recognize ATA as an authoritative organization in the assessment marketplace. In doing so, we expect to gain access to a constantly growing set of data that we can analyze to be able to serve our consumer audience of students and working professionals more effectively and efficiently.

We will continue to move forward on our consumer initiatives in the remainder of Fiscal Year 2016 and will keep our shareholders apprised of our progress during this transition.

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

Operator:

Thank you. Ladies and gentlemen, if you wish to ask an audio question, please press star-one on your touch-tone telephone. If your question has been answered or you wish to withdraw your question, please press star-two. Please press star-one to begin.

Your first question comes from the line of Ty Kuo representing Insight Global. Please proceed.

Mr. Ty Kuo, Insight Global:

Thank you. So I had Hi. I was wondering if you could me a timeline on the New Third Board exercise. Also, approximate cost for the exercise. Thank you.

Ms. Shelly Jiang:

OK, thank you for the question. For the timeline of the New Third Board exercise, we are in the process of restructuring our testing business. And thus far, we have completed the removal of our VIE structure and are working to make the testing services business a wholly-owned subsidiary of the Company. We also plan to submit our application to the New Third Board review authorities by the end of September. Assuming a normal review process, we anticipate we will be able to complete the listing process in Q4 of 2015 calendar year. Regarding the cost, we have incurred RMB5.2 million individual income tax paid to the government when entire equity interests of ATA Online, which were transferred from the nominee individual shareholders to ATA Learning and Zhongxiao Zhixing, and an estimated RMB4 million fees for the professionals involved in the exercise.

This is my answer. I hope this will help you.

Mr. Ty Kuo, Insight Global:

Thank you. So I had a follow-up on something you said earlier. I looked at the numbers. It looked like Q1 was a pretty strong quarter, but Q2 appears to be a bit weak. I was wondering if you could provide some more color on the revenue pipeline and gross margin for the rest of FY 2016? Thanks.

Ms. Shelly Jiang:

OK, yes. Our Q1 net revenue increased a lot, which was mainly due to increased testing revenues contributed from the SAC exam. And regarding the Q2 guidance, we take into account a change in timing for the CPA exam in Fiscal 2016. The CPA exam was held in the fiscal second quarter last year, while it will be held in Q3 this fiscal year. So excluding the CPA exam, we expect Second Quarter 2016 will be stronger on the top line compared with last year.

With the strong Q1 results, we remain the market guidance of top line between 360-380, and bottom line between 28-38. For the gross margin is expected to be in the range of 50%-53%.

That's my answer, thank you.

Mr. Ty Kuo, Insight Global:

Thank you. Appreciate your answer. I'll jump back in the queue now.

Ms. Shelly Jiang:

OK, thank you.

Operator:

{Re-prompts}

Your next questions comes from the line of Lin. Please proceed.

Mr. Lin, Private Investor:

Could you give me more color on the consumer market initiatives and when will these initiatives start contributing financially?

Ms. Shelly Jiang:

OK thank you. Regarding the consumer initiatives, we continue working on this and through various partnerships and investments. As we've shared, a number of these projects have made progress with Zhi Shang recently launching their platform for financial securities professionals this past April and Satech launching its Cece SAT and Cece TOEFL products over the past year. As for Master Mind, they are negotiating business cooperations with several K-12 content providers whose teaching

materials are adopted by a number of training schools. Through this cooperation with content providers, Master Mind expects to call into these schools and then to the students. And given the early stage of development for these projects, it is also too early for us to speculate as to when these initiatives will begin to contribute to the Company financially, but we believe the progress we have made thus far to be promising.

And I hope this answer can help you.

Mr. Lin, Private Investor:

Yes, thank you.

Ms. Shelly Jiang:

Thank you.

Ah, there's a question on the website which was raised by Peter. The question is: what is the rationale for the change in auditor? It has created some concern in the market judging by the stock price reaction. It would help to have some background. Thank you for the question.

Regarding the change of our auditor, because we recently we can see that all Big 4 accounting firms have been transitioning their clients to their local PRC practicing firm. As for our auditor KPMG, this change is only an administrative change. And the engagement of KPMG Huazhen still serving ATA remains substantially the same particularly at the senior level. And both KPMG Hong Kong and KPMG Huazhen are PCAOB-registered accounting firms. Actually we have had a few discussions with KPMG on this matter, and we are comfortable that we hope there's no significant impact to the Company.

So Peter, I hope this answer can help you to understand.

Operator:

There are no further audio questions at this time. I would now like to turn the call back to management for any closing remarks.

Mr. Kevin Ma:

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 look forward to speaking with you all again during our Second Quarter 2016 financial results call. As always, we welcome any visitors to our office in Beijing. Thank you.