

# ATA TRANSCRIPT

ATA Inc.

August 7th, 2012

Q1 Fiscal Year 2013 ATA Inc. Earnings Conference Call

## **PARTICIPANTS – CORPORATE**

**Kevin Ma**

Chairman & Chief Executive Officer

**Walter Wang**

President

**Benson Tsang**

Chief Financial Officer and Chief Accounting Officer

**Carolyn Yu**

Account Executive at The Equity Group

## **Participants – Conference Call Q&A**

**Mark Marostica**

Piper Jaffray

**Glenn Gordon**

York Capital

**Ella Ji**

Oppenheimer

**Operator:**

Welcome everyone to the 1Q13 ATA Inc. earnings conference call.

All lines have been placed on mute to prevent background noise. After the presentation, there will be a question and answer session. Please follow the instructions given at that time if you would like to ask a question.

For your information, this conference call is now being broadcasted live over the Internet. Webcast replay will be available within an hour after the conference is finished. Please visit [ir.ata.net.cn](http://ir.ata.net.cn).

I would like to introduce Carlyne Yu, Account Executive at The Equity Group. Ms. Yu, you may begin.

**Carlyne Yu:**

Thank you, operator, and good morning, everyone. Thank you for joining us. Copies of the press release announcing ATA's fiscal 1Q13 results are available at the IR Section of the Company's website at [www.ata.net.cn](http://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 USD amounts in this conference call, relating to financial results for the Company's most recent quarter ended June 30<sup>th</sup>, 2012, are converted from RMB using an exchange rate of RMB6.3530:US\$1. All historical conversions are accurate as of the time reported, unless otherwise noted. The Company reports its fiscal 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 President, Mr. Walter Wang, will open with an operational overview, beginning with slide four. The Company's CFO, Mr. Benson Tsang, will discuss the financials, and the Company's Chairman and CEO, Mr. Kevin Ma, will then provide closing remarks.

With that, I will turn the call over to ATA's President, Mr. Walter Wang. Please go ahead, Mr. Wang.

**Walter Wang:**

Thank you, Carolyne. Good morning, everyone. On slide five, we have listed some of the quarter's operating highlights. For those of you who are interested, we provide regular updates on our website.

We delivered 2.1 million billable tests during the quarter, an increase of approximately 14.8% from the prior-year period. The growth in the number of tests delivered was largely due to ATA's successful delivery of large government-sponsored exams, such as those for the China Banking Association. ATA also delivered a number of recruitment exams and clerk qualification tests for various banking clients during the period.

Recently, ATA was chosen by the Chinese Institute for Certified Public Accountants to be the service provider for China's first ever computer-based national unified CPA exam in 2012. The CPA exam has been administered in China for more than 20 years and, because of its credibility and high standard, is one of the most highly regarded national exams. In 2011, a total of 1.3 million CPA exams were administered.

In June, ATA held an Investor Day, where members of the investment community visited with management and some of our clients at our Beijing headquarters. This included a security monitoring demonstration and a test site visit at the Beijing University of Technology, during which several test takers were going through the sign-in and security process prior to taking the financial securities exam. We have added a new Investor Day webpage to our IR site for those of you who would like some more information about the event.

On the right-hand side slide is a map of our extensive nationwide network of 2,567 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.

As our primary growth drivers have been our testing services in the private sector, our growth strategy for fiscal 2013 centers around a more aggressive push in sales & marketing for HR Select and TOEIC to drive future growth.

At the same time, we continue to explore new test titles in new industries to include potential test candidates we do not currently serve, while engaging with our growing database of test takers to market our exams and services to students, job seekers, and potential employers. In addition, we also continue to explore the possibility of transitioning various paper-based exams to ATA's more efficient and cost-effective computer-based platform. As the majority of exams in China are still conducted with the traditional pen-and-paper method, we believe a great deal of our growth can be derived from converting these exams to our platform. The recently announced CPA exam project is a good example of this type of conversion.

With that, I would like to turn it over to Benson for a review of the financials.

**Benson Tsang:**

Thank you, Walter. We were pleased to achieve year-over-year growth in revenues and gross profit. Our growth in billable tests delivered during the 1Q13 translated into about 14% increase in net revenues. When you take into account ATA's gradual exit from test-based educational services, the rate of growth is greater. Backing this out of the 1Q13, our net revenues improved over 18% on a pro-forma basis.

Continued growth in our traditional testing services business was the primary reason for this increase. Year-over-year revenues from our core business increased 39% during the 1Q13.

On slide 8, we show in U.S. dollars ATA's 1Q13 results, which exceeded market consensus estimates for net revenues, gross profit, non-GAAP net income, and non-GAAP diluted earnings per ADS for the ninth consecutive quarter.

In the next slide, we break out revenues for the 1Q13 by our businesses, which can be broken down broadly into two areas, testing services and test preparation & training solutions.

At 92%, our core segment of testing services was a significant percentage of our total revenue in the 1Q13. Testing services include exams ranging from professional certification exams in various industries, such as securities and futures, to exams resulting from our HR Select service, where we assist with tests for hiring and internal assessment at different companies, and TOEIC exams. We expect this core segment to continue growing as a percentage of ATA's total revenue.

Slide 10 provides a more detailed breakdown of our revenues within each business for the 1Q13. As I mentioned earlier, revenue from our traditional testing services business during the period increased 39% when compared to the prior-year period.

On the next slide, we have provided a breakdown of the Company's financial results for the quarter. I will quickly outline the results below the top line. Gross profit for the 1Q13 increased about 4% to RMB46.7 million, from RMB45 million in the same period last year. Gross margin was 53% in the 1Q13 compared to 58% in the prior-year period, primarily due to a year-over-year decrease in Security Association of China exam volumes and the absence of a one-time price increase that was put in place in the prior-year period, both of which reduced SAC exam contributions as a percentage of total revenues. We also spent more on hiring additional staff for TOEIC operations.

1Q13 net income was RMB5.3 million, compared to RMB13 million in the prior-year period. Diluted earnings per ADS was RMB0.22, approximately US\$0.04, in the 1Q13 compared to RMB0.50 in the prior-year period.

Earlier, I briefly mentioned ATA's strategic decision to exit the test-based educational services business, which consists of university courses offered in conjunction with Microsoft.

On slide 12, we provide the calculations for adjusted net revenues that exclude revenues from the test-based educational services business. With this adjustment, ATA's net revenues for the 1Q13 increased approximately 18% to RMB85.7 million, from RMB72.6 million in the prior year.

On slide 13, we provide a chart of quarterly numbers adjusted for share-based compensation expense and foreign currency exchange gains and losses. Excluding these items, adjusted net income for the 1Q13 was RMB9.7 million, compared to RMB13.2 million in the prior-year period. Diluted earnings per ADS during the 1Q13 on a non-GAAP basis was RMB0.42, or US\$0.06.

We continue to be supported by free cash flow and a solid balance sheet, which we have highlighted on slide 14. As of June 30<sup>th</sup>, 2012, we had about US\$42 million in cash. We have no long-term debt or short-term borrowings. We continue to follow a strict cost structure, which will help to fund our long-term growth and allow ATA the flexibility to work with our clients should any timing changes related to the delivery of exams arise while pursuing other potential opportunities.

Given ATA's continued ability to produce free cash flow, we are able to return capital to our loyal shareholders. This morning, we announced that ATA's Board of Directors has declared a special cash dividend of approximately US\$0.17 per ADS on its outstanding shares to shareholders of record as of the close of trading on August 20<sup>th</sup>, 2012. The total amount of cash to be distributed as part of the special dividend is expected to be approximately US\$4 million. The dividend will be paid on or around September 20<sup>th</sup>, 2012.

Finally, I would like to move to slide 15, where we provide some projections for the 2Q13. Based on existing exam schedules, we expect 2Q net revenues will be in the range of RMB50 million to RMB60 million, which compares to approximately RMB70 million in the prior-year period. As Kevin will mention shortly, we saw lower volumes of SAC exams and financial futures exams in the 1Q13, which we anticipate may have some impact on the 2Q13.

With that, I would like to turn it over to our Chairman, Mr. Kevin Ma, for concluding remarks and the outlook for the 2013 fiscal year.

**Kevin Ma:**

Thank you, Benson. We are pleased with our results for the 1Q13, which marked the beginning of our more aggressive push in the private sector. In fiscal year 2013, we will continue working to capitalize on the last fiscal year's momentum in our HR Select and TOEIC businesses, while maintaining our commitment to our test takers and clients providing them with valuable, quality exam services.

As Walter mentioned at the beginning of our presentation, we recently announced that ATA has been selected to be the testing services provider for the national unified CPA exam in 2012. This will mark the first time a CPA exam is conducted on a computer-based platform and is a big step forward for the computer-based testing services industry and for ATA.

However, volumes of the SAC and financial futures exams in the 1Q13 were lower than anticipated. We expect to have greater clarity into this trend over the next few quarters but remain comfortable with reiterating our guidance for the fiscal year 2013, as we expect revenues from the new CPA exam to offset loss of revenues from the lower-volume SAC and financial futures exams.

As shown on slide 17, for fiscal year 2013, we expect revenues to be between RMB420 and RMB440 million and non-GAAP net income to be between RMB70 million and RMB80 million. This guidance is based on our own internal growth projections, and we will continue to evaluate our projections on an ongoing basis. We are confident that as ATA works to execute its fiscal year 2013 growth initiatives, we will continue achieving strong organic growth.

Slide 18 lists our strategies for growth for fiscal year 2013. With its solid track record among clients and nationwide network, ATA is well positioned to capitalize on a variety of opportunities. We plan to attract a larger audience of test takers as we continue exploring new test titles and new industries.

We feel it is crucial that ATA grow its private sector business and have begun a more aggressive sales and marketing campaign for TOEIC and HR Select, which we believe to be a worthwhile investment as we set a foundation for future growth.

In the fiscal year 2012, we successfully transitioned the original paper-based qualification exam for China Customs to ATA's computer-based platform. In the fiscal year 2013, we will be doing the same for the upcoming CPA exam and will continue to explore these kinds of platform conversion opportunities for other government agencies.

ATA continues to generate excess cash flow and will continue to use these funds to nurture healthy, organic growth.

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

**Mark Marostica, Piper Jaffray:**

Thank you. My first question is with regard to comments on the SAC and financial futures exam. What volumes were you expecting in the quarter, and what did you deliver for the 1Q?

**Benson Tsang:**

Hello, Mark. This is Benson. In the 1Q we delivered roughly 0.5 million exams for the securities exam and approximately a lot less for financial futures. Financial futures is not a very significant title that ATA delivers.

And for the 2Q we anticipate right now in our guidance approximately the same, 0.5 million exams in our 2Q guidance.

**Mark Marostica:**

OK, and have you ascertained as to why the volumes declined this period?

**Benson Tsang:**

In the 1Q we had internal discussions; we also had some discussions with the associations. There is no concluded evidence as to the reason for the decline in the 1Q. And as a result, in our earnings release we spelled out we would like to see a couple more quarters and hopefully we will have more clarity about the trend going forward.

In our guidance we are taking a conservative approach. We want to communicate the actual events in the 1Q. The number of test takers declined as compared to last year. We still believe there is a chance the number of test takers in the 2Q may be higher than 0.5 million.

In fact, the registration for the 2Q financial security exam already started. It began on August 1<sup>st</sup>. So far we see the registration program is actually not bad. By the end of August we will have a much better clarity as to the number of test takers we will have in the 2Q.

**Mark Marostica:**

Thanks for the insight on that. Your comments on the CPA exam, and congratulations on winning that deal. My question here is, it was mentioned that last year 1.3 million test takers took the CPA exam. Do you expect a similar testing volume this year? How much revenue do you expect to book with the CPA exam, and what timing will you be looking at on the booking of that revenue?

**Benson Tsang:**

The registration for the CPA exam according to the Association is basically complete. And information from the Association, the number of test takers will be very similar to 2011, in the range of 1.3 million.

In terms of the timing, there are seven papers in the CPA exams; six papers are professional knowledge based, and there is one integrated paper. The majority of the exam will be conducted in October. So, the majority of the revenue will be recorded in ATA's financial 3Q. The total revenue we expect from this CPA title will be in the range of RMB50 million. And as I said, the majority will be in our financial 3Q.

**Mark Marostica:**

OK, fair enough. And the last question I have is on TOEIC and HR Select. Can you comment on the performance of those two tests, or those two businesses, in the 1Q?

**Benson Tsang:**

In the 1Q, as you recall, we were in a position building up the sales and marketing team. So, in the 1Q, a little bit more effort was actually spent in building the team and developing the network to approach different corporations. And as a result of that we actually see a slowdown in the revenue in TOEIC and HR Select. But we see strong achievements in terms of approaching different companies and corporations. We strongly believe we will see improvement in the 2Q. We also expect it to be a very strong quarter.

For the private sector, the critical period is actually September and early October, during which time we will try to conclude most of the contracts in relation to campus recruitments and internal assessments.

**Mark Marostica:**

Thank you very much. I will turn it over.

**Glenn Gordon, York Capital:**

I have two questions. The first is, I was hoping you could comment a little bit on the disclosure in your 20-F about SAC and the new contract that you entered into, and the potential for them to insource, and I was wondering what percentage of the revenue was sort of up for either continuing to go with ATA or to insource.

**Benson Tsang:**

Sure, Glenn. Regarding the disclosure we have in the 20F, the business right now SAC is calling during the evaluation is the online business, is the continuing education. Last year we generated about RMB21 million, and this year we concluded a fixed-fee contract with SAC. We will have approximately RMB8 million to be recorded in our financial year 2012.

And right now we have no further updates from SAC. In our last quarter's earnings release we shared to the streets, we shared all the necessary work required in order to support the continuing education services. And we are now waiting for the SAC to do the evaluation. We

strongly believe, given the experience we have and also because of the headcount required for the association to hire, to support the continuing education program we feel comfortable we have a fair chance we can get the contract back in our financial year 2014.

**Glenn Gordon:**

OK. So, just to be clear, SAC represents about 37% of the Company's revenue? It is some portion of that has been currently bid out for entering insourcing or the entirety of that?

**Benson Tsang:**

No. The 30% revenue also includes the financial security exams. The financial security exams we have no problem, we renewed the contracts, and it is still being provided by ATA. The portion we are talking about is only to continuing education. That RMB21 million last year represents less than 10% of our revenues.

**Glenn Gordon:**

OK. Thanks, that is helpful. The other question I had is just in terms of the use of the cash you guys have, the stocks traded, around \$3.50, and it is now at \$4.50. How do you make the decision between returning money in the form of a special dividend versus repurchasing shares?

**Benson Tsang:**

I think that the Board of Directors, when we consider dividend or repurchasing shares, we strongly believe many of our loyal shareholders have been with us for a while, we believe the best way to reward them is through dividend.

By repurchasing shares I think in the current stock market we believe that may not be the best alternative to use our cash. As a result we made the decision to declare that special cash dividend. That roughly represents 80% of our net cash generated from our fiscal year 2012.

**Glenn Gordon:**

Sorry, in the event that you believe the stock is undervalued, will you pursue stock purchases?

**Benson Tsang:**

We are very mindful. We want to make sure we have enough stock liquidity out there for a potential investor to purchase. At the moment stock repurchase is not a priority to the Company.

**Glenn Gordon:**

And that is more of a function of liquidity than valuation?

**Benson Tsang:**

Yes.

**Glenn Gordon:**

Thank you.

**Ella Ji, Oppenheimer:**

Thank you. My question is about the private sectors. I see that in this quarter you delivered a year-over-year decline in that sector, I was actually expecting on a full year basis to achieve growth in this sector. So, when should we expect to make a turn in the results of the year-over-year growth?

And my second question, when you aggressively pursue new alternatives in the private sector, can you share with us what is your collection policy for your new clients?

**Benson Tsang:**

Sure, Ella. The first question, regarding what we see for the private sector, 1Q result, as I mentioned a little bit earlier, our focus in the 1Q is to build the sales and marketing team, so we spent a fair bit of the time to train up the sales and marketing team to get them familiar with our strategy, so we have a decline in the 1Q as compared to last year same period.

We fully anticipate the 2Q will be improving. We believe the 3Q will be a very strong quarter. According to our guidance provided to the street last time, we anticipate an annual growth of 40% to 50%, from the RMB88 million in 2012. At the current moment, we still fully anticipate we can achieve that.

For your second question, regarding the collection policy, in the private sector we are mainly dealing with private corporations. We have our Company policy, which is basically to evaluate the corporation on an individual basis. Most of the time we will provide credit term to our corporate clients, and the credit term varies depending on the financials and the reputation of the client; it varies from 30 days to 60 days from the date of service we provide.

**Ella Ji:**

Great. Those were all my questions. Thank you.

**Operator:**

There are currently no further questions.

**Kevin Ma:**

Thanks again to all of you for joining us. We look forward to speaking with you again after we report our 2Q financial results in November. As always, we welcome any visitors to our office in Beijing. Thank you.

**Operator:**

Thank you for your participation in ATA's conference. There will be a webcast replay within an hour. Please visit [ir.ata.net.cn](http://ir.ata.net.cn). You may now disconnect. Goodbye.

"This document is a transcript produced by MZ. MZ uses its best efforts to guarantee the quality (current, accurate and complete) of the transcript. However, it is not responsible for possible flaws, as outputs depend on the quality of the audio and on the clarity of speech of participants. Therefore, MZ is not responsible or liable, contingent or otherwise, for any injury or damages, arising in connection with the use, access, security, maintenance, distribution or transmission of this transcript. This document is a simple transcript and does not reflect any investment opinion of MZ. The



entire content of this document is sole and total responsibility of the company hosting this event, which was transcribed by MZ. Please, refer to the company's investor relations (and/or institutional) website for further specific and important terms and conditions related to the usage of this transcript."