



**ATA Inc. Fiscal 2014 Second Quarter and Six Months Financial Results Conference Call
TRANSCRIPT**

November 8, 2013 at 8 a.m. ET

SPEAKERS

Carolyne Yu – Senior Associate, The Equity Group

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

Kevin Ma – Chairman, ATA

Q&A PARTICIPANT

Ella Ji, Oppenheimer

Operator:

Greetings. Welcome to ATA's fiscal 2014 second quarter and six months financial results conference call. 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's now my pleasure to introduce your host, Carolyne Yu of the Equity Group. Thank you, Ms. Yu. You may begin.

Ms. Carolyne Yu:

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

Copies of the press release announcing ATA's fiscal 2014 second quarter 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 and six months ended September 30, 2013, are converted from RMB using an exchange rate of 6.1179 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 Second Quarter 2014, beginning with slide four. The Company's Chairman Mr. Kevin Ma will discuss ATA's outlook and growth strategy for the remainder of FY 2014 before opening the floor up 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, Carolyne, and good morning, everyone.

I would like to begin by providing an overview of our financial and operating highlights for Second Quarter 2014.

Slide five shows some operating highlights for Second Quarter 2014. During the period, we delivered 1.7 million billable exams, up 21% from the 1.4 million exams ATA delivered in the prior-year period.

We saw growth in volumes for the China Futures Association exam and security guard exams, which were delivered in Shanghai and a few other provinces. However, this was offset somewhat by challenges related to decreasing volumes of the Securities Association of China exam.

We have discussed these challenges in prior quarters. But in spite of these headwinds, we continue to move forward with innovative products and services that we feel can drive our business in the long term.

One example is our mobile testing system, or MTS, project. We successfully administered the Cambridge Junior English Exam in Hong Kong in July and August. We have also conducted successful trials of this exam in Beijing, Shanghai, Mexico and Spain. Our cooperation with Cambridge thus far has been very positive and rewarding, and we look forward to moving forward with this process over the next several months and eventually growing our business in this area.

We were pleased to have recently announced the closing of our acquisition of Xing Wei Institute (HK) Limited, a private education technology company that provides training solutions and online/mobile training platforms for corporations in China. We believe that combining Xing Wei's service offerings

with those of ATA will strengthen our value proposition to customers, especially those in the private sector.

On the right-hand side of the presentation is a map of our extensive nationwide network of over 2,900 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 on slide six. We achieved year-over-year improvement in gross margin primarily due to lower CPA exam-related expenses, which were atypically higher in the prior-year quarter to ensure the smooth delivery of the first computer-based China CPA exam.

As a result of year-over-year growth in TOEIC and HR Select exam volumes, revenues from this business grew 11% from the prior-year period to RMB14.5 million during Second Quarter 2013, which had a positive impact on overall gross margin.

We were pleased to have exceeded consensus estimates on both the top and bottom lines for the quarter, which you can see on the next slide. Exam volumes and revenues for this exam were in line with our expectations for the period.

We continue to be on track with our budget. As such, the Company is reiterating its net revenue and non-GAAP net income guidance for FY 2014, which Kevin will expand upon later in the call.

On the next slide, we break out revenues for Second Quarter 2014 by our businesses, which can be broken down broadly into two areas: testing services and test preparation & training solutions.

At 90.9%, our core segment of testing services was a significant percentage of our total revenue in the 2014 second quarter.

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

Gross profit increased about 2% to RMB22.0 million, from RMB21.6 million in the prior-year period. Gross margin for Second Quarter 2014 improved to 48.7%, from 46.1% in the prior-year period. As I mentioned before, the increase in gross margin was primarily due to lower costs associated with the CPA exam and increased revenue contributions from the private sector business.

Net loss improved to RMB4.3 million, from a net loss of RMB9.1 million in the prior-year period.

Diluted losses per ADS were RMB0.19 in Second Quarter 2014, compared to RMB0.42 in the prior-year period.

You can see the full First Half results on slide 10.

Gross margin for First Half 2014 was 51.1%, compared to 50.6% in the prior-year period.

We reported net income of RMB5.1 million for the period, or diluted losses per ADS of RMB0.22, compared to net loss of RMB3.8 million in the prior-year period.

On slide 11, we provide a supplemental chart of quarterly numbers adjusted for share-based compensation expense and foreign currency exchange gains/losses.

I would like to highlight that excluding these items, adjusted net loss for Second Quarter 2014 was RMB2.7 million, compared to RMB6.6 million in the prior-year period. Diluted losses per ADS during Second Quarter 2014 on a non-GAAP basis was RMB0.12, compared to RMB0.30 in the prior-year period.

Adjusted net income for First Half 2014 increased 170% to RMB8.3 million, from RMB3.0 million in the prior-year period, and diluted earnings per ADS on a non-GAAP basis was RMB0.36.

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

As of September 30, 2013, we had about US\$46.5 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.

Finally, I'd like to provide some projections for Third Quarter 2014. Based on existing exam schedules, we expect third quarter net revenues will be in the range of RMB180.0 million to RMB200.0 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'd like to turn it over to our Chairman, Mr. Kevin Ma, to provide some more detail on our outlook for Third Quarter 2014 and FY 2014.

Mr. Kevin Ma:

Thank you, Benson.

We were pleased with the continued growth in TOEIC and HR Select in Second Quarter 2014, as well as the increased exam volumes and revenue contributions from the security guard exams.

As Benson mentioned earlier, our fiscal third quarter is our busiest of the year. Last month, we successfully delivered the 2013 National Unified Certified Public Accountants exam, or CPA exam, which is only the second time this exam has been delivered via a technology-based platform. ATA is very pleased to have been chosen as the complete service provider of this exam for the second year in a row, and we delivered a record 1.52 million exams in late October, an approximate 13% increase over the prior-year exam.

We also anticipate increased volumes for the China Banking Association exam and many projects related to campus recruitment during Third Quarter 2014.

China's increasingly competitive job landscape puts ATA in a unique position to help employers hire the most suitable job candidates and to help job candidates find long-term, sustainable employment. With the recent Xing Wei acquisition, we believe combining ATA's trusted and fair assessment tools with Xing Wei's training platform will be a key growth driver for potential business, especially in the private sector.

Slide 15 shows our annual guidance for Fiscal Year 2014. We are reiterating the FY 2014 guidance provided in May, and expect net revenues to be between RMB403.0 million and RMB423.0 million, and non-GAAP net income to be between RMB37.0 million and RMB47.0 million.

Before I move on to our growth strategies, I would like to say a few words regarding the newest member of our senior management team, ATA's new CEO Mr. Cheng-Yaw Sun. The team at ATA feels very fortunate to be working with someone of Cheng-Yaw's caliber, and we were extremely pleased that he agreed to join our Company. We believe that his background, ideas, and vision closely mirror what we are trying to accomplish at ATA, and Cheng-Yaw has been working with our team in earnest to familiarize himself with our Company. I personally look forward to collaborating with Cheng-Yaw in the future and am excited about what we can achieve as a group.

Now moving on to slide 16 where we list our growth initiatives...

We continue working on making a smooth transition following ATA's acquisition of Xing Wei and expect Xing Wei's online and mobile training platforms will have a positive impact on growing our new and existing client relationships in the future, especially when combined with TOEIC and HR Select efforts for the private sector. Diversifying the Company's revenue mix between the public and private sectors continues to be a primary focus for our team, and we believe the Xing Wei acquisition will help us make greater strides toward this goal.

As the majority of exams continue to be paper-based, we feel there are many opportunities for ATA to transition exams to our more cost-efficient and secure technology-driven format. Being chosen to administer the highly regarded CPA exam was a major milestone for ATA in FY 2013, and we continue working to secure more contracts like it.

We were very pleased with the progress we made with MTS and our relationship with Cambridge English during Second Quarter 2014. We successfully administered the Cambridge English Junior Exam in Hong Kong in July and August, and have conducted trials in Beijing, Shanghai, Mexico and Spain. We expect to continue working with Cambridge English and officially roll out the new technology-based English Junior Exam in these cities by end of 2013. The MTS technology has opened doors for ATA outside of China, and we are working hard to prove the technology's security and reliability over the next few months.

Throughout it all, we are mindful of our financial position and continue to focus on generating excess cash flow to fund our future growth.

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

Operator:

{Operator Instructions}

Our first question comes from the line of Ms. Ella Ji. Please proceed, ma'am.

Ms. Ella Ji:

Thank you for taking my questions and congratulations on a strong quarter. My first question is with regard to your Xing Wei acquisition. I'm wondering if management can talk about, with this

acquisition if there is going to be any changes in the business direction in ATA, and also with the acquisition, how do you think Xing Wei will help with your existing business here? Thank you.

Mr. Benson Tsang:

Thank you for the question, Ella. Regarding the acquisition, ATA acquired Xing Wei. We strongly believe Xing Wei's current presence in the private sector is an asset. We believe by acquiring Xing Wei, we can combine its current business into ATA, and we can benefit both companies and at the current plan, we believe we can actually make use of the content and the platform from both companies and we can serve our private corporation clients better. So in the near future we anticipate our private sector business will benefit from it.

In the longer term as we just finished the acquisition with Xing Wei, currently ATA, our Chairman Mr. Kevin Ma and the senior management team together with Mr. Sun, we are exploring and discussing the new direction moving forward, and we will be ready to share with everybody in Q3.

Ms. Ella Ji:

Got it. I'm looking forward to that. Also Benson I wonder if you can talk about if you're going to incur any major integration costs in the rest of the year. I did notice that you maintained the full year net revenue and income guidance, but just wondering if we should anticipate any material costs coming from this integration.

Mr. Benson Tsang:

For this acquisition, the consideration for the acquisition was approximately US\$3.2 million and in terms of other related acquisition costs, it's very limited. It's only in the range of US\$100,000 and as far as the integration, we do not anticipate the company will incur additional expenses or additional significant expenses in the integration process.

Ms. Ella Ji:

Good. And then talking about Cambridge, your new program, it's great to see that you have achieved some initial success with your MTS this term. I wonder if you can also talk about when do you anticipate Cambridge Young to start contributing material revenues for the company and can you remind us if there is any seasonality in this test and also your anticipated margin levels. Thank you.

Mr. Benson Tsang:

Sure, Ella. Mr. Ma just now mentioned about the status. We finished trial tests for Cambridge in Hong Kong, Spain and Mexico mainly, and according to the feedback from Cambridge and their local partners, they are very happy with the results, both the technology and the way we monitor the test remotely from Shanghai.

The feedback we got from Cambridge, they fully intend to roll out official tests starting calendar year Q4, which Mr. Ma mentioned we anticipate by the end of 2013 we will conclude a conversion contract with Cambridge and we'll start rolling out in those three cities and countries I just mentioned, which is Hong Kong, Spain and Mexico. We will also start some trial tests for Argentina in November, and

there will be other countries we will roll out the trial test for Cambridge in accordance with Cambridge's schedule.

In terms of the seasonality, we do not anticipate there will be significant seasonality impact on this particular test, and we understand from Cambridge, this English program is offered to students throughout the year and the students, once they finish the course they will take the test immediately. So we do not anticipate seasonality will impact this particular test.

Ms. Ella Ji:

Yes, and also Benson can you talk about your anticipated margin levels?

Mr. Benson Tsang:

Sure. This particular product or this MTS project, the main cost to this project is the R&D cost, which we have already incurred. So going forward we anticipate this particular MTS project, that the margin will be north of 85%.

Ms. Ella Ji:

Great. And then switching gears to TOEIC and HR Select, I noticed the growth rate for this quarter sort of slowed from last quarter. I did know that this quarter is a slow season for you. So can you talk about your anticipated growth rate for the rest of the year?

Mr. Benson Tsang:

Sure. We anticipate on a full-year basis, our private sector, which includes TOEIC and HR Select, we anticipate we'll achieve a 25% growth. In Q2 we believe it's a timing issue because it's summer vacation time. Many students are taking times off and also even people in the private sector or in the job markets. So Q1 we achieved over 30% growth, and Q2 we achieved about 11%. So overall in the first half we achieved 25%, and for Q3 and Q4 we anticipate we can also maintain a growth of 25%.

Ms. Ella Ji:

Great. And last question from me, so you still have more than 46 million of cash on your balance sheet. Can you talk about your use of cash? You made some acquisitions, but other than this will you consider things like a dividend? Any thoughts would be helpful.

Mr. Benson Tsang:

Sure. At the current moment we do not have any dividend planned. In fact ATA believe we are... in the year where we'll consider seriously how to expand the business. Particularly now we have a new project MTS, and we see if the technology is proven and it's accepted by Cambridge, we see there is a lot of potential we can ride on this technology and go overseas.

And also with this technology we also believe we have good opportunities within China. We can make use of this technology and grow business in the private sector. So until we work with our new CEO

and also Kevin to work out the new direction, we will retain the cash and to support the new plan that may come out, which we believe we'll have that ready and share with you in Q3.

Ms. Ella Ji:

Great. That's all my questions. I will get back to the queue. Thank you.

Mr. Benson Tsang:

Thank you.

Operator:

{Operator Instructions}

Mr. Kevin Ma:

Thanks again to all of you for joining us. We look forward to speaking with you again during our Third Quarter 2014 financial results call in February.

As always, we welcome any visitors to our office in Beijing. Thank you.

Operator:

Ladies and gentlemen, that ends our presentation for today. You may now disconnect. Have a great day.