



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

August 8, 2014 at 8 a.m. ET

SPEAKERS

Carolyne Sohn – Senior Associate, The Equity Group

Cheng-Yaw Sun – Chief Executive Officer, ATA

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

Operator:

Good day, ladies and gentlemen, and welcome to the ATA Inc. FY 2015 first quarter financial results conference call. All lines have been placed on a listen-only mode. If you should require assistance throughout the conference, please press star, zero on your telephone keypad to reach a live operator. At this time, it is my pleasure to turn the floor over to your host, Carolyne Sohn. Ma'am, the floor is yours.

Ms. Carolyne Sohn:

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

Copies of the press release announcing ATA's fiscal 2015 first quarter results are available at the IR section of the Company's website at www.ata.net.cn.

As a 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 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 US dollar amounts in this conference call relating to financial results for the Company's most recent quarter ended June 30, 2014, are converted from RMB using an exchange rate of RMB6.2036 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 Mr. Benson Tsang will provide an overview of operational and financial highlights for First Quarter 2015, beginning with Slide 4. The Company's CEO Mr. Cheng-Yaw Sun will then discuss ATA's outlook for FY 2015.

Please note that we will not be conducting a question-and-answer session following management's prepared remarks. Anyone with questions following the call is welcome to contact management or ATA's IR firm The Equity Group. Management also plans to meet and conduct calls with investors over the next few weeks.

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

Mr. Benson Tsang:

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

We were pleased with the exam volume growth ATA achieved during the period. We delivered 2.3 million billable exams, a 6.2% increase from First Quarter 2014, most of which were related to the finance industry.

We continued efforts to establish new client relationships during First Quarter 2015 and began working with the Tianjin Commodity Traders Association for whom we administered its first computer-based qualification exam. We also delivered the National College Students Futures and Derivatives Knowledge Competition with comprehensive computer-based testing services for the China Financial Futures Exchange.

We are excited to have recently announced a new joint venture with New Oriental, China's largest provider of private educational services, which will help ATA expand into online education and training. The joint venture is expected to develop an online education and training website focused on serving the workforce in China, initially targeting the healthcare, accounting, and finance industries. We anticipate the new online education and training website will launch by the end of 2014. This partnership is a first step in ATA's overall growth strategy, which Cheng-Yaw will expand upon when he goes over the outlook for Fiscal Year 2015.

In June, ATA introduced its own mobile app called 考试导航, which translates into Exam Inventory Navigator in English. This new app is an exam navigation tool that allows users that download it to

their mobile devices to access information on exams being administered throughout China, such as pricing, dates, and locations, on the go.

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 First Quarter 2015.

Net revenues for the quarter were impacted by the termination of the exclusive distributor contract between ETS and ATA for TOEIC and its related products in fiscal 2014, but we anticipate the effects of this contract termination will dissipate as we progress with our new initiatives and establish deeper business relationships with existing customers in fiscal 2015.

We were able to achieve gross margin improvement in First Quarter 2015 as a result of continued improvement in service delivery efficiencies and decreased TOEIC exam royalties to ETS.

Lastly, we are reiterating our net revenue and non-GAAP net income guidance for Fiscal Year 2015, which we announced during our previous earnings release.

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

At 94.0%, our core segment of testing services was a significant percentage of our total revenue in the 2015 first quarter.

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

Gross profit stayed relatively flat at RMB47.5 million, compared to RMB48.1 million in the prior-year period. Gross margin for First Quarter 2015 improved to 56.3%, compared to 52.2% in the prior-year period, for the reasons I stated earlier.

Net income was RMB4.6 million, compared to RMB9.4 million in the prior-year period, as a result of decreased revenues, and increased operating expenses as a percentage of revenues.

According to US GAAP, we have recorded the dividend declared of approximately US\$9.6 million in this quarter. As a result, our diluted earnings per ADS were RMB0.18 in First Quarter 2015, compared to RMB0.40 in the prior-year period.

Please turn to slide 9. Here 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 First Quarter 2015 was RMB8.7 million, compared to RMB11.1 million in the prior-year period. Diluted earnings per ADS during First Quarter 2015 on a non-GAAP basis was RMB0.36, compared to RMB0.48 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, 2014, we had about US\$54 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.

ATA's Board of Directors has approved a share repurchase plan effective immediately. The Company is authorized to repurchase up to US\$5 million worth of its issued and outstanding ADSs, and the plan is in effect through January 31, 2015.

Slide 11 shows our annual guidance for Fiscal Year 2015. We reiterate our expectation of net revenues between RMB385.0 million and RMB405.0 million and non-GAAP net income guidance between RMB28.0 million and RMB38.0 million, which includes about RMB30.0 million to maintain and expand our businesses.

We expect second quarter net revenues will be in the range of RMB90.0 million to RMB100.0 million, which you'll notice is much higher than revenues achieved in the fiscal 2014 second quarter. This increase is due to the CPA exam taking place during Second Quarter 2015, for which we expect to recognize revenues during the period. In previous years, the CPA exam has taken place during our fiscal third quarter.

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 CEO, Mr. Cheng-Yaw Sun, to provide some more detail on our outlook for FY 2015.

Mr. Cheng-Yaw Sun:

Thank you, Benson.

We were pleased with the exam volume growth we achieved in First Quarter 2015. We are launching a number of new initiatives that we believe will properly position ATA for the next stage of growth. In addition to continuing to invest in our technology this fiscal year to provide our clients and test sponsors with the latest assessment capabilities, ATA is expanding its capabilities to serve the individual test takers, or the consumer market. You will see our different initiatives on slide 13.

We believe that this is a reasonable move for ATA, and it will bring new growth opportunities for ATA in the future. We are very excited about the projects we are working on to achieve this, one of which is our very own mobile application, which Benson mentioned earlier.

This is an exam navigation tool that allows users of mobile devices to access information on exams, such as pricing, dates, and location, on the go. Exams being administered by ATA will have even more functionality available to users, such as the ability to check for scores.

Since the application's initial launch in June, over 60,000 users have downloaded, installed, and activated an account on the tool. We are very excited with the application's initial positive reception and look forward to our users' feedback on what we can do to continue improving their experience.

We also recently announced a new joint venture with one of China's premier education companies, New Oriental. The joint venture will develop an online education and training service, as well as

mobile applications, catering to the workforce in China with an initial focus on the healthcare, accounting, and finance industries.

The joint venture's management team is currently working on the business plan and expects to launch the new online education and training services by the end of 2014.

The partnership proves the value of ATA's current assets. It will aim to leverage ATA's strengths in assessment delivery, student resources, learning tools, software, and New Oriental's capability to provide working professionals in China with innovative vocational education and training solutions, as well as career guidance and a professional community.

We believe this joint venture will also help ATA expand and reinforce its online continuing education business, while giving the Company much greater exposure to consumers.

We announced in our last earnings call that we planned to invest in our platform and related content to build a stronger client base in fiscal year 2015. Moving to slide 14, we also intend to continue seeking opportunities to expand upon our relationships with existing clients and are working to establish new business partnerships in different markets where it makes sense to further accelerate ATA's growth into the consumer market.

As Benson mentioned earlier, we are moving forward with our plan but taking a conservative approach, monitoring our progress and making adjustments as needed.

With all of our new initiatives, ATA is focused on utilizing the power of information, or big data. As shown on slide 15, we aim to collect and analyze data from these initiatives that will prove valuable to education and training organizations, recruiting agencies, and consumers themselves. We believe we will be able to add value from the vast amounts of data we collect.

While we are in the early stages of executing this growth strategy, we are optimistic given the progress we have made thus far and look forward to providing future updates to the investment community.

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 Second Quarter 2015 financial results call. As always, we welcome any visitors to our office in Beijing. Thank you.

Operator:

This concludes today's conference call. We thank you for your participation. You may disconnect your lines at this time, and have a great day.