



**ATA Inc. Financial Results Conference Call for the Three Months Ended September 30, 2017
TRANSCRIPT**

November 9, 2017 at 8 p.m. ET

SPEAKERS

Carolyne Sohn – Senior Associate, The Equity Group

Kevin Ma – Chairman and Chief Executive Officer, ATA

Amy Tung – Chief Financial Officer, ATA

Operator:

Good day, ladies and gentlemen and welcome to the ATA Inc. Financial Results Conference call for the three months ended September 30, 2017. My name is LaDonne, and I will be your event moderator for today. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session, and instructions will be given at that time [Operator Instructions].

I would now like to turn the conference over to your host for today Ms. Carolyne. Please proceed.

Ms. Carolyne Sohn:

Thank you, LaDonne, and hello, everyone. Thank you for joining us.

The press release announcing ATA's results for the three months ended September 30, 2017 are available at the IR Section of the Company's website at www.atai.net.cn. As part of this conference call, the Company has an accompanying slide presentation available on its website. 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 2 of the conference call presentation for further information.

All U.S. dollar amounts in this conference call, relating to financial results for the three months ended September 30, 2017, are converted from RMB using an exchange rate of 6.6533RMB: 1.00 USD, the noon buying rate as of September 30, 2017. 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 on slide 3.

As previously disclosed on the Company's Form 6-K filing with the SEC on June 2, 2017, ATA will be changing its fiscal year end from March 31 to December 31. The Company will file a transition report on Form 20-F after December 31, 2017, to account for the transition period from April 1, 2017, to December 31, 2017, and will continue to report financial results on a quarterly basis during this transition period.

On today's call, the Company's CFO Ms. Amy Tung will begin with an overview of operational and financial highlights for the three-month period ended September 30, 2017, and then provide a brief update on the previously announced preliminary proposal to acquire ATA Online, the wholly owned subsidiary of the Company. ATA's Chairman and CEO Mr. Kevin Ma will conclude the prepared remarks with a brief discussion on ATA's outlook and growth strategy for the remaining three months of the 2017 calendar year before opening the floor for questions.

With that, I'll turn the call over to ATA's CFO, Ms. Amy Tung. Please go ahead, Amy.

Ms. Amy Tung:

Thank you, Carolyne, and welcome everyone. I will begin on slide 5 with our operating and financial highlights.

During the three months ended September 30, 2017, ATA delivered 1.4 million billable tests, compared to 1.8 million in the prior-year period. Last quarter we successfully delivered a new exam, the junior level Accounting Professional and Technical Qualification Exam. We were pleased that we successfully administered the mid-level version of this same exam in Nanchang and several additional major cities and provinces this quarter, including Beijing, Shanghai, and Fujian.

We announced during our last earnings call that ATA had signed an exclusive five-year agreement with ACT, Inc., the organization behind the ACT college entrance exam. During the September 30, 2017 quarter, we delivered the ACT test in Jeju Island, Korea, and Global Assessment Certificate schools in mainland China. The successful delivery of these exams was particularly notable as ACT cancelled the administration of the ACT test in several locations across Asia due to a suspected security breach of the test materials. We were pleased to work closely with ACT on these exams and look forward to growing this partnership going forward.

ATA met its previously provided net revenue guidance, reporting net revenues of RMB69.6 million for the quarter ended September 30, 2017, which compares to RMB65.1 million in the prior-year period.

Gross margin for the three months ended September 30, 2017, was 44.3%, compared to 45.4% in the prior-year period. The decrease was primarily due to increased costs related to the delivery of the Accounting Professional and Technical Qualification Exam, which was a new exam title in a number of major cities and provinces that incurred higher expenses during the initial implementation phase, as well as increased fixed costs associated with higher share-based compensation expense and licensing fees.

Our bottom line for the three months ended September 30, 2017, was impacted by the increased costs I just mentioned as well as increased operating expenses related to labor costs for new hires, incremental remuneration packages and higher share-based compensation expense. The increased operating expenses for the period was related to several initiatives ATA has begun for strengthening the core testing services business. We are devoting additional resources to our research and development team and actively evaluating our platforms as we work to bring our clients the latest technologies in test delivery and preparation. We have also decided to transition our sales and marketing functions to a

more decentralized model, which we believe will allow us to take better advantage of local business opportunities.

The December 31st quarter tends to be our strongest quarter of the year. As such, we are reiterating the net revenue guidance we previously provided for the nine-month transition period ending December 31, 2017.

On the next slide, we break out revenues for the three months ended September 30, 2017, by our businesses, which are testing services, online education services and other revenue. Testing services accounted for about 81.8% of revenues during the period.

On slides 8 and 9, we provide a breakdown of the Company's financial results for the three and six months ended September 30, 2017. As this information has been fully detailed in our earnings release, I won't repeat the numbers here but am happy to take any questions on this information during Q&A.

Net loss attributable to ATA Inc. for the quarter ended September 30, 2017, improved to RMB16.0 million, from net loss of RMB35.6 million in the prior-year period, primarily as a result of the RMB21.9 million impairment loss taken in the prior-year period related to an equity method investment in an associated company.

Moving to slide 10, we provide a supplemental chart of quarterly numbers adjusted for share-based compensation expense and foreign currency exchange gain or loss.

Adjusted net loss attributable to ATA Inc. for the quarter ended September 30, 2017, which excludes share-based compensation expense and foreign currency exchange gain (non-GAAP), was RMB11.0 million, compared to RMB34.6 million in the prior-year period.

Basic and diluted losses per common share attributable to ATA Inc. excluding share-based compensation expense and foreign currency exchange gain (non-GAAP) for the quarter ended September 30, 2017, were both RMB0.23. Basic and diluted losses per ADS attributable to ATA Inc. excluding share-based compensation expense and foreign currency exchange gain (non-GAAP) for the quarter ended September 30, 2017, were both RMB0.46, compared to RMB1.50 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 11.

As of September 30, 2017, ATA's cash and cash equivalents were US\$25.0 million, working capital was US\$23.5 million, and total shareholders' equity was US\$46.4 million; compared to US\$32.3 million, US\$28.0 million, and US\$57.0 million, respectively, as of March 31, 2017.

As shown on slide 12, we expect net revenues for the three months ending December 31, 2017, will be between RMB312.0 million and RMB317.0 million.

For the nine months ending December 31, 2017, ATA is reiterating its net revenue guidance range of between RMB490.0 million and RMB510.0 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.

On August 30th, ATA announced receipt of a preliminary non-binding proposal from our Chairman and CEO Mr. Kevin Ma to acquire ATA's 100% equity interest in ATA Online, a wholly-owned subsidiary of the Company, for a total consideration of US\$150 million. The Board-established Special Committee, comprising two of ATA's independent directors Mr. Alec Tsui and Ms. Hope Ni, has retained a financial advisor and U.S. legal counsel, and continues working with these advisors in reviewing and evaluating the Proposal.

With that, I'll turn it over to Kevin who will provide closing remarks on our growth strategy and outlook for the remainder of 2017 and beyond.

Mr. Kevin Ma:

Thank you, Amy.

As Amy mentioned earlier, our growth strategy continues to center on our core testing services business. The market environment continues to be a favorable one for the education and testing technologies industry, and we are evolving and adapting to ensure we remain a market leader in the space.

Amy also touched on a few strategic initiatives that we have undertaken to strengthen our core testing services business. From a platform standpoint, we are working to bring our clients the latest in test delivery and preparation technologies and are adding resources to our research and development team and actively evaluating our platforms, which we hope to make improvements to.

We have also decentralized our sales and marketing functions to enable ATA to take better advantage of local business opportunities. While we do continue to have a team dedicated to working on national exams, we now have 9 provincial representative offices covering China, which allow ATA to be more actively involved in geographically focused opportunities that could potentially lead to other geography-driven partnerships.

As we continue building our business by converting traditional paper-based exams and expanding upon existing client relationships, these new initiatives will serve to accelerate growth in our core business.

We anticipate a strong December ending quarter, which has typically been our strongest quarter, and look forward to sharing the results for Nine-Month Transition Period 2017 in calendar year 2018.

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

Operator:

{Prompt for Q&A} Your first question comes from the line of Ian Ku. Please proceed.

Mr. Ian Ku:

Hi, thank you for taking my question. I have two questions. First, it's good to know that ATA has started to deliver services for some new exams starting from recent quarters, such as the two exams for the Ministry of Human Resources and Social Security, the Accounting Professional and Technical Qualification Exam and the Tax Law Contest. Can you give us an idea of how much revenue these new exams generate for ATA, or the percentage of total revenue, and how fast are they growing? My second question is specifically about the accounting exams. As far as I know, there is a big market for accounting-related exams in China. It looks like ATA is entering into a lot of new cities and provinces for this accounting exam pretty fast. My questions is, how fast is the revenue from these accounting-related exams growing, and how many more provinces and cities do you anticipate ATA to deliver services for in the future and how soon is that going to happen? Thanks.

Ms. Amy Tung:

Thank you for your question, Ian. For the Accounting Professional and Technical Qualification Exam, this is actually a new title that we have been delivering for this quarter. Since it is the first time that we delivered, it is taking more costs than the normal exams that we have been taking, and we are actually

expanding this exam in Beijing, Nanchang, and to other cities for these quarters, and we are going to expand these exams into other provinces and replicate the model going forward.

Regarding the revenue for this quarter, this exam has been around 6 million in revenue, and we forecast that when we get more provinces for expanding this exam, we will have more revenue going on, but it really depends on how fast these provinces can be expanded and how many people will be in these provinces. So it is a little bit hard to tell at this moment but we are having confidence that we will be expanding into other provinces in the next few quarters.

Mr. Ian Ku:

OK, thank you for the answer.

Operator:

{Prompt for Q&A} There are no more questions in the queue at this time.

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

Operator:

Ladies and gentlemen, that now concludes today's conference call. Thank you for your participation. You may now disconnect. Have a great day.