



**ATA Inc. Fiscal 2014 Third Quarter and Nine Months Financial Results Conference Call
TRANSCRIPT**

February 25, 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

Kevin Ma – Chairman, ATA

Operator:

Good day, ladies and gentlemen, and welcome to the ATA Inc. FY 2014 third quarter and nine months financial results conference call. My name is Michelle, and I'll be the operator for today. At this time, all participants are in a listen-only mode. However, later we will conduct a question and answer session. If at any time you require operator assistance, please press star, followed by zero on your telephone, and we will be happy to assist you. As a reminder, this conference is being recorded.

It's my pleasure now to turn the conference over to your host for today, Ms. Carolyne Sohn of The Equity Group. Please proceed.

Ms. Carolyne Yu:

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

Copies of the press release announcing ATA's fiscal 2014 third 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 and nine months ended December 31, 2013, are converted from RMB using an exchange rate of RMB6.0537 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 CEO Mr. Cheng-Yaw Sun will provide an overview of operational highlights for Third Quarter 2014 beginning with Slide 4, and Mr. Benson Tsang will follow with an overview of financial highlights for the period. The Company's Chairman Mr. Kevin Ma will then discuss ATA's outlook and growth strategy for the remainder of FY 2014 before opening the floor for questions.

With that, I'll turn the call over to ATA's CEO Mr. Cheng-Yaw Sun. Please go ahead, Mr. Sun.

Mr. Cheng-Yaw Sun:

Thank you, Carolyne, and good morning. I would like to begin on slide 5, which lists some of our operating highlights for Third Quarter 2014.

During the period, we delivered 4.2 million billable exams, which is approximately the same number of billable exams ATA delivered in the prior-year period.

Among these exams was the National Unified Certified Public Accountants exam, or CPA exam, which we successfully administered with ATA's computer-based platform for the second consecutive year. Over 1.5 million exams were delivered throughout China, versus 1.4 million exams delivered in 2012.

We continued our efforts to grow our base of corporate clients under HR Select and are pleased to report over 70% growth in volume during Third Quarter 2014 to approximately 790,000 exams, most of which were for key banking clients, such as the Agricultural Bank of China, China Construction Bank, and Bank of China. We also signed new HR Select clients such as Shanghai Rural Commercial Bank and JiangSu Rural Credit Union.

With regards to TOEIC, we recently announced the termination of ATA's exclusive distributor contract with ETS for this exam, effective the end of this month. However, we continue to be in active discussion with ETS to explore the possibility of TOEIC and other potential business opportunities.

Using our new mobile testing system, or MTS, we successfully administered the Cambridge Junior English Exam in Mexico, Spain, and Argentina in November.

We made significant progress in the integration of Xing Wei's staff and services into ATA following the acquisition late last year, and I am pleased to say that it was a smooth integration.

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.

And based on such a strong base, I am now working closely with members of senior management, focusing on ATA's growth strategy for the next three years.

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

Mr. Benson Tsang:

Thank you, Cheng-Yaw.

As shown on slide 7, we achieved year-over-year improvement in gross margin primarily due to increased revenue contributions from our HR Select business, as well as a decrease in average monitoring costs from the prior-year quarter.

During Third Quarter 2014, revenues from the private sector business increased about 31% to RMB58 million, primarily as a result of significant growth in HR Select exam volumes, which had a positive impact on gross margin. Due to the termination of the exclusive TOEIC distributor contract with ETS, revenue contributions from TOEIC decreased about 25% during the period, and we expect this will have an impact on our TOEIC revenues in Fourth Quarter 2014 as well.

While we are very pleased to have achieved healthy growth in our private sector business during Third Quarter 2014, we are revising our net revenue and non-GAAP net income guidance for Fiscal Year 2014, due to delays in contract negotiations, changes in timing of clients' service needs, and the termination of our exclusive TOEIC distributor contract with ETS. Kevin will expand upon our updated guidance later on during the call.

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

At about 96%, our core segment of testing services was a significant percentage of our total revenue in the 2014 third quarter.

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

Gross profit increased about 16% to RMB92.5 million from about RMB80 million in the prior-year period. Gross margin for Third Quarter 2014 improved to 49.0%, from 44.4% in the prior-year period. As I mentioned before, the increase in gross margin was due to increased revenue contributions from the private sector business and decreased monitoring costs.

Net income was RMB35.6 million, compared to RMB 33.2 million in the prior-year period. Despite an RMB12.4 million royalty fee write-off resulting from the termination of the exclusive distributor contract between ETS and ATA for TOEIC and its related products, we were able to achieve modest growth on our bottom line as a result of increased gross profit. Excluding the royalty fee write-off, we achieved approximately RMB48 million in net income, compared to about RMB33 million in the prior-year period.

Diluted earnings per ADS were RMB1.54 in Third Quarter 2014, compared to RMB1.44 in the prior-year period.

You can see the full results for the first nine months of Fiscal Year 2014 on slide 10.

Gross margin for the period was 49.9%, compared to 47.1% in the prior-year period.

We reported net income of approximately RMB41 million for the period, or diluted earnings per ADS of RMB1.76, compared to RMB29.3 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'd like to highlight that excluding these items, adjusted net income for Third Quarter 2014 was RMB39 million, compared to approximately RMB36 million in the prior-year period. Diluted earnings per ADS during Third Quarter 2014 on a non-GAAP basis was about US\$0.28.

Adjusted net income for the first nine months of Fiscal Year 2014 increased about 22% to RMB47.4 million, from RMB38.8 million in the prior-year period, and diluted earnings per ADS on a non-GAAP basis was about US\$0.34.

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

As of December 31, 2013, we had about US\$62.5 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 Fourth Quarter 2014. Based on existing exam schedules, we expect fourth quarter net revenues will be in the range of RMB44.0 million to RMB54.0 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 and growth strategies for Fourth Quarter 2014 and FY 2014.

Mr. Kevin Ma:

Thank you, Benson.

We were pleased with the measurable growth in our HR Select business during Third Quarter 2014, as well as the successful delivery of a record number of CPA exams last October.

Our Third Quarter 2014 was, however, impacted by the royalty fee write-off resulting from the termination of our exclusive distributor contract with ETS for TOEIC, as well as increased operating expenses related to the integration of Xing Wei. As Cheng-Yaw mentioned earlier, we are currently engaged in active discussion with ETS to explore the possibility of TOEIC remaining one of ATA's exam title offerings as well as other potential business opportunities.

Slide 15 shows our annual guidance for Fiscal Year 2014. As Benson mentioned earlier, we are revising our FY 2014 net revenue and non-GAAP net income guidance, largely due to delays in contract negotiations, changes in timing of clients' service needs, and the termination of the exclusive TOEIC distributor contract. We now expect net revenues to be between RMB370.0 million and RMB380.0 million and non-GAAP net income guidance to be between RMB37.0 million and RMB42.0 million.

Slide 16 lists our several growth initiatives. We are pleased with the smooth transition of Xing Wei's service offerings and personnel following the acquisition, and expect these additional online and mobile training platforms will have a positive impact on our efforts to grow both new and existing client relationships in the future, especially for the private sector. ATA remains focused on diversifying the Company's revenue mix between the public and private sectors, and will continue working toward this goal.

Many exams in China continue to be administered via the traditional paper-and-pencil format. We believe there continue to be many opportunities for ATA to transition large-scale exams to our significantly 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.

Following a series of trial exams, we were very pleased with the most recent successful administration of the Cambridge English Junior Exam in Mexico, Spain and Argentina. We have received positive feedback from Cambridge English on the MTS technology and are optimistic that our efforts will lead to a long-term relationship with this recognized and respected organization. We believe the MTS provides ATA with a significant opportunity to expand its presence in the global testing marketplace.

Lastly, we remain cognizant of our financial position and will continue working to generate excess cash flow to fund our future growth.

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

Operator:

{Operator Instructions}

There are no questions waiting in the queue.

Mr. Cheng-Yaw Sun:

Thanks again to all of you for joining us. We look forward to speaking with you again during our Fourth Quarter 2014 financial results call. As always, we welcome any visitors to our office in Beijing. Thank you.

Operator:

Thank you, ladies and gentlemen. This concludes your conference call for today. Thank you for joining us. You may now disconnect your line, and enjoy the rest of your day.