



**ATA Inc. Fiscal 2017 First Quarter Financial Results Conference Call
TRANSCRIPT**

August 12, 2016 at 8 a.m. ET

SPEAKERS

Katherine Yao – Senior Associate, The Equity Group

Kevin Ma – Chairman and Chief Executive Officer, ATA

Shelly Jiang – Interim Chief Financial Officer, ATA

Operator:

Good day, ladies and gentlemen, and welcome to the ATA Inc. Fiscal Year 2017 first quarter financial results conference call. My name is Sandra, and I am your operator for today. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session towards the end of the conference. If at any time you require assistance, please press star followed by zero, and a coordinator will be happy to assist you. As a reminder, this call is being recorded for replay purposes. I would now like to turn the conference over to Katherine Yao of The Equity Group. Please go ahead.

Ms. Katherine Yao:

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

Copies of the press release announcing ATA's fiscal 2017 first quarter results are available at the IR section of the Company's website at www.atai.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 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 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 U.S. dollar amounts in this conference call relating to financial results for the Company's most recent quarter ended June 30, 2016, are converted from RMB using an exchange rate of RMB6.6459 to US\$1.00, the noon buying rate as of June 30, 2016. 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 3. The Company's Interim CFO Ms. Shelly Jiang will provide an overview of operational and financial highlights for First Quarter 2017, beginning with slide 4. The Company's Chairman and CEO Mr. Kevin Ma will then discuss ATA's outlook and growth strategy for FY 2017 before opening the floor for questions.

With that, I'll turn the call over to ATA's Interim CFO, Ms. Shelly Jiang. Please go ahead, Shelly.

Ms. Shelly Jiang:

Thank you, Katherine, and welcome everyone. Today I will provide an overview of our operating and financial highlights, and then briefly provide an update on our outlook for Fiscal Year 2017. I will begin on slide 5, which lists some of our operating highlights for the first quarter.

The first quarter was an excellent one for ATA, as we exceeded our previously announced guidance range for quarterly revenue and continued pushing forward on new business development efforts that we believe will have a lasting impact throughout Fiscal Year 2017.

In yesterday's press release, we announced that ATA was recently selected by the China National Tourism Administration to be the service provider for the National Tour Guide Qualification Exam, which we expect to deliver in November 2016. In June, the Company was also chosen by four well-known Chinese universities, including Northwest University and Zhongnan University of Economics and Law, to deliver exams and/or to develop certain exam content for them.

During First Quarter 2017, ATA successfully delivered a new exam titled the Qualification Exam for Housing and Urban-Rural Construction Field Professionals for Sichuan province and the Ningxia Autonomous Region. We worked closely with test sponsors to convert this exam from its original paper-based format to ATA's technology-based platform, and look forward to continuing this relationship in the quarters to come.

Overall, ATA delivered approximately 2.6 million billable exams during First Quarter 2017, compared to 2.5 million billable exams in First Quarter 2016. Exam volumes for the period were relatively flat, despite of the loss of the Securities Association of China exam for calendar years 2016-2017, which was mostly offset by volumes from new exams such as the Fund Practitioners Certification Exam.

We have been working closely with the Asset Management Association of China (AMAC), which represents China's mutual fund industry, over the past few quarters to ensure the smooth administration and delivery of this fund certification exam. It has been a productive relationship for both parties thus far, and we at ATA look forward to growing this partnership with AMAC in the years to come.

Moving on to slide 6, which lists our financial highlights for First Quarter 2017. ATA reported net revenues of RMB96.8 million for the period, which beat our guidance range of RMB87.0 million to RMB92.0 million and compares to net revenues of RMB97.5 million in the prior-year period.

Gross margin for First Quarter 2017 was 49.6%, compared to 55.5% in the prior-year period. The decrease was primarily due to a change in revenue mix and increased expenses related to additional operations staffing.

We reported net income of RMB4.1 million in First Quarter 2017, which compared to RMB6.1 million in the prior-year period. Our bottom line was impacted by increased losses incurred by the Company's joint venture and associated companies focused on the education and recruitment markets.

Following a strong fiscal first quarter, the Company is reiterating its previously announced net revenue and non-GAAP net income guidance range for Fiscal Year 2017, which I will discuss in further detail later on this call.

On the next slide, we break out revenues for First Quarter 2017 by our businesses, which can be divided into two areas, testing services and online education services. Testing services accounted for about 92.5% of revenues in First Quarter 2017.

On slide 8, we provide a breakdown of the Company's financial results for First Quarter 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.

Moving to slide 9, we provide a supplemental chart of quarterly numbers adjusted for share-based compensation expense and foreign currency exchange gains/losses. Excluding these items, adjusted net income for First Quarter 2017 was RMB5.2 million, or US\$0.8 million, compared to RMB10.0 million in the prior-year period. Diluted earnings per ADS during First Quarter 2017 on a non-GAAP basis were RMB0.22, compared to RMB0.44 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, 2016, we had about US\$18.0 million in cash and cash equivalents. Some of you may have noticed the decrease in cash and cash equivalents from about RMB248 million as of March 31, 2016, to RMB119.5 million as of June 30, 2016. This decrease was primarily due to the increase in long-term investments related to ATA's recent strategic investments in a number of online education companies, which Kevin will expand upon in a moment, and an RMB30.0 million cash reserve set aside as a domestic guarantee in China that allows the Company to obtain an overseas loan for general working capital purposes in its international business. This cash reserve is for securing an overseas credit line with US\$4 million. After June 30, 2016, we have withdrawn US\$0.5 million from the total credit pool.

As shown on slide 11, we expect Second Quarter 2017 net revenues will be in the range of RMB58.0 million to RMB68.0 million. As previously announced, we expect FY 2017 net revenues to be between RMB420.0 million and RMB440.0 million and non-GAAP net income guidance to be between RMB27.0 million and RMB37.0 million, which takes into account the operating results of ATA's joint venture and associated companies focused on the education and recruitment markets, all of which are at an early stage of business development.

The Company is exploring growth opportunities in the K-12 education assessment and recruitment sectors during Fiscal Year 2017 and plans to invest between RMB20.0 million and RMB30.0 million in such sectors, which is not included in our Fiscal Year 2017 guidance.

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 Chairman and CEO, Mr. Kevin Ma, to provide some more detail on our growth strategy and outlook for FY 2017 and beyond.

Mr. Kevin Ma:

Thank you, Shelly.

One of the Company's primary growth drivers in the coming quarters will be our ability to further develop and monetize new business relationships, with a focus on growing our core testing services business in Fiscal Year 2017. On slide 13 of our presentation is a list of some of our overall growth strategies. We made some strong progress on this front in First Quarter 2017 with the successful conversion and delivery of the Qualification Exam for Housing and Urban-Rural Construction Field Professionals for Sichuan and Ningxia Province, as well as the other more recent new client wins that Shelly touched on.

We continue to have a positive outlook on Fiscal Year 2017, particularly given the strong First Quarter 2017 results ATA was able to achieve. While the loss of the SAC exam in calendar years 2016-2017 did have some impact on our business during the period and will continue to have an impact on the remaining quarters of this fiscal year, we are confident that our new business efforts will offset the majority, if not all, of any negative impact. We believe that by leveraging our increased brand recognition following ATA Online's New Third Board listing, reputable organizations will increasingly recognize ATA as the #1 provider of advanced testing technologies in China, which will only serve to increase our Company's new business pipeline.

Over the course of the past few months, ATA Inc. and ATA Online have made strategic investments in a number of innovative education companies we believe will help accelerate the growth of our core testing services business.

We recently announced ATA's strategic investment in Langlib, an online English language education company in China. This investment allows us to continue exploring growth opportunities in China's online education market as our Company takes advantage of Langlib's expertise in content creation and adaptive learning technology focusing on online English language education.

In addition to Langlib, ATA increased its investment in Satech, the provider of SAT exam-related technologies and services in China behind the Cece SAT and Cece TOEFL products. We believe this additional investment will be advantageous in ATA's efforts to break into the international studies market.

We also announced that ATA made a strategic investment in ApplySquare Education & Technology Co., Ltd., a China-based education technology company focused on academic solutions and resources for the higher education community. With this investment, ATA expects to work closely with ApplySquare's management team to further develop its platform and business relationships and to benefit from ApplySquare's expertise in education technologies, data analysis/mining, and information sorting and matching.

Continuing its expansion into the K-12 and other online education markets, ATA also made a strategic investment in Empower Education Online, LLC that operates its self-developed leading web-based virtual classroom platform in China. We expect this investment will provide ATA with increased access to various types of students and enhanced brand name exposure to this audience that may go on to take assessment exams administered by ATA, which will prove valuable to growing ATA's core testing services business over the long term.

Our subsidiary ATA Online made strategic investments in two education companies: the first is Medicine (Beijing) Education Technology Ltd., a China-based online education technology company focused on training and exam preparation for the sectors of medicine, pharmacy and healthcare. Most recently, we announced that ATA Online has made a strategic investment in Beijing Puhua Huitong Education Technology Co., Ltd., which expects to collaborate with the Open University of China on degree and non-degree education programs.

ATA continues to explore growth opportunities in the K-12 education assessment and corporate recruitment sectors by leveraging the Company's core competency in advanced psychometric knowledge and testing technologies. We will keep investors apprised of our efforts here.

We continue to work on the previously announced private placement for our subsidiary ATA Online and will keep the investment community apprised of any developments in this area as we move forward.

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

Operator:

{Prompt for Q&A}

We have no questions. I would like to hand it back over to management.

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 Second Quarter 2017 financial results call. As always, we welcome any visitors to our office in Beijing. Thank you.