



**ATA Inc. Financial Results Conference Call for the Three- and Nine-Month Transition Periods
Ended December 31, 2017
TRANSCRIPT
March 19, 2018 at 9 p.m. ET**

SPEAKERS

Carolyne Sohn – Senior Associate, The Equity Group

Kevin Ma – Chairman and Chief Executive Officer, ATA

Jack Huang – President, ATA

Amy Tung – Chief Financial Officer, ATA

Operator:

Good day, ladies and gentlemen, and welcome to ATA Inc. Financial Results Conference Call for the Third and Nine Month Transition period ended in December 31, 2017. My name is Sangeev, and I'll be your event moderator for today. [Operator Instructions]

And now I would like to hand over to Carolyne. Carolyne, please go ahead.

Ms. Carolyne Sohn:

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

The press release announcing ATA's results for the three and nine months ended December 31, 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 the Company's 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 and nine months ended December 31, 2017, are converted from RMB using an exchange rate of 6.5063 RMB: 1.00 USD, the noon buying rate as of December 31, 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 of the Company on slide 3.

As previously disclosed on the Company's Form 6-K filing with the SEC on June 2, 2017, ATA is changing its fiscal year end from March 31 to December 31. The Company will file a transition report on Form 20-F in the coming weeks, to account for the transition period from April 1, 2017, to December 31, 2017.

On today's call, the Company's CFO Ms. Amy Tung will begin with a brief update on the status of the acquisition of ATA Online, the wholly owned subsidiary of the Company. She will then provide an overview of operational and financial highlights for the three-month and nine-month transition periods ended December 31, 2017. ATA's Chairman and CEO Mr. Kevin Ma and President Jack Huang will conclude the remarks with a brief discussion on ATA's outlook and growth strategy in 2018 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 a few operating highlights.

Many of you are likely aware that the Company has entered into a share purchase agreement with a group of investors for the sale of ATA Online, our testing services business. Under the terms of the Share Purchase Agreement, the Buyer Group has agreed to acquire all of the outstanding equity interests of ATA Online, which is currently held directly or indirectly by ATA, for a total consideration of US\$200 million in cash.

Mr. Ma has paid a cash deposit in the amount of US\$20 million to ATA as collateral and security for the payment obligations of the Buyer Group as agreed under the Share Purchase Agreement.

As previously announced on February 6, the closing of the Transaction is expected to take place in three stages subject to the satisfaction of various conditions precedent in the Share Purchase Agreement. The first of the three closings is expected to be completed by early second quarter, and the Transaction's completion is expected in the third quarter of 2018. We will continue to provide updates but caution investors that there are no assurances that all of the conditions for the closing stated in the Share Purchase Agreement will be satisfied or that the Transaction will ultimately be completed.

Additional information on the Transaction can be found in the Form 6-K ATA filed on February 6, 2018, which investors may access on the SEC Filings page on ATA's website or on the U.S. Securities and Exchange Commission website at www.sec.gov.

Jack will provide some background on ATA Inc.'s plans for the public company following the closing of the ATA Online sale when he speaks about the Company's outlook and strategy in 2018.

Moving on to operational highlights, ATA delivered 7.3 million billable tests during the three months ended December 31, 2017, compared to 7.0 million in the prior-year period.

From October 14-15, 2017, we successfully delivered the CPA exam across China over our nationwide test delivery platform for the sixth consecutive year. The number of test takers for the CPA exam hit a new record of 2.9 million, compared to 2.2 million last year.

We also saw increased exam volumes from some of our existing large-scale exams, including the National Tax Adviser Occupational Qualification Exam, National Tour Guide Qualification

Examination, and the Qualification Exam for Housing and Urban-Rural Construction Field Professionals.

In addition, ATA delivered new exams such as the National Real Estate Broker Associate Qualification Exam and National Tax System Tax Staff Enforcement Qualification Test. We also continued expanding the National and Local Tax Law Knowledge Contests to new cities and provinces, including Yunnan, Hunan, Guizhou, and others.

Our online education services business saw growth during the period as well, primarily contributed by online education projects for the China Banking Association and the Fund Practitioner Association.

ATA met its net revenue guidance for the quarter and Nine-Month Transition Period 2017. Net revenues increased 15.7% to RMB316.4 million in the quarter ended December 31, 2017, from RMB273.5 million in the prior-year period.

Gross margin for the three months ended December 31, 2017, was 48.6%, compared to 50.8% in the prior-year period. The decrease was primarily due to increased test monitoring costs as well as increased fixed costs associated with higher share-based compensation expense and licensing fees.

Our bottom line for the three months ended December 31, 2017, was impacted by an RMB15.2 million impairment charge associated with one of our investee companies as well as increased consulting fees, particularly related to the review and evaluation of the ATA Online acquisition proposal.

Given the status of the ATA Online acquisition, we will not be providing guidance for the 2018 first quarter ending March 31, 2018, and the year ending December 31, 2018, at this time.

On the next slide, we break out revenues for the three and nine months ended December 31, 2017, by our businesses, which are testing services, online education services and other revenue. Testing services accounted for about 94.1% of our revenues during the December 31st quarter.

On slides 8 and 9, we provide a breakdown of the Company's financial results for the three and nine months ended December 31, 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 the Q&A session.

Net income attributable to ATA Inc. for the quarter ended December 31, 2017, was RMB54.1 million, compared to RMB75.4 million in the prior-year period, primarily due to the impairment charge and consulting fees I mentioned earlier.

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 income attributable to ATA Inc. for the quarter ended December 31, 2017, which excludes share-based compensation expense and foreign currency exchange gain (non-GAAP), was RMB58.6 million, compared to RMB76.5 million in the prior-year period.

Basic and diluted earnings per common share attributable to ATA Inc. excluding share-based compensation expense and foreign currency exchange gain (non-GAAP) for the quarter ended December 31, 2017, were both RMB1.18. Basic and diluted earnings per ADS attributable to ATA Inc. excluding share-based compensation expense and foreign currency exchange gain (non-GAAP) for the quarter ended December 31, 2017, were both RMB2.36, compared to RMB3.34 in the prior-year period.

Slide 11 highlights our positive cash flow and solid balance sheet.

As of December 31, 2017, ATA's cash and cash equivalents were US\$39.4 million, working capital was US\$34.6 million, and total shareholders' equity was US\$56.1 million; compared to US\$32.3 million, US\$28.0 million, and US\$57.0 million, respectively, as of March 31, 2017.

With that, I'll turn it over to Kevin.

Mr. Kevin Ma:

Thank you, Amy.

As Amy discussed at the beginning of this call, we continue working closely with several parties on the remaining closing stages of the ATA Online sale transaction. If the Transaction is completed, ATA will no longer conduct its testing development and delivery business currently operated by ATA Online.

In January of this year, we announced the appointment of Jack Huang as president and director of ATA. I am pleased to have Jack sitting with me on this call today. Jack and I have been working very

closely in recent months and will continue to do so as we look to ATA's future. Jack boasts over 20 years of experience in the international education community and is a well-respected and recognized leader in the space. Moving forward, Jack will not only work with me on overseeing ATA's business and operations, but he, along with Amy, will serve as a primary point of contact for the investment community.

Keeping this in mind, I would now like to turn it over to Jack to provide some background on our growth strategy for the immediate and longer term, as well as our outlook for 2018 and closing remarks.

Mr. Jack Huang:

Thank you for the kind introduction, Kevin. Hello, everyone. I am very pleased to be speaking with you today.

Picking up where Kevin left off in terms of what to expect following the ATA Online sale transaction, ATA will no longer conduct its testing development and delivery business that is operated by ATA Online after the closing of the sale. Instead, we plan to leverage our existing competency-focused assessment and education service capabilities and the strategic opportunities that we have been working on to transform our company into a leading international education service provider.

We have been exploring the possibility of using the proceeds received from the Transaction to fund potential acquisitions within the education sector since I joined ATA in January and will be sure to provide updates on our progress to the investment community as appropriate.

We intend to focus on three areas:

- international education services for providing services to talents internationally;
- vocational training and learning services for candidates using international resources and approaches; and
- evaluation services for assessing and evaluating candidates through content and methodologies.

The remaining portion of ATA's business after the completion of the Transaction includes the following three competency- focused assessment and education service businesses, all of which we intend to continue and develop:

- the assessment tools and content business in our evaluation services area that currently focuses on assessing the competencies of K-12 students;

- the Nanjing University Shuang Chuang Project in our vocational training services area that focuses on the innovation-related competencies of college students; and
- the Research Project with the Education and Research Institute of Tsinghua University in our international education services area that focuses on Chinese skills and competencies of non-native Chinese learners.

As previously announced, ATA's Board of Directors preliminarily approved to use a portion of the proceeds received from the Transaction to pay a cash dividend to the shareholders, which is subject to compliance with Cayman Islands and PRC laws. However, the timing and amount of any cash dividend have not been decided, and may vary depending on several factors, including the progress of the Transaction, funding need for ATA's remaining businesses and mergers and acquisitions plans, as well as other unforeseen matters.

Our reporting obligations as a SEC-registered public company will not be affected as a result of the consummation of the Transaction. We intend to maintain ATA's listing status on the NASDAQ Global Market and will continue to work to maximize shareholder interests with a goal of returning value to our shareholders. As Amy stated, we continue to expect the final closing of the Transaction to take place in the third quarter of 2018.

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

Operator:

{Prompt for Q&A} There is one question from Anson Ng. Sir, your line is open.

Mr. Anson Ng:

All right, I do have a couple of questions about the transactions in relation to the sales of the ATA Online. The first one would be, we would like to know the rationals behind the transaction—why the management has decided to having the ATA Online sold. Is it the management cannot see any prospect of the growth of the ATA Online or there are some other reasons? The second question would be in relation to the possible dividend payout. We know the consideration is US\$200 million, and I was wondering if the company's and the management or the Board of Directors would consider to pay out dividends out of the proceeds from transactions and what is the payout ratio going to be. And we also understand the transactions will develop into three closings, well whether the we would like to know whether the company would the Board of Directors will consider to pay out the dividends upon each

closing or upon the completion of each closing or we will have to wait until all three closings to be completed in order to declare dividends. That's all I want to know. Thanks.

Mr. Kevin Ma:

谢谢那个 Anson 的提问。就是因为过去我们上市十年来我们的市值一直都在一亿美金左右，大部分的时间都在一亿美金以下。这个业务已经过了十年的时间了在这个市场上面，所以呢，我们觉得第一个是说资本市场 - 美国的资本市场可能不是太看好这样的一个业务，那么怎么才能能够在这么一个长期的一个，在一个上市的情况下才能够给股东更好的回报，我们觉得也是一个很重要的事。所以呢在这个情况下，因为有 Equity Partner，我们一起觉得应该愿意出一个更好的价钱，然后来给公司。所以董事会也经过充分的讨论和多轮的议价，价格也从 1.5 亿美金提升到了两亿美金，因为 Equity Partner 的支持，所以我们就完成了这个交易。这样的一个交易，我们认为是对所有股东最最好的一个回报。因为它几乎超过了我们现在市值的一倍，然后呢，我们把这个业务卖掉以后呢，我们拿到钱可以分红同时还可以发展我们新的业务，让公司做一个转型，那这个转型会在国际教育这个领域。国际教育这个领域在中国是一个蓬勃发展的领域，然后需求非常的旺盛，同时呢课单价也要比我们一个考试要高了很多倍。所以在这样一个非常就是增长的市场当中，我们相信，我们新的团队能够给已有的股东除了这次出售前面那些分红以外还能够带来更好的回报。所以这个决定是一个利益最大化的决定。这是我们的一个出发点。谢谢 不知道你是不是听懂了。

(Translated)

Thank you, Anson, for your question. In the past 10 years since we became listed on the market, our market value has always been around or below US\$100 million. This business has been listed in this market for over 10 years, so we feel that the U.S. capital markets may not view such a business as optimistically. And so having listed for such a long time, how we can provide shareholders a better return we believe is also a very important matter.

Under these circumstances, we and our equity partner agreed and were willing to offer a better price from US\$150 million to US\$200 million, after thorough discussions and several rounds of negotiations with our Board of Directors. With the support from our equity partners, we were able to complete this deal. We believe such a transaction is the best return for all our shareholders, since the consideration is almost double our current market value, and after the sale of this business, we can use the proceeds to pay out dividends and at the same time, fund our new businesses, that is transitioning our company into the international education area. International education is a very promising market in China with booming needs, where the unit price is many times higher than that of an exam delivery. In such a high growth market, we believe our new team can give existing shareholders better returns aside from the

dividend they will obtain from the sale. Therefore this is a benefit maximized decision, which is our intention. Thank you. Not sure if you understand that.

Ms. Amy Tung:

Maybe I will go ahead to answer the second question about the dividend payouts. As we previously announced, the Company intends to use the proceeds received from the transaction to fund one or more of the following terms, which includes potential mergers and acquisition targets in the education sector, the development and expansion of ATA's remaining business in assessment contents and instruments developments in K-12 and higher education areas, and also support our existing project which includes the Nanjing University Shuang Chuang Project and the research project with the Education and Research Institute of Tsinghua University and dividends to the shareholders. However, the Board preliminarily agreed to use the portion of the proceeds received from the transaction to pay a cash dividend to the shareholders and which is subject to compliance with the Cayman Islands and PRC Laws, but the timing and amount of cash dividends have not been decided yet. And it may vary depending on several factors including the progress of the transaction, the funding needs for ATA's remaining businesses and also the mergers and acquisition plan as well as other unforeseen matters.

We do understand that it is our ultimate responsibility to pursue the best return on this capital to our investors long term and we will certainly provide an update on this matter as soon as practicable. I'm not sure if I have answered your question, Anson?

Operator:

{Operator re-prompts} Okay, we have a question from Anson Ng. Anson, you may proceed.

Mr. Anson Ng:

I'm sorry, it's me again. I've got two more follow-up questions based on the answers thus given by the management. The first one would be, will the Company make announcement based on each completion of the closings, it just simply keep us informed of the progress of the transaction. The second one would be to you especially Amy, do you have the idea of how much of tax we have to pay is payable for such transaction? While I understand that the structure of that transactions is rather complicated, some would be the selling of the offshore shares of the holding companies and part of the transaction is selling the onshore company's shares. So I would like to know roughly what is the interest-- I mean the tax payables subject to applicable to this particular transaction. Thanks.

Ms. Amy Tung:

About the progress of the transaction, we will definitely keep the investors informed about the progress as we move on and will do appropriate disclosures when needed. About the cash to pay, for the moment as I have mentioned earlier, for the Board, even though we have been announcing that dividend we will be having a dividend for the investors, but it will still depend on the cash needs of the Company and we yet have to discuss on the amount and timing for the dividend payout. For the cash itself, the cash consideration of this deal is US\$200 million in total, but as Anson also mentioned, there will be three closings involved in this deal, and each closing will have certain amount of tax payout, which we estimated to be about US\$30 million for the tax. I hope I answered your question, Anson.

Operator:

Ladies and gentlemen, the question and answer session is now closed. Handing back to the management. You may proceed.

Mr. Jack Huang:

Thank you 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 relation 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. And thank you, operator.

Operator:

Thank you, speakers. Ladies and gentlemen, this concludes your conference call for today. You may now disconnect. Thank you for joining. Have a very good day.