



**ATA Inc. Fiscal 2014 Fourth Quarter and Year-end Financial Results Conference Call
TRANSCRIPT**

May 30, 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 2014 fourth quarter and year-end 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 2014 fourth quarter and year-end 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 year ended March 31, 2014, are converted from RMB using an exchange rate of RMB6.2164 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 highlights for FY 2014 and financial highlights for Fourth Quarter 2014 and FY 2014, 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 couple of 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 Fiscal Year 2014, 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 Fiscal Year 2014.

We were pleased with the way ATA finished the year, increasing both revenue and billable exams year over year in the fourth quarter despite our revenues being affected by the termination of the exclusive TOEIC distributor agreement with ETS in Q3.

During Fiscal Year 2014, we delivered 9.4 million billable exams, an increase of 7.6% from 8.7 million in Fiscal Year 2013, which was largely due to the successful delivery of over 1.5 million exams for the China CPA exam for the second consecutive year in last October, as well as increased volumes of exams delivered for the China Banking Association, security guard exams, and exams delivered for our private sector clients.

During Fourth Quarter 2014, we delivered 1.3 million billable exams, compared to 1.1 million in the prior-year period, as a result of increased exam volumes from various clients, including the NTET exam, our HR Select clients, and the Securities Association of China.

We are also pleased to report progress in growing our base of corporate clients throughout the course of Fiscal Year 2014. We achieved about 62% growth in HR Select exam volumes during Fiscal Year 2014 to approximately 1.3 million exams.

On the right-hand side of the presentation is a map of our extensive 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 and fiscal year as shown on slide 6, we exceeded our net revenue guidance for Fourth Quarter 2014 due to higher revenues from our testing services business.

We were able to improve our gross margin for Fiscal Year 2014 as a result of a year-over-year decrease in average monitoring costs and revenue contributions from licensing fees resulting from a past contract with Microsoft.

During Fiscal Year 2014, revenues from the private sector business increased about 24% to RMB110 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 10.5% during the fiscal year.

As a result of the ETS contract termination, along with delays in contract negotiations and changes in timing of clients' service needs, we revised our net revenue and narrowed non-GAAP net income guidance for Fiscal Year 2014 when we announced our Third Quarter 2014 results. We managed to exceed our net revenue guidance due to better-than-expected Fourth Quarter 2014 revenues. I would like to point out that full-year non-GAAP net income included two significant unbudgeted amounts: an RMB12.0 million royalty write-off resulting from the ETS contract termination in Q3, and RMB11.3 million in withholding tax expense related to a special dividend that was paid from the Company's China subsidiary to its BVI holding company during Fourth Quarter 2014. Despite these amounts, we managed to meet our non-GAAP net income guidance range for the fiscal year.

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

At 88%, our core segment of testing services was a significant percentage of our total revenue in the 2014 fourth quarter.

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

Gross profit increased about 10% to RMB196 million, from RMB178 million in the prior-year period.

Gross margin for the year was 51.0%, compared to 48.5% in the prior year.

We reported net income of RMB27.3 million for the period, compared to RMB23.2 million in the prior-year period.

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

Gross profit increased about 13% to RMB33.6 million, from RMB29.8 million in the prior-year period. Gross margin for Fourth Quarter 2014 improved slightly to 57.3%, compared to 57.0% in the prior-year period.

Net loss was RMB13.4 million, compared to RMB6.1 million in the prior-year period, as a result of the RMB11.3 million in special dividend-related withholding tax, which I mentioned earlier.

Diluted losses per ADS were RMB0.60 in Fourth Quarter 2014, compared to RMB0.28 in the prior-year period.

Please turn to slide 10 where 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 loss for Fourth Quarter 2014 was RMB9.6 million, which includes RMB11.3 million in special dividend-related withholding tax, compared to RMB2.8 million in the prior-year period.

Adjusted net income for Fiscal Year 2014 was RMB37.9 million, compared to RMB36.0 million in the prior-year period, and diluted earnings per ADS on a non-GAAP basis was RMB1.64.

We continue to be supported by free cash flow and a solid balance sheet, which we've highlighted on slide 11. As of March 31, 2014, we had about US\$50 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.

As announced in yesterday's earnings release, ATA's Board of Directors has declared a special cash dividend of US20.5 cents per common share, or US41 cents per ADS, on its outstanding shares to shareholders of record as of the close of trading on June 30, 2014.

The total amount of cash to be distributed as a part of the special dividend is expected to be approximately US\$10 million. The dividend will be paid on or around July 31, 2014.

Given ATA's continued ability to produce free cash flow, we are able to return capital to our loyal shareholders without affecting the funding to grow the Company.

Slide 12 shows our annual guidance for Fiscal Year 2015. We expect net revenues to be between RMB385.0 million and RMB405.0 million and non-GAAP net income guidance to be between RMB28.0 million and RMB38.0 million, which includes planned investments of about RMB30 million to maintain and expand our businesses.

We expect first quarter net revenues will be in the range of RMB74.0 million to RMB84.0 million.

Please keep in mind that this guidance is based on our 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 2015.

Mr. Cheng-Yaw Sun:

Thank you, Benson.

I'd like to start by providing some background on what has been happening at ATA since I joined the Company a few months ago. I have been working closely with the management team on evaluating

ATA's business and developing a strategy on how we can best position the Company for continued growth in the future. Kevin and the rest of them have built a company with a good foundation; it possesses secure and reliable technologies, a good selection of test content from highly respected firms, and strong client relationships.

In Fiscal Year 2015, we will strengthen our leadership position in the China testing and assessment market through investing in the upgrade and expanded capabilities of our testing delivery platforms to meet the needs of our clients.

We shall seek business opportunities with our existing clients to expand the business partnerships. For example, we have signed an agreement with the Banking Association of China to provide online continued education services to its members. We are also in discussion with the Banking Association to explore the business proposition to provide professional training and other related services to its members.

We grew over 20% in net revenues from our private sector clients in FY 2014. We shall continue our focused strategy to build deeper relationships with our existing clients, and to approach new clients proactively to expand the client base.

Given the successful introduction of our MTS technology and the rollout of testing services for Cambridge in FY 2014, we shall work on expanding the business relationship with Cambridge, and to introduce the MTS technology to other clients.

We intend to make investments of up to RMB30.0 million in FY 2015 for the longer term growth of ATA. We shall put emphasis on strengthening our testing and assessment content, which we intend to achieve through in-house development, business partnership or outright purchase of content.

We have been exploring the business direction how to better serve the test takers and individuals in the sense that how they can objectively evaluate their qualifications and abilities, and how they can improve on their areas of weaknesses since last year. We believe ATA has identified an online model which may achieve this. We shall invest to prepare the platform and related contents, and to build a customer base in FY 2015. Although we may not harvest the financial results in FY 2015, we believe it is the right direction and an important step for ATA.

In summary, we shall expand our existing business proactively and invest in business areas which we believe will transform ATA from a China market leader of computer-based testing company serving the test content owners or corporations to a China market leader of online-based testing and assessment company serving all individuals.

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 First 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.