



ATA Inc. (NASDAQ: ATAI)

Q4 Fiscal Year 2016 Earnings Conference Call

June 1, 2016, 9:00 AM ET

Very good morning ladies and gentleman and welcome to the ATA Inc. Fiscal Year 2016 Fourth Quarter and Year-End Financial Results Call. My name is Lisa and I'll be your coordinator for today. Today's conference is being recorded.

At this time, all participants are in listen-only mode. Following the prepared remarks, there will be a question-and-answer session [Operator Instructions].

I would now like to turn the presentation over to Katherine Yao of the Equity Group for opening remarks. Please proceed.

Katherine Yao

Thanks Lisa and good morning, everyone. Thank you for joining us. Copies of the press release announcing ATA's Fiscal 2016 Fourth Quarter and Year-End results are available at the IR section of the Company's website at www.atai.net.cn. As part of this conference call, the Company's slide presentation available on its 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 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 any investment decision.

The Company does not assume any obligation to update any forward-looking statements as a result of new information, future events, and 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 March 31, 2016, are converted from RMB using an exchange rate of RMB6.4480 to 1.00 USD, the noon-buying rate as of March 31, 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 Fiscal Year 2016, beginning with Slide 4. The Company's Chairman and CEO, Mr. Kevin Ma, will then discuss ATA's outlook and growth strategy for Fiscal Year 2017 before opening the floor for questions.

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

Shelly Jiang

Thank you, Katherine and welcome everyone. Today I will provide an overview of our operating and financial highlights and then briefly discuss our outlook for fiscal year 2017.

I would like to begin on Slide 5, which lists some of our operating highlights for Fiscal Year 2016. Most notably, following the record results we achieved in Third Quarter 2016, ATA is pleased to share that the Company delivered a record 10.3 million billable exams during Fiscal Year 2016. This is an increase of 17% from the 8.8 million exams delivered in the prior fiscal year and was primarily driven by new exams such as the National Tax Adviser Occupational Qualification Exam, Fund Practitioners Certification Exam and the National Patent Agent Qualification Exam as well as increased exam volumes from the CPA exam and exams for various HR Select clients.

As we mentioned in the last call, ATA delivered a record 1.9 million exams across China and the Hong Kong and Macau Special Administrative Regions, surpassing last year's 1.6 million exams delivered, for the fourth consecutive computer-based CPA exam in October 2015.

Throughout the Fiscal Year 2016, the Company refocused its efforts on growing its core testing services business. Pursuing a New Third Board listing was a key part of business strategy. We were pleased to have successfully gained approval from the National Equities Exchange and Quotations and officially list shares of our wholly owned subsidiary ATA Online on China's New Third Board in December 2015.

We believed this listing had helped us to get new clients during the listing exercise. And we remain confident that this strategy will continue to yield positive results for the Company in the long term. We continue to work on the private placement transaction we announced earlier this year, which we believe will benefit ATA Online in its effort to increase operating efficiencies, secure new business and support the Company's overall future growth.

Moving on to our financial highlights for Fourth Quarter and the Fiscal Year 2016 as shown on Slide 6. In line with the record number of billable exams delivered, ATA reported record net revenues of RMB417.1 million in Fiscal Year 2016, a 19.1% increase from RMB350.2 million in Fiscal Year 2015. Gross margin remained stable at 50.1% compared to 50.7% in the prior fiscal year.

We reported net revenues of RMB44.7 million in Fourth Quarter 2016, which met our net revenue guidance range for the quarter and was 11% increase from net revenues of RMB40.3 million in the prior year period as a result of increased revenue contributions from the testing services business driven by new private sector clients. The Company met its previously raised net revenue guidance range of Fiscal Year 2016 and beat its non-GAAP net income guidance range for the year.

On the next slide, we break out revenues for Fourth Quarter 2016 and Fiscal Year 2016 by our businesses, which can be broken down broadly into two areas: testing services and test preparation & training solutions. Testing services accounted for about 85.4% of our revenues in Fourth Quarter 2016.

On Slide 8 and 9, we provide a breakdown of the Company's financial results for the fiscal year and the fourth quarter. As this information has been fully detailed in our earnings release, I won't repeat the numbers here, but I'm happy to take any questions on this information during Q&A.

I would like to comment on gross margin for Fourth Quarter 2016, which was 46.7%, compared to 48.5% in the prior-year period. The decrease was primarily due to a greater proportion of revenues coming from lower margin exams.

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. Excluding these items, adjusted net loss for Fourth Quarter 2016 was RMB14 million or US\$2.2 million, compared to RMB10.3 million in the prior-year period.

Diluted losses per ADS during Fourth Quarter 2016 on a non-GAAP basis were RMB0.62, compared to RMB0.46 in the prior-year period. Adjusted net income for Fiscal Year 2016 was RMB36.7 million, or US\$5.7 million, compared to RMB31.2 million in the prior-year period, and the diluted earnings per ADS on a non-GAAP basis were RMB1.60 or US\$0.24.

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, 2016, we had about US\$38.4 million in cash and cash equivalents. 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 shown on Slide 12, we expect First Quarter 2017 net revenues will be in the range of RMB87 million to RMB92 million. We expect Fiscal Year 2017 net revenues to be between RMB420 million and RMB440 million and a non-GAAP net income guidance to be between RMB27 million and RMB37 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 million and RMB30 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 would like to turn it over to our Chairman and CEO, Mr. Kevin Ma to provide some more details on our growth strategy and the outlook for Fiscal Year 2017 and beyond.

Kevin Xiaofeng Ma

Thank you, Shelly. Slide 14 lists our overall growth strategy. I would like to thank all ATA's employees for their hard work this year, which resulted in a number of milestones achieved for the Company where we continue to focus our efforts on growing ATA's core testing services business in Fiscal Year 2017 - deepening existing relationships with the current clients, winning the new business as a ongoing shift from paper-based testing to technology-based testing occurs and exploring other opportunities to take advantage of our extensive data bank to enhance ATA's value to both clients and consumers.

We are optimistic about our Company's outlook as we enter Fiscal Year 2017 given a positive momentum built by the number of new clients we have brought on board in Fiscal Year 2016. The loss of the SAC exam in calendar years 2016 and 2017 will have some impact on our business. But ATA remains focused on continuing to grow the testing services business by developing relationships with reputable organizations in China.

As we continue to move forward on our New Third Board efforts, we are confident that potential clients in China will increasingly recognize ATA as the leader in its industry and be more eager to engage in business with ATA. We recently announced strategic investment in two companies with small percentage shareholdings. One is Empower Education Online, LLC ("EEO"), a Beijing-based online education company that operates its self-developed leading web-based virtual classroom platform in China. Another is Medicine (Beijing) Education Technology Limited, a China-based online education company specializing in training and exam preparation in the medical, pharmaceutical and general healthcare fields. We expect the strategic investment in above two education companies will enable ATA benefit from the potential business opportunities with them in the long term.

ATA has also begun exploring 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.

In closing, ATA was very pleased to deliver a banner year in which it achieved record net revenues and billable exams delivered, meeting our financial projections for Fiscal Year 2016. We look forward to challenging ourselves to achieve similar results in Fiscal Year 2017 and thank our shareholders for their continued support.

Katherine Yao

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

Question-and-Answer Session

Operator

Certainly, thank you. Ladies and gentlemen, we will now conduct the question-and-answer session [Operator Instructions] Our first question in the queue is from the line of Peter Halesworth of Heng Ren Investment. Please go ahead.

Peter Halesworth

Hi, thank you. Question about the fourth quarter. Could you outline a little bit, what led to the operating loss and what we can expect from the gross margin outlook for the upcoming fiscal year? And I have a follow-up question.

Shelly Jiang

Thank you, Peter. Our gross margin in fourth quarter decreased compared to prior year period and the decrease was primarily due to a greater proportion of revenues comes from the lower margin exams. For the gross margin in the future, we believe that the gross margin will maintain around 50% on a full-year basis.

Peter Halesworth

Okay. And also could you describe what happened in fourth quarter in terms of the causes of the operating loss?

Shelly Jiang

Sure. Because the fourth quarter is our weakest quarter in the full-year and you can see that nearly every fourth quarter we will have a loss, and because regarding the operating expenses, some of them are on the fixed expenses. Such as the rental depreciations and the labor cost. So if this quarter's revenue is no big enough to cover this fixed expenses, then we will have the loss in this quarter. We do not have special operating items in this quarter.

Peter Halesworth

Okay. And my follow-up question is the lower margin exams for CPA and CTA, or are they for different associations?

Shelly Jiang

Yes, they come from the different companies or associations exams, not only one or two. It's the mixed result.

Peter Halesworth

Okay. I'll go back into queue. Thank you.

Shelly Jiang

Thank you, Peter.

Operator

Thank you for your question. Please stand-by for your next question. Okay, we have another question from Peter Halesworth. Please go ahead.

Peter Halesworth

Hi. Just to continue on the outlook for Fiscal Year 2017, there was a mention by Kevin of a cost associated with the JVs and the affiliated companies. I'm wondering are they still in the investment process and will they operate these investments, will they bring losses in 2017 or do we see breakeven in 2017 or when?

Shelly Jiang

Okay. For those investing companies in Fiscal Year 2017, we don't expect they will bring financial contributions to us. But in Fiscal Year 2017, they will generate some revenues. Because on the current stage, we are still focusing on optimizing products, building up channels and striving for more users. So we expect it will take another one or two years to see these investee companies, a financial contributions to us.

Peter Halesworth

Okay. And to determine the cash flow, do we have a budget on how much will be invested in these companies in Fiscal Year 2017?

Shelly Jiang

Sorry. You mean how much cash we will invest on those companies?

Peter Halesworth

Yes.

Shelly Jiang

Currently, we do not have any plan that we will put more or additional cash on the investee companies.

Peter Halesworth

Okay.

Shelly Jiang

But we will consider to exploring other opportunities to some potential companies in the future.

Peter Halesworth

Okay. And my last question before I go into queue is, regarding recruitment initiatives mentioned by Kevin, is this part of the association with LinkedIn and can we get an update on that, please?

Shelly Jiang

Sorry Peter, could you please repeat the question?

Peter Halesworth

Sure. Kevin mentioned there are new markets being explored including recruitment and I was wondering if this involves also the association with LinkedIn and also if we can get an update on the relationship with LinkedIn?

Shelly Jiang

Okay. Actually our business plan on this new area such as the K-12 educational assessment and recruitment you mentioned, they are on the preliminary stage and we think we will share more of the information next quarter. Because it's really pretty preliminary stage and you can see that in Fiscal Year 2017, our net income guidance does not include such investment that we have the business plan on these areas.

Peter Halesworth

Okay. And any update on the LinkedIn relationship?

Shelly Jiang

Currently, we don't have any update with LinkedIn.

Peter Halesworth

Okay. What is the relationship, could you remind me?

Shelly Jiang

You know that any relationship with only client with this.

Peter Halesworth

I'm sorry I thought there was a relationship with LinkedIn that was spoken off recently and I was just wondering if that if you have any details to share with us?

Shelly Jiang

I'm sorry, no. We don't have the update from the relationship with LinkedIn.

Peter Halesworth

Okay. And then my last question is just on the outlook for Fiscal Year 2017, it looks like you are forecasting revenue growth of approximately 18% and net income growth of 22%, what are going to be the key drivers for that good growth outlook?

Shelly Jiang

Okay. Actually our growth is driven by not only on the current clients increased test - exam volumes, but also from the new customers in the future. For example, regarding our current existing exams, the CPA, we expect this exam will have the increase in 2017. And we are also working with some potential new clients, so we have the confidence that we can make up the loss of the SAC contract on ours and also have a slightly increase on our top-line.

Peter Halesworth

Okay. And then these potential new clients, are they large associations that you have been working on for a while or are they collection of smaller groups? Can you give us some details?

Shelly Jiang

Those potential clients include some government associations, also include some corporations and well known corporation or the banks in China. While you know we are still working on the contract and the proposal, so we cannot give the exact names to you.

Peter Halesworth

Okay. I appreciate that. Okay. Thank you, Shelly and thank you Kevin and thank you for a very good year and Fiscal Year 2016 and we look forward to a good 2017 also. Thank you.

Shelly Jiang

Thank you, Peter.

Operator

Thank you for your questions. I would now like to hand back to management for closing remarks as we have no further questions lined up.

Kevin Xiaofeng 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. We look forward to speaking with you all again during our first quarter 2017 financial results call. As always, we welcome any listeners to our office in Beijing. Thank you.

Operator

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