



ATA Inc. Fiscal 2017 Second Quarter Financial Results Conference call

Transcript

Nov. 10, 2016 at 8:00 AM ET

SPEAKERS

Katherine Yao – Senior Associate, The Equity Group

Shelly Jiang – Interim Chief Financial Officer, ATA

Operator:

Welcome to the ATA Incorporated Fiscal 2017 Second Quarter Financial Results. I would like to hand the call over to Katherine Yao of the Equity Group, who will read the safe harbor statement and introduction. Please go ahead.

Ms. Katherine Yao

Thanks, Stephanie, and good morning, everyone. Thank you for joining us. Copies of the press release announcing ATA's fiscal 2017 second quarter results are available at IR section of 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 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 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 Company's most recent quarter ended September 30, 2016, are converted from RMB using an exchange rate of 6.6685 RMB: 1.00 USD, the noon buying rate as of September 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 Second Quarter 2017, beginning with slide 4. We have just been notified that the Company's Chairman and CEO Mr. Kevin Ma will not join this conference call due to travel conflict. So, Ms. Shelly Jiang will read on behalf of Mr. Kevin Ma a prepared speech of ATA's outlook and growth strategy for FY 2017. Once she is finished, we will open the floor to questions.

With that I will 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.

During the period, we continued to see growth from traditional testing services exam, which appeared to double the growth in revenue from the Fund Practitioners Certification Exam. This contributing to a 21.9% increase in revenue compared to the previous quarter. Also during the second quarter, ATA have further expanded its geographic coverage for the

qualification exam for housing and urban rural construction sales professionals into four more provinces including Gansu, Hebei, Heilongjiang and Shanghai.

Overall ATA delivered approximately 1.8 million billable exams during second quarter 2017 compared to 1.7 million billable exams in second quarter 2016. Exam volumes for the period increased 5.7% despite of the loss of the Security Association of China exams.

Moving on to Slide 6, this slide lists our financial highlights for the second quarter 2017. ATA reflects the net revenues of RMB65.1 million for the period, increased to 21.9% from RMB53.4 million in the prior year period. Primarily as a result of the growth of existing exams such as Fund Practitioners Certification Exam and new exams such as the Qualification Exam for Housing and Urban-Rural Construction Field Professionals, despite the loss of revenue.

Gross margin for second quarter 2017 was 45.4% compared to 45.6% in the prior year period. For the second quarter 2017, ATA reported its net loss was RMB35.6 million compared to RMB14.1 million in the prior year period. The increase was primarily due to an impairment loss of RMB21.9 million of our investment in an associated company. Thus the company is raising its previously announced net revenues and lowered its non-GAAP net income guidance range for fiscal year 2017, which I will discuss in further detail later in this presentation.

On the next Slide, we breakout revenues for second quarter 2017, which can be divided into two areas: testing services and online education services. Testing services accounted for about 86.1% of revenues in second quarter 2017.

On next two Slides 8 and 9, we have provided a breakdown of the company's financial results for second quarter 2017 and for the first half of 2017. 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 the Q&A.

Moving to Slide 9, we provide a supplemental chart of quarterly numbers adjusted for share based compensation expenses and foreign currency exchange gains or losses. Excluding this item, adjusted net loss for second quarter 2017 was RMB34.6 million, or US\$5.2 million compared to RMB10.7 million in the prior year period. Diluted loss per ADS during second quarter 2017 on a non-GAAP basis was RMB1.5 compared to RMB0.46 in the prior-year period.

We continued to be supported by a solid balance sheet, which we have highlighted on Slide 10. As of September 30, 2016, ATA's cash and cash equivalents were about U.S. dollar somewhere

about US\$18 million, working capital was US\$18.2 million, shareholder's equity was US\$54.9 million compared to US\$38.4 million, US\$38.1 and US\$61.1 million as of March 31, 2016.

Moving on Slide 11, we expect third quarter 2017 net revenues will be in the range of RMB270 million to RMB280 million. As I mentioned earlier, ATA is raising its revenue guidance for fiscal year 2017 from previously announced of between RMB420 million and RMB440 million to of between RMB455 million to RMB475 million. The increase is based on the better than anticipated fiscal year 2017 first half results and a robust pipeline of various exams in our traditional testing services sector heading into the second half of fiscal year 2017, including the increase in the revenues of the Fund Practitioner Certification Exam, which offsets the majority of the loss of revenues from the SAC exam.

In June 2016, the Company announced that it planned to explore growth opportunities in the K-12 education assessment and recruitment sectors during fiscal year 2017, and to invest between RMB20 million and RMB30 million in such sectors, which was not reflected in the Company's previously announced fiscal year 2017 non-GAAP net income guidance of between RMB27 million and RMB37 million.

By the end of second quarter 2017, there has been approximately RMB11 million invested in mainly developing the K-12 education assessment item pool. This specifically focuses on mathematics, Chinese and English for students from Grade 7 to Grade 12 in China. The Company had successfully delivered a trial test and assessment using our education assessment item pool in Tianjin for a selected group of students in public schools.

Being highly appreciated by local education authorities, the Company will perform the formal education assessment for students from Grade 7 and Grade 10 in one district in Tianjin in early next January. We will continue to invest and work on the education assessment item pool and expect it to be adopted by more schools in the future.

We have taken a prudent approach to record an impairment loss of RMB21.9 million on our investment in an associated company as its product development and financial performance have not reached our expectation. As a result, we are lowering our non-GAAP net income guidance from previous amount of between RMB27 million and RMB37 million to of between nil and RMB10 million.

With that, I'd like to read a prepared statement from Mr. Kevin Ma, which he provided in detail of our growth strategy and outlook for fiscal year 2017 and beyond.

We were pleased to continue delivering strong revenue growth in the second quarter of fiscal year 2017. As mentioned earlier, we continued to build on our leading position in China's traditional testing services sector along with several key and new exams launched in the recent months.

We have made significant achievement in expanding our test volume, geographic coverage in our major exams and the revenue growth, which offsets the loss from the SAC exams. Also during the second quarter 2017, we further progressed on our online education services sector. In July, we have started our online continued education training program for the professionals have already acquired the China banking association exam certificates and we expect the growth in such new business in the coming quarters.

We raised our expectations for top line guidance to between RMB450 million and RMB475 million. This expected increase comes not only from the organic growth of existing exams, but also from new exams. In October, we were proud to deliver a record-breaking number of tests for the CPA exams, and we expect the revenue growth of CPA exams in the third quarter.

In addition, we have successfully delivered the National Tour Guide Qualification Examination in the first week of November, which is the first time for this national-wide exam by the China National Tourism administration. We are confident that the development of this exam in our traditional testing services sector would contribute revenue growth for the fiscal year 2017. We would like to reiterate that our business strategy have been expanding our testing services to secure and maintain our leadership role in China. Explore opportunities in assessment, online training and recruitment areas during the core business expansion, and invest in companies that we believe they have business synergies and will generate positive values to us in the future.

Although we encountered our challenges along the way, such as the loss of SAC exams and the impairment on certain of our investment, we are progressing forward according our business strategies. Our first half fiscal year 2017 financial results and the upward revision of our full-year net revenue guidance supported it.

We anticipate a strong third quarter and look forward to sharing the results with you in November.

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

Operator:

{Prompt for Q&A}

I would like to turn back to management for closing remarks.

Ms. Shelly Jiang

Thanks again to all of you for joining us. If anyone has questions for us please feel free to reach out directly to us on our investor relations firm The Equity Group. We look forward to speaking with you all again during our third quarter 2017 financial results call. As always, we welcome any visitors to our office in Beijing. Thank you.

Operator

Thank you. Ladies and gentlemen that concludes your conference call for today. You may now disconnect. Thank you for joining and enjoy the rest of your day.