



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

February 21, 2017 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 2017 Third Quarter Financial Results Conference Call hosted by Katherine Yao of the Equity Group. My name is Sheila, and I'm your operator for today's call. During the presentation, your lines will remain on listen-only. [Operator Instructions] I would like to advise all parties this conference is being recorded.

I'd now like to hand it over to Katherine. Please go ahead.

Ms. Katherine Yao:

Thanks, Sheila, and good morning everyone. Thank you for joining us.

Copies of the press release announcing ATA's fiscal 2017 third 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 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 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 December 31, 2016, are converted from RMB using an exchange rate of RMB6.9430 to US\$1.00, the noon buying rate as of December 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 page 3.

The management team members presenting in this conference call are the Company's Chairman and Chief Executive Officer Mr. Kevin Ma, the Company's interim CFO Ms. Shelly Jiang, and the Company's Vice President Mr. Ryan Gao. Mr. Gao joined ATA in August 2016 and is in charge of portfolio management. Prior to his position at ATA, Mr. Gao served as manager of management consultancy department in Deloitte Consulting and was the Founding Partner of Edu Capital, a China-based private equity fund which focuses on education area.

Now I would like to take a moment to outline the format for today's call. The Company's Interim CFO Ms. Shelly Jiang will provide an overview of operational and financial highlights for Third 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 third quarter.

In Third Quarter 2017, ATA delivered approximately 7.0 million billable exams, compared to 5.1 million in the same period of FY 2016. This increase was driven by both public and private sector exams, as well as revenue contributions from the National Tax Adviser Occupational Qualification Exam, or the CTA exam, which was previously held in the fiscal 2016 fourth quarter.

On October 15 and October 16, 2016, we successfully delivered the National Unified Certified Public Accountants, or CPA Exam, to about 2.2 million tests. This marks the fifth consecutive year that ATA has provided our services for the CPA exam and is a prime example of our leading capabilities in simultaneous, massive-scale computer-based testing delivery across China.

On November 5, 2016, we also successfully delivered the National Tour Guide Qualification Examination for the first time across 32 provinces, municipalities and autonomous regions in China on behalf of the China National Tourism Administration.

For the Fund Practitioners Certification Exam, we doubled growth in revenue during the quarter compared to the previous year.

Moving to slide 6, which lists our financial highlights for Third Quarter 2017, ATA reported net revenues of RMB273.5 million for the period, a 23.5% increase from RMB221.4 million in the prior-year period. This was driven by increased exam volumes from both new and existing exams such as the Fund Practitioners Certification Exam, the CPA exam, the National Tour Guide Qualification Exam, the Qualification Exam for Housing and Urban-Rural Construction Field Professionals, and revenue contributions from the CTA exam held in Third Quarter 2017, which I just mentioned was held in Fourth Quarter 2016 in the prior fiscal year.

Gross margin for Third Quarter 2017 was 50.8%, compared to 49.5% in the prior-year period. The increase was primarily due to the change in revenue mix. The Company also reported a 52.8% increase in net income attributable to ATA Inc. of RMB75.4 million, which compares to RMB49.4 million in the prior-year period.

Following a strong fiscal Third Quarter 2017, the Company is reiterating its previously adjusted net revenue and non-GAAP net income attributable to ATA Inc. 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 Third Quarter 2017 by our businesses, which can be divided into two areas, testing services and online education services. Testing services accounted for about 94.0% of revenues in Third Quarter 2017. We have seen strong growth in our testing services for both traditional sector and HR select and TOEIC.

On slides 8 and 9, we provide a breakdown of the Company's financial results for Third Quarter 2017 and for the first nine months of 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 10, 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 attributable to ATA Inc. for Third Quarter 2017 was RMB76.5 million, or US\$11.0 million, compared to RMB51.4 million in the prior-year period. Diluted earnings per ADS attributable to ATA Inc. during Third Quarter 2017 on a non-GAAP basis were RMB3.34, compared to RMB2.24 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 11. As of December 31, 2016, ATA's cash and cash equivalents were about US\$35.7 million, working capital was US\$29.8 million, shareholders' equity was US\$63.7 million, compared to US\$38.4 million, US\$38.1 million, and US\$61.1 million at March 31, 2016.

As shown on slide 12, we expect Fourth Quarter 2017 net revenues will be in the range of RMB26.0 million to RMB31.0 million. As previously announced, we expect FY 2017 net revenues to be between RMB455.0 million and RMB475.0 million and non-GAAP net income attributable to ATA Inc. guidance to be between RMB0.0 million and RMB10.0 million.

The Company is exploring growth opportunities in the K-12 education assessment and recruitment sectors during Fiscal Year 2017. In January 2017, the Company successfully delivered the first formal

services to the Tianjin Nankai Education Bureau. Kevin will provide more details in this regard in just a moment.

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, and welcome everyone.

ATA achieved record results during the third quarter, as we continued to maintain strong operations and push forward on new business development efforts that we believe will result in ongoing impact throughout Fiscal Year 2017.

Except the solid growth from government institutions, which Shelly mentioned, we also continue to see steady growth from our corporate clients, as our cooperation with large enterprises has grown as these clients increasingly rely on our quality services and excellent reputation to better support their recruitment, internal recruiting and selection process. During Third Quarter 2017, we saw a double digit increase in revenues from the private sector. We currently provide testing services to globally recognized companies, institutions and organizations, such as Huawei, Sinopec, China Mobile, and a number of commercial banks, including Bank of China, Industrial and Commercial Bank of China, Agricultural Bank of China, China Construction Bank, etc. We continue to actively pursue potential new business leads, including organizations that are prime candidates for converting paper-based exams to computer-based exams. Through these ongoing efforts, we have expanded our business by strengthening cooperation with existing clients, while also welcoming new clients through our marketing initiatives and referrals. We are confident in the growth potential of our traditional testing services business as we see continued demand for our services across various industries.

While we work to further expand testing services into other professions, ATA also continues to explore growth opportunities in education, such as K-12 and higher education, and corporate recruitment sectors by leveraging our core competency in advanced psychometric knowledge and testing technologies.

In the first week of January 2017, ATA was authorized by the Tianjin Nankai Education Bureau to execute its first formal education assessment for Grade 7 and Grade 10 students in the Nankai District of Tianjin, which covered about 7,000 students.

This marks our first step in K-12 education assessment in public schools in China, and our team continues to communicate with all levels of education authorities and institutions in different regions.

In past years, ATA Inc. and its wholly-owned subsidiary ATA Online has made several strategic investments in a number of innovative education companies. These investments have targeted different areas including online English language education (Langlib), the international studies market (Satech - Cece SAT and Cece TOEFL), service of academic solutions and resources for the higher education community (ApplySquare), online virtual classroom platform provider (EEO), and a provider of data analytics and the HR/recruitment process by SaaS (Brilent, Inc.). All of these investments are in line with our growth catalysts in the education and recruitment sectors.

We continue to have a positive outlook on Fiscal Year 2017. We continue to grow our testing services business while further developing new business sectors such as online education and K-12 education assessment. We are dedicated to providing high-quality services to clients while remaining observant of market trends, which is key to staying on top of opportunities related to our core business.

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

Operator:

{Prompt for Q&A}

And we do have a question from the line of Peter Halesworth of Heng Ren. Please go ahead, Peter.

Mr. Peter Halesworth:

Thank you and greetings management. Thank you for your results and shows some promise for the future. I just wanted to ask regarding Kevin's comments regarding the mix of customers with an increasing number of what he said were larger enterprises, or corporates from the private sector bringing double-digit growth. Could you put an exact number on that?

And then secondly, related to that, could you also give us some sense of what I would assume would be better profitability from these types of customers either on a per client basis, is there something that's – now it gets to an ARPU, or is there a gross margin that would show that the private sector mix is more profitable than either the state sector or the exams for the big associations, some color on that would be helpful? That's my first question. Thank you.

Ms. Shelly Jiang:

Okay, thank you, Peter. Regarding the first question, we have the double-digit growth in the private sector. And the private sector's total revenue is around 20% of the total revenues in Q3. And the revenue from the new customers, we need to now have the exam, the exact figures. But for the top five customers, which generated revenues in Q3, is around RMB10 million. So I hope that will help you to understand.

Regarding the second question, the gross margin generated from the private sector is a little bit higher than the government sector, but similar. That means their gross margin is around 50% not only in the Q3, but also for the whole year.

Mr. Peter Halesworth:

Okay. So just – so what is the private sector mix this increase in revenue, is it around the 50% gross margin? Is that correct?

Ms. Shelly Jiang:

Yes, yes, exactly.

Mr. Peter Halesworth:

Okay. And then my second question is just related to the capital allocation and the stock. So although we've seen a bump up in revenues in this quarter, which is promising, we've just seen basically a stagnation in revenue growth and margins over the past five years and a significant rise in the cost of revenues by about 30% in the past five years, and the returns ROE – return on investment at around a very average 6%.

I was wondering if there was any – because of the strong cash flow generation, has there been any thought given to instituting a regular dividend? This might help investors be more patient and stay invested in the stock if they have this incentive for a regular return. We've seen other U.S.-listed Chinese companies do this, and it has stabilized their stock price and your stock price is down about 45% off its high in 2015. So I'm wondering if there's any consideration being given to a regular dividend.

Ms. Shelly Jiang:

Thank you, Peter. The company is always considering to share the benefits with our shareholders, and we also have done the dividends in past years. So if we have the dividend plan, we will disclose it to the markets.

Mr. Peter Halesworth:

This should be under active consideration, because again, the stock has not performed well. And I think, investors would be more inclined to remain invested if they could see a fairly predictable and regular return from the stock. And I think, the company can easily provide that with its free cash flow generation. I think the last move in the stock was actually to that high point in 2015 was helped by the issuance of a dividend, which we've only seen one in the past seven years.

Ms. Shelly Jiang:

Yes, Peter. We definitely consider the dividend, and we will discuss on the long term.

Mr. Peter Halesworth:

Thank you. I'll go back in the queue.

Ms. Shelly Jiang:

Thank you, Peter.

Operator:

Thank you. And at this time, we have no more questions in the queue. [Operator Instructions] Okay, thank you. And the question comes from the line of Peter Halesworth again of Heng Ren. Please go ahead, Peter.

Mr. Peter Halesworth:

Sure. Well, I have the team on the line, just two quick questions. One is, what is the status of the listing of the ATA Online? And you if could give us an update on that please?

Ms. Shelly Jiang:

Regarding the private placement, we mentioned before, we haven't finalized that up to now, and because we are considering other options for better valuations. And since our business progresses well, and we believe when continuing to grow our business, the company's valuation will increase, which also contribute to the interest of the shareholders eventually. So we are selecting our investors and from our valuation.

Mr. Peter Halesworth:

Okay. And then, is there any plans for a road show in the U.S.? We haven't – I haven't been informed of any road show recently. When was the last road show to the U.S. and when is the next one planned?

Ms. Shelly Jiang:

Yes. We do have the plan, and it will be in the March, or the early April.

Mr. Peter Halesworth:

Okay. And then lastly, and this is a question for more for Kevin, Shelly. Kevin, can you explain why Shelly is still the interim CFO? Is that something by her own choice, or it just seems rather odd from an

investor standpoint that someone to have an interim title for almost two years. And I'm wondering what is the situation if you could clear that up for us? Thank you.

Mr. Kevin Xiaofeng Ma:

[Interpreted] Peter, thanks for your suggestion. We're still discussing this internally. Thank you for your suggestion.

Mr. Peter Halesworth:

No, it's not a suggestion, Katherine. It's a question if we can get an explanation of why there's been an interim status for two years. Is there something to do with some needed type of registration, or some regulatory issue, or we just – that's very rare you see an interim status on a – someone who is a one of the top executives for almost two years since May 2015, I believe.

Ms. Katherine Yao:

Please allow me to translate to Kevin.

Mr. Peter Halesworth:

Thank you.

Ms. Katherine Yao:

[Foreign Language]

Mr. Kevin Xiaofeng Ma:

[Foreign Language]

Ms. Katherine Yao:

Definitely none of your concerns were a problem for Shelly to become the formal CFO. However, we do believe that this still an internal discussion for the company to please allow us to discuss and give us some time to make this final decision.

Mr. Peter Halesworth:

Okay. So the decision is with Shelly, it's not with the Board, or the Chairman? I just want to clarify that.

Ms. Katherine Yao:

Could you please repeat, Peter? I don't understand.

Peter Halesworth

Yes, is the decision with Shelly, or is the decision with the Board?

Ms. Shelly Jiang:

Yes, Peter, the decision will be made by the Board.

Mr. Peter Halesworth:

Okay. And when will they make this decision? It's been almost two years.

Ms. Katherine Yao:

[Interpreted] Well, Kevin says like, the company and the Board hasn't brought this up as a problem, as you mentioned. But now we'll suggest that we'll definitely look into this and have the internal discussion with the Board as well.

Mr. Peter Halesworth:

All right. It's not that I think it's a problem, Katherine, but it's just – it's a signal there's indecision on the part of the company and it's not a good signal to be sending to the market, or investors for someone to be an interim member of the executive team for over two years of a public company. It's – it just needs to be clear.

Ms. Katherine Yao:

Definitely, I agree with you, Peter, and I'll pass on this to Kevin.

Mr. Peter Halesworth:

Okay. Thank you. I have no further questions. Have a great day, everyone. Thank you for your time.

Ms. Katherine Yao:

Thank you.

Operator:

Thank you. And I'd like to hand it back to management for closing remarks.

Mr. 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 the Equity Group. We look forward to speaking with you all again during our fiscal 2017 fourth quarter and year-end 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.