



**ATA Inc. Financial Results Conference Call for the Three Months Ended June 30, 2017
TRANSCRIPT**

August 10, 2017 at 9 p.m. ET

SPEAKERS

Carolyne Sohn – Senior Associate, The Equity Group

Kevin Ma – Chairman and Chief Executive Officer, ATA

Amy Tung – Chief Financial Officer, ATA

Operator:

Good day, ladies and gentlemen. And welcome to ATA Inc.'s Financial Results Conference call for the three months ended June 30, 2017. My name is Carla, and I'll be your operator for today. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session [Operator Instructions].

I would now like to turn the conference over to your host for today Carolyne Sohn of The Equity Group. Please proceed.

Ms. Carolyne Sohn:

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

The press release announcing ATA's results for the three months ended June 30, 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 months ended June 30, 2017, are converted from RMB using an exchange rate of 6.7793RMB: 1.00 USD, the noon buying rate as of June 30, 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 will be changing its fiscal year end from March 31 to December 31. The Company will file a transition report on Form 20-F after December 31, 2017, to account for the transition period from April 1, 2017, to December 31, 2017, and will continue to report financial results on a quarterly basis during this transition period.

On today's call, the Company's Chairman and CEO, Mr. Kevin Ma, will start by providing some thoughts on the current education market in China. Ms. Amy Tung will then provide an overview of operational and financial highlights for the three-month period ended June 30. Kevin will follow with a brief discussion on ATA's outlook and growth strategy for the remaining six months of the 2017 calendar year before opening the floor for questions.

With that, I'll turn the call over to ATA's Chairman and CEO, Mr. Kevin Ma to provide some thoughts on the current education market in China. Please go ahead, Kevin.

Mr. Kevin Ma:

Thank you, Carolyne, and welcome everyone.

ATA's mission since its founding nearly 20 years ago has been to help students, jobseekers, working professionals, people from all walks of life in China pursue and achieve their educational and professional goals. Over the past year, China's education system has seen much change due to policy reform. The stress and intensity of China's current examination system is one area of focus for such reform. The Minister of Education has stated that learning requires thorough, accurate and effective assessment throughout the learning process, it cannot be judged purely based off test scores.

Stakeholders in the Chinese education market, including parents, teachers, and schools, tend to be open to the introduction of more testing products and services to promote adaptive learning as students grow and develop.

There has been an ongoing effort to integrate education technologies into all levels of education and after-school tutorial offerings. As the leading provider of large-scale computer-based testing services in China, ATA is well positioned to take advantage of this favorable market environment.

In this regard, we have entered into a five-year partnership with Tsinghua University, one of the most prestigious institutions for higher education in China, in the areas of content development and education research. In doing so, we believe we can continue to strengthen ATA's portfolio of test titles and build a foundation for business growth in the foreseeable future. We are enthusiastic about the prospects of this partnership and look forward to being involved in the future of education and assessment reforms in China and beyond.

I would now like to turn the call over to Amy who will go over operational and financial highlights for the June 30th period.

Ms. Amy Tung:

Thank you, Kevin, and hello everyone. Today I will provide an overview of our operating and financial highlights, and then briefly provide an update on our outlook for the remaining six months of our Nine-Month Transition Period ending December 31, 2017. We'll begin on slide 5.

During the three months ended June 30, 2017, ATA delivered 3.6 million billable tests, compared to 2.6 million in the prior-year period. We continued to focus on growing our core traditional testing services business and were pleased to have successfully delivered two new exam titles for the Ministry of Human Resources and Social Security. We delivered another new exam—a junior level Accounting Professional and Technical Qualification Exam in the city of Nanchang, the capital of Jiangxi Province, marking the first step toward ATA becoming one of the providers of the nation-wide accounting qualification exam, which is cited as a requirement for most companies recruiting in China. These new exams all contributed to the revenue increase during the period.

As Kevin mentioned, we began working with Tsinghua University earlier this year. ATA has committed to support the establishment of the Research Institute of Future Education and Assessment at Tsinghua University. This institute was founded with ATA's initial financial contribution in April and aims to become a first-class research platform focused on theories, best practices, and assessments in this new era of education. ATA has agreed to make a financial contribution to this project each year for the duration of the contract as we believe this partnership will allow us to continue strengthening our leading position in China's testing technologies market by enhancing our range of testing services over the long term.

During the June 30th period, we also signed an exclusive five-year agreement with ACT, Inc., the organization responsible for the well-known college entrance exam that many of you have probably heard of, the ACT test. ATA will be the exclusive provider on a variety of ACT test preparation measures to students in China. We are working closely with the ACT team on ensuring seamless delivery of these products in the months to come.

ATA beat its previously provided net revenue guidance range of between RMB91.0 to RMB96.0 million for the quarter ended June 30, 2017, reporting RMB104.1 million, or US\$15.3 million, in net revenues. This was a 7.4% increase from the RMB96.8 million reported in the prior-year period.

Gross margin for the three months ended June 30, 2017, was 44.5%, compared to 49.6% in the prior-year period. The decrease was primarily due to a change in revenue mix as well as increased fixed costs associated with higher share-based compensation expense and licensing fees.

Our bottom line for the three months ended June 30, 2017, was impacted by the increased costs I just mentioned as well as an RMB10.0 million expenditure related to the Tsinghua University academic project.

We do expect the remaining two quarters will be within our expectations and are therefore reiterating the net revenue guidance we previously provided for the nine-month transition period ending December 31, 2017.

On the next slide, we break out revenues for the three months ended June 30, 2017, by our businesses, which are testing services, online education services and other revenue. Testing services accounted for about 94.6% of revenues during the period.

On slide 8, we provide a breakdown of the Company's financial results for the three months ended June 30, 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.

Net loss attributable to ATA Inc. for the quarter ended June 30, 2017, was RMB8.5 million, compared to net income attributable to ATA Inc. of RMB4.1 million in the prior-year period, primarily due to increased share-based compensation expense related to new share options that were issued in January 2017 and the RMB10.0 million expenditure related to the Tsinghua University partnership.

Moving to slide 9, we provide a supplemental chart of quarterly numbers adjusted for share-based compensation expense and foreign currency exchange gains/losses.

Adjusted net loss attributable to ATA Inc. for the quarter ended June 30, 2017, which excludes share-based compensation expense and foreign currency exchange loss (non-GAAP), was RMB2.6 million, compared to non-GAAP adjusted net income attributable to ATA Inc. of RMB5.2 million in the prior-year period. Basic and diluted losses per common share attributable to ATA Inc. excluding share-based compensation expense and foreign currency exchange loss (non-GAAP) for the quarter ended June 30, 2017, were both RMB0.20.

Basic and diluted losses per ADS attributable to ATA Inc. excluding share-based compensation expense and foreign currency exchange loss (non-GAAP) for the quarter ended June 30, 2017, were both RMB0.40, compared to non-GAAP basic and diluted earnings per ADS of RMB0.22 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 10.

As of June 30, 2017, ATA's cash and cash equivalents were US\$22.7 million, working capital was US\$25.1 million, and total shareholders' equity was US\$47.1 million; compared to US\$32.3 million, US\$28.0 million, and US\$57.0 million, respectively, as of March 31, 2017.

As shown on slide 11, we expect net revenues for the three months ending September 30, 2017, will be between RMB68.0 million and RMB73.0 million. For the nine months ending December 31, 2017, ATA is reiterating its net revenue guidance range of between RMB490.0 million and RMB510.0 million.

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'll turn it over to Kevin who will provide closing remarks on our growth strategy and outlook for the remainder of 2017 and beyond.

Mr. Kevin Ma:

Thank you, Amy.

Our focus over these next several months continues to be on accelerating the growth of our core testing services business. With the advantages afforded to us by the positive market environment I discussed at the start of this call, we are seeing a number of regulatory bodies and educational institutions opening up to the idea of utilizing assessment tools to increase learning effectiveness and overall productivity.

We continue to expand relationships with longstanding clients by helping them deliver new test titles and converting traditional paper-based exams to our computer-based platform. The Ministry of Human Resources and Social Security is a great example. We are grateful to have had the opportunity to work with this ministry since our founding in 1999 and are pleased with how this mutually beneficial partnership has grown over the years. We aim to nurture all of our client relationships in this same manner—by offering best-in-class products and services.

We also continue to look at growing our business over the long term, which is why we are constantly looking to build partnerships that will position ATA for future success. We believe the relationships we have recently established with ACT and Tsinghua University have the potential to lead to opportunities for us to ramp up growth in our testing services business.

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

Operator:

{Prompt for Q&A} At this time, we have no questions in queue.

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 next quarterly report. As always, we welcome any visitors to our office in Beijing. Thank you.

Operator:

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.