



## TRANSCRIPT

**ATA Inc.**

**FEB 22, 2011**

**Q3 FY2011 EARNINGS CONFERENCE CALL**

## PARTICIPANTS – CORPORATE

**Kevin Ma**

ATA Inc. - Chairman & Chief Executive Officer

**Walter Wang**

ATA Inc. - President

**Benson Tsang**

ATA Inc. - Chief Financial Officer & Chief Accounting Officer

**Thomas Myers**

Christensen – IR

## PARTICIPANTS – CONFERENCE CALL

**Ella Ji**

Oppenheimer & Co. - Analyst

**Mark Marostica**

Piper Jaffray - Senior Research Analyst

## PRESENTATION SESSION

**Operator:** Welcome everyone to Q3 Fiscal Year 2011 ATA Inc. Earnings Conference Call. All lines have been placed on mute to prevent background noise. After the presentation, there will be a question-and-answer session. Please follow the instructions given at that time if you would like to ask a question. For your information, this conference call is being broadcasted live over the Internet. Webcast replay will be available within an hour after the conference is finished, please visit [ir.ata.net.cn](http://ir.ata.net.cn).

I would now like to introduce Tom Myers from Christensen. Mr. Myers, please begin.

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**Tom Myers, Christensen - IR:** Thank you. Our team today includes: Kevin Ma, Chairman and CEO, Walter Wang, Director and President, and Benson Tsang, Chief Financial Officer and Chief Accounting Officer.

One of my duties today is to remind you about forward-looking information. Our conference call may include forward-looking statements made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Although we believe that the expectations reflected in our 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 our 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.

Yesterday ATA issued its earnings news release for its fiscal third quarter, they will cover the main points of the release, then go to your questions. First, Mr. Ma, Chairman and CEO.

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**Kevin Ma, ATA Inc. - Chairman & Chief Executive Officer:** Thank you, Tom. Hello from ATA in Beijing! I am very happy to be with you today. As you remember, we previously said that our third quarter would likely be up from the third quarter last year due to the shift of tests for some of our test sponsors from our fiscal second quarter to our third quarter this year.

That, of course, was correct, with third quarter's net revenues up about 78% from last year's third quarter. Most of our businesses grew organically and did quite well in the quarter. We are satisfied with the momentum that continues to build in our new businesses. That momentum is due to both the outstanding quality of our services and to our sustained promotion to establish them as long-term businesses.

Considering the performance of our traditional and new businesses and further advances in new possible contracts, including the testing of security guards, we are very pleased with our performance this quarter.

In preparing for the testing of security guards in China, we held a nationwide seminar on November 2<sup>nd</sup> for representatives of Public Security from different cities to provide training on the preparation, execution, and marking of the examination for security guards. We were introduced by the Ministry of Public Security as the service provider, and we have also commenced the commercial contract discussion with a few provinces.

In our emerging new businesses, HR Select and TOEIC, we continued our investments to expand those two into major businesses. We believe they both have good long-term growth potential.

HR Select, we achieved significant growth in revenues, from third quarter last year primarily in campus recruiting projects and online testing. We were pleased to welcome China Construction Bank, the Industrial and Commercial Bank of China, and Huawei Technologies as our new clients. We have delivered about 175,000 tests for TOEIC in the third quarter compared to 36,000 tests same period last year.

As a result of our strong third quarter, we are maintaining our previous revenue guidance for the full FY 2011. We believe our strategy is working, our execution is effective, and our progress is focused on good long-term growth in our businesses.

We are pleased to report this strong third quarter and anticipate creating substantial value for our shareholders in the years ahead.

Next, Walter will update our operations for you. Walter?

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**Walter Wang, ATA Inc. - President:** Thank you, Kevin. Our net revenues were up about 78% from the prior fiscal third quarter. Revenues from testing services were up about 83% from the prior third quarter due to the shift in the timing of tests delivered for the Securities Association of China and the Agricultural Bank of China from the second quarter 2011 to the third quarter 2011, higher revenues from testing services for China Banking Association, and higher HR Select revenues from new clients that included China Construction Bank, and the Industrial and Commercial Bank of China.

We expanded our testing network just slightly in the third quarter, adding 10 authorized test centers, to bring our total to 2,016 centers at December 31<sup>st</sup> from 2,006 centers as of September 30<sup>th</sup>.

Net revenues from the test-based educational programs were down about 33% from the prior third quarter due to fewer students enrolled in the major degree program for the information technology. That was expected, since we are not investing more in this business.

Net revenues from test preparation and training solutions were up about 120% from the prior third quarter mainly due to higher volume in online courses for the Securities Association of China and HR Select online tests for a new client, Huawei Technologies Co., Ltd.

Other net revenues were up about 152% from the prior third quarter mainly due to the miscellaneous testing related services performed for the China Banking Association.

The total number of tests we delivered in the third quarter was about 3 million, were up approximately 100% from the prior third quarter. Overall, we are happy with our testing services business.

The outlook for growth and revenues from our test preparation and training solutions also is attractive. Here we focus mostly on professional training for the initial training and for continuing education for professionals in the financial securities industry. This attractive business is expected to be good in both financial performance and long life.

In summary, for the third quarter, the shift in timing of tests boosted our revenues in the third quarter, as expected. With our cost of revenues in good control and consistent with our high revenue growth, our gross margin was increased by 4.3% to 53.9% from the prior third quarter. Operating expenses were up about 37%, mainly due to higher sales expenses, higher advertising and promotional efforts to grow the Test of English for International Communication, and higher commissions to sales team aligned with revenue.

We increased R&D by about 24%. General and administrative expenses were even year over year at RMB13.2 million. As a result of all these factors, our net income increased about 384% in the quarter from the prior third quarter.

The trend of our strategy and actions remains on track with an encouraging outlook for our traditional high-margin businesses those are testing services and our test preparation and training solutions.

Future long-term growth is expected to come from adding more tests, adding more training offered, adding more customers, the test sponsors, and by gradually adding more subjects and more professional disciplines for tests and training. We are also continuing to invest prudently in our two emerging businesses, TOEIC and HR Select. We believe the future for ATA remains very attractive.

Now, Benson will cover our financials. Benson?

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**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** Thank you, Walter. We announced our results yesterday and I hope you have a chance to read the results. I will just cover the key points here. Our net revenues guidance for this third quarter of FY 2011 was RMB111 million to 115 million. We reported net revenues RMB135.9 million, we were about 18% above the upper end of the guidance mainly on better than expected results in our traditional testing services and in our test preparation and training solutions businesses.

Our gross margin has increased from about 49.6% last year to 53.9% this year. The increase was due primarily to the price increase for the Securities Association of China test and lower test center costs in the third quarter 2011. With continuing good control of expenses, net income increased by about 384%. Our net profit margin was 23% in the third quarter this year, from 8.4% in Q3 last year.

Moving to our cash, during our fiscal third quarter 2011, our operations generated cash of about 62 million RMB. Net cash invested was only about 300,000 RMB during the quarter, primarily for office renovation and equipment. As of December 31<sup>st</sup>, 2010 we had cash of about RMB298 million, it's about US\$45 million equivalent. We had no debt as of December 31<sup>st</sup>.

Now, for our guidance, we maintain our guidance for the full year net revenues, in the range of 280 million to 300 million RMB. This represents approximately 14% to 22% growth from last year.

Next, it is your turn, we are happy to take your questions. Operator, please prompt for questions.

## QUESTION AND ANSWER SESSION

**Operator:** Thank you ladies and gentlemen. We will now begin our Question and Answer session. (Operator instructions).

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**Operator:** First question is Ella Ji from Oppenheimer. Please go ahead.

**Ella Ji, Oppenheimer & Co. - Analyst:** Hi, good morning and good evening, this is Ella Ji from Oppenheimer. Congratulations on a very strong quarter. You beat your quarter handedly, but you maintained your full year guidance. I just wanted to know are you being conservative or is there anything going to happen in 4Q?

**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** This is Benson, Ella Ji. We are just reflecting what we foresee will happen in Q4. When we gave out the full year guidance, we took into consideration there were certain tests we had last year and it would not happen in this quarter, I mean in our financial Q4. For example, our Future Examination, it got delayed and it is moved to our FY 2012 Q1, and because of that we have adjusted our guidance accordingly.

**Ella Ji, Oppenheimer & Co. - Analyst:** So, it is mainly due to some, again the timing of some tests.

**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** Correct, the timing of our test sponsor, a final decision in administrating the exams.

**Ella Ji, Oppenheimer & Co. - Analyst:** OK. And Benson, you mentioned previously that 3Q is a key quarter for your strategic decisions on the three private exams. So, it seems that you are still committed to HR Select and TOEIC. Could you elaborate a little bit on that, and I also want to know what is your strategic decision on Cambridge Young Program?

**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** Sure. First, for TOEIC, as my colleague mentioned, in Q3, TOEIC we achieved, we delivered about 175,000 tests. We strongly believe through our efforts and the sales and marketing dollars we put in, we introduced TOEIC to China, in particular in different campuses.

And we believe we achieved what we planned to achieve in FY 2011, and we will continue this project. We do believe in the years to come, we can crystallize this opportunity more.

For the second project, the HR Select, we are very pleased in this quarter we managed to get a few new clients. As my chairman mentioned, we got Construction Bank, we got ICBC - Industrial and Commercial Bank of China, and we also got Huawei. This is a very pleasant surprise to us. We managed to get so many big clients into ATA and we strongly believe we also managed to introduce this new concept, this testing concept, to the big corporations. The current decision, we will continue this business and we also believe this new business will bring good financial return to the company in the near future.

For the final project, the Cambridge 365, so far last year we sold about 1,000 sets of the DVD - the applications, and thus far we sold approximately 10,000 sets of these applications. We are encouraged to see the achievement in just three quarters, and mind you this is also something new in the industry and we are introducing to the market.

We are quite encouraged to see the development and the achievement, and we will also continue to invest in this project, but mind you that the investment we need to put in, already put it, the most important of the costs, is the development costs, which we already put in this year and also the previous year. Going forward, the investment cost for Cambridge 365 is very limited.

**Ella Ji, Oppenheimer & Co. - Analyst:** OK. Thank you. In for all the three tests in terms of, you know, sales and promotions, should we expect you to invest more in that area?



**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** Going forward, we do not expect we will continue to invest if we can't actually see the direct benefit we can get from the dollars. But the most heavy investment time I think it was the Q3, just finished. So, going forward we will tie all the investment dollar more to the revenue achievement.

**Ella Ji, Oppenheimer & Co.:** Got it. And given all the nice developments, how do you think for your overall growth in the next fiscal year?

**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** The management, we are actually working on our budget for the time being, and I am happy to tell you we do expect we will have a much better growth than this year. So, I am happy to tell you, personally I think the management feels very comfortable to say we can achieve 30% overall revenue growth in fiscal 2012.

**Ella Ji, Oppenheimer & Co. - Analyst:** Great. And lastly, for a record keeping purpose, what is your total number of HR Select clients, and what is the number of paying clients?

**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** In fact, the way we see HR Select, we do not see the number of fee paying clients anymore. Our strategy right now is more looking into get all the key milestone customers, such as Construction Bank, ICBC, Huawei, this type of customers.

And one of these customers could represent, you know, 10,000 on-line customers. So, our strategy right now is more focusing on these milestone customers. And as we shared earlier, we managed to get three new customers this year, for HR Select, we also managed to retain Bank of China and Agricultural Bank of China.

**Ella Ji, Oppenheimer & Co. - Analyst:** Could you clarify a little bit on this new strategy? Are you saying that you now mainly focus on large corporations in China?

**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** We believe by getting these large customers, we managed to bring the brand awareness to the market, and by doing so, we believe this will attract the smaller customers that will actually go and visit our platform, our website, and become our online fee-paying customers.

**Ella Ji, Oppenheimer & Co. - Analyst:** Sure. So, how many large corporation customers do you have right now?

**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** Right now we have Bank of China, Agricultural Bank of China, CCB – China Construction Bank, we have ICBC and we have Huawei Technologies.

**Ella Ji, Oppenheimer & Co. - Analyst:** OK. Great. I will get back to the queue. Thank you very much, Benson.

**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** Thank you.

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**Operator:** (Operator instructions). Our next question is Mark Marostica from Piper Jaffray. Please go ahead.

**Mark Marostica, Piper Jaffray:** Thank you and congratulations on the quarter.

**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** Thank you, Mark.

**Mark Marostica, Piper Jaffray - Senior Research Analyst:** Regarding your point on the futures exam you pushed into fiscal 2012, I would like you to give us a sense of the seasonality of the business, as we look through fiscal 2012 and highlight the timing of the major exams as we go throughout the year.

**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** As we speak, some of our major sponsors, they are also finalizing their schedule for fiscal or calendar year 2011. So, right now we may not be able to tell you exactly the timing; we will be able to share a lot more in the Q4 earnings release call.

But, the futures exam, I just mentioned a bit earlier, I can share a bit more, because the exam schedule is out. Traditionally, futures exams have about four times, they have four examinations, basically once a quarter, but for this year in the final quarter, and we do not know for what reason, it could be the Chinese New Year, they moved the Q4 exam to Q1 next fiscal year. As a result of that, we actually will have five exams, five times futures examinations in our fiscal year 2012.

**Mark Marostica, Piper Jaffray - Senior Research Analyst:** I see. And as far the other exams go, Securities Association and Banking Association we should be getting a debriefing on your report of the 4Q?

**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** Yes.

**Mark Marostica, Piper Jaffray - Senior Research Analyst:** OK. Fair enough. Regarding the internet café exam, you didn't touch on that, I do not recall in your opening remarks, can you give us an update there?

**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** Yes, we already started all the preparation work, and based on the latest information we have from the Ministry, we predict we will start the examination in Q1 FY 2012, and then allow me to make additional comments, for the internet café, due to the size of or the number of internet cafés in China, we do not believe their financial contribution will be significant.

From the Company's perspective, what we believe is the key is the relationship through internet café we can build with the Ministry of Culture. Currently, under the Ministry of Culture, there are different departments, for example, the department overseeing libraries, the department overseeing the cultural centers and museums. We believe there are a lot more opportunities for ATA to conduct different type of qualification exams for them and internet café is basically our tool trying to prove to the Ministry we can deliver and we can be a partner with them.

**Mark Marostica, Piper Jaffray - Senior Research Analyst:** Great. Thanks for the color there. Regarding to the security guard exam, can you give us an update with regard to some of the progress that you have made since the last earnings call? I know last earnings call, you already had run some tests but I gather that you have done some additional testing and it seems from your remarks that there is more than an open reception to the test at this point, any sort of update there would be helpful.

**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** Yes, security guard program, back on November 2<sup>nd</sup>, we held a nationwide seminar for different police departments from different cities. Right in that conference, we were introduced to all parties we are the service provider, and shortly after that, we have started commercial contract negotiation with a number of provinces, and we also conducted about 10,000 examinations of test run for two cities. The main purpose is to try to demonstrate our ability and also to give them a much better idea what exactly is the examination and how we conduct that.

Right now, we got the feedback is very positive, and in fact, the management of ATA is very confident that the financial contribution from this program will start in financial year 2012.

**Mark Marostica, Piper Jaffray - Senior Research Analyst:** Excellent. Regarding that point, can you give us a sense for the timing of the roll out of the exam in fiscal 2012 and the number of cities you intend to roll it out too?

**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** Currently, what we believe is we will need some time to go through all different provinces and cities to finalize the commercial contract and we expect we can start the examination probably in Q2 FY 2012.

And currently, as I mentioned probably in the past, the total number of security guards is about 8 million. This data is provided to us by the Ministry of Public Security. Based on our experience in dealing with the government on different government-control related tests, we are quite comfortable we can probably do in the range of a million exam in FY 2012, and if we manage to get a lot more reception in the early stage, meaning in the second quarter of FY 2012, we will adjust our estimate accordingly.

**Mark Marostica, Piper Jaffray - Senior Research Analyst:** OK. Great. Switching gears, I want to follow up with one last question. As we look to fiscal 2012, do you anticipate any significant investment in your overall infrastructure, i.e. developing more capacity for more tests or rolling out incremental number of new centers? Anything around those lines would be helpful. Perhaps maybe giving us a sense of CAPEX in fiscal 2012 versus this year?

**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** Yes. You know, as I mentioned earlier, we are finalizing our budget at the moment, but ATA has been always adopting an asset-light model in running our business, and in terms of CAPEX, we don't expect will be a lot of money, probably still in the range of US\$1 million, and the CAPEX will be mainly in purchasing additional server to support the tests and some replacement CAPEX.

**Mark Marostica, Piper Jaffray - Senior Research Analyst:** And then, as far as your systems go and your available capacity to absorb the security guard exam and some of the others you have been talking about, is there any issue there, any needs for expanding capacity? How are you running in terms of capacity utilization these days?

**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** In terms of capacity, or in terms of test centers, we do not foresee we will have any problem to meet the requirements to conduct the security exams. If you are talking about the computer side, the hardware, that US\$1 million CAPEX will be sufficient to cover the expansion required.

**Mark Marostica, Piper Jaffray - Senior Research Analyst:** Got it. Ok, thanks. I will turn it over. Again, congratulations.

**Benson Tsang, ATA Inc. - Chief Financial Officer & Chief Accounting Officer:** Thank you.

**Operator:** (Operator instructions). As there are no further comments or questions, I will now pass the call back over to Mr. Kevin Ma for closing comments. Mr. Ma, please begin.

**Kevin Ma, ATA Inc. - Chairman & Chief Executive Officer:** As we approach spring in the middle of next month, we hope that you will find the first flowers a sign of renewal for you and your family. We will continue in every possible way to achieve additional success for you, to grow our revenues, net income, and cash flow in the years ahead.

We thank you for your interest and your investment in our company. Both continue to be vital to our success. Like a bond between good friends, we expect to deliver the attractive returns that you expect from us. Until we meet again, we wish you good health, safety, and happiness. From ATA in Beijing, goodbye for now. Thank you.

**Operator:** Thank you ladies and gentlemen. Thank you for your participation in ATA's conference. There will be a webcast replay within an hour, please visit [ir.ata.net.cn](http://ir.ata.net.cn). You may disconnect now. Good-bye.

- END OF CONFERENCE CALL -

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