



**ATA Inc. Fiscal 2016 Third Quarter Financial Results Conference Call
TRANSCRIPT**

February 19, 2016 at 8 a.m. ET

SPEAKERS

Carolyne Sohn – 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 Year 2016 third quarter financial results conference call. My name is Tawanda, and I will be your coordinator for today. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session. If at any time you require operator assistance, please press star followed by zero, and a coordinator will be happy to assist you. I would now like to turn the conference over to Carolyne Sohn, Senior Associate. Please proceed.

Ms. Carolyne Sohn:

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

Copies of the press release announcing ATA's fiscal 2016 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, 2015, are converted from RMB using an exchange rate of RMB6.4778 to US\$1.00, the noon buying rate as of December 31, 2015. 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 Third Quarter 2016, beginning with slide 4. The Company's Chairman and CEO Mr. Kevin Ma will then discuss ATA's outlook and growth strategy for the remainder of FY 2016 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, Carolyne and welcome everyone. Today I will provide an overview of our operating and financial highlights, and then briefly discuss our outlook for Fiscal Year 2016. I will begin on slide 5, which lists some of our operating highlights for Third Quarter 2016.

We were pleased to deliver record results in Third Quarter 2016. ATA's fiscal third quarter has historically been our strongest due to the timing of our clients' exams. During Third Quarter 2016, we delivered approximately 5.1 million billable tests, which compares to about 2.6 million in the prior-year period. This increase was primarily due to the change in timing of the CPA exam, which took place in Third Quarter 2016 vs. the second quarter in the prior fiscal year. Increased exam volumes from the new Fund Practitioners Certification Exam and the National Patent Agent Qualification Exam also contributed to overall exam volume growth during the period.

In October 2015, ATA successfully delivered the computer-based CPA exam for the fourth consecutive year. The exam saw record volumes with over 1.9 million exams taken across China, and the Hong Kong and Macau Special Administrative Regions, surpassing last year's 1.6 million exams delivered.

We recently announced ATA's engagement as the service provider for the first computer-based National Tax Adviser Occupational Qualification Exam, which is scheduled to be delivered February 27-28, 2016. ATA has a proven record of successfully transitioning exams from traditional paper-and-pen format to a technology-based platform, and it continues to be an area we are exploring as we work to grow our core testing services business. We are working closely with the China Certified Tax Agents Association on ensuring a smooth exam process later this month.

During the period, we also continued to make progress on our wholly owned subsidiary ATA Online's New Third Board listing, which Kevin will provide more background on shortly.

Moving on to financial highlights for Third Quarter 2016 as shown on slide 6, we reported net revenues of RMB221.4 million and beat our net revenue guidance range for the period. Excluding the CPA exam, net revenues increased 18.7% to RMB146.1 million in Third Quarter 2016 from RMB123.0 million in the prior-year period, primarily due to revenue contributions from the previously mentioned Fund Practitioners Certification Exam and National Patent Agent Qualification Exam.

Gross margin was 49.5% for Third Quarter 2016, compared to 52.1% in the prior fiscal quarter. The decrease in gross margin was primarily due to costs for certain client exams being recognized in Third Quarter 2016 while corresponding revenues will be recognized in Fourth Quarter 2016.

Given its strong results for the first three quarters of Fiscal Year 2016, the Company is raising its net revenue guidance and narrowing its non-GAAP net income guidance for Fiscal Year 2016, which I will discuss in further detail later on this call.

On the next slide, we break out revenues for Third Quarter 2016 and the first nine months of 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 94.9% of our revenues in Third Quarter 2016.

On the next slide, we provide a breakdown of the Company's financial results for the third quarter. 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.

On slide 9, we provide a summary of the Company's financial results for the first nine months of Fiscal Year 2016.

Gross profit was RMB188.2 million, a 19.1% increase from RMB158.1 million in the prior fiscal period. Gross margin for the first nine months of FY 2016 remained flat at 50.5%, compared to 51.0% in the prior-year period.

Net income was RMB41.4 million for the first nine months of FY 2016, or diluted earnings per ADS of RMB1.80, an 8.9% increase from RMB38.1 million in the prior fiscal period.

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 for Third Quarter 2016 was RMB51.4 million, or US\$7.9 million, compared to RMB21.8 million in the prior-year period. Diluted earnings per ADS during Third Quarter 2016 on a non-GAAP basis were RMB2.24, compared to RMB0.94 in the prior-year period.

Adjusted net income for the first nine months of FY 2016 was RMB50.7 million, or US\$7.8 million, compared to RMB41.5 million in the prior-year period, and diluted earnings per ADS on a non-GAAP basis was RMB2.20, or US\$0.34.

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, 2015, we had about US\$43.8 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.

In September 2015, the Company continued a steady tradition of giving back to its shareholders through repurchases by authorizing the repurchase of up to US\$3 million of its issued and outstanding ADSs from time to time in open market and privately negotiated transactions.

By January 26, 2016, the Company had completed this share repurchase plan under which it repurchased 567,132 ADSs at an average stock price of \$5.29.

As shown on slide 12, we expect Fourth Quarter 2016 net revenues will be in the range of RMB43.0 million to RMB48.0 million.

As announced in yesterday's earnings release, we are raising our FY 2016 net revenue guidance range to between RMB410.0 million and RMB420.0 million, from the previously provided range of RMB360.0 million and RMB380.0 million. We have also narrowed our non-GAAP net income guidance range to between RMB29.0 million and RMB34.0 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'd like to turn it over to our Chairman and CEO, Mr. Kevin Ma, to provide some more details on our growth strategy and outlook for FY 2016 and beyond.

Mr. Kevin Ma:

Thank you, Shelly.

Slide 14 lists our overall growth strategies. I am very proud of the results yielded by the hard work of the entire ATA organization thus far in Fiscal Year 2016. We have already made a great deal of progress on our goal of growing our core testing services business and will continue looking to take advantage of the ongoing shift from paper-based testing to computer-based testing as we explore additional opportunities to utilize our extensive data bank to enhance ATA's value to clients and test takers alike.

A few weeks ago, we announced that during the recently completed bidding process, ATA was not selected to be the service provider for the computer-based SAC exam during calendar years 2016-2017. We are naturally disappointed in this result; however, we remain confident in the superiority of our service offerings and our ability to secure new business, which has made a strong showing in

Fiscal Year 2016. We do not expect the loss of the SAC exam to impact our Fiscal Year 2016 results, and as Shelly mentioned earlier, given our strong Third Quarter 2016, ATA is raising its net revenue guidance for Fiscal Year 2016.

We continued to progress on our New Third Board listing efforts and are pleased that, in just a few months, ATA Online was able to gain the necessary approval for its shares to officially be listed on the New Third Board. We believe this listing in China will enable organizations in China, with whom we conduct the majority of our business, to more readily recognize ATA as a Chinese company and be more willing to partner with us. It will also increase ATA's brand exposure to the general Chinese public.

With the official listing of ATA Online's shares on the New Third Board, we recently announced the subsidiary's plans for a private placement of no more than 16,760,000 common shares of ATA Online stock, which represents approximately 30.0% of ATA Online's current shares outstanding prior to the private placement, priced at RMB22.55 per common share. We expect to raise no more than RMB377.9 million, or approximately US\$57.5 million at current exchange rates. The funds from this private placement are expected to be used toward ATA Online's business development efforts, improving its operating efficiencies, and plans for future growth.

Following this private placement, ATA will still own a substantial majority of the outstanding equity interest of the testing services business—about 76.9%—and will continue to consolidate the financial results of the business into ATA.

The Company also announced that Mr. Zhilei Tong, founder and chairman of ChineseAll Digital Publishing Group Co. Ltd., or ChineseAll.com, a leading digital publishing company in China, was appointed to ATA's Board of Directors as a new director on February 17, 2016. Mr. Tong founded ChineseAll.com in 2000, and we feel his years of experience in digital publishing industry in China will prove valuable to ATA as we continue working to move forward with this same type of change by transitioning traditional paper-based exams and assessments to our advanced technology-based platform.

To conclude, we were very pleased to beat our financial projections for Third Quarter 2016 and continue working to expand our strategic alliances and investments, seeking ways in which we can enhance ATA's value to our shareholders.

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

Operator:

{Prompt for Q&A}

Your first question comes from the line of John Zhang. Please proceed.

Mr. John Zhang:

Hello, everyone. I have two questions. The first, what is the impact of the loss of the financial securities association exam on the plans of the Company going forward? Could you also give some color on FY 2017 financials? Thank you.

Ms. Shelly Jiang:

OK, thanks for your question. As we mentioned earlier, we are disappointed with the loss of the SAC contract. However, on the other hand, we feel encouraged that this reflects the general acceptance of computer-based testing is increasing and the market is growing. With our flexible advantage and our strength with solid operational experience of 3,000 test centers all over China, flexible testing technology, and our psychometric assessment capabilities, we remain optimistic about our business going forward.

Regarding our FY 2017, we have gained a number of new clients this year such as, we mentioned before, the Fund Practitioners Certification Exam, National Tax Advisers Occupational Qualification Exam, and National Patent Agent Qualification Exam. We shall work closely with these associations to grow these test volumes. We are also working on a number of prospective clients covering testing, test preparation and training, and online continued education services. So combining the growth of existing clients and signing of new clients, we believe we can make up a significant portion, if not all, of the volume loss resulting from the SAC contract in the coming year. We anticipate to complete our FY 2017 budget in March, so we think we will be ready to share more with you in our FY 2016 Q4 and full-year earnings call in May 2016. Thank you for your question.

Mr. John Zhang:

I've got it. Thank you.

Operator:

Your next question comes from the line of Manny Stoupakis with The Market's Edge. Please proceed.

Mr. Manny Stoupakis:

Thanks for taking my call. Actually my question would be, ah, a couple questions. First of all, could management or Mr. Ma just briefly talk about right now the share ownership structure of the Company? We noticed that in a recent 13-D filing, Mr. Ma has purchased roughly 33% of the total outstanding shares of the Company at a price of \$9.50 per ADS from a previous shareholder. I'm just curious about the current ownership structure of the Company. This is my first question. My second question would be... uh, yes this is my first question. Thanks.

Ms. Shelly Jiang:

OK. For the share ownership, yes, like what you said, we can see the filing of the 13-D by Kevin Ma, and after these changes, the ownership is Kevin Ma will hold over 44% of our whole share, uh outstanding shares. And our management will hold around 5% of the total outstanding shares. So if we combine Kevin Ma and our senior management shares, that will be around 49% of the total outstanding shares. That's the major shareholders.

Mr. Kevin Ma:

{In Chinese} Shelly, I didn't quite hear his question. Was the question regarding the U.S. shares or New Third Board shares?

Mr. Manny Stoupakis:

I was talking about the U.S. outstanding shares.

Ms. Shelly Jiang:

{In Chinese} Yes, he was talking about U.S. shares.

Mr. Kevin Ma:

{In Chinese} Ah, OK. Understood. OK.

Mr. Manny Stoupakis:

Thank you. Uhm, actually just a follow-up actually, any other significant institutional holders for the Company?

Ms. Shelly Jiang:

I think the major institution investor is the GIC (Government of Singapore Investment Corp), the Singapore investment, uh, government. Their shares are around 5% of the total outstanding shares.

Mr. Manny Stoupakis:

OK, thanks. My second question would be the Company announced that ATA Online is planning to do a private placement on the New Third Board in China with no more than US\$57.5 million worth of private placement. And I'm just curious, what's the, right now, the schedule of the private placement, and after the private placement, I'm guessing, or I'm assuming that ATA in the U.S.—ATAI—will consolidate the cash raised from that private placement. And if that's the case, then the cash balance of ATAI would be close to US\$100 million, am I correct?

Ms. Shelly Jiang:

Yes. Yes, you are correct. About the valuation of the private placement plan, we will raise no more than RMB378 million. So the total valuation of the ATA Online, the New Third Board entity, that will be RMB1.6 billion. After we raise the capital from the New Third Board, our cash balance of ATA Inc., will increase the same balance. That means because by end of year Dec. 31, our balance is around RMB280 million, so plus the additional funding around RMB378 million, that will be over RMB600 million of our cash balance.

Mr. Manny Stoupakis:

That's very helpful. My last question, I'm sorry. We noticed that Mr. Tong, Zhilei has been appointed as a new director to the Board of Directors. I'm just curious, is the Company in the foreseeable future is going to expand or establish any business relationship with the ChinaAll Digital Company, which is the China A-share listed company?

Ms. Shelly Jiang:

I think Mr. Tong has more experiences in revolutionizing the publishing in China, and of course, we expect that not only he will bring his personal industry experience in our Company; also that maybe we can receive some business opportunities in the future.

Mr. Manny Stoupakis:

Thank you. That's very helpful, thank you.

Mr. Kevin Ma:

Thank you.

Ms. Shelly Jiang:

Thank you.

Operator:

{Re-prompt for Q&A}

Your next question is a follow-up from the line of John Zhang. Please proceed

Mr. John Zhang:

Hello. My second question is could you provide more information about the valuation of the private placement plan. And what is the benefit to the shareholders of ATA Inc.?

Ms. Shelly Jiang:

OK, thank you for the question. About the valuation, I have answered on the last question raised by another Sir. So I will answer your second question. After the private placement, ATA will still own a substantial majority of the outstanding equity interest of ATA Online that is representing around 77%. And ATA Inc. will continue to consolidate the financial results of the business into ATA Inc.

Regarding the benefits, ATA Inc. investors will be benefitted from our dividend distribution and capital appreciation of the ATA Online entity on the New Third Board. Thank you.

Mr. John Zhang:

Thank you very much.

Operator:

And with no further questions in queue, I would now like to hand the conference over to Kevin Ma for closing remarks.

Mr. Kevin 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 Fourth Quarter 2016 financial results call. As always, we welcome any visitors to our office in Beijing. Thank you.