



**ATA Inc. 2019 Second Quarter Financial Results Conference Call
TRANSCRIPT**

August 14, 2019 at 9 p.m. ET

SPEAKERS

Carolyne Sohn – Vice President, The Equity Group

Kevin Ma – Chairman and Chief Executive Officer, ATA

Jun Zhang – President, ATA

Amy Tung – Chief Financial Officer, ATA

Operator:

Good day and welcome, everyone, to the ATA Inc. 2019 Second Quarter Financial Results Conference Call hosted by Carolyne Sohn of The Equity Group. My name is Krisz, and I'm your event manager today. [Operator Instructions]. And now I would like to pass the call over to Carolyne. Please go ahead.

Ms. Carolyne Sohn:

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

The press release announcing ATA's results for the second quarter ended June 30, 2019, is 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. A replay of this broadcast will also 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 second quarter ended June 30, 2019, are converted from RMB using an exchange rate of 6.8650 RMB: 1.00 USD, the noon buying rate as of June 30, 2019. 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. In addition, we are more than happy to take investor questions through our webcast portal or via email to the Company.

On today's call, the Company's CFO Ms. Amy Tung will provide a brief overview of financial highlights for the second quarter of 2019 and then ATA's Chairman and CEO Mr. Kevin Ma and newly appointed President Mr. Jun Zhang will conclude the remarks with a discussion of ATA's acquisition of ACG, which closed on August 6, the Company's outlook and long-term growth strategy before opening the floor for questions.

With that, I'll turn the call over to ATA's CFO, Ms. Amy Tung. Please go ahead, Amy.

Ms. Amy Tung:

Thank you, Carlyne, and welcome everyone. Good evening to those in America. We appreciate everyone's time. To those of you following along with the presentation, I will provide a brief summary of our financial results for the second quarter of 2019, shown on slide 5.

Net revenues for the period increased to RMB1.4 million, compared to nil in the second quarter of 2018 as a result of our success in developing our K-12 education quality monitoring services in China's Shanxi province.

Net loss from continuing operations attributable to ATA Inc. was RMB18.2 million, compared to RMB16.4 million in the prior-year period, primarily due to an RMB1.1 million decrease in net rental income and RMB0.5 million increase in legal and consulting fees associated with the acquisition activities of new business.

Lastly, we continue to be in a strong financial position with US\$19.2 million in cash and cash equivalents and no long-term or short-term debt at June 30, 2019.

We provide additional detail on our capital position and balance sheet on slide 6. Please note that the information shown here precedes the closing of the ACG acquisition, which will be reflected in our balance sheet at the end of this current quarter ending September 30, 2019.

Working capital was US\$23.4 million, and total shareholders' equity was US\$36.3 million at June 30, 2019, compared to US\$28.2 million and US\$40.2 million, respectively, as of December 31, 2018.

I would now like to turn it over to Kevin who will make some remarks about our M&A activities. Kevin?

Mr. Kevin Ma:

Thank you, Amy. For those of you following along, I will begin with slide 8.

As we have stated in past calls, the steadily growing international education market is where ATA has been putting its focus. China is the number 1 market of students studying internationally, and, as shown on this slide, the number of Chinese students pursuing overseas study continues to grow each year with over 662 thousand students studying abroad in 2018.

We are thrilled to have recently announced the closing of ATA's acquisition of approximately 87% equity interest in ACG. We are working to close on the remaining 12 or so percent equity interest and expect to have this completed before the end of the third quarter. Details surrounding the terms can be found in last week's press release, and we are happy to answer questions during Q&A as well.

Moving to slide 9, this transaction is our first major step forward toward our long-term objective of becoming a leading international education service provider. We look forward to working closely with

the ACG team on taking advantage of the rapidly growing art education market. You can find an overview of ACG on slide 10.

To discuss the details of ACG's strategic initiatives, I'd like to introduce Mr. Jun Zhang, ATA's newly appointed president and director. Jun is the founder of ACG and has led the organization since its establishment. Jun boasts over 20 years of experience in art education and is a recognized expert in China's art education industry. He is a pioneer in the industrialization of international art education in China and has been very involved with the arts in China both professionally and as an educator.

With that, I'd like to turn it over to Jun to expand upon ACG's strategic growth initiatives. Jun will make his remarks in Mandarin, which will be followed by an English translation.

Mr. Jun Zhang:

感谢 Kevin，感谢您的热心介绍。

我很高兴在两个公司激动人心的历史性时期加入 ATA。正如各位在 PPT 第 9 页中看到的，我们目前有四个主要的增长计划。第一是相对直接的地域增长。我们正在努力布局国内现有校区的最优化发展，并计划在未来几年内有选择地在国内及海外开设新的校区，以便为学生提供额外的课程及订制规划服务，如语言教育。

第二是产品扩张。我们正在计划向利基市场客户引入主题艺术研学产品，以及针对不同年龄段学生的订制性规划服务。

第三，我们期望未来的业务模式通过优化迭代，以适应和促进国内市场的增长。我们目前的产品主要服务于生活在一二线城市的人群，但随着产品迭代及销售渠道的扩张，我们会继续将业务范围扩展到更多的二三线城市，并相信通过这样的方式，可逐步实现市场份额的增长。

最后，我们同时在寻找艺术教育市场国内以及海外的并购机会和合作伙伴。相信随着我们推进及增长计划，成功的收购或合并、合作将促进我们业务的持续增长和收益。

我们期待在未来几个月向投资界提供有关这些举措的最新进展，并分享有关我们运营及财务数据的更多资讯。

Ms.Carolyn Sohn [translation]:

Thank you, Kevin, for that kind introduction.

I am very pleased to be joining ATA at this exciting juncture in both of our companies' histories. As you can see on slide 9, we have four major growth initiatives. The first is rather simple—geographic growth. We are working to maximize the growth of our existing centers in China and plan to selectively open centers in China and overseas in the years to come so we may provide our students with additional programming and tailored services, such as language education.

Second is product expansion. We are looking to introduce themed art tour and research products for niche market clients, as well as programming for students of different age groups.

Third, we expect our business model to evolve to accommodate and catalyze growth domestically. Our current products cater to those living in first and second tier cities, but as we expand our product offerings and sales channels, we aim to gradually expand our reach to more second and third tier cities. We believe doing so will lead to progressively increased market share.

Finally, we continue looking for M&A opportunities and partnerships within the art education market, both domestic and overseas. We believe successful acquisitions or partnerships will further enhance our growth and value as we move forward with our other growth initiatives.

We look forward to providing the investment community with updates on our progress on these initiatives in the coming months and sharing more details surrounding our operations and economics.

Kevin?

Mr. Kevin Ma:

Thanks for that, Jun and Carolyne.

In closing, we are very excited to have acquired ACG and about the initiatives in place to grow ACG's market share in the rapidly growing art education market. We look forward to utilizing our strong background in education technologies and services, as well as our industry relationships, to drive forward the company's geographic and programmatic expansion. ATA's overall objective and growth strategy is outlined on slide 11, and as we work closely with ACG, we continue to explore M&A opportunities within the education space that may be a good fit with our business portfolio. We have plans to be in the U.S. later this year and look forward to visiting with investors.

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

Question-and-Answer Session

There were no questions on the call.

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 during our next quarterly call and as always, welcome any visitors to our office in Beijing. Thank you.