



**ATA Inc. Fiscal 2015 Third Quarter Financial Results Conference Call
TRANSCRIPT**

February 12, 2015 at 8 a.m. ET

SPEAKERS

Carolyne Sohn – Senior Associate, The Equity Group

Kevin Ma – Chairman and Chief Executive Officer, ATA

Benson Tsang – Chief Financial Officer & Chief Accounting Officer, ATA

Operator:

Good day, ladies and gentlemen, and welcome to the ATA Inc. FY 2015 third quarter and nine months financial results conference call. At this time, all participants are in a listen-only mode. Later we'll facilitate a question-and-answer session. During this time, you may press star, one on your touch-tone telephone. If at any time during the call you require operator assistance, you may press star, zero, and a coordinator will be happy to assist you. As a reminder, this conference is being recorded for replay purposes. I'd now like to turn the conference over to your host for today, to Carolyne Sohn with The Equity Group. You may begin.

Ms. Carolyne Sohn:

Thank you, operator, and good morning everyone. Thank you for joining us.

Copies of the press release announcing ATA's fiscal 2015 third quarter results are available at the IR section of the Company's website at www.ata.net.cn.

As a part of this conference call, the Company has an accompanying slide presentation available on the Company's 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 dollar amounts in this conference call relating to financial results for the Company's most recent quarter ended December 31, 2014, are converted from RMB using an exchange rate of RMB6.2046 to US\$1.00. All historical conversions are accurate as of the time reported unless otherwise noted. The Company reports its financial results under US 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 CFO Benson Tsang will provide an overview of operational and financial highlights for Third Quarter 2015, 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 2015 before opening the floor for questions.

With that, I'll turn the call over to ATA's CFO, Mr. Benson Tsang. Please go ahead, Benson.

Mr. Benson Tsang:

Thank you, Carlyne, and good morning, everyone. Today I will provide an overview of our operating and financial highlights for Third Quarter 2015, and then briefly discuss our outlook for Fiscal Year 2015 and beyond. I would like to begin on slide 5, which lists some of our operating highlights.

During Third Quarter 2015, we delivered approximately 2.6 million billable exams, which included exams for the China Banking Association and a new client Beijing Municipal Commission of Tourism Development, as well as campus recruitment exams for corporate clients from various industries including finance, telecommunications, and energy. ATA delivered approximately 4.2 million billable exams in Third Quarter 2014. The year-over-year decrease in exam volumes was primarily due to the CPA exam taking place one quarter earlier—in Second Quarter 2015, while the prior year's CPA exam took place in Third Quarter 2014.

During the period, ATA continued to focus its efforts on its consumer initiatives. In January, we announced a strategic investment in Satech (Beijing) Network Education Technology Limited, a provider of SAT exam-related technologies and training services in China. This represented ATA's first investment in proprietary tools and services related to the study abroad education market, and more specifically the SAT exam. We believe this investment will enable ATA to leverage its resources more quickly and effectively, gradually expanding its customer base to serving those taking the SAT and similar exams.

ATA's mobile app Exam Inventory Navigator, or 考试导航 in Chinese, continues to grow its user base. It had more than 550,000 activated users at the end of Third Quarter 2015, which compares to

approximately 400,000 at the end of Second Quarter 2015. We were also very pleased that the app was named one of the top 10 exam-focused mobile applications by Sina Education in December, which we believe is further testament to the app's value to test takers and potential test takers.

With regards to our partnership with Master Mind Education, ATA began delivering MTS boxes to Master Mind during Third Quarter 2015, which are being distributed to different K-12 after-school tutoring institutions in its network. ATA is also working with Master Mind on its marketing strategy and ways in which to expand its network and student base.

During Third Quarter 2015, ATA also successfully delivered trial exams of the New Concept Test of English, an English proficiency exam, as part of its partnership with Foreign Language Teaching and Research Press, or 外研社, one of the largest foreign language and university textbook publishers in China. The New Concept Test of English, or NCTE, is an English proficiency curriculum primarily for K-12 students.

These are just some updates on a few of our consumer initiatives, all of which we believe can be tremendous opportunities for ATA in the long term. Kevin will discuss more later on during the call.

Moving on to our financial highlights for the quarter as shown on slide 6, we exceeded our net revenue guidance for Third Quarter 2015. Net revenues for the quarter were impacted by the CPA exam taking place in Second Quarter 2015 versus Third Quarter 2014 in the prior year. Excluding CPA exam revenues in Third Quarter 2014, total net revenues decreased about RMB4.2 million in Third Quarter 2015 due to lower revenue contributions from TOEIC, which was a result of the termination of the exclusive distributor contract between ETS and ATA last year.

The bottom line was impacted by decreased revenue contributions from the testing services business as a result of the CPA exam taking place in Second Quarter 2015.

Lastly, while we are very pleased with the progress we have made on a number of new initiatives this fiscal year, we are revising our net revenue guidance for Fiscal Year 2015 as a result of changes in timing of clients' service needs and prolonged contract negotiations related to our traditional testing services business. We have also narrowed our non-GAAP net income guidance. We will continue to move forward with the various growth initiatives I spoke of earlier, which we believe will be the key drivers for ATA's future growth, and I will expand upon our updated guidance later on during the call.

On the next slide, we break out revenues for Third Quarter 2015 by our businesses, which can be broken down broadly into two areas, testing services and test preparation & training solutions.

On the next slide, we have provided a breakdown of the Company's financial results for the quarter. Gross profit of RMB64.1 million compared to RMB92.5 million in the prior-year period, primarily due to the CPA exam taking place in Second Quarter 2015 versus Third Quarter 2014. Gross margin for Third Quarter 2015 increased to 52.1%, compared to 49.0% in the prior-year period, as a result of costs for certain client exams being recognized in Third Quarter 2014 while corresponding revenues were recognized in the fiscal 2014 fourth quarter.

If we exclude operating expenses related to the CPA exam in Third Quarter 2014, operating expenses for Third Quarter 2015 decreased slightly, even when including RMB3.8 million in expenses related to ATA's new consumer initiatives.

Net income was RMB24.6 million, compared to RMB35.6 million in the prior-year period. Diluted earnings per ADS were RMB1.06 in Third Quarter 2015, compared to RMB1.54 in the prior-year period.

On the next slide, we have provided a breakdown of the Company's financial results for the first nine months of the fiscal year. Gross profit decreased slightly to RMB158.1 million, compared to RMB162.6 million in the prior-year period. Gross margin for the first nine months of Fiscal Year 2015 increased to 51.0%, compared to 49.9% in the prior-year period.

Net income was RMB38.1 million for the period, diluted earnings per ADS of RMB1.64, compared to RMB40.7 million in the prior-year period, as a result of lower revenue contributions from TOEIC, which was a result of the termination of the exclusive distributor contract between ETS and ATA last year.

On slide 10, we provide a supplemental chart of quarterly numbers adjusted for share-based compensation expense and foreign currency exchange gains/losses. I would like to highlight that excluding these items, adjusted net income for Third Quarter 2015 was RMB21.8 million, compared to RMB39.1 million in the prior-year period. Diluted earnings per ADS during Third Quarter 2015 on a non-GAAP basis was RMB0.94, compared to RMB1.70 in the prior-year period.

Adjusted net income for the first nine months of Fiscal Year 2015 was RMB41.5 million, compared to RMB47.4 million in the prior-year period, and diluted earnings per ADS on a non-GAAP basis was RMB1.78.

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, 2014, we had about US\$44.7 million in cash. 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.

On August 5, 2014, the Company continued a steady tradition of giving back to its shareholders through repurchases and special dividends by authorizing the repurchase of up to US\$5 million of its issued and outstanding ADSs from time to time in open market and privately negotiated transactions. By the end of Third Quarter 2015, the Company had repurchased about 210,000 ADSs at an average stock price of \$4.35. This share repurchase program expired on January 31, 2015.

As shown on slide 12, we expect fourth quarter net revenues will be in the range of RMB30.0 million to RMB40.0 million. As I mentioned earlier, we are revising our net revenue guidance for Fiscal Year 2015 as a result of changes in timing of clients' service needs and prolonged contract negotiations related to our traditional testing services business, which we believe to be a result of the current political environment.

We now expect net revenues to be between RMB340.0 million and RMB350.0 million and non-GAAP net income guidance to be between RMB28.0 million and RMB33.0 million. Despite the revision to our net revenue guidance, we anticipate non-GAAP net income will be within the original guidance range we provided at the beginning of Fiscal Year 2015.

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 2015.

Mr. Kevin Ma:

Thank you, Benson.

As I mentioned on our previous earnings call, ATA is currently at an exciting juncture in its history. The Company was built upon a foundation of providing secure, large-scale assessment exam services to government agencies. Having established strong, longstanding relationships with a number of government bodies, which we continue to build upon today, we now serve many corporate clients, assisting them with assessing current and potential employees whether it be campus recruitment, new hires, promotions, or overseas placement opportunities.

Slide 14 lists our overall growth strategies, which includes strengthening ATA's position as a leader in China's testing and assessment market while establishing new business and client relationships and strengthening existing ones.

As we continue to serve our government and corporate clients in Fiscal Year 2015, the year also marked a new phase in ATA's growth, focusing on a number of major consumer initiatives, which we've shown on slide 15.

The left-hand side illustrates the different target markets we hope to serve with each initiative listed on the right. We believe ATA's expertise in advanced testing technologies and assessment can easily extend and prove valuable to all areas of the education market.

To start, our focus has not diverted from our audience of test takers. In that regard, our self-developed mobile application Exam Inventory Navigator was designed to provide our test takers with easy access to information on our exams and any related information to the exam process. We are very pleased that the number of activated users continues to grow and stood at about 550,000 at the end of Third Quarter 2015. We continue to explore ways in which we can make Exam Inventory Navigator more useful to our test takers and are very pleased with the feedback we have received thus far.

Beijing ZhiShang Education Technology Co., Ltd., or "ZhiShang", ATA's joint venture with New Oriental, continues to move forward. We expect the online career education platform for working professionals in China's healthcare, accounting, and finance industries to launch in April 2015.

Earlier in the call, Benson also mentioned the progress we have made in our partnership with Master Mind Education, which marked ATA's expansion into the K-12 education space in China. ATA began delivering MTS boxes to Master Mind during Third Quarter 2015, which are being distributed to different institutions in its network. We have also begun working closely with the team to integrate and market the technology into their digitization services for the K-12 after-school tutoring market.

Another initiative that we mentioned in our previous earnings call is our partnership with 外研社, one of the largest foreign language and university textbook publishers in China. We completed a series of New Concept Test of English trial exams for them during Third Quarter 2015.

Finally, we recently announced ATA's first strategic investment in the study abroad market with our partnership with Satech, a provider of online SAT exam-related training and assessment services in China. We are excited to be working with the Satech team and are confident that this relationship will serve as a launch pad for additional opportunities in the study abroad market down the road.

Aside from their focus on the consumer, all of these initiatives have another thing in common—ATA's awareness that information is power. As we've mentioned before and shown on slide 16, we believe that collecting, analyzing, and acting on the information shared with us is a valuable tool not only for ATA but for our partners and consumers themselves. The more data we are able to collect and analyze, the more effective we can be in making sure each consumer obtains the results they have set out to achieve, whether the individual is a professional seeking additional certification or a student seeking a certain test score.

While we have come across some challenges that have impacted our financials for Fiscal Year 2015, I wanted to highlight the continued progress we have made on our new consumer initiatives, which we believe to be the growth drivers for ATA's future. We are still in the early stages of executing on this new growth strategy and look forward to sharing updates on these initiatives' progress with the investment community over the next few months.

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

Operator:

Thank you. Ladies and gentlemen, to ask your audio question, you may press star, one on your touchtone telephone. If your question has been asked or you wish to defer your question, you may press star, two. Again, press star, one to ask your question.

And again, ladies and gentlemen, you may press star, one for your audio question.

OK, it seems we have no questions at this time. I would like to turn the call back over to Mr. Kevin Ma for your 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 to Benson or myself, as well as our investor relations firm The Equity Group. We look forward to speaking with you again during our Fourth Quarter and Fiscal Year 2015 financial results call. As always, we welcome any visitors to our office in Beijing. Thank you.

Operator:

And ladies and gentlemen, this concludes your presentation. You may disconnect and enjoy your day.