



**ATA Inc. Fiscal 2015 Fourth Quarter and Year-end Financial Results Conference Call  
TRANSCRIPT**

**May 29, 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. Fiscal Year 2015 fourth quarter and year-end financial results conference call hosted by Carolyne Sohn. My name is Timi, and I am your event manager on today's call. During the presentation, your lines will be listen only, but should you require assistance at any time, please press star and zero on your telephone, and a coordinator will be happy to assist you. As a reminder, this conference is being recorded. I'd now like to and it over to Carolyne. Carolyne, please go ahead.

**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 fourth quarter and year-end results are available at the IR section of the Company's website at [www.ata.net.cn](http://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 U.S. dollar amounts in this conference call relating to financial results for the Company's most recent quarter and year ended March 31, 2015, are converted from RMB using an exchange rate of RMB6.1990 to US\$1.00, the noon buying rate as of March 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 CFO Mr. Benson Tsang will provide an overview of operational and financial highlights for Fourth Quarter and Fiscal Year 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 2016 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, Carolyne, and good morning, everyone. Today I will provide an overview of our operating and financial highlights for Fiscal Year 2015, and then briefly discuss our outlook for Fiscal Year 2016. I would like to begin on slide 5, which lists some of our operating highlights.

During Fiscal Year 2015, we delivered approximately 8.8 million billable tests, which included a variety of certification and recruitment exams for various industries such as the securities industry. We were pleased to have successfully delivered over 1.6 million CPA exams in September 2014 for the third consecutive computer-based National Unified CPA Exam, and look forward to continuing that partnership.

We also continued building upon our relationship with Cambridge English Learning Assessment, one of the premier global providers of language instruction for students and teachers of English. We are very pleased that Cambridge believes our MTS technology is the most viable and effective solution for launching their computer-based Young Learners Exam across its global markets. With MTS, Cambridge has already implemented the Young Learners Exam in 18 markets, and we expect to continue working with Cambridge on expanding this program to additional markets/countries in the remainder of 2015.

Those of you who have followed ATA in the past year know that ATA's focus has been on the consumer market. We launched several initiatives in this regard and expanded the Company's core competency in assessment technologies into a number of new education markets including K-12, continuing education for professionals, study abroad, and language studies.

One of the first initiatives we announced was ATA's joint venture with New Oriental called Beijing Zhishang. The goal of this JV was to develop and launch an online education and training learning management platform catering to China's workforce. I am pleased to share that the platform was launched in April 2015 and was well received by our initial target audience in the finance industries. You can find out more about the new platform at Zhishang's website, [www.zhiup.cn](http://www.zhiup.cn).

In addition to entering into strategic partnerships such as the one with New Oriental, ATA developed and launched its own mobile app Exam Inventory Navigator, or 考试导航. Its activated user base has grown to 650,000, up from approximately 550,000 at the end of Third Quarter 2015. We recently signed an agreement with Beijing Zhishang to jointly continue the development of Exam Inventory Navigator, which we believe will substantially increase our ability to grow the app's capabilities and user base.

We believe our consumer-focused initiatives can be tremendous opportunities for ATA in the long run. We also continue to explore ways in which we can accelerate the growth of our core testing services business. The Company recently announced that it is looking at the potential of restructuring this part of its business and listing it on China's New Third Board, an emerging over-the-counter market in China. Kevin will discuss the latest developments on our initiatives and growth strategy for Fiscal Year 2016 later on during the call.

Moving on to our financial highlights for Fourth Quarter and Fiscal Year 2015 as shown on slide 6, we reported net revenues of RMB40.3 million, which was just over the top end of our net revenue guidance for Fourth Quarter 2015 but was a decrease from net revenues of RMB58.7 million in the prior-year period as a result of lower revenue contributions from the testing services business.

Net revenues for Fiscal Year 2015 were impacted by decreased revenue contributions from the testing services business as well, which was primarily due to the termination of the exclusive distributor contract for TOEIC between ETS and ATA in fiscal 2014.

However, the Company was able to achieve steady gross margin of 50.7% in Fiscal Year 2015, compared to 51.0% in the prior fiscal year.

The Company exceeded its previously revised net revenue guidance range for Fiscal Year 2015 and met its non-GAAP net income guidance range for the year.

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

On slide 8, we provide a summary of the Company's financial results for Fiscal Year 2015.

Gross profit was RMB177.6 million, compared to RMB196.2 million in the prior fiscal year. Gross margin for Fiscal Year 2015 was 50.7%, compared to 51.0% in Fiscal Year 2014.

Net income was RMB23.1 million for Fiscal Year 2015, compared to RMB27.3 million in the prior fiscal year. This decrease was the result of lower revenue contributions from testing services business, which as I mentioned earlier, was the result of the termination of the exclusive distributor contract for TOEIC between ETS and ATA in fiscal 2014.

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

Gross profit was RMB19.5 million, compared to RMB33.6 million in the prior-year period. This decrease was a result of certain exams being delivered in Third Quarter 2015, a quarter earlier than in the prior fiscal year; revenues from licensing fees recognized in Fiscal Year 2014 as a result of a simulation contract with Microsoft; and lower revenue contributions from TOEIC, which was a result of the termination of the exclusive distributor contract between ETS and ATA in fiscal 2014.

Net loss was RMB15.0 million, compared to RMB13.4 million in the prior-year period.

Diluted losses per ADS were RMB0.66 in Fourth Quarter 2015, compared to RMB0.60 in the prior-year period.

On 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 loss for Fourth Quarter 2015 was RMB10.3 million, compared to RMB9.6 million in the prior-year period. Diluted losses per ADS during Fourth Quarter 2015 on a non-GAAP basis were RMB0.46, compared to RMB0.42 in the prior-year period.

Adjusted net income for Fiscal Year 2015 was RMB31.2 million, compared to RMB37.9 million in the prior fiscal year, and diluted earnings per ADS on a non-GAAP basis were RMB1.34, compared to RMB1.64 in Fiscal Year 2014.

We continue to be supported by free cash flow and a solid balance sheet, which we've highlighted on slide 11.

As of March 31, 2015, we had about US\$39 million in cash with 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.

As shown on slide 12, we expect First Quarter 2016 net revenues will be in the range of RMB84 million to RMB94 million.

We expect FY 2016 net revenues to be between RMB360 million and RMB380 million and non-GAAP net income guidance to be between RMB28 million and RMB38 million as this non-GAAP net income guidance includes the share of results of our joint venture and associated companies that are in the early stage of business.

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 Fiscal Year 2016.

**Mr. Kevin Ma:**

Thank you, Benson.

Fiscal Year 2015 was a transformative year for ATA. We launched a number of consumer initiatives that marked ATA's entry into new education markets that we believe are natural extensions of our core competency in assessment technologies.

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.

Our first consumer initiatives began in the second half of 2014, and while they are still in their early stages, we were pleased with their launch and continued progress. We believe ATA is in a strong position to take advantage of the shift toward technology in the greater education space, and we expect our efforts in the consumer market will be key factors in helping to diversify ATA's revenue mix from government-sponsored exams. Throughout these efforts, we have remained committed to operating on the strict cost structure that has allowed the Company to successfully scale its operations and generate positive cash flow to finance its long-term growth, and this will not change in Fiscal Year 2016. After a major transitional year for ATA, we look forward to continuing the Company's growth and expansion in Fiscal Year 2016.

As Benson mentioned earlier, we are also exploring different ways in which we can potentially enhance the growth of ATA's core testing business. One option we are considering is restructuring this business and listing it on China's New Third Board. Given ATA's strong local presence and increased brand recognition in China, we believe doing so could be an opportunity to accelerate the growth of our core business, which would benefit the Company overall.

I would like to assure our investors that, in the event ATA is successful in this proposed New Third Board listing of its testing services business, we expect to own a substantial majority of the outstanding equity interest of the testing services business and to continue to consolidate the financial results of the business. We would also intend for the Company's ADSs to continue to trade on Nasdaq.

We also recently announced a chief financial officer transition. After five years of service to our company, Benson will be stepping down as CFO at the end of June, but I am pleased that he will remain involved as a consultant to the Company. Our VP of Finance Ms. Shelly Jiang who has served in our finance department for over 10 years will assume the role of interim CFO. She has been handling the Company's day-to-day finance and accounting matters and possesses a deep understanding of U.S. and PRC accounting standards. I look forward to continuing our work here at ATA with both Benson and Shelly over the next several months and years ahead.

Slide 15 lists our major consumer initiatives and the corresponding target markets. I'd like to highlight the progress we've made on a couple of these initiatives thus far.

First, we were very pleased that our joint venture with New Oriental Zhi Shang launched its education and training platform for working professionals in the financial securities industry in April 2015. Other platforms tailored to the healthcare and accounting industries will be introduced in the near future.

In Fiscal Year 2015, we launched our self-developed mobile application Exam Inventory Navigator as a tool to better serve our longstanding audience of test takers. The app was designed to provide our test takers with easy access to information on our exams and any related information to the exam process, and we are thrilled that the app seems to be meeting this goal. We were honored that the app was named one of the top 10 exam-focused mobile applications by Sina Education in December, and

continue to explore ways in which the app can be of value to existing and potential test takers. As of March 31, 2015, the app had 650,000 activated users.

Benson mentioned earlier that we have signed an agreement to continue joint development of Exam Inventory Navigator with Beijing Zhi Shang. We believe the app is a natural extension of Zhi Shang's strengths and, with their help, can become increasingly useful to a larger user base.

Our partnership with Master Mind Education also continues to make progress. ATA has delivered 2,495 MTS boxes to Master Mind, and we are pleased that they have begun using them at various institutions throughout its tutoring network. Master Mind expects to promote the use of ATA's MTS box to students and their families at home, and we look forward to working with them on these efforts.

ATA's strategic investment in Satech is moving forward and working on releasing upgrades to its premier SAT study product Cece SAT, which it released in late 2014. Satech also expects to launch a TOEFL study product later this year.

As we continue to make progress on our consumer initiatives, we believe ATA will gain access to an ever growing data set that we intend to collect, analyze, and act on to better serve our consumer audience, which includes students and working professionals, as well as our clients and partners. This is illustrated on slide 16. As we have stated before, we believe information is power, and we intend to help students, test takers, etc. take advantage of the information out there and make sure they are using the most effective methods of identifying their strengths and weaknesses and improving upon any weaknesses to make them stronger candidates.

We look forward to continuing to build upon the progress we have made on our consumer initiatives in Fiscal Year 2016 and thank our shareholders for their unwavering support during this transition.

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

**Operator:**

Ladies and gentlemen, your question-and-answer session will now begin. If you wish to ask a question, please press star, then one on your telephone. If you decide to defer your question, press star, two. All questions will be taken in the order received, and your line will be opened to ask a question. All other lines will remain listen-only. Just to remind you, if you wish to ask a question, press star, then one on your telephone, thank you.

And you have a question coming from the line of Patrick Lin from Primarius Capital. Patrick, please go ahead, your line is open now.

**Mr. Patrick Lin, Primarius Capital:**

Hi there. Thanks for taking my questions, and I appreciate the update here. Can you talk a little bit more about the CFO transition and also potentially touch on the New Third Board? And then I have a quick follow-up.

**Mr. Benson Tsang:**

Sure, Patrick. This is Benson. Let me answer that question. I have been with the Company for five years, and I am very proud to be a part of the management team, to refocus our business, expand into the private sector, and now to the consumer market. I also helped to strengthen the financial reporting and decision-making processes. Since 2012, I have moved back to Toronto, Canada, with my family and because of that I only spend about 50% of my time in China with my colleagues. As ATA continues to grow, it is important for the CFO to be closer to the business and be with the other management members most of the time. And Shelly, our VP of Finance, has been with the Company over 10 years and working with me closely in the past five years and is capable. It is time for me to step down and pass the baton to her. I will, as Kevin mentioned, continue to work with ATA colleagues as a consultant. In fact, Shelly and I are planning a trip to see investors in the States and probably in Asia as well. And we will see some of you very soon.

Regarding your second question on the New Third Board, recently the Company announced we will contemplate the possibility to list our testing business on the New Third Board. It is after a thorough discussion and consideration. From ATA's perspective, we consider we have been working hard to build the brand name in the government sector and in the corporation area, or what we call the private sector. And as the Company moves toward the consumer market, we do believe in order to propel or try to expedite the growth momentum in the testing business we have to strengthen the brand-building. We believe by going into this New Third Board application, we can increase or strengthen the brand of ATA not only to the government sector and to the private sector. We would like to build the brand name in the individuals market, meaning every household. As you know, we want to go into the consumer market. Basically we are talking about every single family that may have a student or they have someone in the workforce. We strongly believe by going through this exercise we can strengthen the brand name and that will provide ATA the opportunities where we can engage more business partners locally in China. We will get to know a lot more larger local Chinese companies. We can also get the chance to use a local currency, meaning maybe the shares of the new listed company to do an acquisition. And we believe by doing that, in the long run, it will provide/create a lot more shareholder value to the shareholders of ATA Inc.

Hope this gives you a bit more color about the two questions you have.

**Mr. Patrick Lin, Primarius Capital:**

Terrific. Thank you. And you mentioned the possible visit to the institutional roadshow. Do you have some tentative timeframes yet?

**Mr. Benson Tsang:**

Ah, we are working on that. I have to say very, very sorry; it was disrupted by my passport actually expiring. So I'm very sorry to say that but we are planning the second week of June or the beginning of the third week of June. As soon as I can clear my passport renewal process, we will contact you or maybe the IR firm Equity Group will contact you ASAP. I will be coming out together with Shelly, the interim CFO.

**Mr. Patrick Lin, Primarius Capital:**

Terrific. Thank you very much.

**Operator:**

{Re-prompts}

We have no further questions.

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