



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

November 12, 2015 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:

Great day, ladies and gentlemen, and welcome to the ATA Inc. Fiscal Year 2016 second quarter financial results conference call. My name is Latoya, and I'll be your operator 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 a zero, and we will be happy to assist you. As a reminder, this conference is being recorded. I would now like to turn the conference over to Ms. Carolyne Sohn of The Equity Group. Please proceed.

Ms. Carolyne Sohn:

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

Copies of the press release announcing ATA's fiscal 2016 second 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 September 30, 2015, are converted from RMB using an exchange rate of RMB6.3556 to US\$1.00, the noon buying rate as of September 30, 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 Second 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, Carlyne and welcome everyone. To summarize the fiscal second quarter, ATA encountered challenges due to timing of one of our major exams, but made great strides in delivering new exams as part of the ongoing shift from paper-based testing to computer-based testing, expanding our investments, and seeking to maximize our valuation through a listing on the New Third Board in China. We remain on track to meet all of the financial metrics we previously provided as guidance.

Today I will provide an overview of these 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.

During Second Quarter 2016, we delivered approximately 1.7 million billable tests, which compares to approximately 3.0 million in the prior-year period. The decrease was primarily due to the change in timing of the CPA exam, which took place in the fiscal 2015 second quarter and was delivered by ATA for the fourth consecutive year in October 2015, or Third Quarter 2016. We are pleased to report that this year's exam saw record volumes, surpassing last year's 1.6 million exams delivered across China.

We delivered the newly instituted Fund Practitioners Certification Exam during the quarter. This is a new exam that expands upon our relationship with the Securities Association of China.

During the second quarter, we also entered into a new contract with China Merchants Bank whereby ATA will begin administering its campus recruitment exams. We continue working to secure new business and are confident that ATA's offerings and track record will gradually yield positive results in our core testing services business.

In September, we also announced a new strategic investment in Brillent, Inc., a Silicon Valley-based provider of an easy-to-use software tool that utilizes advances in machine learning, analytics and data science to revolutionize the way recruiters screen job candidates. Brillent's tool allows recruiters to screen high volumes of applicants in minutes.

We believe Brillent has created one of the most advanced and effective technologies to address the current challenges facing the recruitment market and look forward to working closely with the Brillent team as we deepen our understanding of data analytics and the HR/recruitment process.

At the end of September, our wholly owned subsidiary ATA Online submitted its application to the National Equities Exchange and Quotations to list on the New Third Board, and we are currently undergoing the review process, which has proceeded smoothly thus far.

Moving on to our financial highlights for Second Quarter 2016 as shown on slide 6, we reported net revenues of RMB53.4 million and met our net revenue guidance range for the period. Our revenues for Second Quarter 2016 were impacted by the change in timing of the CPA exam, which took place in Second Quarter 2015 but took place a quarter later this year—in Third Quarter 2016. As a result of delivering new exams for our government and corporate clients for the quarter, we achieved steady top-line growth, which helped to offset a lumpy quarter with the CPA exam's change in timing.

Gross margin remained steady at 45.6% for Second Quarter 2016, compared to 45.4% in the prior fiscal quarter.

Following a strong fiscal first half, the Company is reiterating its previously announced net revenue and 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 Second Quarter 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 84.5% of our revenues in Second Quarter 2016.

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

Gross profit was RMB24.4 million (US\$3.8 million), compared to RMB46.5 million in the prior-year period. As mentioned before, the decrease was primarily a result of the change in timing of the CPA exam.

The Company reported a net loss of RMB14.1 million, or about US\$2.2 million, compared to net income of RMB8.8 million in the prior-year period.

Diluted losses per ADS were RMB0.62, or US\$0.10, in Second Quarter 2016, compared to diluted earnings per ADS of RMB0.38 in the prior-year period.

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

Gross profit was RMB78.5 million (US\$12.4 million), compared to RMB94.0 million in the prior fiscal period. Gross margin for First Half 2016 increased to 52.0%, from 50.3% in First Half 2015.

Net loss was RMB7.9 million (US\$1.2 million) for First Half 2016, or diluted losses per ADS of RMB0.34 (US\$0.06), compared to net income of RMB13.4 million in the prior fiscal 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 Second Quarter 2016 was RMB10.7 million, or US\$1.7 million, compared to adjusted net income of RMB11.0 million in the prior-year period. Diluted losses per ADS during Second Quarter 2016 on a non-GAAP basis were RMB0.46 (US\$0.08), compared to diluted earnings per ADS of RMB0.48 in the prior-year period.

Adjusted net loss for First Half 2016 was RMB0.7 million, compared to adjusted net income of RMB19.8 million in the prior-year period, and diluted losses per ADS on a non-GAAP basis was RMB0.04, or US\$0.00.

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

As of September 30, 2015, we had about US\$33.9 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 and special dividends 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 November 6, 2015, the Company had repurchased 114,767 ADSs at an average stock price of \$3.43. This share repurchase plan is in effect until March 31, 2016.

As shown on slide 12, we expect Third Quarter 2016 net revenues will be in the range of RMB195 million to RMB205 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.

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 2016.

Mr. Kevin Ma:

Thank you, Shelly.

We continue to progress on our New Third Board listing efforts and are pleased to be in the review process following ATA Online's submission of its listing application to the NEEQ. Earlier this calendar year, we began exploring a New Third Board listing to accelerate the growth of our core testing business, which is primarily conducted with organizations within China. We believe prospective clients will be more willing to engage ATA's services if they recognize ATA as a native Chinese company listed on a China exchange.

I would like to reiterate that 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 into ATA, following a potentially successful New Third Board listing.

Slide 14 lists our overall growth strategies. We aim to continue providing existing clients with the quality service and support they have to expect from ATA, building and expanding upon these relationships, while working to develop new relationships with potential clients. The vast majority of exams and assessments continue to be paper-based, and we remain confident in our ability to capitalize on the opportunity presented by these exams that have yet to transition to a more efficient and secure technology-based platform.

As we make progress on our growth strategies, we remain 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.

We continue to work on developing our consumer initiatives.

Last quarter we announced that Satech, one of our investee companies, launched its new Cece TOEFL product in July 2015, adding to its premier product Cece SAT, which launched in late 2014. Cece TOEFL provides online test preparation and training tools for students looking to improve their reading comprehension, listening, oral and writing skills in English as they prepare for the TOEFL, a very popular exam for foreign students seeking to study at an English-speaking university or college. We are pleased that the accompanying mobile application for Cece TOEFL launched in September and is now available.

We believe that potential test takers in China are increasingly recognizing ATA as an authority in China's assessment marketplace due to our efforts to engage directly with the consumer as a client of ATA. Over the course of the past 18 months, we have entered a number of new education markets through different partnerships with and strategic investments in innovative education and HR services companies. These opportunities pose little financial risk and have great potential for upside.

To conclude, we were very pleased to meet our budgeted financial projections 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}

We have no questions at this time. We have no questions in queue.

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