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ATAI - Q1 2019 ATA Inc Earnings Call

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CORPORATE PARTICIPANTS

Amy Tung *ATA Inc. - CFO*

Jack Huang *ATA Inc. - President & Director*

Xiaofeng Ma *ATA Inc. - Co-Founder, Chairman & CEO*

CONFERENCE CALL PARTICIPANTS

Carolyn Y. Sohn *Fincera Inc. - IR, The Equity Group Inc.*

PRESENTATION

Operator

Good day, everyone, and welcome to the ATA Inc. first quarter call. My name is Peter, and I'm your event manager today. (Operator Instructions) I would like to advise all parties this conference is being recorded. (Operator Instructions) And now I would like to hand over to Carolyn Sohn. Please proceed.

Carolyn Y. Sohn - *Fincera Inc. - IR, The Equity Group Inc.*

Thank you, Peter, and hello, everyone. Thank you for joining us. The press release announcing ATA's results for the first quarter ended March 31, 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 accompanying slide presentation available on its 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.

The 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 statement 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 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 first quarter ended March 31, 2019, are converted from RMB using an exchange rate of RMB 6.7112 to USD 1, the noon buying rate as of March 31, 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 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 e-mail to the company.

On today's call, the company's CFO, Ms. Amy Tung, will provide a brief overview of financial highlights for the first quarter of 2019. And then ATA's Chairman and CEO, Mr. Kevin Ma; and President, Mr. Jack Huang, will conclude the remarks with a brief discussion on ATA's outlook and long-term growth strategy as we head into the second half of 2019 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.

Amy Tung - ATA Inc. - CFO

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 begin with a brief overview of financial highlights for the first quarter of 2019 shown on Slide 5.

Net revenues for the period increased to CNY 1.6 million compared to CNY 0.1 million in the first quarter of 2018 as a result of our success in developing and expanding our K-12 education assessment services into other regions of China such as the Heping district of Tianjin. Loss from continuing operations net of income taxes improved to CNY 14.3 million from CNY 15 million in the prior year period primarily due to CNY 1.3 million in higher consulting fees associated with investing activities recorded in the prior year period. This was partially offset by an increase of CNY 0.8 million in share-based compensation expense in the 3 months ended March 31, 2019, mainly related to new shares and options issued in the first -- fourth quarter of 2018.

Moving to Slide 6, we provide an update on our current financial position and balance sheet highlights. As of March 31, 2019, ATA's cash and cash equivalents were USD 25.1 million. This compares to USD 27.7 million in cash and cash equivalents at December 31, 2018.

Working capital was USD 25.7 million and total shareholders' equity was USD 39 million at March 31, 2019, compared to USD 28.2 million and USD 40.2 million, respectively. As of December 31, 2018, we believe our financial position remains strong, which will serve to support us as we work on carrying out our growth strategy.

I would now like to turn it over to Kevin who will say a few words about ATA's outlook. Please go ahead, Kevin.

Xiaofeng Ma - ATA Inc. - Co-Founder, Chairman & CEO

Thank you, Amy. For those of you following along, I will begin with Slide 8. Jack and I will keep our comments brief, and then we will open up for Q&A.

Over the past few years, we have continued to see a massive change in the manner in which family in China are pursuing their educational growth. Our businesses showed operating continue with [this innovation] shift directly [and with further] close working relationship with 2 testing facilities and students.

We have determined that a bi-culture educational approach is what a growing number of Chinese families want. On that, we turn to local culture [and integrate it] while introducing international elements that provide the skills necessary to prepare children for global higher education and career. This has become ATA's business model innovation to offer fully immersive experience where we can provide individuals with a unique experience that's beneficial to their future and a variable in their (inaudible).

I will turn the call over to Jack to provide some detail on our PBL initiative and then return to discuss our M&A activities.

Jack Huang - ATA Inc. - President & Director

Thank you, Kevin. Slide 9 provides some detail on our Project-Based Learning initiative, or PBL, which we continue to develop. PBL provides an immersive educational experience with online coursework, overseas travel and finally, a presentation stage where students can highlight their capabilities. In the end, the schools have optionality for their students. The students have an experience that both enriches but also helps set them apart in the next phase of their studies, for example, college. We continue to develop PBL, and investors can expect updates on our partnerships, capabilities, programmatic offerings and ultimately, our ability to enroll and outline our economics for each of you.

Kevin?



Xiaofeng Ma - ATA Inc. - Co-Founder, Chairman & CEO

Thanks for that, Jack. Moving to our M&A activities on Slide 10, I am unable to speak too in-depth about this topic, but we did sign framework agreements with Beijing Huanqiyuimeng Education Consultation Corp. or ACG and certain of its shareholders for proposed acquisition of ACG.

ACG is a leading provider of educational service for students in China interested in applying for overseas art study. ATA believes that one of the important elements of providing an immersive experience is to target a fast-growing segment of the education market such as arts and then to utilize our expertise with that of a valued patronage group. We believe ACG is that partner.

On Slide 11, we provide some best information about ACG. As we move further along in the assessment space, we look forward to providing additional information on the company and its background but in the meantime, would encourage investors to review their website, www.acgorg.net.

In conclusion, we believe ATA is well positioned to execute on a solid growth strategy, which we have online on Slide 12. We are active in M&A dialogue to execute on our [opportunities] and that we look forward to answering any questions about our plans during our upcoming visit to the U.S. for investor meetings.

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

Operator

(Operator Instructions) Sorry for the interruption. There are no upcoming questions at the moment. (Operator Instructions) There are still no upcoming questions, so let me pass it back to the management. Please proceed.

Xiaofeng Ma - ATA Inc. - Co-Founder, Chairman & CEO

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 next quarterly report. As always, we welcome any visitors to our office in Beijing. Thank you.

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