



Takung Art Company Limited
Third Quarter 2017 Financial Results Conference Call
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C O R P O R A T E P A R T I C I P A N T S

Leslie Chow, *Chief Financial Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Matthew Larson, *Wells Fargo*

P R E S E N T A T I O N

Operator:

Welcome to Takung Art's Third Quarter 2017 Earnings Conference Call. For the first part of this call, all participants will be in a listen-only mode and afterwards there will be a question and answer session. Today's conference is being recorded.

Takung Art announced its quarterly financial results yesterday afternoon after the market closed. An earnings release is now available online and on the Company's website. Today, you will hear from Takung Art's CFO, Mr. Leslie Chow, who will start off the call with a review of recent Company developments, strategies and basic operating results, and address financial results in more detail. Mr. Chow will also be available to answer questions during the Q&A session that follows his prepared remarks.

Before we proceed, the Company would like to remind you of its Safe Harbor statement. This conference call may include forward-looking statements made under the Safe Harbor provisions 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 Takung Art is included in its filings with the Securities and Exchange Commission, which the Company encourages 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.

Now, I am pleased to present Mr. Leslie Chow, CFO of Takung. Leslie?

Leslie Chow:

Thank you, Operator. Hello, everyone, and welcome to Takung Art's Third Quarter 2017 Conference Call. During this quarter, Takung devoted significant resources towards developing our three businesses, Takung Unit, Unit+, and Takung Online, and positioned them for future growth. Each of these businesses, we believe will make major strides in adding to our revenue and earnings in 2018, and beyond. Due, however, to the added expense we incurred in the third quarter of 2017, in order to expand the infrastructure, personnel count and technological features of each of these businesses, and also due to a

reduction in our listing fee revenue, Takung experienced a year-over-year decrease in earnings, producing net income of about US\$27,000, compared to about US\$2.5 million in the third quarter of 2016.

However, before reviewing additional year-over-year results, I'd like to mention some of the operational improvements that we saw in Q3 2017, compared to Q2 of this year. For example, Q3 revenue increased 15% over Q2, driven by a 73% jump in listing fee revenue and a 48% rise in management fee revenue. In Q3 2017, we launched 17 new listings, valued at almost US\$3.5 million, on our standard unit trading platform, nearly doubled the value of new listings launched in Q2 2017. In addition, in this year's Q3 the average listing value for the portfolio improved to US\$203,000, 55% higher than in Q2.

Returning to year-over-year comparisons, in Q3 2017, our unit platform trading value jumped 68% to US\$4.8 billion, driven primarily by the launch of A Tier, a category comprised of our top-performing unit ownership portfolios. Since July 1, when this category was introduced, through the end of the third quarter, the average number of daily trades of A Tier portfolios increased 59%, with average daily transaction value increasing 39%.

Also, during Q3, we launched Unit+, a trading platform for collectibles, and signed a partnership with PMH Group, a leading producer of official products for major European football brands. As a result of this agreement, Unit+ is expected to introduce a limited edition Liverpool Football Club jersey specifically for Chinese sports memorabilia collectors in Q4 2017. We are currently negotiating similar agreements with other prestigious European football clubs that have about 400 million fans in China and are confident that these negotiations will lead to significant revenue growth for Unit+ in 2018, and will attract new traders to our platform.

Takung Online, our e-commerce platform enabling artists to sell entire pieces of artwork directly to buyers, is also making progress. Launched in June 2017, the platform now has 125 listed artists offering 955 works of art, and we expect the platform to begin generating revenue by the second half of 2018.

We are also optimistic that Takung Online and Unit+ will provide a steady migration of future traders to our unit trading platform, and vice versa, augmenting overall Company revenue.

Due to each of these trends and efforts, we are confident that, despite some disappointing year-over-year numbers from this year's third quarter, we are, nevertheless, now in a far stronger position to fulfill our long-term goal of becoming a leading world-class art and collectibles online platform in 2018, and beyond.

At this point, I'd like to review some key third quarter and nine-month 2017 financial highlights and operating metrics with you.

During the third quarter of 2017, total revenue, comprised of listing fee revenue, commission fee revenue and management fee revenue, decreased by 41.6% to US\$3.4 million, compared to the third quarter of 2016, primarily attributable to lower listing fee revenue as our business model transitions to include the A Tier listing category. During this quarter, listing fees and commission fees remained our two largest revenue contributors, accounting for 43.4% and 44.6% of total sales, respectively. During the first nine months of 2017, total revenue decreased 25.8% to US\$10.5 million, compared to the prior year period.

During the third quarter, we added 17 new listings with an average value of US\$203,000 per listing, compared to third quarter of 2016, when we added 33 new listings with an average value of US\$199,000. As of September 30, 2017, the total number of listings on the platform was 230, as compared to 157 listings at the end of the third quarter of 2016. As of September 30, 2017, the aggregated listing value was US\$56 million, compared to US\$38.6 million on September 30, 2016.

Trading volume for the third quarter of 2017 increased 73% year-over-year, and trading values increased 68% year-over-year to US\$4.8 billion, compared to US\$2.8 billion in the same quarter of 2016. Total transaction value in the first nine months of 2017 was US\$13.6 billion, compared to US\$4.9 billion in the same period last year.

Management fee revenue was US\$0.4 million, or 12% of total revenue, compared to US\$0.8 million, or 15.6% of total revenue, in the same quarter of 2016, representing a 48.5% decrease.

Cost of revenue was US\$0.3 million, or 8.7% of sales, in the third quarter of 2017, which represents a stable dollar cost of revenue year-over-year. Cost of revenue was US\$0.8 million, or 7.8% of sales, in the first nine months of 2017, compared to US\$9.8 million, or 5.8% of sales, in the same period of 2016.

Decreased total revenue primarily contributed to a 43.9% year-over-year decline in gross profit to US\$3 million. Gross margin also decreased slightly to 91.3%, compared to 95% in the same quarter of 2016. Gross profit was US\$9.7 million in the first nine months of 2017, a decrease of 27.4% from US\$13.4 million in the same period of 2016. Gross margin was 92.9%, compared to 94.2% in the same period of 2016.

Selling expenses in the third quarter of 2017 decreased 4.3% to US\$0.6 million, from US\$0.7 million in the same quarter of 2016, driven by a decrease in the number of listings during the period. As a percentage of total revenue, selling expenses were 18.6%, up from 11.4% in the third quarter of 2016.

G&A expenses increased by 43.2% to US\$2.5 million in the third quarter of 2017, compared to US\$1.7 million for the same period in 2016. The increase was due to an increase in employee salaries, as well as an increase in office, insurance and vendor expenses, and US\$241,000 of accrual for doubtful accounts.

Due to the substantial increase in G&A expenses this quarter, we experienced a US\$0.1 million operating loss in the third quarter of 2017, due to higher G&A expenses and lower revenue. For the first nine months of 2017, income from operations decreased to US\$1.1 million, and operating margin decreased to 10.8% from 44.5%, compared with the first nine months of 2016.

Net income decreased to US\$0.03 million, or down to \$0.00 per share, from US\$2.5 million, or \$0.22 per share, in the same quarter of 2016. For the first nine months of 2017, net income decreased to US\$1.1 million, and fully diluted net income per share decreased to \$0.09 per share, as compared to \$0.41 per share in the same period of 2016.

Now, I'd like to turn to the balance sheet and cash flow items. As of September 30, 2017, we had US\$14.9 million in cash and cash equivalents, an 11.1% increase from US\$13.4 million as of December 31, 2016. Net cash provided by operating activities for the nine months ended September 30, 2017 was US\$1 million, compared to US\$5.6 million last year. This year-on-year decrease was largely due to lower net income and higher G&A expenses, and negative foreign currency exchange impact. Net cash used in investing activities for the nine months ended September 30, 2017 was US\$0.6 million, as compared to US\$1.3 million for the same period of 2016. This decrease reflected a decrease in spending on property and equipment, compared to the same period in 2016. Total shareholders' equity was US\$19.9 million as of September 30, 2017, compared to US\$17.6 million as of December 31, 2016.

Looking ahead, as I mentioned at the beginning of my remarks, we are confident that the investments we made in our new business initiatives during Q2 and Q3 2017 have strengthened these businesses considerably and positions each of them to begin producing the sustainable growth and bottom line improvements we all are looking for. Please rest assured that we will fill you in on this progress on a frequent basis, as we expect many positive developments to ensue in the fourth quarter and throughout

2018. Therefore, on behalf of our CEO, Mike Xiao, and our entire Management staff, we thank you for your patience and your continued support.

That concludes our prepared remarks. Operator, we are now ready to take some questions.

Operator:

Thank you. Ladies and gentlemen, if you would like to ask a question at this time, please press star, one on your telephone keypad. If you're on speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. Again, that is star, one to signal for questions at this time. If you have pressed star, one prior to the call getting underway, go ahead and press star, one at this time, to ensure that your signal reaches our equipment.

At this time, we will hear first from Matthew Larson of Wells Fargo.

Matthew Larson:

Good morning, thank you for taking my call.

Leslie Chow:

Hello, Matt.

Matthew Larson:

Hi. You know, the trading volume was up sharply, the listing value was up sharply year-over-year, and the transaction value was up sharply year-over-year, but still seeing a lower level of revenues and earnings year-over-year. What is the reason for that?

Leslie Chow:

First of all, we'd like to talk about the commission revenue. We are having a lot of promotional activity for our commissions, you know, favorable policies to our VIP traders, and also our retail traders, to trade on our platform, and one of the initiatives, or the goal of the Company for this year is to increase—further increase the liquidity of the platform, which is working out very well for us, as you can hear in my remarks, with a huge jump of transaction volume and transaction value. The promotional policy that we have introduced to our VIP traders is the fixed monthly commission, which is all you can trade within a month, and that works out well in terms of transaction volume, but at the same time it doesn't contribute to the commission revenue at this point. The overall strategy of the Company is to increase the liquidity of the platform in order to attract more traders to our platform, so that we will have a—what we call a bigger pie, or a bigger pool of people and capital, so that we can continue to list quality products.

In terms of the listing revenue, we are seeing the rebound in Q3. In Q2, it was affected by the fact that we introduced an A Tier category, but after that we have been seeing some good results of introducing the Tier A category. So, this is working well for us, according to our strategies. In the next few quarters, as we continue to add more traders on our platform, continue to have the liquidity on our platform, we will be able to list higher quality products and, therefore, we believe that the listing fee revenue, and also the commission revenue, will further rebound in the next few quarters.

Matthew Larson:

Okay. Then, in reference to the memorabilia, the jerseys and things like that, for the football and soccer jerseys that you've initiated and you expect to grow, there must be many other competitors that also trade that, or you have something like an eBay or some other platform. What do you feel would give your Company a certain uniqueness or exclusivity in offering a trading platform for people who want to trade memorabilia?

Leslie Chow:

Thank you for that question. I think we haven't been able to explain in detail what Unit+ platform is about, and let me give an introduction. Our business model for the trading of sports memorabilia is totally different than what is on eBay or Amazon, or on Icons.com, which is probably one of the most famous platforms for sports memorabilia. Instead of selling the whole piece of sports memorabilia, like piece by piece, our business model is to package 500 homogenous products into one portfolio, for example, and then we will break the portfolio down into fraction ownerships, just like the Unit platform that we have. So, if we have 500 jerseys, for example, then we'll break it down into 5,000 fraction ownerships, and people will be able to buy units as they used to on the Unit platform, and when they accumulate 10 units, they will be able to redeem the whole piece of jersey. So, the difference between Unit+ and the Unit platform is that on the Unit platform, you cannot own a piece of—a section or a piece of an artwork, but on the Unit+ platform you are able to redeem the physical products.

So, to answer your question, we think that our business model is very unique, in the sense that not only it captures the collectors, the art or the sports memorabilia collectors that desire to collect some limited edition, official, authentic products directly from the football clubs in European soccer league, but also there will be some certain investment elements added into it. So, when you buy a portion or you buy ownership of buyer units, then if you accumulate enough, of course, you can redeem one product, but at the same time the price of the unit will fluctuate, just like what is going on on the Unit platform. So, they will have to auction, say, "Okay, I subscribe to the listings of this particular Unit+ sports memorabilia, and then if I haven't accumulated enough units, or even though I haven't accumulated enough units, I may choose to sell some of my units because the price has gone up since I bought the product." So, it provides liquidity to some of these collectors. If they hold 10 units, they have the options of redeem it right now or they can hold onto it until a later time that they have the option to redeem it, or they have an option of selling it at a certain time and buying back later at the time. So, I think this unique business model will capture a lot of Chinese sports memorabilia collectors, and also investors, to come to our platform and to trade these kind of fraction ownerships.

Matthew Larson:

Okay, thanks very much for that description.

Leslie Chow:

Thank you, Matt.

Operator:

As a reminder, ladies and gentlemen, if you would like to ask a question, that is star, one on your telephone keypad. That is star, one for questions. We'll pause a moment so that everyone has an opportunity to signal.

At this time, we do not have any other questions in the phone queue. I would like to turn the call back over to you, Mr. Chow, for any additional or closing remarks.

Leslie Chow:

Okay, thank you. We thank you for joining us on today's call and we appreciate your ongoing support. We look forward to updating you on our progress in the weeks and months ahead. Thank you again and have a good day.

Operator:

Again, that does conclude our call. We would like to thank everyone for your participation. You may now disconnect.