

Takung Art Co., Ltd. (NYSE: TKAT)

Second Quarter 2017 Earnings Conference Call

August 14, 2017

Operator:

Welcome to Takung Art's Second 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 this morning. An earnings release is now available 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 details. Mr. Leslie Chow will also be available to answer questions during the Q&A session that follows 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'm pleased to present Mr. Leslie Chow, CFO of Takung Art. Leslie?

Mr. Leslie Chow:

Thank you, Operator. Hello, everyone, and welcome to Takung Art's second quarter 2017 conference call.

Our second quarter was a quarter of transition, during which we made a major change to our business model and, as a result, temporarily interrupted our growth. This caused our net profit and EPS to decline dramatically. However, our company is now positioned for long-term, sustainable growth, and we expect significant improvements in revenue, earnings, and other metrics in the third quarter. For example, we expect to launch 16 new listings valued at almost \$4.8 million, more than double the value of the new listings launched in Q2 2017.

Platform trading value jumped 224 percent in the quarter increasing commission revenues by 95 percent over Q2 2016. This trend is expected to continue to accelerate in Q3, especially with the newly implemented A-tier model. Additionally, we are proud to see that despite the transitional nature of the second quarter, our gross profit margin remained above 90%, which we see as evidence of the strength of our business model.

We remain bullish about Takung Online. Since this new platform was introduced on June 15th, we have already added 10 more artists, bringing our total to 90 artists offering 688 works of art. We are on track to meet our goal of 300 listed artists by the end of the year.

As we enter the second half of 2017, we look forward to reporting the positive financial impact of the A-tier model and Takung OnLine. We also look forward to providing updates regarding new initiatives and prestigious partnerships, which enhance Takung's reputation as a trusted brand in the art and collectibles market.

At this point, I'd like to review some key second quarter and first half 2017 financial highlights and operating metrics with you.

During the second quarter of 2017, **total revenue**, comprised of listing fee revenue, commission fee revenue, and management fee revenue, decreased by 37.7% to \$2.9 million compared to the second quarter of 2016, primarily attributable to lower listing fee revenue as our business model transitioned to include the A-tier listing category. During this quarter, listing fees and commission fees remained our two largest revenue contributors, accounting for 28.9% and 61.8% of total sales, respectively. During the first half of 2017, **total revenue** decreased 15.1% to \$7.2 million compared to the first half of 2016.

During the second quarter, we added 14 new listings with an average value of \$131 thousand per listing compared to the second quarter of 2016 when we added 52 new listings with an average value of \$143 thousand. At June 30, 2017 the total number of listings on the platform reached 213 compared to 124 at the end of the second quarter of 2016.

Trading volume for the second quarter of 2017 increased 367% year over year, and trading values increased 224% year over year to \$4.12 billion compared to \$1.27 billion in the same quarter of 2016. Total transaction value in the first half of 2017 was \$8.86 billion compared to \$2.09 billion in the same period last year.

Management fee revenue was \$0.3 million or 9.3% of total revenue, compared to \$0.4 million or 9.2% of total revenue in the same quarter of 2016, representing a 36.9% decrease.

Cost of revenue was \$0.3 million, or 9.2% of sales, in the second quarter of 2017, which represents a stable dollar cost of revenue year over year. Cost of revenue was \$0.5 million, or 7.4% of sales, in the first half of 2017, which is consistent with the cost of revenue in the same period of 2016.

Decreased total revenue and consistent cost of revenue resulted in a 39.8% year-over-year decline in **Gross profit** to \$2.7 million. **Gross margin** also decreased slightly to 90.8% compared to 94.1% in the same quarter of 2016. Gross profit was \$6.7 million in the first half of 2017, a decrease of 16.1% from \$7.9 million in the same period 2016. Gross margin was 92.6% compared to 93.7% in the same period of 2016.

Selling expenses in the second quarter of 2017 decreased 55.9% to \$0.3 million from \$0.7 million in the same quarter of 2016, driven by a decrease in number of listings during the period. As a percentage of total revenue, selling expenses were 10.6%, down from 15.0% in the second quarter of 2016.

G&A expenses increased by 26.5% to \$2.2 million in the second quarter of 2017 compared to \$1.8 million for the same period in 2016. The increase was due to an increase in employee salaries

Due to this substantial increase in G&A expenses this quarter, income from operations decreased by 94.7% to \$0.1 million, and operating margin decreased to 3.5% from 41.3% compared to the second quarter of 2016. For the first half of 2017, income from operations decreased 63.2% to \$1.2 million and operating margin decreased to 16.7% from 38.5% compared to the first half of 2016.

Net income decreased 78% to \$0.2 million. Fully diluted net income per share decreased to \$0.02 from \$0.10 in the second quarter of 2016. For the first half of 2017, net income decreased 49.4% to \$1.1 million, and fully diluted net income per share decreased to \$0.10 as compared to \$0.20 in the first half of 2016.

Now, I'd like to turn to the balance sheet and cash flow items. As of June 30, 2017, we had \$15.5 million in **cash and cash equivalents**, a 279% increase from \$4.1 million as of the same period in 2016.

Net cash provided by operating activities for the six months ended June 30, 2017, was \$2.5 million, a 40.1% decrease from \$4.1 million last year. This year-on-year decrease was largely due to lower net income, negative impacts due to foreign currency exchange rates, and increases in prepayments.

Net cash used in investing activities for the six months ended June 30, 2017, was \$0.5 million compared to \$10.7 million last year, which included a \$9.8 million purchase of held-to-maturity investments in the first half of 2016.

Total shareholders' equity was \$19.4 million as of June 30, 2017, compared to \$17.6 million as of December 31, 2016.

Looking ahead, we are optimistic and confident in our ability to deliver a strong third quarter and second half of 2017. We also expect to announce new initiatives and prestigious partnerships in the coming weeks that will be drivers of this growth. Please accept our thanks for your patience and your continued support during the difficult transition period, which is now behind us. We look forward to updating you on our progress in the weeks and months ahead.

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

Closing remarks after Q&A Session

Mr. Leslie Chow:

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. Have a good day.