

China Auto Logistics Inc.
2016 Second Quarter Investor Earnings Call
Tuesday, August 16, 2016 at 8:00 am EDT

Operator: Good day, ladies and gentlemen and welcome to the China Auto Logistics 2016 Second Quarter Investor Earnings Call. At this time all participants are in a listen-only mode. Following today's presentation instructions will be given for the question and answer session. If anyone needs assistance at any time during the conference, please press the star button followed by zero. As a reminder, this conference is being recorded.

Operator: I would now like to turn the conference over to Ken Donenfeld of DGI Investor Relations. Please go ahead, sir.

Ken Donenfeld: Good morning to all of you. Your interest in our Company is greatly appreciated.

Thank you, Debbie, and good morning to all of you. Your interest in our Company is greatly appreciated. On the conference call today we have a few executives and representatives of the Company, including Mr. Yang Feng, Financial Controller; Mr. Lawrence Wan, a member of the financial team; Mr. Cheng Peng, Corporate Secretary. Mr. Tong asked me to please begin the presentation. Lawrence will then walk you through the numbers, after which we'll have a Q&A period so we can answer your questions.

I will first read the required disclaimer regarding forward-looking statements. This conference call may contain, in addition to historical information, forward-looking statements within the meaning of the federal securities laws regarding China Auto Logistics Inc.

Except for historical information contained in our comments, the statements we make are forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks and uncertainties, which may cause our actual results in future periods to differ materially from forecasted

results. These risks and uncertainties include, among other things, product demand, market competition, and risks inherent in our operations. These and other risks are described in our filings with the U.S. Securities and Exchange Commission.

OK - - I will proceed with Mr. Tong's comments.

Good morning to you all. We appreciate your interest in CALI. I will summarize some of the key events in our 2016 second quarter, followed by Lawrence Wan who will provide some additional detail on the numbers. After that, as always, the call will open up for questions, which I look forward to.

Clearly, this was an eventful quarter for the Company, marked in particular by our announcement on June 7th of the agreement we reached with Wuxi Huitong to sell them 100% of the equity in our Zhonghe subsidiary for \$62.8 million. This subsidiary was the owner and operator of the Airport International Auto Mall in Tianjin and the 40% owner of Car King Tianjin.

While we continued to believe in the longer term potential of these businesses, we believe the potential was outweighed by the negative impact on our financial position given the downward shift in China's economy.

With this sale we eliminated the substantial remaining payables related to the Zhonghe acquisition. We also greatly reduced our interest expense, and, as of June 30, 2016, we returned to a positive working capital position compared with our working capital deficit at March 31, 2016.

I'll let Lawrence walk you through the numbers on this which, of course, have been detailed in our various filings with the SEC.

With the sale we are no longer involved in the used car business or the Airport International Auto Mall in Tianjin. So our results for the quarter are comprised of continuing and discontinued operations. Our continuing operations are our luxury imported auto business, where we remain an industry leader.

In addition, we have our typically higher margin auto-related Financing Services business. We have been using the net proceeds of the sale of about \$21.9 million to improve our working capital and liquidity with a focus on improving our core businesses.

Looking at the performance of these core businesses in the second quarter, the increase in auto sales was relatively small, up about zero point 74% compared with the year ago quarter, and it generated a small loss. We also saw a decline in our Financing Services business, and no longer had income from leasing space at the Auto Mall. So, on our bottom line we reported a loss per share of 12 cents, the same as we reported a year ago.

Looking at our Auto Sales business, while roughly flat with year ago results, you may recall auto sales in the first quarter this year were up fairly strongly - - actually about 58% higher year over year.

What we believe happened in the quarter and first half this year in our auto business, was that our customers were paying attention to the movement of the Chinese RMB compared with the U.S. dollar. In essence, declines or devaluation in the RMB versus the dollar boosts the price of imported goods, including luxury autos.

Therefore, in anticipation of currency based price boosts in late 2015 and early 2016, our auto dealer customers increased temporarily their purchases of imported cars. This slowed down, however, by the second quarter - - when the decline in the RMB versus the dollar was about 3% compared with 5.5% in the full year ended December 31, 2015.

Actually, despite this situation we were able to achieve an approximately 7% year over year increase in second quarter auto sales volume. However, the average selling price per vehicle in the quarter was \$103,000 versus a year earlier \$109,000. It should be noted that this difference also was a reflection of the continuing heavy price competition we faced in the period.

While we believe that this situation has improved somewhat, we continue to use price as a key means of maintaining our industry leadership.

I should also point out that in the first six months of 2016, mainly due to our relatively stronger performance in the first quarter, we reported a year over year increase of 27.53% in revenues, a sharp gain in operating income, and a significant decline in our net loss compared with year earlier results in our continuing operations.

In our discontinued operations, which included the gain on the subsidiary sale, the picture was different, with net income in the second quarter of about \$5.66 million - - or about \$1.40 per share - - compared with a prior year substantial loss.

The picture was about the same for the first six months of 2016, with discontinued operations generating net income of about \$4.79 million or \$1.19 per share.

I am pleased that in the second quarter we were able to face our problems directly. Of course, as reflected in the “going concern” opinion in the Notes to the Company’s condensed consolidated financial statements, we are not yet fully out of the woods.

However, for the short term, we believe the sales outlook for luxury autos has stabilized. And, we also are working hard to restore products to our Financing Services business that were very popular before we discontinued them due to our working capital needs.

For the longer term, we remain optimistic that our prospects in the luxury imported auto market are good. We think the overall market will strengthen with a stronger economy, which the government continues to focus on achieving.

We also will be helped by the “Parallel Imported Vehicles” scheme being implemented that I have described to you in previous conference calls, which will allow us to compete on equal terms with other dealers. And, while aiming to expand our Auto Sales business throughout China when conditions permit, we will renew efforts to improve margins via our services businesses.

Let me hand the microphone now to Lawrence before going on to our Q&A session.

Lawrence?

LAWRENCE: Thanks very much, Ken. And thanks once again to those of you joining us on this call and on the internet.

As detailed in the 10-Q we filed yesterday, I will walk quickly through highlights of our 2016 second quarter and six month results.

As you know we posted results from continuing and discontinued operations, with the latter reflecting the sale of our Zhonghe subsidiary on June 1st and the former consisting primarily of our ongoing core Auto Sales business and, to a lesser extent, our Financing Services operations.

Starting with Continuing Operations, net revenue in the 2016 second quarter of approximately \$93.82 million was up approximately 0.14% from year ago revenues of approximately \$93.69 million, reflecting in part a smaller contribution from Financing Services. In Mr. Tong's remarks he described the situation in Auto Sales, which comprised approximately 98.89% of total revenues in the quarter, and he noted the year over year decrease in revenues and net income from Financing Services as well. More specifically, second quarter fee income in this business declined approximately 28%, and contributed to a 35% year over year decline in second quarter revenues from Financing Services to approximately \$1.03 million.

The net loss from continuing operations attributable to shareholders reported in the 2016 second quarter of approximately \$478,000 was roughly flat with the prior year quarter. This translated to a loss of 12 cents per share compared with a loss of 12 cents per share in the 2015 second quarter.

In the six months results in 2016 we reported revenue from continuing operations of approximately \$230.88 million. This was up approximately 27.53% from approximately \$181.04 million in the year earlier period. As Mr. Tong explained, this primarily reflected the stronger year over year sales in the auto sales business in the first quarter of 2016 compared with the second quarter. With the higher

year over year six month revenues in 2016, and lower interest expenses, the Company also was able to pare its loss from continuing operations in the 2016 period to approximately \$665,000, or a loss of 16 cents per share, from a loss of approximately \$1.13 million, or 28 cents per share.

As has been explained, the discontinued operations in 2016 results are a consequence of the sale on June 1, 2016 of the Zhonghe subsidiary. In that sale for \$62.8 million, approximately \$21.9 million (net of a payable to Zhonghe of approximately \$4.1 million) was paid to CALI subsidiary Shisheng in cash. The remaining amount of about \$36.5 million was paid for by the buyer - - Wuxi Huitong - - in the form of its assumption of Shisheng's remaining payable to Zhonghe's former owner.

In the discontinued operations reported in both the first three months and six months of 2016, we see results of operations from the discontinued Airport Auto Mall Automotive Services, as well as from the disposal of this business. As such, net income from discontinued operations in the 2016 second quarter was approximately \$5.66 million or \$1.40 per share. In the six months ended June 30, 2016, the net income attributable to shareholders from discontinued operations was approximately \$4.79 million or \$1.19 per share.

Adding together the results from continuing and discontinued operations, total earnings per share in the 2016 second quarter was \$1.28, and it was \$1.03 for the six months ended June 30, 2016.

Looking at the Company's financial condition, working capital as of June 30, 2016 was approximately \$24.9 million. This compared with a working capital deficit of approximately \$30.8 million as of December 31, 2015.

At the same time, the Company had negative operating cash flow in the six months ended June 30, 2016 and an accumulated deficit of \$3.2 million as of June 30, 2016.

I and the rest of our team will be happy to discuss any questions you may have or additional details we can provide - - but first I will briefly hand the platform back to Ken? Ken?

Ken: Thanks very much, Lawrence. In closing, Mr. Tong wanted to say that he believes the Company is back on track focusing on maintaining - - and hopefully expanding - - its leadership in China's still relatively robust, but competitive imported luxury auto market. He also believes that there also will be opportunity to grow the Company's bottom line.

Now, with help from our operator, please let's initiate the question and answer portion of our call today.

Operator – please? Thank you.

Operator:

Thank you. If you'd like to ask a question, please signal by pressing star, one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star, one to ask a question. We'll pause for a moment to allow everyone an opportunity to signal.

Q & A

Moderator:

Ah, okay. Operator, let me ask again if there are any other questions.

Operator:

None at the present time, sir.

Moderator:

Okay. Well in that case, I guess we will conclude our conference call for today. Our thanks again to all of you who've listened in and/or participated. I guess that's the end of our call, Operator.

Operator:

**This concludes today's conference. Thank you for your participation.
You may now disconnect.**