

Event ID: 137330826763  
Event Name: Q3 2020 IT Tech Packaging Inc Earnings Call  
Event Date: 2020-11-13T13:00:00 UTC

P: Operator;;  
P: Janice Wang;;  
P: Unidentified Participant;;

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Operator^ Hello, ladies and gentlemen, and welcome to participate in IT Tech Packaging's Third Quarter 2020 Earnings Conference Call. At this time, I would like to inform you that this conference is being recorded.  
(Operator Instructions)

Joining us today are Mr. Zhenyong Liu, IT Tech Packaging's Chairman and Chief Executive Officer; and Ms. Jing Hao, the company's Chief Financial Officer. Remarks from both Mr. Liu and Ms. Hao will be delivered in English by interpreters.

IT Tech Packaging announced its third quarter 2020 financial results via press release yesterday, which can be found on the company's website at [www.itpackaging.cn](http://www.itpackaging.cn).

First, Mr. Liu will brief you on the company's key operational highlights over the third quarter 2020, and then Ms. Hao will review the company's financial results.

Before we start, I would like to draw your attention to our safe harbor statement. Management's prepared remarks contain forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact in its announcement are forward-looking statements, including, but not limited to, anticipated revenues from the corrugating medium paper, tissue paper, offset printing paper and face mask business segments; the actions and initiatives of current and potential competitors; the company's ability to introduce new products; the company's ability to implement capacity expansion, market acceptance of new products; general economic and business conditions, and abilities to attract or retain qualified senior management personnel and research and development staff; and other risks detailed in the company's filing with the Securities and Exchange Commission.

These forward-looking statements involve known and unknown risks and uncertainties and are based on current expectations, assumptions, estimates and projections about the company and the industry.

The company undertakes no obligation to update forward-looking statements to reflect subsequent or current events or circumstances or to changes in its expectations except as may be required by law.

Although the company believes that the expectations expressed in these forward-looking statements are reasonable, it cannot assure you that these expectations will turn out to be correct, and investors are

cautioned that actual results may differ materially from the anticipated results.

There is a presentation document featuring management's prepared remarks, and it is now available for download from the company's website at [www.itpackaging.cn](http://www.itpackaging.cn).

Please note that there will be discussions on non-GAAP financial measure or EBITDA or earnings before interest, taxes, depreciation and amortization. Please refer to our press release for a complete reconciliation of EBITDA on net income -- to net income.

As a kind reminder, all numbers in our presentations are quoted in U.S. dollars. And all comparisons referred to year-over-year comparisons, unless otherwise stated.

I'd now like to turn the call over to Mr. Liu. His comments will be delivered in English by [Hebe Xu] from Evergreen Investment Relations.

Mrs. Xu, please go ahead.

Unidentified Participant^ [Interpreted] Thank you, operator, and good morning, everyone. Thanks for joining our third quarter 2020 earnings conference call.

We continued to make improvements in sales volume for this quarter as our paper products business, along with the whole industry, recovered from the pandemic. Our total revenue increased to \$33.4 million, and our tissue paper products grew 53.4% in revenue with total sales volume of 74,126 tonnes for this quarter. Sales volumes for CMPs and offset printing paper continued quarter-on-quarter growth and rebounded to the same level as last year. Our ASPs recording a 10.4% sequential increase from Q2 2020, experienced slight decreases compared to the Q3 2019.

The Chinese government updated the ban on free plastic bags in 2020 and as the specific restrictions are implemented nationwide, paper packing products are expected to become the main substitute of plastic packages under the requirements, involving factors such as catering taking out, supermarket retailing, logistics and express delivery.

According to Huachuang Securities' market analysis on substitute demand for cardboard paper in the aforementioned areas, the market demand expected to be 4.91 million tonnes. As such, the company will take full advantage of the market opportunities brought by the substitute demand for paper packages.

Now I will turn the call over to our CFO, Ms. Jing Hao, who will review and comment on the third quarter financial results. Her comments will be delivered in English by my colleague, Janice Wang. Janice, please go ahead.

Janice Wang^ [Interpreted] Thanks, [Hebe], and thanks, everyone, for being on the call. Next, on behalf of the management team, I will summarize some key financial results for the third quarter 2020.

Also, I will occasionally refer to specific production lines associated with various products.

I'll make clear which products I'm referring to. For reference, the number of systems for our production lines provided on Slide #18.

Now let's look at our financial performance for the third quarter of 2020. Please turn to Slide #7. For third quarter of 2020, total revenue increased 1.3% to \$33.4 million due to the increase in sales volume of tissue paper products, CMP and face mask products.

Turning to Slide 8. For the third quarter of 2020, the CMP segment, including both regular CMP and lightweight CMP, generated revenue of \$24.6 million, representing 73.8% of total revenue. \$19.6 million of revenue was from our regular CMP products and \$5.1 million was from lightweight CMP.

CMP segment volume slightly increased by 1.3% to 60,991 tonnes, of which 48,107 tonnes were regular CMP and 20,884 (sic) [12,884] tonnes were lightweight CMP.

Average selling price or ASP for regular CMP slightly decreased by 0.3% to \$406 per tonne. And ASP for lightweight CMP was equal to the \$394 per tonne.

Turning to Slide 9. For the third quarter of 2020, the offset printing paper generated revenue of \$6.1 million, decreased by \$0.9 million, or 12.9% from the same period last year. The offset printing paper volume slightly increased by 0.8% to 10,280 tonnes. ASP for offset printing paper decreased by 13.6% to \$596 per tonne.

Turning to Slide 10. Tissue paper products generated revenue of \$2.4 million, increased by \$0.8 million or 53.5%. This resulted from sales of 2,855 tonnes tissue paper products with a 55.2% increase at an ASP of \$834 per tonne with a decrease of 1.1%.

Turning to Slide 11. We sold 3,576,000 pieces of face masks and generated a revenue of \$0.2 million from selling face masks for the third quarter of 2020.

Slide #12 summarizes the changes in our revenue mix. For the third quarter of 2020, total cost of sales increased by \$3.2 million to \$30.8 million, leading to a total gross profit of \$2.6 million, 52.2% decrease from the gross profit of \$5.4 million for same period last year. And overall gross margin of 7.7% for the third quarter of 2020.

For the third quarter of 2020, SG&A expenses increased by 18.1% to \$2.4 million, and income from operations were \$0.2 million compared to income from operations of \$3.3 million for the same period last year. Operating margin was 0.5%, compared to operating margin of 10.2% for the same period last year.

For third quarter of 2020, net loss was \$0.5 million, resulting in a net loss of \$0.02 per diluted -- per basic and diluted share. This compared to a net income of \$2.3 million or net income of \$0.11 per basic and diluted share for same period last year.

For third quarter of 2020, earnings before interest, taxes, depreciation and amortization decreased by \$3.5 million to \$3.6 million, from \$7.1 million for the same period last year.

Now shifting gear to year-to-date financial results. For 9 months ended September 30, 2020, total revenue decreased 18.5% to \$58.5 million as a result of decrease in sales volume of regular CMP, offset printing paper combined with decrease in ASPs over all paper products categories.

For the 9 months ended September 30, 2020, the CMP segment, including both regular and lightweight CMP, generated revenue of \$54.2 million, representing 79.2% of total revenue. \$42.6 million in revenue was from our regular CMP products and \$11.6 million was from lightweight CMP. Volume for CMP segment decreased by 9.9% to 139,258 tonnes, of which 108,874 tonnes were regular CMP and 30,384 tonnes were lightweight CMP. ASP for regular CMP decreased by 9.1% to \$392 per tonne, while ASP for lightweight CMP decreased by 8.6% to \$382 per tonne.

For the 9 months ended September 30, 2020, our offset printing paper segment generated revenue of \$7.4 million. We shipped 12,463 tonnes of offset printing paper for the 9 months ended September 30, 2020, and a decrease of 33.6% from the same period last year. ASP for offset printing paper decreased by 16.2% to \$593 per tonne.

For the 9 months ended September 30, 2020, tissue paper products generated revenue of \$5.8 million, increased by \$1.2 million or 25.3%. This resulted from sales of 6,923 tonnes tissue paper products with a 47.4% increase at an ASP of \$833 per tonne with a decrease of 14.9%.

For the 9 months ended September 30, 2020, face masks generated revenue of \$1.1 million with sales volume of 9,856,000 pieces of face masks. For the 9 months ended September 30, 2020, total cost of sales decreased by \$12.4 million to 63.5 million, leading to total gross profit of \$5 million and a decrease of 38.7% from last year. Overall gross margin of 7.2% reflects a decrease of 2.4 percentage points from last year.

For the 9 months ended September 30, 2020, SG&A expenses were \$8.4 million compared to \$7.4 million for the same period last year. For 9 months ended September 30, 2020, income from operations increased from \$0.7 million to negative \$3.5 million -- income from operations decreased from \$0.7 million to negative \$3.5 million. Operating loss margin was 5.1% compared to operating margin of 0.8% for the same period last year.

For the 9 months ended September 30, 2020, net loss was \$3.89 (sic) [\$3.9]million or \$0.15 loss per basic and diluted share compared to net income of \$0.07 million or earnings of \$0.003 per basic and diluted share for the same period of last year.

For the 9 months ended September 30, 2020, earnings before interest, taxes, depreciation and amortization decreased from \$10.7 million to \$7.2 million for the same period last year.

Moving to Slide 19 and 20. Let's look at our balance sheet and liquidity. As of September 30, 2020, the company had cash and bank balances, short-term debt, including bank loans, current portion of long-term loans from credit union and related party loans and long-term debt, including loans from credit union, of \$8.2 million, \$10.8 million and \$5.4 million respectively, compared to \$5.8 million, \$8.3 million and \$7.4 million, respectively, at the end of 2019.

Net accounts receivable was \$3.5 million as of September 30, 2020, compared to \$3.1 million as of December 31, 2019. Net inventory was \$8.6 million as of September 30, 2020, compared to \$1.6 million at the end of 2019. As of September 30, 2020, the company had current assets of \$30.4 million and current liabilities of \$16.9 million, resulting in a working capital of the \$13.6 million. This was compared to current assets of \$24 million and current liabilities of \$16.8 million, resulting in our working capital of \$7.2 million at the end of 2019.

Net cash provided by operating activities was \$2.4 million for the first 9 months of 2020 compared to net cash used in operating activities of \$4.6 million for the same period last year. Net cash used in investing activities was \$2.6 million for the first 9 months of 2020 compared to \$6.5 million for the same period last year. Net cash provided by financing activities was \$2.2 million for the first 9 months of 2020 compared to net cash used in financing activities of \$5.2 million for the same period of last year.

+++ q-and-a

Janice Wang^ We received some questions about our operations and the third quarter results from our investors. Now the management is answering these questions as follows:

Number 1 question. What is the status of the 60% investment ITP was planning to make in Chinese intelligent healthcare IT solution provider?

As to this question -- the management responds to this question as follow: The company is implementing evaluation of the half year financial results of target company as furthering negotiation with shareholders. So we expect to close on the acquisition by the end of this December.

Question #2. How likely is that ITP able to drag down their raw materials cost with new buying strategies?

Management responds to this question as follows: The company is actively diversifying its source of raw materials and is establishing long-term collaborations to secure more favorable price and the payment terms from suppliers.

If you have any other questions, please contact us through e-mail at [ir@itpackaging.cn](mailto:ir@itpackaging.cn). Management will respond to your questions through e-mails as soon as possible.

Operator, please go ahead. Operator?

Operator^ I beg your pardon. Can you repeat that, please?

Janice Wang^ [Interpreted] Operator, please go ahead.

Operator^ Do you want to conclude the call, please?

Janice Wang^ [Interpreted] Yes, yes. Because we're not going to have a Q&A session. So we're going to conclude the remarks.

Operator^ Ladies and gentlemen, you may now disconnect your lines. Thank you for your participation.