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CPHI - Q2 2019 China Pharma Holdings Inc Earnings Call

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## CORPORATE PARTICIPANTS

**Diana Huang**

**Sam Hsing**

**Zhilin Li** *China Pharma Holdings, Inc. - President, CEO, Chairman & Interim CFO*

## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the China Pharma Holdings Q2 2019 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to Ms. Diana Huang. Please go ahead, ma'am.

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**Diana Huang**

Thank you, operator. Good morning, ladies and gentlemen, and good evening to those of you joining us from China. Welcome to China Pharma Holdings' Second Quarter 2019 Earnings Conference Call. I'm Diana Huang, the company's Investor Relations Manager.

Speaking on the call today are China Pharma's President and Chief Executive Officer and interim CFO, Ms. Zhilin Li; and Corporate Vice President, Mr. Sam Hsing. In addition, I will provide translation during the Q&A session of the call.

I would like to remind our listeners that on this call, management's prepared remarks contain forward-looking statements, which are subject to risks and uncertainties, and management may make additional forward-looking statements in response to your questions. Therefore, the company claims the protection of the safe harbor for forward-looking statements that is contained in the Private Securities Litigation Reform Act of 1995.

Actual results may differ from those discussed today. Due to such risks at market and capital acceptance and demand for our products; our ability to market our products; the impact of competitive products and pricing; the ability to develop and launch new products on a timely basis; the regulatory environment, including government regulation in the PRC, our ability to obtain prerequisite regulation approval to commercialize our products; fluctuations in operating results, including spending for research and development and sales and marketing activity; and other risks detailed from time to time in our filings with the SEC.

In addition, any projections as to the company's future performance represent management's estimates as of today, August 15, 2019. China Pharma assumes no obligation to update those projections in the future as market conditions change.

Now it is my pleasure to turn the call over to China Pharma's CEO and interim CFO, Ms. Li, to make her opening remarks in Chinese, which will be translated by Sam. Afterwards, Sam will continue translating with a detailed discussion of the company's second quarter 2019 financial results.

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**Zhilin Li** - *China Pharma Holdings, Inc. - President, CEO, Chairman & Interim CFO*

(foreign language)

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**Sam Hsing**

[Interpreted] Thank you, Diana, and good morning, everyone. I thank each of you for joining us today and for your continued support of China Pharma.



We've experienced a negative impact on our sales from the strict implementation of the government policy of controlling the proportion of the spending on drugs to the patients' total expenditure in hospitals. Management endeavors to vigorously promote sales through active participation in recent provincial market openings to solicit new drug tender offers and allow China Pharma to expand its presence in these markets.

In addition, we are experiencing sustained pressure from the more stringent requirements of the drug registration standards, consistency evaluations and challenging environment in our industry in this period. We will continue actively adapting to the state policy guidance and further evaluating market conditions for our current existing products, pipeline products and the competition in the market in order to optimize our development strategy. Simultaneously, we will also actively implement the launch of our nutrition products.

I will now read the results to Ms. Li's prepared remarks in English.

Now I would like to review our second quarter 2019 financial results and balance sheet information. Revenue decreased by 90% to \$2.6 million from the 3 months ended June 30, 2019, as compared to \$3.2 million for the 3 months ended June 30, 2018. This decrease was mainly due to the market reaction caused by the strict implementation of the policy on controlling the percentage of the spending on medicines to patients' total expenditure in hospitals.

Gross profit for the 3 months ended June 30, 2019, was \$0.2 million as compared to \$0.6 million during the same period in 2018. Our gross profit margin in the 3 months ended June 30, 2019, was 6.4% as compared to 18.3% during the same period in 2018. The decrease in our gross profit margin was mainly due to the decrease in revenue and the increased ratio of the fixed cost to revenue.

Our selling expenses for 3 months ended June 30, 2019, and 2018 were \$0.5 million and \$0.7 million, respectively. Selling expenses accounted for 19.7% of the total revenues in the 3 months ended June 30, 2019, as compared to 22.6% during the same period in 2018.

Because of adjustments in our sales practices and the reform of the health care policies, we reduced the number of our personnel and the expenses to efficiently support our sales and the collection of the accounts receivables.

Our general and administrative expenses for the 3 months ended June 30, 2019, were \$0.3 million as compared to \$0.4 million for the same period in 2018. General and administrative expenses accounted for 13% and 11% of our total revenues in the 3 months ended June 30, 2019, and 2018, respectively.

Our research and development expenses for the 3 months ended June 30, 2019, were \$0.7 million as compared to \$0.2 million in the same period in 2018. Research and development expenses accounted for 2.6% and 0.7% of our total revenues in the 3 months ended June 30, 2019, and 2018, respectively. The increase in research and development expenses in this period was mainly due to the spending on the consistency evaluation of our current existing products.

Our bad debt expenses for the 3 months ended June 13, 2019, were \$10,092 as compared to \$350,847 for the same period in 2018.

Net loss for the 3 months ended June 30, 2019, was \$0.8 million or \$0.02 per basic and diluted common share as compared to the net loss of \$1 million for the same period a year ago or \$0.02 per basic and the diluted common share. The decrease in net loss was mainly the result of the controls on the expenditure outweighed the impact of the decrease in revenues

Six months results. Revenue decreased by 19% to \$5.5 million for the 6 months ended June 30, 2019, as compared to \$6.8 million for the 6 months ended June 30, 2018. This decrease was mainly due to the implementation of the government policies and controlling the percentage of the medicine spending and total hospital expenditure in recent quarters.

Gross profit for the 6 months ended June 30, 2019, was \$0.8 million compared to \$1.6 million in the same period in 2018. Our gross profit margin in 6 months ended June 30, 2019, was 14.9% compared to 24.1% in the same period in 2018.

The decrease in our gross profit margin was mainly due to the decrease in sales in the first half of 2019. Although costs have decreased in this period as well, the stable nature of the fixed cost deteriorates the gross margin when the decrease in revenue outweighed this -- that of cost.

Net loss for the 6 months ended both June 30, 2019, and 2018 was \$1.3 million or \$0.3 per basic and diluted common share. This reflected the offset of the decreased revenue to decreased expenditure in the 6 months ended June 30, 2019.

Turning to the balance sheet. As of June 30, 2019, the company had cash and cash equivalents of \$1.7 million compared to \$1.2 million as of December 31, 2018. As of June 30, 2019, our net accounts receivable was \$0.7 million compared to \$0.9 million as of December 31, 2018. For the 6 months ended June 30, 2019, cash flow from operating activities was \$0.9 million as compared to \$0.1 million for the same period in 2018.

Overall, we will continue focusing on our business development and promote our sales and believe that this will support a fair valuation of our shareholders' interest in the future.

With that, we will now open the call up to questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Ms. Huang, we do not have any questions at this point. I'd like to hand the conference back to you.

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### Sam Hsing

On behalf of the entire China Pharma team, we would like to thank you for your interest in the company and its participation on this call. For any of you traveling to China, we always welcome and encourage any visitors from our shareholders, potential investors and analysts. This concludes China Pharma's Second Quarter 2019 Earnings Call.

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### Operator

Thank you, sir. Ladies and gentlemen, that concludes our conference for today. Thank you all for your participation. You may disconnect now.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]

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