

Sinovac Biotech Ltd.
Fourth Quarter 2013 Earnings Conference Call
March 20, 2014

Operator: Greetings and welcome to the Sinovac Biotech Limited Fourth Quarter 2013 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero, on your telephone keypad. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Ms Stephanie Carrington of the Ruth Group. Thank you. You may now begin.

Stephanie Carrington: Thank you, Operator. Good day, everyone. Before we begin, I would like to remind everyone that this conference call contains forward-looking statements. These statements are made under the Safe Harbor Provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by such words as “will”, “expect”, “anticipate”, “future”, “intends”, “plans”, “believes”, “estimates” and similar statements or phrases. These statements that are not historical facts, including statements about Sinovac’s beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statements. Sinovac does not undertake any obligation to update any forward-looking statements except as required under applicable laws.

On the call today, we have Mr. Weidong Yin, CEO; Ms. Nan Wang, CFO; and Ms. Helen Yang, Investor Relations Director.

I will now turn over the line to Helen Yang. Go ahead, Helen.

Helen Yang: Thank you, Stephanie, and hello everyone. Thank you for joining us on this conference call. I will provide an update on the business and a financial review on behalf of our CEO, Mr. Weidong Yin, and Ms. Nan Wang, our CFO.

Twenty-thirteen was a fruitful year for Sinovac across the entire business. Our top line growth was 47.4% and we generated a positive net income in excess of \$7 million.

For the full year, we have recognized \$10.7 million revenue of government stockpiling from H5N1 vaccine in 2013. Excluding Panflu sales, our regular sales increased by over 25% in 2013 as compared to 2012. The sales growth was achieved across all over our commercialized products. Sales from both of our hepatitis A vaccine and influenza vaccine increased by over 30% year-over-year.

Sales growth of Healive, our inactivated formulation of hepatitis A vaccine that is on par with the hepatitis A vaccine sold in the US was mainly driven by the sales in the private pay market in lieu of the government-funded expanded immunization program that covers the lower cost live attenuated formulation of the hepatitis A vaccine.

As we discussed on our third quarter conference call, Anflu sales for 2013 were up over the prior year as we were well positioned to launch our seasonal influenza vaccine at the beginning of the flu season in the third quarter based on the expanded batch size. As such, a higher percentage of our seasonal flu vaccine was administered in 2013, thereby reducing the product return and inventory write-off levels as compared to last year.

We will now turn to the progress we made in 2013 on the clinical development of our proprietary EV71 vaccine. We completed the Phase III clinical trial for our EV71 vaccine against hand, foot and mouth disease and reported the top line data in March of last year. Just last month, on February 27th, 2014, the Phase III clinical results of our proprietary EV71 vaccine were published in the New England Journal of Medical. The clinical results show the efficacy of the vaccine against EV71 associated hand, foot and mouth disease was 94.8% among infants and young children. An anti-EV71 neutralizing antibody titre of 1:16 was associated with protection against EV71 associated hand, foot and mouth disease. As outlined in the New England Journal of Medicine article, Sinovac's vaccine was demonstrated 100% efficacy rate against EV71 associated hospitalization and against HFMD with neurological complications the main cause of fatalities. Publication in this prestigious journal further validates our scientific contribution to the HFMD control and prevention.

Besides our progress in EV71 vaccine development, the continued H7N1 infection generated significant attention in China and neighboring Asian countries. In 2014, over 200 human cases were reported in China, although no cases of human-to-human transmission have been verified. More cases have been reported during the first three months in 2014 as compared to the full year of 2013. The threat of infection still exists for H7N9.

In January of this year, we completed our preclinical study for our H7N9 vaccine candidate and submitted clinical trial application with China Food and Drug Administration to commence human clinical trials. The application was officially accepted by CFDA on January 29th, 2014. We will utilize our flu vaccine production facility in Beijing to develop and manufacture the flu associated vaccine including H7N9. In 2013, all of our vaccine commercial manufacturing facilities in Beijing site passed the GMP certification implemented by CFDA in compliance with the new GMP guidelines issued in 2010. The GMP certificate is valid for five years starting on April 17th, 2013 (inaudible) of the deadline for obtaining this certification which was the end of 2013.

Now, let's turn to the review of our financial results. Let's first turn to the unaudited results for the fourth quarter ended December 31st, 2013. As outlined in our release, fourth quarter 2013 sales increased by 17.1% to \$22.9 million from \$19.6 million for the same period in 2012. The increase was mainly due to the revenue recognition of Panflu H5N1 manufactured under the government's stockpiling program. Excluding revenue of Panflu H5N1, sales for the fourth quarter of 2013 decreased by 19.5% to \$15.8 million compared to \$19.6 million in the same period of 2012. However, the growth of our regular product sales was maintained. The decrease of the fourth quarter was mainly due to three reasons. The first one, 2012 sales of fourth quarter included a one-time order of Healive from Gansu (ph) province after a natural disaster, so sales of Healive decreased by 20.6% in the fourth quarter of 2013 compared with that of the same period in 2012. This is part of our public market sales, but our regular public market sales, that is to supply to the government from the program of immunizations was still growing with a modest rate.

The second reason is that Bilive sales decreased by 31% due to timing difference of vaccination campaigns. Different from Healive that is part of the regular immunization program in China for infants and young children, Bilive is mainly administered as a booster through vaccination campaigns organized by local CDCs which results in sales fluctuation from quarter to quarter. Bilive sales for full year of 2013 were still higher than 2012.

The third reason is that, as we discussed at the beginning, the sales of Anflu decreased by 36.1% as the majority of Anflu sales shifted from the fourth quarter to the third quarter due to the early launch of the vaccine during 2013-2014 flu season.

Compared to fourth quarter of 2012, the gross profit margin for the fourth quarter 2013 increased to 64% from 55.6%. Higher gross margin was mainly driven by the improved operational management which resulted in less inventory provision charged to the cost of sales as well as increased selling price of some of our products.

Selling, general and administrative expenses for the fourth quarter of 2013 were \$7.9 million compared to \$12.8 million in 2012. The decrease in SG&A expenses was mainly due to lower G&A expenses of ongoing validation of EV71 vaccine facilities and GMP certification preparation.

The R&D expenses for the fourth quarter of 2013 were \$2.5 million, a \$1.2 million increase over the same period in 2012. We incurred more expenditures related to the continued advancement of pipeline vaccine candidates such as Pneumococcal Polysaccharides Vaccine and the Varicella vaccine in the fourth quarter of 2013.

Net income attributable to stockholders for the fourth quarter 2013 was \$5.8 million or \$0.10 per basic and diluted share compared to a net loss of \$4.6 million or \$0.08 per basic and diluted share in the same period of last year. Excluding the impact of bonus revision of \$0.6 million which was paid out or to be paid out from an accrued liability account rather than charged to the expenses, the net income for the fourth quarter 2013 was \$5.2 million or \$0.09 per basic share - per basic and diluted share.

Now I'd like to turn to the key highlights for our full year financial results. Our total sales for 2013 increased by 47.4% to \$72.5 million from \$49.2 million in 2012. Excluding revenue recognition of Panflu under the government stockpiling program in 2013, the regular sales of Healive, Bilive, Anflu, mumps vaccine and Rabend increased by 25.5% to \$612.8 million in 2013 from \$49.2 million in 2012; the increase of sales mainly derived from the growth of Healive and Anflu.

Gross profit margin for 2013 increased to 70.7% in 2013 from 61.2% in 2012. Excluding the impact of Panflu sales under the government's stockpiling program in 2013, gross margin increased to 72.6% in 2013 from 61.2% in 2012.

Net income attributable to stockholders in 2013 was \$7.4 million or \$0.13 per basic and diluted share compared to a net loss of \$14.9 million or \$0.27 per basic and diluted share in 2012. Excluding the impact of the bonus revision of \$2.4 million which was paid out or to be paid out from an accrued liability account rather than charged to expenses, net income of 2013 was \$5 million or \$0.09 per basic share - per basic and diluted share.

As of December 31st, 2013, cash and cash equivalents totaled \$107.2 million compared to \$91.2 million as of December 31st, 2012. Net cash provided by operating activities was \$5.7 million in 2013. Net cash used in investing activities was \$5.2 million in 2013, which was mainly forward payment of property, plants and equipment for the Changping facility. Net cash provided by financing activities was \$14.3 million in 2013 including loan proceeds of \$16.8 million.

That concludes Management's prepared remarks. Operator, we will now take questions. Thank you.

Operator: Thank you. Ladies and gentlemen, at this time we will be conducting our question and answer session. If you would like to ask a question, please press star, one, on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two, if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Thank you. Our first question comes from the line of Bella Hao with Morgan Stanley. Please proceed with your question.

Bella Hao:(Chinese spoken).

Firstly, I want congratulations for the strong 4Q results and my first question is regarding for the progress of application for EV71. Also, if I can please get (inaudible) to compare the difference between Sinovac's EV71 vaccine to the other comparators, and also what kind of penetration rate we expect if we start to sell the vaccine, probably in 2015? (Chinese spoken).

Helen Yang:(Chinese spoken).

Weidong Yin:(Chinese spoken).

Helen Yang:Sure, I will translate Mr. Yin's answer. To the first part of your question, firstly, Mr. Yin thinks these are very important questions and thank you for you to raise those questions. So firstly, Mr. Yin explained the differences in terms of the vaccines, EV71 vaccines developed by the three Chinese companies. Actually the three of us are using different viruses and Sinovac and CMBG, one of the biggest state-owned enterprises of making vaccines, we're both using a virus cell and the Kunming Institute of Biological Products, the third developer of these vaccines is using the human cells to develop these vaccines. In terms of the production process, Sinovac and the other one are using the cell factory technology but the other one are using a bioreactor. So from the production process, we have differences as well. However, how that this will impact on the use of the vaccine is still difficult to be told at this moment. We have to wait until those three vaccines are largely commercialized into the market and then we can compare either the cause and the use of the vaccine for these facts.

In terms of the research, from the clinical studies we have seen that until now the three companies have already published their results of the Phase III clinical studies and we think the first important criteria we want to focus on is the safety results. We have seen that for three of us the vaccine group, the side effect rate of the vaccine group are not significantly different from the placebo group, which concludes that these three vaccines are all having a very good safety profile. In terms of the efficacy rate, we have seen that the three companies are all reporting over 90% efficacy rate and we think among the three of us those numbers are not materially different as well. Even though we conduct the trial on different sites and with our own PIs, we cannot compare exactly to among each other, but we think that these numbers of over 90% efficacy rate is already beyond our expectation when we designed the trial.

Weidong Yin:(Chinese spoken).

Helen Yang:So in terms of the competitive landscape of these vaccines, we think that after these three vaccines are commercialized in China, even though

we are all supplying the vaccine to the market but we have seen that the demands are from the entire country but we have to take batch by batch in terms of production and the supply and getting the batch released, therefore that we would expect within two to three years after the vaccines are commercialized there is still a shortage of the supply and therefore that we don't think there is any direct competition in order for expanding the market share at the beginning of— among the three of us at the beginning of the commercialization of these vaccines. Therefore, the long term we think that we plan to supply the vaccine in the private pay market and generating more post-license clinical study results and once it's ready we may recommend to the government to include this vaccine into the public funded program of EPI in China, but that was also depending on the budget capability of each local government. But we would expect that when we sell the vaccine private pay market, the price will be relatively higher compared to if it's included in the public pay market. For Sinovac, we also have an expectation to expand to the overseas market, beyond China, because we have seen the reported cases in some neighboring countries, therefore that we set up a relatively high standard when we're conducting the clinical studies in China. The purpose of doing that is to having our vaccines registered and to be sold in other countries, so this is our plan for commercializing this vaccine.

Bella Hao:(Chinese spoken).

I will translate this question in English. It is if I can ask Ms. Wang and Helen what's your expectation for the sales goals in 2014 and also what are we going to look at for the gross margin and operating margin in 2014. Thank you.

Nan Wang:(Chinese spoken).

Helen Yang:So to answer your question, Ms Wang said from the sales, the regular sales of our hepatitis vaccines and flu vaccines in 2013, we have seen that we are, we were successfully implemented our sales strategy in China, and therefore that we would expect these trends will be maintained in, until 2014. In terms of the gross margin, we would expect the level of gross profit margin would be similar to what we have achieved in 2013.

Bella Hao:And if I can add a follow up question, what about the SG&A expense and the R&D expenses?

Nan Wang:(Chinese spoken).

Helen Yang:So firstly, for the research and development, for both the R&D expenses as a percentage of revenue and the absolute amount of R&D expenses would be first higher than the level of 2013 because we have a few projects that may enter into the clinical studies and that will require a higher level of spending.

Nan Wang:(Chinese spoken).

Helen Yang:As we still aim to maintain the growth of revenue in 2014 and we would expect the level of SG&A expenses will be higher than the level of 2013. However, we think the SG&A as a percentage of revenue should maintain to be similar as the level of 2013.

Bella Hao:Okay, thanks. (Chinese spoken). Helen, that's all my questions. Thank you.

Helen Yang:Thank you.

Nan Wang:Thank you.

Weidong Yin:Thanks.

Operator:Thank you. As a reminder ladies and gentlemen, if you would like to ask a question at this time, please press star, one, on your telephone keypad.

Our next question comes from the line of Yi Chen with Aegis Capital. Please proceed with your question.

Yi Chen:Hi. Thank you for taking my questions. My first question is seeing as for the past three quarters Sinovac has achieved positive earnings, do you anticipate to continue to achieve positive earnings even without the approval of EV71 vaccine for the four quarters in 2014?

Helen Yang:We are translating the question.

Weidong Yin:(Chinese spoken).

Helen Yang:So actually from the results we have achieved for 2013, we think we are successfully executing the business strategy and if you remember that in 2012 we have a relatively high large position due to the high spending of research and development, therefore that at the beginning of 2013 we think there are big challenges for us to maintain the growth and improve the profitability. For some of you that may heard, in the Chinese vaccine industry there are some events that happened, may impact the performance of the entire industry and some of the Chinese local vaccine companies reported a growth rate lower than 20%, but we think Sinovac is still maintaining a relatively high level of growth rate in terms of sales revenue. We think that the improvement of the performance of the Company is solid resources for keep investing in research and development for our long-term growth. We are all expecting the commercialization of EV71 but this is only a course of timing. We have conducted the studies and having a regular dialogue with the regulators in order to help them to move the review and

approval forward. But at the same time, we are also advancing other pipeline programs including the polysaccharide vaccine, the varicella vaccine, and we believe that only if we have these we are capable of making investments in R&D, we can be able to generate a sustainable growth for the long term, but we think that in the short term we need to have a big investment into the commercial plant and all spending are actually focused on research and development and we think this is a core business strategy for Sinovac in order to drive up the long-term growth.

Yi Chen:Okay. The second question is, do you anticipate to have any - to receive any government stockpiling purchase during 2014?

Helen Yang:So, Yi, are you talking about the Panflu H5N1 or other stockpiling?

Yi Chen:Yes.

Helen Yang:The H5N1.

Yi Chen:Any—mostly Panflu, yes.

Helen Yang:Great, and actually that we received another order in, before the end of last year and we manufactured the vaccine. So if you are reading our balance sheet, you will find a deferred revenue which is actually the payment we received from government for the new order.

Yi Chen:That would be recognizing the first quarter 2014?

Helen Yang:No, that would be - I think the revenue will be recognized in about two years' time. I think in 2015.

Yi Chen:In '16.

Helen Yang:In '15 or 16.

Yi Chen:Okay. So regarding EV71 vaccine, is there still a chance that we can see some revenue from that vaccine in the fourth quarter 2014?

Helen Yang:We're translating your question.

Weidong Yin:(Chinese spoken).

Helen Yang:Well, actually we have been ready from our commercial plant and production team that once the vaccine is approved we can - we will be able to ramp up the production very quickly. So we think that this approval can be received, we still expect to produce the vaccine and generate the sales, therefore, the only question would be relying on when the approval could be granted.

Yi Chen:Okay. My final question is can you comment on the tax expenses for the fourth quarter and what do you expect the tax rate to be in 2014? Thank you.

Helen Yang:The tax rate, so if I answer your first question, our tax rate for our core operating entity, Beijing Sinovac, is 15% because we are qualified as a high-tech company, so we don't expect this rate will be changed.

What about your other question?

Yi Chen:I'd say the tax expenses for the fourth quarter 2013, that's actually a revenue of \$2.3 million.

Helen Yang:Oh, yes. Actually, that is the recognition of deferred tax assets and as Sinovac Beijing turned to be profitable in 2013, it was able to recognize a deferred tax asset, therefore it resulted in a tax recovery of over \$2 million.

Yi Chen:Okay, thank you.

Helen Yang:We probably, we will not expect that to be recurring in the coming year.

Operator:Thank you. Our next question is coming from the line of Gary Chio with BRG. Please proceed with your question.

Gary Chio:Thank you. Thank you for taking my question. I have a question for Mr. Yin about the development of your pneumococcal vaccines, especially about the pneumococcal conjugate vaccines. As I learned, it has started to apply for clinical trial permits ever since 2011, but until today there is still no any further news about it and was wondering if it is being delayed or being (inaudible) any difficulties or hurdles caused of such a long time of waiting. Thank you.

Weidong Yin:(Chinese spoken).

Helen Yang:To translate Mr. Yin's answer, he thinks that this is a very good question and it's very professional. In terms of the development of pneumococcal conjugate vaccine, actually the production process of this vaccine is very complicated and we did a great effort when we were conducting the research and development in-house, and as you said, we have already submitted a clinical trial application to the CFDA. What we intended, as the difficulties we encountered in the development, we believe that CFDA also have their challenges when they are reviewing the file for approving vaccines. Actually, as far as we know, some of the other files might be reviewed for years. Actually when we are developing the conjugated vaccine, we also developed a polysaccharides vaccine. Before our development in the pneumococcal vaccines, Sinovac only have the platform of developing viral vaccines including inactivated

and live vaccines, but since we started the program of pneumococcal vaccines, we start to set up our capabilities of developing bacterial vaccines and we have had a good advancement of developing these polysaccharide vaccines and we would expect these move faster comparing to the conjugate. The Company is already preparing for making the investment on commercializing these vaccines and we would expect to have additional progress being made on polysaccharide vaccines in this year and once that happens, we will share this news with investors. Sinovac believes that we will definitely making a good development on the bacteria type of vaccines.

Gary Chio:Thank you. May I continue the question about the PPV vaccines? As I learned that the (inaudible) team of Pfizer is trying to launch in China, maybe not so long time. So is there any connections between the (inaudible) team with the delay of approval from CFDA? I mean is there any hurdles or difficult obstacles from the IP from the patent point of view? Is there any difference of what kind of differentiation you can make from your PPV vaccine in comparing with (inaudible) team? Thank you. That's all my questions.

Helen Yang:We are translating the questions?

Weidong Yin:(Chinese spoken).

Helen Yang:To translate Mr. Yin's answer, he thinks this is a very good question, and actually while we are developing these pneumococcal conjugate vaccines, we have also studied the granted patent by the other supplier of a similar vaccines and our goal is to develop our own conjugate vaccines and to design our own intellectual property rights in order to create advantage. Sinovac is a company and we very much respect the right of intellectual property and we think we will do whatever we can to develop our own vaccines and not to have any infringement to the other's right.

Weidong Yin:(Chinese spoken).

Helen Yang:Also Mr. Yin highlights that the patent protection does not relate to whether this vaccine can be reviewed and approved from the regulatory approval process, so these are two independent issues.

Gary Chio:Thank you.

Operator:Thank you. It appears we have no further questions at this time. I would like to turn the floor back over to Management for any concluding comments.

Helen Yang:Thank you everyone for joining us and we are very excited about the results we achieved this year and we are looking forward to sharing new—more good news with our shareholders and our friends. Thank you.

Operator: Thank you. Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time.