Sinovac Biotech Ltd.
Third Quarter 2014 Earnings Conference Call
November 17, 2014

Operator: Greetings and welcome to the Sinovac Biotech Third Quarter 2014 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief 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 our host, Ms. Katherine Knight of ICR. Thank you. You may begin.

Katherine Knight: 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 US Private Securities Litigation Reform Act of 1995.

These forward-looking statements can be identified by words or phrases such as will, expect, anticipate, future, intends, plans, believes, estimates, and similar statements. 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; Ms. Helen Yang, Investor Relations Director; and Mr. Shuo He, Finance Director.

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

Helen Yang: Thank you, Katherine. Hello everyone, and thank you for joining us. On today's conference call, I will provide an update on Sinovac's business and operations during the third quarter, and then I will review our third quarter financial results on behalf of our CEO and CFO.

As we mentioned in our earnings release, during the third quarter, the China vaccine market is showing signs of recovery after the lower demand in the first half of the year. Although our regular sales were still

down from the third quarter last year, we are encouraged by the uptick in demand for our seasonal influenza vaccine in the private pay market, as well as consistent hepatitis A vaccine tenders in the public market.

For our flu vaccine sales, in the third quarter it increased 14.6% year-over-year. During the third quarter, we won two tenders to provide our inactivated hepatitis A vaccine to the Expanded Program of Immunization, or EPI, in Jiangsu Province and City of Tianjin.

The total value of the two tender is about RMB46 million or approximately US$7.5 million. We expect to begin delivering vaccines for these tenders before the end of this year according to the demand.

Now, I would like to update you on our progress in the international market. Generating revenue from abroad has always been a business strategy for Sinovac. In the past several years, we have made efforts to register our product in selected foreign countries.

We recently obtained a registration license for our seasonal influenza vaccine in Chile. We also renewed our GMP Certificate for our seasonal flu and hepatitis A vaccines in Mexico. Both of these credentials are preconditions for further marketing activities in the respective countries.

To-date, we have set up collaborations with about 20 countries for registering and marketing our hepatitis A vaccines and/or flu vaccines. Sales license were obtained from five countries already and we expect to begin to market our vaccines in those countries over the course of the next three to five years.

Turning now to the progress we've have made in the research and development. In this month we have expert review panel scheduled for two of our pipeline vaccines. First, an expert review panel is scheduled to meet to review our EV71 vaccine, as part of the new drug application process.

Based on the results of this review, we may need to submit supplementary documents for further review and if no additional supplementary documentation is required, we will be eligible to apply for the site inspection of the production facility of EV71 and an inspection for our GMP Certification with the relevant government authorities, which are the final steps in the approval process before commercial production of EV71 vaccines.

Also for our varicella vaccine, an expert panel will convene later this month to review our clinical trial application. After the panel meeting we will submit required documents as required. For our pneumococcal

polysaccharide vaccine, or PPV, we have finalized the clinical protocols and we anticipate that we will begin clinical trials by the end of this year.

Also, this month, we filed the clinical application of our Sabin inactivated polio vaccine with the CFDA. To refresh your memory, the sIPV project is a technology transfer project with Intravacc, a vaccine research institute affiliated with the Ministry of Health in the Netherlands. This technology transfer agreement was signed in May of this year, and this project is part of the global polio eradication plan promoted by WHO.

With that, I would now like to review our unaudited financial results for the third quarter and first nine months of 2014.

In the third quarter, total sales were US $17.1 million, a decrease of 22.3% from $22.1 million during the same period of last year. However, during the third quarter of 2013, we recognized revenue of $3.6 million from sales of our pandemic influenza vaccine, or H5N1 avian flu vaccine, to the government stockpiling program. Excluding the impact of this special order, quarterly sales decreased 7.4% year-over-year in the third quarter.

As we announced earlier this year and discussed on the last quarter's call, as of July the 1st of this year, the value-added tax, or VAT rate applied to the sales of vaccine products was reduced to 3% from 6%. If we look at a year-over-year comparison of our quarterly results, excluding the impact of the VAT rate reductions, quarterly sales decreased 10.1% in the third quarter.

Gross profit was $12.2 million in the third quarter 2014, compared to $14.6 million in the prior-year period. Gross margin increased to 70.9% from 66.1% in the prior-year period. Again, if we look at these results, excluding the impact from the sales—from the special order of our pandemic flu vaccine, gross margin in the third quarter last year was 67.6%, compared to 70.9% in the third quarter this year. The increase in gross margin was primarily due to increased efficiency in the seasonal flu vaccine manufacturing processes.

Selling, general and administrative expenses for the third quarter 2014 were $8.5 million, compared to $9.4 million in the same period of 2013.

R&D expenses for the third quarter of 2014 were $2.5 million, a 0.5 million increase over the same period of 2013. This increase is attributable to the continued advancement of our inactivated polio vaccine, or Sabin IPV, and process optimization for PPV.

Net income attributable to common stockholders for the third quarter of 2014 was $0.1 million, or zero cents per basic and diluted

share, compared to $2.3 million, or $0.04 per basic and diluted share, in the same period last year.

Now shift to our results for the first nine months, total sales for the first nine months of 2014 were $42.8 million, a decrease of 13.7% from $49.6 million during the prior-year period. Excluding the sales revenue from the special order of H5N1 vaccine that we recognized in the third quarter of 2013, sales for the nine months decreased by 7.2% year-over-year from $46 million. Excluding the impact of the VAT rate reduction, sales for the first nine months decreased 8.3% year-over-year.

Gross profit for the first nine months of 2014 was $31.5 million, a decrease of 10.7% from $35.3 million in the same period of 2013. Gross margin was 73.6%, compared to 71.1% in the prior-year period. Excluding the impact of the H5N1 vaccine sales, 73.9% in the third quarter last year, which is in line with the gross margin in the third quarter this year.

Selling, general and administrative expenses for the first nine months of this year were $24.9 million, compared to $25.3 million for the same period of last year.

R&D expenses in the first nine months were $7.5 million, compared to $5.9 million in the same period of last year. As I mentioned previously, these expenses are primarily related to our pipeline vaccine candidates including Sabin IPV and PPV.

Net loss attributable to stockholders in the first nine months of this year was $2.2 million or were (ph) losing $0.04 per basic and diluted share, compared to a net income of $1.6 million, or $0.03 per basic and diluted share, in the same period of last year.

As of September 30th, 2014, cash and cash equivalents totaled $94.4 million, compared to $107.2 million as of December 31st, 2013. Net cash used in operating activities was $16.1 million during the first nine months of 2014.

Net cash used in investing activities was $7.3 million, which was primarily used for payment of property, plant and equipment for our PPV facility and the Changping facility. Net cash provided by financing activities was $11.6 million during the first nine months of 2014, including loan proceeds of $17.8 million which were offset by loan repayment of $10 million.

As of September 30th, 2014, we had $44.5 million of bank loans due within one year. Sinovac's cash and cash equivalents position of $94.4 million is sufficient to meet both these loan repayment obligations and our operational requirements.

With that, I would now like to turn the call over to the Operator who will open the line for our questions-and-answer session.

Operator: Thank you. At this time, we'll be conducting a 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

Our first question comes from the line of Isabella Zhao with Morgan Stanley. Please proceed with your question.

Isabella Zhao: Thank you. (Chinese spoken). I will translate my question in English. My first question is regarding the updated timeline for EV71. Within only one month and a half left for the year, what kind of new timeline we're looking to commercialize the new vaccine, the first half of 2015 or the second half? My next question is regarding the recurring demand in the market. I would like to know more color, in both the private market and the public market. Thank you.

Dr. Weidong Yin: (Chinese spoken).

Helen Yang: So to answer your first question, I will translate Mr. Yin's remark. Firstly for EV71, it's currently still under review and in the past few months, we had a lot of discussions with experts of CDE and there were a lot of technical discussions about the development of EV71 vaccine, including the Phase III trial and also the after trial observation of the immunogenicity of the vaccine and also as well as the statistical analysis. As we talk about in our press release, we will start to have the extra panel to review the EV71 vaccines for new drug applications in the coming weeks. Even though it's still very difficult to have a clear timeline when we are able to receive the new drug certificate, however, Mr. Yin says he's still optimistic to expect obtaining the certificate in next year. Hopefully, we can make efforts to realize the—to commercialize the vaccine in 2015. After this expert panel review, Sinovac will go through each step in order to obtain the final approval of EV71 vaccine.

Dr. Weidong Yin: (Chinese spoken).

Helen Yang: So to answer your second question regarding to the overall market, as what we can see from the third quarter results and also the sales activity in the fourth quarter, we think overall market still remains stable. Even though the impact from the incident of last year still exists, but actually the demand of vaccine products still exists as well, that's why—what we see is that the overall market is still trying to—is being stabilized right now. I think in the future, the sales results will be more and more impacted by different market

factors, including pricings or the channels of vaccine sale. For Sinovac, still our primary sales is from the private pay market. But at the same time, we're still seeing some good progress made in the public pay market.

Like in the past, we supplied to the City of Tianjin, but we stopped supplying last year and again, this year, we obtained the tender again also at a very good price. Even though it's very difficult to expand the public market in China but we're still seeing the opportunities and more and more provinces start to realizing the benefit of using our vaccines with good quality.

Dr. Weidong Yin: (Chinese spoken).

Helen Yang: Even though everyone from the Company are having a very high expectation for the commercialization of EV71 vaccine, but we're also aware that even before EV71 start to be generating revenue for us, what we also need to do is to stabilize the vaccine sales with our existing vaccines. Also to train and set up a good sales team in order to be well—in order to be able to sell the other vaccines as well. We think this is what we need to do before the EV71 vaccines comes on the market.

Does that answer your question?

Isabella Zhao: Yes. Thank you.

Operator: Thank you. 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 question. My question is, to recover or to regain the market for your hepatitis vaccines, should we expect more selling and marketing expenses going forward?

Helen Yang: Let me explain your questions to the Management Team first.

Dr. Weidong Yin: (Chinese spoken).

Helen Yang: Actually, we don't expect the selling expenses to grow dramatically because, for the current sales strategy, we are considering about generating more sales, maintaining acceptable selling expenses and also including the collection from the sales. This is a multi-factor issue working (ph) together. So we will try to generate sales with the selling expenses under good control.

Yi Chen: Thank you. Second question is regarding EV71. After the expert panel review, what are the necessary steps at CFDA we can reasonably expect that are required to happen after that before the approval?

Helen Yang: (Chinese spoken).

Dr. Weidong Yin: (Chinese spoken).

Helen Yang: So actually after the expert panel review, there will be firstly discussion about the technical issues. Is there any questions regarding to the technical issues that are not being able to answer? Now if so, we will still supply any additional answers with supplementary documentation.

Actually this is for obtaining the new drug certificates. This is one procedure for obtaining one license. At the same time, if this panel review is okay, then the next one we will apply for the on-site inspection for obtaining the production license as well as the GMP certification.

So basically after the on-site inspection, these three certificates, including the new drug certificates, production license, and GMP certification, should be able to obtained by us from CFDA and then we can start the commercial, the real commercial production. After we produce the vaccine, we will submit the commercial lot to the government—to the national lab for lot release and then we can start to sell the vaccine.

Yi Chen: Okay, thank you. Final question, does the same expert panel review all the three candidates for EV71, or there are separate panels reviewing different companies' drugs?

Dr. Weidong Yin: (Chinese spoken).

Helen Yang: So for this coming expert panel review, they will only review the vaccines from Sinovac.

Yi Chen: Okay. Thank you.

Helen Yang: You're welcome.

Operator: Thank you. Ladies and gentlemen, as a reminder, it is star, one to enter the question queue at this time.

Our next question comes from the line of John Gregory with SJ Strategic Investments. Please proceed with your question.

John Gregory: Thank you. My first question is with the expert panel review that is going to take place before the end of November, which since it's November 17th, I guess it's within a week or two. Is Sinovac planning to put out a press release to inform the shareholders what the expert panel review decided?

Helen Yang: Thanks John. I will translate your question first.

Dr. Weidong Yin: (Chinese spoken).

Helen Yang: Actually, what Mr. Yin explained that we don't expect to issue a press release about this expert panel review, because this review is an internal meeting organized by CEE (ph). So we were invited to present. However on the meeting, there won't be any conclusion being drawn in this final review.

John Gregory: Well, how will you know whether or not if there is any further work needed or whether or not you're going to be able to go straight to an FDA type of inspection of your facility and where (ph) you're doing your GMP? I mean, how will the shareholders know whether or not everything was okay and you're going to now have to get the GMP or there's some other thing you have to do that's going to elongate the process?

Dr. Weidong Yin: (Chinese spoken).

Helen Yang: Firstly, we don't think this panel review itself is a milestone stat for this entire review processes because as we explained on this panel review, there won't be any conclusion being drawn. We may require to submit additional documentation as what we did in the past few months.

Therefore, we don't think it's worthwhile to do a press release. However,—we think at each milestone stage like issuing—obtaining the certificate of new drug certificate or production license, we'll definitely issue a press release to let the shareholders know.

John Gregory: Okay. In regards to the products that you're selling in Mexico, is this the first time that you had the license to sell hepatitis, or have you been allowed to sell hepatitis throughout the last several years?

Helen Yang: Actually, before Mexico, we have already been selling our hepatitis and flu vaccines in other countries surrounding China including Mongolia, Philippines and Nepal. Mexico is one of a very typical market for flu vaccines because they have an existing government tender for years. That's why we think Mexico is strategically important for us for the overseas market expansion.

John Gregory: Do you have any input into what the distributor bids or do you leave that totally up to the distributor on what price they bid to the government?

Helen Yang: We will assist our distributors to obtaining the tender depending on what they need. No matter it's from the technical documentations

for the tender or to come up with some medical evidence to prove the vaccines are having a very good quality. But basically, by the end of the day it will be the distributor to submit—to participate in the tender processes.

John Gregory: Well, since you had the product last year, I assumed you bid the product, the flu vaccine, last year, did you just lose because of price, or do you not know?

Helen Yang: No. Actually for last year when we obtained the license, the tender is already closed. So for this year…

John Gregory: I see.

Helen Yang: …that's a bit—and also by the end of last year, they are opening a tender for the flu vaccines being used in this year. That's why in this year, we only supply like 150,000 doses. But right now, we are working on the tenders or the orders for next year. So currently we're working on it.

John Gregory: How big is the possible tender that you could get in Mexico?

Helen Yang: Right now, I don't know yet but the current market in—last year, I think Mexico consumed over 30 million doses of flu vaccines. The tenders are organized by the central government, two departments in central government and also the other provincial government as well. So each organization has its own tender processes.

John Gregory: Okay. Thank you.

Helen Yang: You're welcome.

Operator: Thank you. There are no further questions at this time. I'd like to turn the floor back over to Ms. Yang for closing comments.

Helen Yang: Thank you very much. I think the Management Team are making all the efforts for what we can to advance the sales and also our R&D program. We thank you for your participation into our third quarter earnings call. We are expecting to speak to you for our next earning call in March or April next year. Thank you.

Dr. Weidong Yin: Thank you.

Operator: Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.