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Sinovac Biotech Limited

First Quarter 2015 Earnings Call

May 15, 2015

CORPORATE PARTICIPANTS

Helen Yang, *Investor Relations Director*

Mr. Weidong Yin, *CEO*

Katherine Knight, *ICR*

CONFERENCE CALL PARTICIPANTS

Isabella Zhao, *Morgan Stanley*

John Gregory, *SJ Strategic*

PRESENTATION

Operator:

Greetings and welcome to the Sinovac Biotech Limited First Quarter 2015 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.

It is now my pleasure to introduce your host, Katherine Knight of ICR. Thank you. may begin.

Katherine Knight:

Thank you, Operator and good day, everyone. Before we begin, I would like to remind everyone that this conference 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, please.

Helen Yang:

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Thanks, 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 then I will review our first quarter 2015 financial results on behalf of our CEO and CFO.

First I am very happy to reiterate the announcement we made yesterday regarding the site inspection notification for the commercial production facility of EV71 vaccine candidates from the China CFDA. This is a significant step forward for Sinovac. The site inspection notification indicates the completion of the review process that had shifted to the evaluation of our production capability which is to confirm whether the vaccine can be successfully produced under the GMP condition with the technology we developed and tested during the research phase. We believe that we are well prepared for the inspection.

After the site inspection notification is issued, the next step is for us to submit our application to schedule the site inspection which will include the production of three consecutive batches of the vaccine. Samples from the trial batches will be evaluated for further review by the National Institutes for Food and Drug Control, and according to new regulation that helps streamline the entire inspection process, we are able to apply for our GMP inspection to be conducted at the same time as the site inspection.

Once the inspections are completed, the CFDA will conduct a final comprehensive review of the results of the technical review, site inspection and a trial batch testing. If the vaccine passes these final review process, the CFDA will issue the new drug certificate, production license and GMP license shortly thereafter. All together, we anticipate that this process to take about four to six months. Once we receive these licenses, we will be able to began commercial production of our EV71 vaccine.

We expect that we will be able to begin vaccine sales sometime during the first quarter of 2016. We will continue to keep you updated on the progress related to the final steps of the approval process and commercialization. As we discussed in the past, the target market in China for EV71 is about 80 million children with each child requiring two doses. We expect the commercialization of this vaccine will drive up the growth of the company significantly

Turning to the sales for this quarter, our first quarter results reflect changes in the China vaccine market environment, particularly between the public and private market and the relative timing of purchases in these markets.

For the public-pay market, the sales decreased due to the required delivery time change by the government, and as you may know that year of 2014 was a very different year from other regular years for the vaccine market in China. Comparing to the first quarter sales of 2013 or before, first quarter normally generates the lowest regular sales throughout the year, and do not believe that the decline in the first quarter sales is indicative of overall demand for our vaccine products moving forward.

We believe our sales battle (phon) in the first quarter actually reflect the stable market conditions for our regular vaccine products comparing to the other regular years. We generally expect to see a stable market environment for the year of 2015 and we will remain focused on executing our proven sales strategy to drive organic growth as we also work to continue advancing our vaccine pipeline.

Looking forward to the remainder of 2015. There are a few key areas where we may see some incremental growth for our current vaccine portfolio. First, our Sales Team is working to further our reach into the private-pay market in Central China which remains under-penetrated relative to other regions, namely the major cities in Eastern China. Second, we are continuing to expand into new international markets and increase our presence in countries we currently serve. During our first (phon) quarter we receive our GMP certificate for distribution in Turkey and notification of GMP inspection from the Kazakhstan government. Sinovac vaccine have a competitive advantage due to both cost and quality in these emerging markets and we believe international sales offer a distinct growth opportunity for us.

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Finally, we are making the efforts to get our vaccines into new provinces in China through tender processes for the respective EPI market. Penetrating new regions in China will allow us to sell the vaccine in the public pay market and contribute to our sales growth over the long-term.

With that I will now like to review our unaudited financial results for the first quarter 2015.

Quarterly sales were $9.3 million, a decrease of 31.6% from $13.5 million in the prior year period. Gross profit was $6.8 million, a decrease of 33.4% from $10.3 million in the prior year period. Gross profit margin was 73.7% compared to 75.8% in the prior-year period. The decrease in gross profit margin was primarily driven by idle capacity charges recorded for the manufacturing facility. In the first quarter of 2014, the Company produced more vaccines due to different production scheduling and incurred no idle capacity charge as a result.

Selling, general, and administrative expenses for the first quarter of 2015 were $6.9 million compared to $7.8 million in the same period of 2014. The reduction was primarily due to reduced selling expenses as a result of the decreases in sales, as well as lower foreign exchange loss as compared to the first quarter of 2014.

R&D expenses for the first quarter of 2015 were $2.2 million, a $0.5 million increase over the same period of last year. This increase was attributable to the continued advancement of Sinovac's pipeline products, including sIPV, PPV and varicella vaccine.

Net loss attributable to common shareholders were $2.3 million or $0.04 per basic and diluted share for the first quarter of 2015, compared to net income of $4,000 or $0.0 per basic and diluted share, for the first quarter of 2014.

Now I would like to turn your attention to the balance sheet. As of March 31, 2015, cash and cash equivalents totaled $63.1 million, compared to $91.5 million as of the end of last year. Net cash used in operating activity was $8.2 million in the first quarter of 2015. Net cash used in investing activities were $1.8 million, which was primarily used for payment for property, plant and equipment for the Company's PPV and varicella vaccine production facilities.

Net cash used in financing activities was $18.3 million in the first quarter of 2015, including $19.4 million for repayment of loans, slightly offset by the proceeds from a bank loan of $0.8 million. As of March 31, 2015, the Company had $30.5 million of loans due within one year. When appropriate, the Company will seek new commercial bank loans to finance the commercialization of pipeline products as well as for other operational purposes.

Before opening up the call to questions, I would like to mention that Management will be travelling in the U.S. next week as you saw the announcement early this week. We will be participating in the UBS Global Healthcare Conference on May 20 in New York City. If you will like to schedule a meeting, please contact UBS or you can also reach out to myself or our IR firm ICR.

And with that I would like to turn the call back to Operator for questions. Operator?

Operator:

We will now be conduction and 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.

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

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Isabella Zhao:

Thank you for taking my question. First of all I want to congratulate you for the fast progress of EV 71 obligation. I have two questions. Number one is I want to get more color from the Management with the status of other competitor who also developed EV 71. Are we going to be the first one to get approval or they are going to be multiple competitors in the market at the same time. Number two question is regarding the market condition for the rest of the year. I notice the decline in sales in Q1 is due to the time difference of ordering (phon). What's the Management's expectation for the next quarter sales growth and also for the remaining of the year?

(Chinese Spoken)

Helen Yang:

So firstly Mr. Yin, talked about your question regarding the EV 71 vaccine. As you may note that right now there are three companies to apply the production license, GMP license and new drug certificates. As far as we know that the other company called Kunming Institute of Biological Products, they received the notification for outside inspection two months earlier than us. For the third company, we didn't if they received the notification yet. However, at this moment because there are still some further steps for approval and inspection or evaluation, therefore it's very difficult to say who will be on the market at this moment.

(Chinese Spoken)

Helen Yang:

So to answer the second question. As for the market, the vaccine market in China generally is relatively soft compared to the previous years, and we have seen that from other peer companies. Some of them are showing a slower growth or even having a decrease in terms of topline (phon). Generally speaking we would expect the market environment for 2015 would be similar to 2014. However, even though the first quarter is at decline as we explain, there is a timing difference. However for the whole year we are still confident to maintain at least to stabilize, to maintain the level of sales that we made for last year for our regular products and at the same time we are trying to seize the opportunities to generate growth because we also are adjusting our sales strategies to put more efforts to expand the sales for Hepatitis A and B vaccine, and also we were expecting some good news from the international market.

Isabella Zhao:

Thank you. That's all my questions. I am looking forward to the official launch of EV71. (Chinese spoken).

Operator:

As a reminder, ladies and gentlemen, if you would like to ask a question press star, one on your telephone keypad.

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

John Gregory:

Hi, good morning. My question is in regards to the international markets. The new one, I think Turkey and another one. Is this a license to market a number of different vaccine products or I know in Mexico you

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got a license to just market the flu vaccine. So is this a license to do a number or is it licenses for specifically one vaccine products.

Helen Yang:

Thanks, for your question. Actually for the international market, normally the license will be given to a specific product. Like in Turkey we are applying for the license for our Hepatitis A vaccine, and also like you said, in Mexico is for flu. So in some other market, we are trying to get a license for both flu and Hep A. That will be depending on the demand and competitive environment for that particular market.

John Gregory:

Okay, thank you.

Helen Yang:

You're welcome.

Operator:

It appears we have no further questions at this time. I would now like to turn the floor back over to management for additional or closing comments.

Helen Yang:

Thank you, operator. We thank you all for participating in this conference call and we are looking forward to speaking to you after the call as well as seeing some of you in the UBS conference next week. Thank you.

Operator:

Ladies and gentlemen, this does conclude today's teleconference, you may disconnect your lines at this time. Thank you for your participation and have a wonderful day.

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