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Sinovac Reports Unaudited First Quarter 2016 Financial Results

BEIJING, May 26, 2016 /PRNewswire/ -- Sinovac Biotech Ltd. (NASDAQ: SVA), a leading provider of biopharmaceutical products in China, announced today its unaudited first quarter ended March 31, 2016.

First Quarter 2016 Financial Highlights

(*compared to the first quarter of 2015)*

- Quarterly sales from continuing operations were $11.0 million, an increase of 19.0% from $9.2 million in the prior year period.
- Gross profit from continuing operations was $6.3 million, a decrease of 8.3% from $6.9 million in the prior year period. Gross margin was 57.8%, compared to 74.9% in the prior year period.
- Loss from continuing operations was $1.6 million compared to a loss of $2.6 million in the prior year period. Income from discontinued operations was $2.3 million, compared to a loss from discontinued operations of $192 thousand in the prior year period.
- Net income attributable to common shareholders was $1.3 million, or $0.02 per basic and diluted share, compared to net loss attributable to common shareholders of $2.3 million, or $0.04 per basic and diluted share in the prior year period.
- Non-GAAP EBITDA was $60 thousand in the first quarter of 2016, compared to a loss of $212 thousand in the prior year period. Non-GAAP net loss from continuing operations in the first quarter of 2016 was $1.4 million, a decrease of 45% compared to $2.6 million in the prior year period.

Mr. Weidong Yin, Chairman, President and CEO of the Sinovac, commented, "Our first quarter revenue increased by 19% from the prior year period, however, the revenue increase was due to revenue recognition from sales of non-core H5N1 vaccine, which contributed 58% of total sales in the first quarter. Other vaccine sales were lower because of the challenging environment in the Chinese vaccine industry. Business conditions for vaccine manufacturers in China like Sinovac have become more difficult in recent months due to an incident involving the improper distribution and sale of vaccines in Shandong province. As a result of this incident, China's State Council newly issued the Regulation on the Administration of Circulation and Vaccination of Vaccines (the "Regulation"). The Regulation requires all the vaccine sales in the private-pay market go through provincial tendering platform, prohibits distributors from selling vaccines, sets higher standards to ensure cold-chain conditions for vaccine delivery and storage from the manufacturer to CDC customers at county/district levels and requires vaccine manufacturing companies to be fully accountable for the product quality during the distribution process. Currently, most of the

provinces have yet to establish the platform, and a detailed interpretation and execution plan associated with the Regulation has yet to be released by the central government, resulting in stagnated nationwide sales of private-pay market vaccines. While Sinovac was not directly implicated in the incident, our sales performance has been negatively affected and we also expect management and administration costs of vaccine distribution to increase in the future.

Mr. Yin added, "The Shandong incident had a material effect on our revenues in the first quarter and we expect that this trend will continue into the second quarter. Sinovac is well capitalized and the underlying need for vaccines has not changed. We have taken steps to manage our cash carefully, including implementing a more stringent account receivable collection management scheme, ensuring commercial bank loans, and deferring non-core R&D projects to better enable Sinovac to withstand this unusual event. At the same time we will closely monitor the market conditions and the change of policy to prepare ourselves for full implementation once market conditions normalize. For long term, we are well positioned to benefit from these industry changes once the vaccine market recovers as our past success has been to primarily rely on our internal sales force instead of distributors, and we also expect to gain from the commercialization of our newly approved EV71 vaccine, positioning Sinovac to be more competitive."

Mr. Yin added, "In the first quarter, we initiated the production of our EV71 vaccine immediately after the vaccine was approved in January 2016. The EV71 vaccine produced has passed the lot release test administered by the National Institute of Food and Drug Control and is now ready for market launch. We expect to deliver the vaccine to customers once the market returns to normal. During the quarter, we have also made progress on our pipeline programs with the initiation of clinical trials of our varicella vaccine and our preparation for the trials of the sIPV vaccine. We will continue to keep our investors updated on our latest progress and achievements in the months ahead."

First Quarter 2016 Business Highlights

Research and Development

EV71 – The China Food and Drug Administration (CFDA) issued the new drug certification and production license, as well as the Good Manufacturing Practices (“GMP”) certificate for Sinovac’s enterovirus 71 ("EV71") vaccine respectively at the end of December 2015 and January 2016. The Company already received lot release approval for EV71 vaccine and expects to launch the EV71 vaccine once vaccine sales activity resume.

Varicella –The vaccine candidate is expected to be studied through a phase I, a phase III trials and a batch-to-batch consistency trial of three consecutive batches. The phase I clinical trial was initiated in May 2016 in Henan Province. The phase I trial is designed as a single-center, randomized, double-blinded, and placebo controlled study. We expect to enroll approximately 270 healthy volunteers between the ages of1to 49 years old for the trial.

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Unaudited Financial Results for First Quarter 2016

(In $000 except percentage data)	**2016 Q1**	**% of Sales**	**2015 Q1**	**% of Sales**
Hepatitis A – Healive 甲肝	3,647	33.3%	2,922	31.7%
Hepatitis A&B – Bilive 甲乙肝	216	2.0%	5,055	54.9%
Hepatitis vaccines subtotal 甲肝类产品小计	3,863	35.3%	7,977	86.6%
Influenza vaccine 流感	463	4.2%	586	6.4%
Mumps vaccine 腮苗	236	2.1%	644	7.0%
Regular sales 常规收入	**4,562**	**41.6%**	**9,207**	**100.0%**
H5N1 大流感	6,392	58.4%	-	-
Total sales 总收入	**10,954**	**100.0%**	**9,207**	**100.0%**
Cost of sales 销售成本	4,626	42.2%	2,308	25.1%
Gross profit 毛利	6,328	57.8%	6,899	74.9%

Quarterly sales from continuing operations were $11.0 million, an increase of 19.0% from $9.2 million in the prior year period. The sales increase was primarily due to the recognition of H5N1 revenue. Excluding H5N1 revenue, quarterly sales from continuing operations were $4.6 million, a decrease of 50.4% from $9.2 million in the comparative period. The decrease was primarily due to additional sales return provision provided as a result of the vaccine incident in Shandong province.

Gross profit from continuing operations was $6.3 million, a decrease of 8.3% from $6.9 million in the prior year period. Gross margin was 57.8%, compared to 74.9% in the prior year period. Excluding H5N1, the quarterly gross margin was 55.6%，compared to 74.9% in the prior year period. The decrease was mainly due to a higher inventory provision for mumps vaccines and a lower gross profit for the hepatitis A&B vaccine due to higher sales returns provision provided in the first quarter

of 2016.

Selling, general and administrative expenses in the first quarter of 2016 were $6.2 million, compared to $6.8 million in the same period of 2015.

R&D expenses in the first quarter of 2016 were $2.1 million, compared to $2.2 million in the same period of 2015.

Loss from continuing operations was $1.6 million compared to a loss of $2.6 million in the prior year period. Income from discontinued operations was $2.3 million, compared to a loss from discontinued operations of $192 thousand in the prior year period.

Net income attributable to common shareholders was $1.3 million, or $0.02 per basic and diluted share, compared to net loss attributable to common shareholders of $2.3 million, or $0.04 per basic and diluted share in the prior year period.

Non-GAAP EBITDA was $60 thousand in the first quarter of 2016, compared to a loss of $212 thousand in the prior year period. Non-GAAP net loss from continuing operations in the first quarter of 2016 was $1.4 million, a decrease of 45% compared to a net loss of $2.6 million in the prior year period. Non-GAAP diluted net loss per share from continuing operations in the first quarter of 2016 was $0.01, compared to net loss of $0.03 per share in the prior year period. Reconciliations of non-GAAP measures to the nearest comparable GAAP measures are included at the end of this earnings announcement.

As of March 31, 2016, cash and cash equivalents totaled $62.5 million, compared to $63.8 million as of December 31, 2015. In the first quarter of 2016, net cash used in operating activities was $9.5 million. Net cash used in investing activities was $2.7 million, which was mainly for the purchase of equipment. Net cash provided by financing activities was $10.7 million, including loan proceeds of $13.2 million and loan repayment of $2.6 million. As of March 31, 2016, the Company had $30.7 million of bank loans due within one year. The Company expects that its current cash position will be able to support its operations for the next 12 months. The Company will seek new commercial bank loans to finance the commercialization of its pipeline products and for other operational purposes when appropriate.

Conference Call Details

Sinovac will host a conference call on Friday, May 27, 2016, at 8:00 a.m. EDT (Friday, May 27, 2016 at 8:00 p.m. China Standard Time) to review the Company's financial results and provide an update on recent corporate developments.

To access the conference call, please dial 1-877-407-9039 (USA) or 1-201-689-8470 (International). A replay of the call will be available after the earnings call through June 10, 2016. To access the replay, please dial 1-877-870-5176 (USA) or 1-858-384-5517 (International) and reference the replay pin number 13638158.

About Sinovac

Sinovac Biotech Ltd. is a China-based biopharmaceutical company that focuses on the research, development, manufacturing, and commercialization of vaccines that protect against human infectious diseases. Sinovac's product portfolio includes vaccines against hepatitis A and B, seasonal influenza, H5N1 pandemic influenza (avian flu), H1N1 influenza (swine flu), mumps and canine rabies. In 2009, Sinovac was the first company worldwide to receive approval for its H1N1 influenza vaccine, which it has supplied to the Chinese Government's vaccination campaign and stockpiling program. The Company is also the only supplier of the H5N1 pandemic influenza vaccine to the government stockpiling program. Sinovac's newly developed innovative vaccine against HFMD caused by EV71 is ready for market launch. The Company is currently developing a number of new products including a Sabin-strain inactivated polio vaccine, pneumococcal polysaccharides vaccine, pneumococcal conjugate vaccine and varicella vaccine. Sinovac primarily sells its vaccines in China, while also exploring growth opportunities in international markets. The Company has exported select vaccines to Mexico, Mongolia, Nepal, Tajikistan, Bangladesh, Chile and the Philippines, and was recently granted a license to commercialize its influenza vaccine in Guatemala. For more information, please visit the Company's website at www.sinovac.com.

Safe Harbor Statement

This press release contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward looking statements. Factors that might cause such a difference include our inability to compete successfully in the competitive and rapidly changing marketplace in which we operate, failure to retain key employees, cancellation or delay of projects and adverse general economic conditions in the United States and internationally. These

risks and other factors include those listed under “Risk Factors” and elsewhere in our Annual Report on Form 20-F as filed with the Securities and Exchange Commission. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continue,” or the negative of these terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. The Company assumes no obligation to update the forward-looking information contained in this release.

Non-GAAP Financial Measures

To supplement its consolidated financial statements, which are prepared and presented in accordance with GAAP, Sinovac uses the following non-GAAP financial measures: non-GAAP EBITDA, non-GAAP net income from continuing operations and non-GAAP diluted EPS from continuing operations. For more information on these non-GAAP financial measures, please refer to the table captioned “Reconciliations of non-GAAP Measures to the Nearest Comparable GAAP Measures” in this results announcement.

Sinovac believes that non-GAAP EBITDA, non-GAAP net income from continuing operations and non-GAAP diluted EPS from continuing operations help identify underlying trends in its business that could otherwise be distorted by the effect of certain income or expenses that Sinovac includes in income from operations from continuing operations, net income from continuing operations and diluted EPS from continuing operations. Sinovac believes that non-GAAP EBITDA, non-GAAP net income from continuing operations and non-GAAP diluted EPS from continuing operations provide useful information about its core operating results, enhance the overall understanding of its past performance and future prospects and allow for greater visibility with respect to key metrics used by our management in its financial and operational decision-making. Non-GAAP EBITDA, non-GAAP net income from continuing operations and non-GAAP diluted EPS from continuing operations should not be considered in isolation or construed as an alternative to income from operations from continuing operations, net income from continuing operations, diluted EPS from continuing operations, or any other measure of performance or as an indicator of Sinovac’s operating performance. These non-GAAP financial measures presented here may not be comparable to similarly titled measures presented by other companies. Other companies may calculate similarly titled measures differently, limiting their usefulness as comparative measures to our data.

Non-GAAP EBITDA represents income (loss) from continuing operations, excludes interest and financing expenses, interest income, net other income (expenses) and income tax benefit (expenses), and certain non-cash expenses, consisting of stock-based compensation expenses, amortization and depreciation that Sinovac does not believe are reflective of the core operating performance during the periods presented.

Non-GAAP net income from continuing operations represents net income from continuing

operations before stock-based compensation expenses, and foreign exchange gain or loss.

Non-GAAP diluted EPS from continuing operations represents non-GAAP net income attributable to ordinary shareholders from continuing operations divided by the weighted average number of shares outstanding during the periods on a diluted basis, including accounting for the effect of the assumed conversion of options.

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