Company Name: Sinovac Biotech Ltd
Company Ticker: SVA US
Date: 2016-05-27
Event Description: Q1 2016 Earnings Call

Market Cap: 346.56
Current PX: 6.09
YTD Change($): +.37
YTD Change(%): +6.469

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: N.A.
Bloomberg Estimates - Sales
Current Quarter: N.A.
Current Year: N.A.

Q1 2016 Earnings Call

Company Participants

- William Zima
- Helen G. Yang

MANAGEMENT DISCUSSION SECTION

Operator

Greetings and welcome to the Sinovac Biotech Limited First Quarter 2016 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Bill Zima with ICR. Please go ahead, sir.

William Zima

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 with 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 law.

On the call today, we have Mr. Weidong Yin, Chief Executive Officer; Ms. Nan Wang, Chief Financial Officer; Ms. Helen Yang, Investor Relations Director; and Mr. Shuo He, Finance Director.

With that said, I will now turn the call over to Helen. Helen, please go ahead.

Helen G. Yang

Thank you, Bill. And hello, everyone. Thanks for joining us. On today's call, I will provide an update on Sinovac's business and operations during the first quarter. Then I will review our financial results for the first quarter of 2016 on behalf of our CEO and CFO.

In the first quarter, our quarterly sales from continuing operations were $11 million, an increase of 19% from $9.2 million in the prior year period. The revenue increase was due to the revenue recognition of the H5N1 vaccine, which contributed 58% of total sales in the first quarter. Sales of our regular products decreased over 50% year-over-year, which was caused by 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 the sale of vaccines in Shandong province. As a result of this incident, China's State Council newly issued a Regulation on the Administration of Circulation and Vaccination of Vaccines or the Regulation. And this Regulation requires all the vaccine sales in the private-pay market go through provincial tendering platform, prohibit distributors from selling vaccines, set higher standards to ensure cold-chain

conditions for vaccine delivery and storage from the manufacturer to CDC customers at county or district level, and require vaccine manufacturing companies to be fully accountable for the product quality during the distribution process.

However, currently, most of the provinces have yet to establish the platform, and a detailed interpretation and execution plan associated with the Regulation has not been released by the 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 the management and administration costs of vaccine distribution in China to increase in the future.

The Shandong incident had a material effect on our revenues in the first quarter and we expect this trend will continue into the second quarter. Sinovac is well capitalized and the underlying need for vaccines has not been changed in China. And 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 research and development 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. We believe that, for the 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, which is positioning Sinovac to be more competitive in the market.

We have also made progress on our pipeline programs during the first quarter. We initiated the Phase I clinical trial of our varicella vaccine recently. The Phase I trial is designed as a single-center, randomized, double-blinded, and placebo controlled study. We expect to enroll about 270 healthy volunteers aged from one to 49 years old for the trial. Following the Phase I trial, the varicella vaccine will be studied in a Phase III and a batch-to-batch consistency study of three consecutive batches. We expect the trials to be concluded in the year of 2017.

For our 23-valent pneumococcal polysaccharides vaccine, we have initiated the Phase III trial in April 2015. And the dosing has been completed already, and blood serum testing is currently carried out by the national laboratory. We expect to conclude the clinical studies and file new drug application in the year of 2017.

We have received the clinical license for the Sabin-IPV and plan to commence the clinical trials in this year as well. You may recall that, in April 2014, we entered into a technology transfer agreement with Intravacc, a company based in the Netherlands to receive the technology. This collaboration is supported by the World Health Organization for its mission of Global Polio Eradication.

The target market of Sabin-IPV vaccine includes both domestic and international public markets. And our MMR vaccine development was carried out as scheduled. After entering the technology transfer and supply agreement with GSK, we have received the measles seed and initiated the preclinical studies for the measles vaccine, and MMR vaccine is also largely needed for the public-pay market in China.

And in general, our existing vaccine portfolio is primarily supplied to the private-pay market, and in our pipeline products, both Sabin-IPV and MMR will target public market. We expect such a comprehensive product portfolio continuing vaccine supply both – to both public and private market and to both Chinese and overseas market will help reduce business fluctuation due to one market [ph] segment (7:49).

And with that, I would now like to review our unaudited financial results for the quarter. In the first quarter of 2016, our quarterly sales from continuing operations were $11 million, an increase of 19% from $9.2 million in the prior year period. The sales increase was primarily due to recognition of our H5N1 vaccine. Excluding H5N1 revenue, our quarterly sales from regular vaccines were $4.6 million, a decrease of 50.4% from $9.2 million in the prior year 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, 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 vaccine and a lower gross profit for the hepatitis A and hepatitis B vaccine due to higher sales return provision provided in this quarter.

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 last year. Research and development expenses in the first quarter of 2016 were $2.1 million, compared to $2.2 million in the same period of last year. Loss from continuing operations was $1.6 million compared to a loss of $2.6 million in the same period of last year, and income from discontinued operation was $2.3 million, compared to a loss from discontinued operation of $192,000 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 shareholder of $2.3 million or $0.04 per basic and diluted share in the prior year period. Non-GAAP EBITDA was $60,000 in the first quarter of 2016 compared to a loss of $212,000 in the prior year period.

Non-GAAP net loss from continuing operations in the first quarter of this year 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 operation 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 earning announcement, which is reported on our press releases, we put it out early – yesterday.

As of March 30, 2016, cash and cash equivalents totaled $62.5 million compared to $63.8 million as of December 31, 2015. In the first quarter of this year, 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 the end of first quarter this year, 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 operation 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.

With that, I would like to turn the call back to operator for questions. Operator, please?

Q&A

Operator

Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Since we have no questions at this time, I'd like to turn the floor back to management for any final remarks.

Helen G. Yang

Thank you, operator. And we thank you all for participating in this call. And we're looking-forward to speaking to you in the coming quarterly announcement. Thank you.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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