

Company Name: Sinovac Biotech Ltd
Company Ticker: SVA US
Date: 2016-08-23
Event Description: Q2 2016 Earnings Call

Market Cap: 340.87
Current PX: 5.99
YTD Change(\$): +.27
YTD Change(%): +4.720

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

Q2 2016 Earnings Call

Company Participants

- William Zima, Managing Director
- Helen Yang, Investor Relations Director

Presentation

Operator

Greetings and welcome to Sinovac Biotech Limited Second Quarter 2016 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. (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. Thank you. You may begin.

William Zima, Managing Director

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

I will now turn the call over to Helen Yang. Helen please go ahead.

Helen Yang, Investor Relations Director

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

As forecasted on our last quarter earnings call we experienced a continued decline to our financial results in the second quarter. The quarterly sales from continuing operation were \$1.4 million compared to \$18.5 million in the prior year period. This was due to the incident involving the improper distribution and sale of vaccines in Shandong Province. This caused a change of policy by the central government impacting nationwide sales of private-pay market vaccines. As a result, vaccine companies including Sinovac halted vaccine delivery to wait for the interpretation of new regulation by the government.

In mid of June, the China Food and Drug Administration and China's Ministry of Health jointly issued an interpretation of the new policy and execution plan during the transitional period before the infrastructure of each province is set up

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to satisfy the new requirements. Following this trend government announcement, vaccine sales and delivery in the private-pay market resumed and we have experienced a rebound in sales activity.

We also won tenders in Beijing and Shanghai to supply hepatitis A vaccine to the private-pay vaccine market as usual. As in prior years, flu vaccine sales routinely began around these period.

The ordering and delivering of flu vaccine to the market has kick-started once again although sales activity remains low. EV71 sales are now contributing to our quarterly financial performance and meeting our expectations. The vaccine was approved for sales in the beginning of this year, which allowed us to immediately start commercial production. To date, we have prepared more than 1 million doses released and published by the National Laboratory.

And they are ready for sale and we expect there will be additional vaccine to be released to the market in the following months. On private-pay vaccine market was reactivated. Our sales and marketing team, launched marketing activities to promote our newly approved EV71 vaccine. There have been vaccination kick-off ceremony, commercial launch activities at provincial level as well as educational seminars and marketing activities at fund. Our EV71 vaccine has now being delivered to 16 provinces and three municipalities and we expect these numbers to keep increasing.

We do expect the continued strong sales trend for EV71 in the second half of this year. During the second quarter, we also made progress on our pipeline programs with the continuation of clinical studies for varicella vaccine and completed preparation for the trials of our Sabin-IPV vaccine. With the resumption of sales of our core vaccine products along with strong sales expected for EV71 in the second half of the year, we expect sales in our fiscal second half of the year to be much stronger than the first-half. We believe that our annual sales revenue can be on par with our 2015 sales of regular products, which is approximately about \$63 million. We look forward to updating our investors on our latest progress and achievement in the months ahead.

With that, I would now like to review our unaudited financial results for the second quarter of 2016. As I mentioned earlier in the call, our quarterly sales from continuing operation were \$1.4 million comparing to \$18.5 million in the prior year period. This resulted in a gross loss from continuing operation of \$2.4 million compared to gross profit of \$15.2 million in the prior year period. SG&A expenses in the second quarter of 2016 were \$8.3 million compared to \$9 million in the same period of 2015.

Our SG&A expenses declined with the lower level of sales activity, but there were other significant factors that offset this trend, including a 786,000 charge related to the proposed privatization transaction of Sinovac, and a 526,000 expense recorded from a foreign exchange loss due to the depreciation of the renminbi against the US dollar.

Research and development expenses in the second quarter of 2016 were \$2.8 million compared to \$2.2 million in the same period of 2015.

Loss from continuing operation were \$12.6 million compared to an income of \$3.7 million in the prior year period. The second quarter of 2015 included a loss from discontinued operation of \$244,000 which did not happen in the second quarter of 2016.

Net loss attributable to common shareholders was \$9.6 million or \$0.17 per basic and diluted share compared to net income attributable to common shareholders of \$2.3 million or \$0.04 per basic and diluted share in the prior year period. As of June 30th, 2016, cash and cash equivalents totaled \$49.2 million compared \$63.8 million as of December 31, 2015. In the first half of 2016 net cash used in operating activities was \$15.6 million. Net cash used in investing activities was \$3.7 million which was for the projects of equipment mainly for our Sabin-IPV plant.

Net cash provided by financing activities was \$5.7 million including loan proceeds of \$22.7 million and longer payment of \$17.8 million. As of June 30th, 2016 the company had \$23.8 million of bank loan 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 the operator for questions. Operator?

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Questions And Answers

Operator

Thank you. At this time, we will be conducting a question-and-answer session. (Operator Instructions) Thank you. There are no questions at this time. I'd like to turn the floor back to management for final remarks.

Helen Yang, Investor Relations Director

Thank you, operator. And we thank you all for participating in today's call. And we're looking forward to speaking to you in the following announcement of our third quarter results. 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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