Sinovac Biotech Ltd.
Third Quarter 2012 Earnings
November 15, 2012

Operator: Greetings and welcome to the Sinovac Biotech Limited Third Quarter 2012 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, Stephanie Carrington of The Ruth Group. Thank you. Ms. Carrington, you may begin.

Stephanie Carrington: 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 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 from management we have Dr. Weidong Yin, CEO; Mr. Danny Chung, Sinovac's Chief Financial Officer; Ms. Helen Yang, Investor Relations Manager; and Ms. Chris Lee, Investor Relations.

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

Helen Yang: Thank you, Stephanie, and hello, everyone. Thank you for joining us on this conference call. On behalf of our CEO, Mr. Yin, I will provide an update on the business; and Mr. Danny Chung, our CFO, will provide a financial review afterwards.

Let me start by providing with you an update (inaudible) commercialized vaccine business. We are pleased to see our continued solid growth in the third quarter of 2012 for our hepatitis vaccines in the private pay market which increased 31.2% compared with the same period

last year. The withdrawal (ph) of a key competitive hepatitis vaccine due to the new pharmacopeia adopted in China has provided us more opportunities to expand our presence in the private pay market. And in the last quarter (inaudible) awareness of Healive with the celebration of the 10th Anniversary of Healive which benefited sales of Healive in the private pay market. And as the only product in the Chinese market, our Bilive sales in the private market keep growing in the third quarter with 6.6% year-over-year. However, our total sales in the third quarter went down from the prior year mainly due to a lower public market sales of Healive.

In the third quarter of 2011, we recorded sales revenue from the Xinjiang province governmental tender. Although we recently obtained several public tender awards including the tenders from Gansu province, (inaudible) Beijing and Shanghai that we announced earlier, and Jiangsu, a newly awarded tender. Revenues will be recorded upon future delivery of the vaccines. We expect the sales of Healive in the public market to pick up in the coming quarters as we continue to executing the plan to improve our capabilities and expand our presence in the public market.

And also in the third quarter of 2012 our Anflu sales decreased by 16% compared to last year. The reason is that the production of seasonal flu vaccine commenced later this year; this is the reason historical trends in the previous year across the seasonal flu industry given that flu manufacturers receive their reference (ph) standard later than previous years. This delayed Sinovac's manufacturing sales of the flu vaccines in this season.

We also want to highlight that Sinovac was awarded a governmental tender to supply seasonal flu vaccines to the Peoples Republic of Mongolia in September as well.

Turning to our development pipeline, we are committed to advancing our vaccine candidates which are key milestones at which to measure the Company's future growth. As you know, our EV71 vaccine Phase 3 trial is progressing on schedule. The hand, foot and mouth disease (inaudible) surveillance is ongoing and documentation collection, data input, data review and quality control on the database are well measured underway and progressing on schedule. Currently we remain in close communication with the relevant authorities and (inaudible) expected schedule for trial conclusion and data unblinding (ph) and will share that information when appropriate.

In parallel, the construction of the dedicated EV71 vaccine production plant has been completed and internal validation of production process is underway which are moving forward simultaneously to the EV71 clinical plant. The GMP certification application for these production plants will be submitted in line with our progress made with the Phase 3 trial. Our ultimate goal is to launch the vaccine shortly after obtaining the product license in

China without any delay. We are also pleased that we have received GMP certification from China State Food and Administration for the Company's dedicated (inaudible) production plant at Sinovac Dalian facility. We recently commenced the commercial production for our mumps vaccine and aim to launch the product to Chinese market in the coming months.

On the corporate side, we want to highlight that our 2012 Annual General Meeting of Shareholders was held on August 22nd, 2012. During the meeting, four proposals including the 2012 share incentive plan were approved. The fifth proposal to amend the bylaw did not receive their (inaudible) vote.

Now I would like to turn over the call to Danny to review our financial results. Danny.

Danny Chung: Thank you, Helen. Good morning, everyone. It's a good opportunity to try to review the financial statement and highlights with you.

Our hepatitis vaccine sales in private pay market rose 31.2% in the quarter. Total sales decreased 7% to 14.3 million compared to 15.4 million in the same quarter of 2011. The decrease in total third quarter 2012 sales were primarily due to decreased Healive sales to the public (ph) market and reduced Anflu that started later this year. This were partially offset by the increase of both Healive and Bilive sales in the private pay market. Overall, the Company ended the quarter with a net total sales decrease of 1.1 million, or 7% decrease, compared to the same quarter of last year.

Core vaccine sales for the nine months period ended September 20—September end increased 6% to 29.6 million compared to 28 million in the same period of 2011. Despite a 29% increase in (inaudible) sales, total sales decreased 17% to 29.6 million compared to 35.7 million in the same period of last year. The decrease was mainly affected by non-core government stockpiling of the pandemic flu H5N1 vaccine sales of 7.7 million in the 2011 period as there were no government stockpiling sales in the current fiscal year today, the end of September. Please refer to the Note 1 in our release for the sales analysis for the nine month period ended September 30, 2012.

Gross margin in third quarter of 2012 was 52.6% compared to 56.8% in the same period of last year. The lower quarterly gross margin was mainly due to the increased provision for expired (ph) H1N1 inventory cost and overhead allocated to cost of goods sold arising from seasonal excess capacity. After depreciation of land use rights, amortization of licenses and permits, the gross margin was 52.4% and 56.5% for the third quarter of 2012 and 2011, respectively.

Selling, general and administrative expenses as a percentage of third quarter 2012 sales were 54.9% compared to 49.8% for the same quarter of the prior year. The increase in the year-over-year quarterly SG&A expenses was mainly due to the ongoing preparation cost for the GMP (ph) upgrade and the Changping site renovation.

Research and development expenses for the third quarter were 3.8 million, a four point million—1.4 million increase over the same period of—in 2011, mainly due to the ongoing EV71 clinical trial development.

The increase in depreciation of property, plant and equipment and amortization of licenses and permits for the third quarter of 2012 was mainly due to the asset at Changping site that were induced (ph) in the quarter.

As of September 30th, 2012, cash and cash equivalents totaled 82 million compared to 104.3 million as of December last year. The Company utilized 1.1 million and 6.5 million of its cash resources in the third quarter and nine months period, respectively, to contribute to its ongoing clinical trial for its proprietary EV71 vaccine. The Company intends to provide a trial with approximately an additional 3.4 million during the remaining quarter of the year, and 1.5 million in 2013.

During the quarter and the first nine months period, 3.7 and 8.7 million, respectively, was spent for the ongoing capital needs of the Changping site development, which in part covered by the credit line arrangement already in place. Capital expenditure payment to complete the Changping site, which are in part covered by the credit line arrangement, are estimated up to 7 million in the remaining quarter of 2012 and 8.7 million in 2013.

The cash position and credit line facility with local commercial banks provide the Company with the resources to commercialize the EV71 vaccine being developed for HFMD diseases. The Company is in a position to drive the future growth of the businesses with a combination of commercialized vaccines and vaccine candidates.

The above concludes our management prepared remarks. Operator, we will now take questions. Thank you.

Operator: Thank you. We will now 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 Chris Lee of Morgan Stanley. Please proceed with your question.

Chris Lee: Hi, this is Chris on behalf of Bin. Can you tell us about your selling costs as percentage of sales? We see that lower compared to, you know, previous quarters, can you give us an idea if that will happen the same, you know, for fourth quarter and onwards? Thank you.

Danny Chung: Well I think the selling cost, we have a small reduction in quarter three but as we're going to pick up the sales in the quarter four, we're going to see the expenses will go back to a normalized level.

Chris Lee: What would the normalized level be?

Danny Chung: That will be in the same line in the last year, I would say. Last year at quarter four.

Chris Lee: Okay, good. Okay, thank you.

Operator: Thank you. Again, as a reminder, ladies and gentlemen, it is star, one to ask a question at this time. One moment please while we poll for additional questions.

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

John Gregory: Thank you. Assuming that the EV71 vaccine is approved next year, does the Company have any estimates on how much they think it will add to the overall revenues for the Company? Could it actually be more than --and increase revenues by more than double?

Helen Yang: (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: We would expect the commercialization of EV71 will have the Company to drive up the growth of our top line but whether it will be doubled or—while the scale of the increase actually is not—we currently didn't make it to the public at the moment but we still see that the market potential of EV71, if we're only talking about in China, we're targeting about 18 million children between six months to five years old. So we would expect that these will help the Company to drive up our growth.

John Gregory: Okay.

Operator: Thank you. Our next question comes from the line of Yi Chen of Aegis Capital. Please proceed with your question.

Yi Chen: Hi, thank you for taking my question. First of all, when do you expect to report Phase 3 data from EV71 trial?

Helen Yang: (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: Because based on the protocol of the Phase 3 trial we would expect to end the trial in January next year, 2013, and after that need to work on the data, analyze it, about the data collected from the trial, so we would expect to announce the result in the first half next year.

Yi Chen: Thank you. My second question is, do you provide any guidance in terms of revenue for fiscal year 2012 and net—total net income for fiscal year 2012?

Danny Chung: Currently we do not provide any guidance on the sales figures for the total fiscal year.

Yi Chen: All right, thank you. Last question; do you—for a cost of revenue do you expect the total fiscal year 2012 cost of sales to be roughly at the same level in terms of percentage of sales compared to 2011?

Danny Chung: First of all, in our last year we do have some government stockpile sales in last year, 2011 so in that case that will not going to happen just like last year. So in that case there will be some deviation because—arising this factor.

Yi Chen: Right, but I'm talking about cost of revenue, will that be at the same level?

Danny Chung: Well that will be the—because of the order not going to be like last year. So in that case the cost of sales level will be different.

Yi Chen: Okay. All right. (Cross talking)

Danny Chung: Compared to last year.

Yi Chen: Okay, thank you.

Operator: Thank you. And as a reminder, ladies and gentlemen, if you would like to ask a question at this time, it is star, one on your telephone keypad. One moment please while we poll for any additional questions.

We do have an additional question from the line of John Gregory of SJ Strategic Investments. Please proceed with your question.

John Gregory: Yes, one last question. The EV71 vaccine, is it the Company's plan to after approval to market the product throughout Asia? I mean, HFMD obviously is a serious situation throughout Asia, so is it targeting just China or is it also going to be marketing in places like Cambodia and Vietnam and places like that?

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: Mr. Yin says actually it's a very good question. We have also been aware about the reported cases in a country like Vietnam and Cambodia and in order to be able to participate into the global sales our—the design of our clinical studies is in line with the international centers and also our Company has contacted with different regulatory organizations in different countries but the regulatory approvals for other countries can only be studied (ph) after the vaccine being approved in China. So we were aiming to commercialize the vaccine in China first and we may consider about other opportunities outside of China.

John Gregory: Okay, thank you.

Helen Yang: Sure.

Operator: Thank you. There are no further questions at this time. I would like to turn the floor back over to management for any closing comments.

Helen Yang: We would like to take this opportunity to thank you for our shareholders and potential investors for caring (ph) about Sinovac and we thank you for your support always. That ends our call today. Thank you very much.

Dr. Weidong Yin: Thank you.

Danny Chung: Thank you.

Operator: Thank you. Ladies and gentlemen, this concludes today's teleconference. You may disconnect at this time. Thank you for your participation.