

November 14, 2017

Highpower International Reports Unaudited Third Quarter, First Nine Months 2017 Financial Results

SAN DIEGO and SHENZHEN, China, Nov. 14, 2017 /PRNewswire/ -- Highpower International, Inc. (NASDAQ: HPJ) ("Highpower" or the "Company"), a developer, manufacturer, and marketer of lithium ion and nickel-metal hydride (Ni-MH) rechargeable batteries, battery management systems, and a provider of battery recycling, today announced its financial results for the third quarter ended September 30, 2017.

Third Quarter 2017 Highlights

- Net sales for the third quarter of 2017 increased by 31.9% to \$71.4 million from \$54.1 million in the prior year period.
- Gross profit for the third quarter of 2017 decreased by 0.8% to \$13.6 million from \$13.7 million in the prior year period.
- EBITDA for the third quarter of 2017 increased by 46.5% to \$7.3 million from \$5.0 million in the prior year period.
- Net income attributable to the Company for the third quarter of 2017 was \$5.0 million, or \$0.32 per diluted share, as compared to \$2.7 million, or \$0.18 per diluted share, in the prior year period. Net income for the quarter included a \$1.7 million gain related to the sale of a long-term investment.

Mr. George Pan, Chairman and CEO of Highpower International, commented, "We are pleased to deliver strong top-line results in a challenging third quarter of 2017. Our lithium ion battery business revenue increased 42.8% year over year, driven by continued high demand for power storage systems and consumer devices including smart wearables, smart phones, and notebooks.

"We expect that raw material prices will continue to rise and impact our gross margins in the fourth quarter and the foreseeable future. However, we are actively improving our production capacity and efficiency, maintaining a strong and cost competitive supply chain, and shifting to a higher-margin product mix, which will aid our growth in the coming year. To further strengthen our technology and product offerings in anticipation of future customer demand, Highpower will increase investment in R&D focused on strategic hiring and partnerships with leading universities and institutes. We also remain committed to exploring more strategic business partnerships to further grow our business and create lasting shareholder value," Mr. Pan concluded.

Third Quarter and First Nine Months of 2017 Financial Results

Net Sales

Net sales for the third quarter of 2017 increased by 31.9% to \$71.4 million from \$54.1 million in the prior year period, primarily attributable to growth in revenue from the Lithium segment. This was driven by increased demand in consumer products including portable power stations, smart wearable devices, smart phones, and notebooks.

Net sales increased 37.5% to \$165.0 million in the first nine months ended September 30, 2017 as compared to \$120.0 million in the same period 2016. The increase was also driven by growth in the Lithium segment due to increased demand in consumer products including portable power stations,

smart wearable devices, smart phones, and notebooks.

Gross Profit

Gross profit for the third quarter of 2017 decreased by 0.8% to \$13.6 million from \$13.7 million in the prior year period. This decrease was mainly due to the product mix and the high raw material price. Gross margin for the third quarter of 2017 decreased to 19.0% from 25.2% in the prior year period.

Gross profit for the first nine months of 2017 increased 30.8% to \$35.6 million from \$27.2 million in prior year period. Gross margin was 21.6% and 22.7% for the nine months ended September 30, 2017 and 2016, respectively. The decrease in margin was also due to the product mix and the high raw material price.

Operating Expenses

- **Research and development (R&D) expenses** for the third quarter of 2017 were \$2.4 million as compared to \$3.0 million in the prior year period. As a percentage of net sales, R&D expenses declined to 3.4% from 5.6% in the prior year period. The decrease was due to the high R&D consulting fee in the same period of 2016.

Research and development expenses were \$6.4 million, or 3.9% of net sales, for the first nine months of 2017 as compared to \$6.7 million, or 5.6% of net sales, for the prior year period.

- **Selling and distribution expenses** for the third quarter of 2017 remained stable at \$1.9 million as compared to the prior year period. As a percentage of net sales, selling and distribution expenses decreased to 2.6% from 3.5% in the prior year period, primarily attributable to the Company's customer base optimization efforts.

Selling and distribution expenses were \$5.2 million, or 3.2% of net sales, as compared with \$5.0 million, or 4.1% of net sales, for the nine months ended September 30, 2016.

- **General and administrative expenses** for the third quarter of 2017 were \$4.0 million as compared to \$5.9 million in the prior year period. As a percentage of net sales, general and administrative expenses decreased to 5.5% from 11.0% in the prior year period.

General and administrative expenses were \$10.0 million, or 6.1% of net sales, as compared with \$12.3 million, or 10.2% of net sales, for the nine months ended September 30, 2016.

Net Income

Net income attributable to the Company for the third quarter of 2017 increased to \$5.0 million from \$2.7 million in the prior year period. Net income attributable to the Company per diluted share for the third quarter of 2017 increased to \$0.32 from \$0.18 in the prior year period. The net income result for the third quarter of 2017 includes a \$1.7 million gain related to the sale of a long-term investment.

For the quarter ended September 30, 2017 and 2016, the Company's weighted average diluted shares outstanding used in computing diluted share was 15,518,764 and 15,115,409, respectively.

Net income attributable to the Company for the first nine months of 2017 increased to \$11.9 million from \$4.4 million in the prior year period. Net income attributable to the Company per diluted share for the first nine months of 2017 increased to \$0.77 from \$0.29 in the prior year period.

For the nine months ended September 30, 2017 and 2016, the Company's weighted average diluted shares outstanding used in computing diluted share was 15,563,012 and 15,104,914, respectively.

EBITDA

EBITDA for the third quarter of 2017 increased by 46.5% to \$7.3 million from \$5.0 million in the prior year period. EBITDA for the first nine months of 2017 increased by 86.1% to \$18.8 million from \$10.1 million in the prior year period.

A table reconciling EBITDA, a non-GAAP financial measure, to the appropriate GAAP measure is included with the Company's financial information below.

Balance Sheet Highlights

| <i>(\$ in millions, except per share data)</i> | September 30, | December 31, |
|--|---------------|---------------|
| | 2017 | 2016 |
| | (Unaudited) | |
| | \$ | \$ |
| Cash | \$11.9 | \$9.3 |
| Total Current Assets | \$147.3 | \$104.5 |
| Total Assets | \$204.4 | \$163.3 |
| | | |
| Total Current Liabilities | \$143.4 | \$118.0 |
| Total Liabilities | \$143.4 | \$118.0 |
| Total Equity | \$61.0 | \$45.3 |
| Total Liabilities and Equity | \$204.4 | \$163.3 |
| Book Value Per Share | \$3.94 | \$3.00 |

Financial Outlook

For the fourth quarter of 2017, the Company expects net revenues to grow 12.0% year-over-year. Factoring in the impact of higher expected raw material prices, gross margin is expected to be between 16.0% and 17.0% in the fourth quarter of 2017. For full year 2018, the Company expects net revenues to grow at least 20.0% compared to 2017 and gross margin levels to exceed that of the fourth quarter of 2017.

Conference Call Details

The Company will hold a conference call on Tuesday, Nov 14, 2017 at 10:00 am Eastern Time or 11:00 pm Beijing Time to discuss the financial results. Participants may access the call by dialing the following numbers:

United States: 877-407-3108
International: 201-493-6797

To listen to the live webcast, please go to www.highpowertech.com and click on the conference call link, or go to <http://highpowertech.equisolvewebcast.com/q3-2017>. This webcast will be archived and accessible through the Company's website for approximately 30 days following the call.

About Highpower International, Inc.

Highpower International was founded in 2001 and produces high-quality Nickel-Metal Hydride (Ni-MH) and lithium-based rechargeable batteries used in a wide range of applications such as electric buses, bikes, energy storage systems, power tools, medical equipment, digital and electronic devices, personal care products, and lighting, etc. Highpower's target customers are Fortune 500 companies and top 20 companies in each vertical segment. With advanced manufacturing facilities located in Shenzhen, Huizhou, and Ganzhou of China, Highpower is committed to clean technology, not only in the products it makes, but also in the processes of production. The majority of Highpower International's products are distributed to worldwide markets mainly in the United States, Europe, China and Southeast Asia.

Use of Non-GAAP Measures

The Company has supplemented its reported GAAP (generally accepted accounting principles) financial information with non-GAAP measures. EBITDA was derived by taking earnings before interest expense (net), taxes, depreciation and amortization. The presentation of this additional information is not meant to be considered in isolation or as a substitute for results prepared in accordance with U.S. GAAP. The Company believes this non-GAAP measure is useful to investors as it provides a basis for evaluating the Company's operating results in the ordinary course of its operations. This non-GAAP measure is not based on any comprehensive set of accounting rules or principles. The Company believes that non-GAAP measures have limitations in that they do not reflect all of the amounts associated with its results of operations as determined in accordance with U.S. GAAP and that these measures should only be used to evaluate the Company's results of operations in conjunction with, and not in lieu of, the corresponding GAAP measures. EBITDA is reconciled in the table below to the most directly comparable measure as reported in accordance with GAAP.

Forward Looking Statements

This press release contains "forward-looking statements" within the meaning of the "safe-harbor" provisions of the Private Securities Litigation Reform Act of 1995 that are not historical facts. Such forward-looking statements include the proposed transaction regarding Ganzhou Highpower, approval by Highpower's board and Highpower's resulting equity ownership, Highpower's cash position and growth, production capacity, research and development efforts, strategic partnerships and business and financial expectations. These statements can be identified by the use of forward-looking terminology such as "believe," "expect," "may," "will," "should," "project," "plan," "seek," "intend," or "anticipate" or the negative thereof or comparable terminology. Such statements involve known and unknown risks, uncertainties and other factors that could cause the Company's actual results to differ materially from the results expressed or implied by such statements, including, without limitation, the occurrence of any event, change or other circumstances that could give rise to the terms of the proposed Ganzhou Highpower not hereafter being approved by Highpower's board or memorialized in a definitive agreement; inability to successfully expand our production capacity; fluctuations in the cost of raw materials; our dependence on, or inability to attract additional, major customers for a significant portion of our net sales; our ability to increase manufacturing capabilities to satisfy orders from new customers; our ability to maintain increased margins; our dependence on the growth in demand for smart wearable devices and energy storage systems, and other digital products and the success of manufacturers of the end applications that use our battery products; lower than expected sales of batteries to producers of smart vacuum products; our responsiveness to competitive market conditions; our ability to successfully manufacture our products in the time frame and amounts expected; the market acceptance of our battery solutions, including our lithium ion batteries; and our ability to continue R&D development to keep up with technological changes. For a discussion of these and other risks and uncertainties see "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's public filings with the SEC. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The Company has no obligation to update the forward-looking information contained in this press release.

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HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Stated in US Dollars)

| | <u>September 30, 2017</u> | <u>December 31, 2016</u> |
|------------------------------------|-------------------------------|--------------------------|
| | <i>(Unaudited)</i> | |
| | \$ | \$ |
| ASSETS | | |
| Current Assets: | | |
| Cash | 11,904,511 | 9,324,393 |
| Restricted cash | 20,905,411 | 11,213,640 |
| Accounts receivable, net | 56,313,941 | 46,280,769 |
| Amount due from Yipeng | - | 7,517,250 |
| Notes receivable | 6,805,932 | 1,093,730 |
| Prepayments and other receivables | 16,175,372 | 6,899,872 |
| Inventories | 35,216,303 | 22,207,333 |
| Total Current Assets | <u>147,321,470</u> | <u>104,536,987</u> |
| Property, plant and equipment, net | 49,789,095 | 43,504,991 |
| Land use right, net | 3,718,804 | 3,622,435 |

| | | |
|--|--------------------|--------------------|
| Other assets | 462,500 | 500,000 |
| Deferred tax assets | 1,386,829 | 1,477,761 |
| Long-term investment | 1,765,499 | 9,689,576 |
| TOTAL ASSETS | 204,444,197 | 163,331,750 |
| LIABILITIES AND EQUITY | | |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts payable | 59,937,145 | 49,463,901 |
| Deferred income | 807,792 | 761,491 |
| Short-term loans | 10,609,112 | 18,776,080 |
| Non-financial institution borrowings | 10,527,424 | 3,741,115 |
| Notes payable | 46,124,404 | 30,658,000 |
| Foreign currency derivatives liabilities | 169,958 | - |
| Amount due to Yipeng | - | 1,522,313 |
| Other payables and accrued liabilities | 13,061,886 | 11,148,556 |
| Income taxes payable | 2,212,145 | 1,963,298 |
| Total Current Liabilities | 143,449,866 | 118,034,754 |
| Warrant Liability | - | 259 |
| TOTAL LIABILITIES | 143,449,866 | 118,035,013 |

COMMITMENTS AND CONTINGENCIES

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Stated in US Dollars)

| | <u>September 30 2017</u> <i>(Unaudited)</i> | <u>December 31, 2016</u> |
|---|--|--------------------------|
| | \$ | \$ |
| EQUITY | | |
| Stockholders' equity | | |
| Preferred stock | - | - |
| (Par value: \$0.0001, Authorized: 10,000,000 shares, Issued and outstanding: none) | | |
| Common stock | | |
| (Par value: \$0.0001, Authorized: 100,000,000 shares, 15,476,000 shares issued and outstanding at September 30, 2017 and 15,114,991 shares issued and outstanding at December 31, 2016) | 1,547 | 1,511 |
| Additional paid-in capital | 12,307,206 | 11,580,934 |
| Statutory and other reserves | 4,992,463 | 4,992,463 |
| Retained earnings | 41,197,146 | 29,266,068 |
| Accumulated other comprehensive income (loss) | 1,848,819 | (873,582) |
| | <hr/> | <hr/> |
| Total equity attributable to the stockholders of Highpower International Inc. | 60,347,181 | 44,967,394 |
| Non-controlling interest | 647,150 | 329,343 |
| | <hr/> | <hr/> |
| TOTAL EQUITY | 60,994,331 | 45,296,737 |
| | <hr/> | <hr/> |
| TOTAL LIABILITIES AND EQUITY | 204,444,197 | 163,331,750 |
| | <hr/> | <hr/> |

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Stated in US Dollars)

| | <i>Three months ended September 30,</i> | | <i>Nine months ended September 30,</i> | |
|--|---|---------------------|--|---------------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| | \$ | \$ | \$ | \$ |
| Net sales | 71,405,560 | 54,142,916 | 164,972,338 | 119,972,281 |
| Cost of sales | (57,845,224) | (40,475,820) | (129,405,402) | (92,784,475) |
| Gross profit | <u>13,560,336</u> | <u>13,667,096</u> | <u>35,566,936</u> | <u>27,187,806</u> |
| Research and development expenses | (2,433,928) | (3,029,628) | (6,385,144) | (6,688,397) |
| Selling and distribution expenses | (1,859,762) | (1,881,277) | (5,220,985) | (4,955,708) |
| General and administrative expenses | (3,959,731) | (5,935,907) | (10,034,694) | (12,254,520) |
| Foreign currency transaction (loss) gain | (816,593) | 126,732 | (1,645,095) | 636,609 |
| Loss on derivative instruments | (146,481) | - | (146,481) | - |
| Total operating expenses | <u>(9,216,495)</u> | <u>(10,720,080)</u> | <u>(23,432,399)</u> | <u>(23,262,016)</u> |
| Income from operations | <u>4,343,841</u> | <u>2,947,016</u> | <u>12,134,537</u> | <u>3,925,790</u> |
| Changes in fair value of warrant liability | - | (11,150) | 259 | 115,396 |
| Other income | 94,775 | 505,928 | 949,233 | 1,717,803 |
| Equity in earnings of investee | 1,087 | 218,903 | 106,412 | 218,903 |
| Gain on dilution in equity method investee | 5,071 | - | 496,396 | - |

| | | | | |
|--|-------------|------------|-------------|-------------|
| Gain on sales of long-term investment | 1,664,377 | - | 1,664,377 | - |
| Interest income (expenses) | 57,663 | (341,520) | (926,185) | (1,051,914) |
| Income before taxes | 6,166,814 | 3,319,177 | 14,425,029 | 4,925,978 |
| Income taxes expenses | (1,013,919) | (769,065) | (2,197,392) | (978,882) |
| Net income | 5,152,895 | 2,550,112 | 12,227,637 | 3,947,096 |
| Less: net income (loss) attributable to non-controlling interest | 128,702 | (101,194) | 296,558 | (413,384) |
| Net income attributable to the Company | 5,024,193 | 2,651,306 | 11,931,079 | 4,360,480 |
| Comprehensive income | | | | |
| Net income | 5,152,895 | 2,550,112 | 12,227,637 | 3,947,096 |
| Foreign currency translation gain (loss) | 1,258,937 | 171,574 | 2,743,650 | (1,542,704) |
| Comprehensive income | 6,411,832 | 2,721,686 | 14,971,287 | 2,404,392 |
| Less: comprehensive income (loss) attributable to non-controlling interest | 139,461 | (103,831) | 317,807 | (429,713) |
| Comprehensive income attributable to the Company | 6,272,371 | 2,825,517 | 14,653,480 | 2,834,105 |
| Earnings per share of common stock attributable to the Company | | | | |
| - Basic | 0.33 | 0.18 | 0.78 | 0.29 |
| - Diluted | 0.32 | 0.18 | 0.77 | 0.29 |
| Weighted average number of common stock outstanding | | | | |
| - Basic | 15,369,674 | 15,103,007 | 15,270,898 | 15,102,121 |
| - Diluted | 15,518,764 | 15,115,409 | 15,563,012 | 15,104,914 |

Reconciliation of Net Income to EBITDA

| | <i>Three months ended September 30,</i> | | <i>Nine months ended September 30,</i> | |
|--|---|--------------------|--|--------------------|
| | <i>2017</i> | <i>2016</i> | <i>2017</i> | <i>2016</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| | \$ | \$ | \$ | \$ |
| Net income attributable to the Company | 5,024,193 | 2,651,306 | 11,931,079 | 4,360,480 |
| Interest (income) expense | (57,663) | 341,520 | 926,185 | 1,051,914 |
| Income taxes expenses | 1,013,919 | 769,065 | 2,197,392 | 978,882 |
| Depreciation and Amortization | 1,362,196 | 1,249,157 | 3,792,178 | 3,735,353 |
| EBITDA | 7,342,645 | 5,011,048 | 18,846,834 | 10,126,629 |

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Stated in US Dollars)

| | <i>Nine Months Ended September 30,</i> | |
|---|--|--------------------|
| | <i>2017</i> | <i>2016</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| | \$ | \$ |
| Cash flows from operating activities | | |
| Net income | 12,227,637 | 3,947,096 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 3,792,178 | 3,735,353 |
| Allowance for doubtful accounts | 48,866 | 1,661,968 |
| Loss on disposal of property, plant and equipment | 57,277 | 197,848 |
| Deferred income tax | 153,625 | (63,934) |

| | | |
|---|--------------|--------------|
| Loss on derivative instruments | 166,387 | - |
| Equity in earnings of investee | (106,412) | (218,903) |
| Gain on dilution in equity method investee | (496,396) | - |
| Gain on sales of long-term investment | (1,664,377) | - |
| Share based compensation | 86,921 | 244,142 |
| Changes in fair value of warrant liability | (259) | (115,396) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (8,517,071) | (13,619,029) |
| Notes receivable | (5,543,798) | (59,905) |
| Prepayments and other receivables | (8,775,985) | (230,595) |
| Amount due from Yipeng | 7,691,900 | (3,004,025) |
| Amount due to Yipeng | (1,557,682) | 1,560,360 |
| Inventories | (11,753,127) | (2,457,733) |
| Accounts payable | 7,049,819 | 11,817,867 |
| Deferred income | 11,637 | (82,697) |
| Other payables and accrued liabilities | 1,394,691 | 3,745,023 |
| Income taxes payable | 156,744 | 119,859 |
| | <hr/> | <hr/> |
| Net cash flows (used in) provided by operating activities | (5,577,425) | 7,177,299 |
| Cash flows from investing activities | | |
| Acquisitions of property, plant and equipment | (7,297,901) | (8,474,440) |
| Acquisition of investment | - | (3,039,006) |

| | | |
|---|--------------|--------------|
| Proceeds from sale of long-term investment | 10,453,475 | - |
| | <hr/> | <hr/> |
| | 3,155,574 | (11,513,446) |
| Net cash flows provided by (used in) investing activities | <hr/> | <hr/> |
| Cash flows from financing activities | | |
| Proceeds from short-term loans | 8,797,727 | 18,158,059 |
| Repayments of short-term loans | (17,594,229) | (10,650,400) |
| Repayments of long-term loans | - | (1,823,403) |
| Proceeds from non-financial institution borrowings | 10,306,243 | 4,558,509 |
| Repayments of non-financial institution borrowings | (3,828,033) | - |
| Proceeds from notes payable | 62,193,463 | 41,908,812 |
| Repayments of notes payable | (48,408,417) | (39,518,955) |
| Proceeds from exercise of employee options | 635,484 | 19,304 |
| Change in restricted cash | (8,992,019) | 601,759 |
| | <hr/> | <hr/> |
| | 3,110,219 | 13,253,685 |
| Net cash flows provided by financing activities | <hr/> | <hr/> |
| | 1,891,750 | (1,290,306) |
| Effect of foreign currency translation on cash | <hr/> | <hr/> |
| | 2,580,118 | 7,627,232 |
| Net increase in cash | | |
| | <hr/> | <hr/> |
| Cash - beginning of period | 9,324,393 | 5,849,967 |
| | <hr/> | <hr/> |
| Cash - end of period | 11,904,511 | 13,477,199 |
| | <hr/> | <hr/> |
| Supplemental disclosures for cash flow information: | | |
| Cash paid for: | | |
| Income taxes | 1,464,592 | 922,957 |
| Interest expenses | 1,402,447 | 1,051,914 |

Non-cash investing and financing activity

| | | |
|---|---------|--------|
| Offset of deferred income related to government grant and property, plant and equipment | 171,403 | 33,019 |
|---|---------|--------|

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SOURCE Highpower International, Inc.