

August 29, 2011

Stock Rating  
**Overweight**

Industry View  
**In-Line**

## Sagent Pharmaceuticals IMS Tracker: July 2011

**Investment conclusion:** At the current weekly run rate, total sales implied for 3Q are \$27.1 MM (before gross to net adjustments) compared to MSe of \$43MM. New products launches remain key to reaching estimates for the year and July data are largely too early to provide meaningful visibility. Total IMS sales were up 112% in July y/y vs June at 152%. Excluding heparin and topotecan, sales were up 27%. QoQ and MoM sales were down -17% and down -3% respectively on a weekly average basis, but there appears to be negative seasonality in the IMS data for July. Heparin, topotecan and cefepime were 64% of sales in July compared to 65% in June. IMS data have been variable and Sagent uses several smaller distributors not captured by IMS.

**Still too early for conclusions on 2H launches, IMS capture likely poor.** **Gemcitabine:** Sagent launched toward the end of July and the use of specialty distributors will likely limit capture going forward. Early launch commentary has been positive. Consistent with this, IMS data do not reflect any non-Teva/APP/Hospira generics as of yet. **Levofloxacin:** is the most important of the new launches, and with Sagent launching only mid-month, August data should be more informative. That said, management conversations suggest that Sagent is direct shipping a significant portion of inventory, which will be missed by IMS, but other generics do show up in IMS. **Zosyn:** token sales (\$1,186 in July) are not surprising as discounted branded inventory likely works through the channel. We look forward to additional clarity from the August IMS data.

**Topotecan stable in July:** Sagent's share was 16% in July compared to 16% in June and 28% in May. Read through is imperfect as Sagent uses several smaller oncology distributors that are poorly captured by IMS.

**Heparin holding flat:** Total heparin share was flat sequentially at ~16% where it has been YTD.

**Cefepime share flat at ~ 30%:** Sagent's share was 29%, flat with 29% in June and 28% in May.

### Key Ratios and Statistics

Reuters: SGT.O Bloomberg: SGNT US

Medical Technology / United States of America

Shr price, close (Aug 26, 2011)	\$23.09
Mkt cap, curr (mm)	\$431
52-Week Range	\$29.23-13.50

Fiscal Year ending	12/10	12/11e	12/12e	12/13e
ModelWare EPS (\$)	ND	(1.11)	0.35	1.21
Prior ModelWare EPS (\$)	-	-	-	-
P/E	ND	NM	66.8	19.0
Consensus EPS (\$)\$	(7.13)	(0.85)	0.48	1.85
Div yld (%)	ND	0.0	0.0	0.0

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

\$ = Consensus data is provided by FactSet Estimates.

e = Morgan Stanley Research estimates

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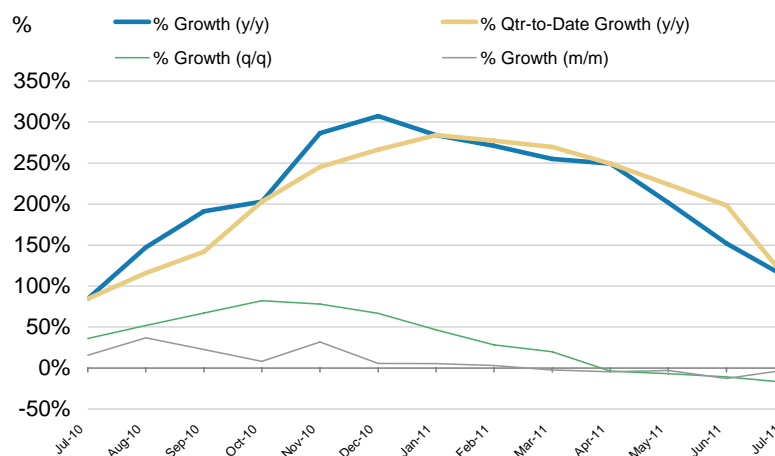
## Sagent 3Q11 IMS Trend Through July

### Sagent Product Sales

Total IMS sales were up 112% in July y/y. Excluding heparin and topotecan, sales were up 27%. QoQ sales were down -17% and MoM sales were down -3% on a weekly average basis. The fastest growth products were 1) ampicillin (2.0% of sales +3182% y/y), 2) heparin (40.9% of sales, +464% y/y, and 3) eprubicin (1.4% of sales, +132% y/y).

The current weekly run rate implies ~\$27.1MM in sales for 3Q (before gross to net adjustments) compared to our estimate of \$43MM. However, this does not include the impact of recently approved Levofloxacin, Zosyn or additional new products, which have not yet materially been reflected in IMS (\$1,186 for Zosyn in July is total read-through to date).

### US IMS Product Sales for Sagent

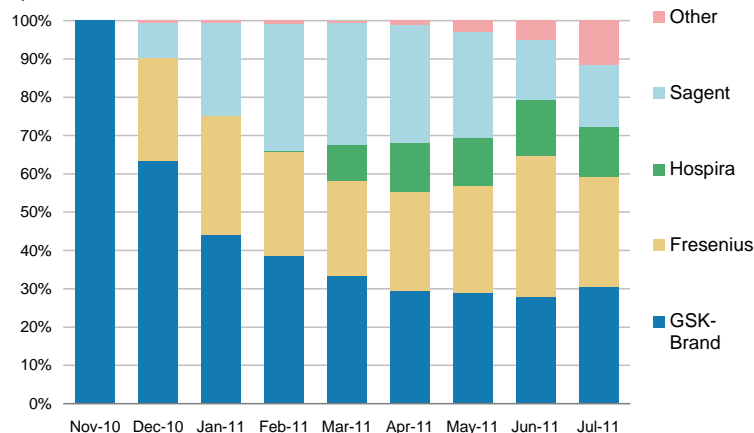


Source: IMS, Morgan Stanley Research.

### Topotecan Stable But Depressed

Sagent's share was 16% in July compared to 16% in June and 28% in May. Sales down -2% MoM on a weekly average basis. APP gave back most of its share gain in June to new entrant Boehringer. The question is whether or not Sagent's topotecan share will stay permanently depressed at the mid-teens level or will claw back some of its losses in 2H. Management also reported last quarter that IMS data overstated share losses. While price has been falling in the market with new entrants, unit share has not been as severely impacted as several smaller oncology distributors used by Sagent are not captured well by IMS.

### Topotecan Share



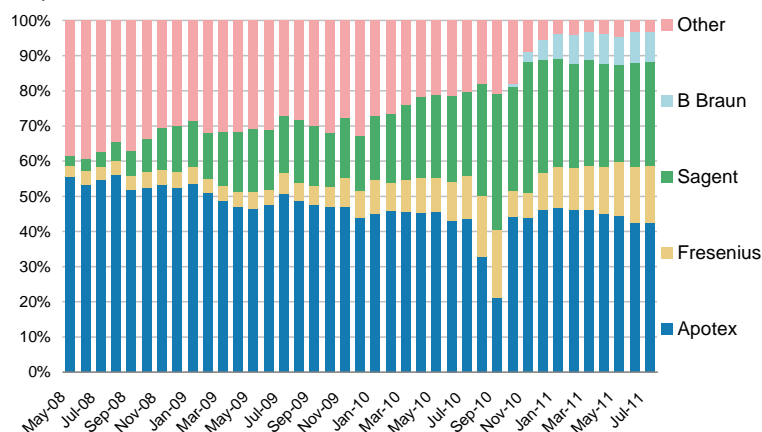
Source: IMS, Morgan Stanley Research.

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## Cefepime share flat at ~30%

Sagent's market share was 29%, which is consistent with 28% in June and 28% in May. Weekly average sales were approximately flat MoM at -3% and up 7% y/y.

Cefepime Share

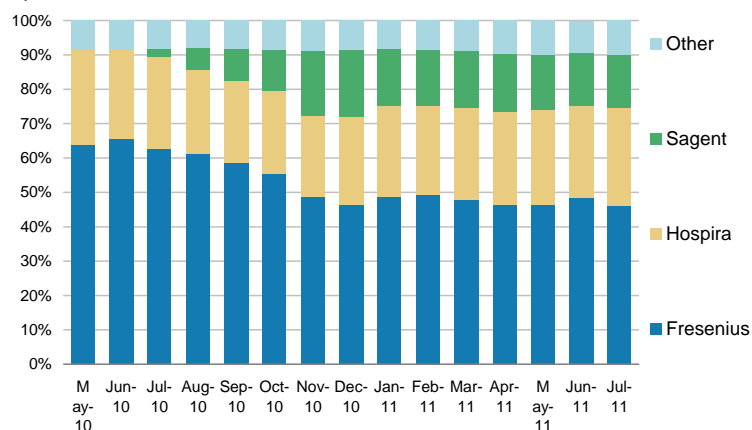


Source: IMS, Morgan Stanley Research.

## Heparin share holding flat

Total heparin share was flat sequentially at 16% where it has been all year. Excluding the lock-flush products, share was 17% for Sagent. Sales were down -4% on a weekly average basis over June and the down -8% over the 2Q average. Pfizer's recent FDA approval for heparin remains of unclear importance for this market and has not yet been picked up by IMS. In addition, Hospira recently noted continued pricing pressure in the Heparin market, which is worth watching as well.

Heparin Share



Source: IMS, Morgan Stanley Research

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Please refer to the notes at the end of the report.

## Company Description

Sagent Pharmaceuticals, Inc., a specialty injectables company, engages in developing, manufacturing, sourcing, and marketing injectable pharmaceutical products in the United States and internationally. It offers injectable products in the therapeutic areas of cardiovascular, anti-infective/antibacterial, antineoplastic agents, and antiemetic.

## Medical Technology/United States of America

Industry View: In-Line

## GICS Sector: Health Care

Stratigist's Recommended Weight: 15.2%

S&P 500 Weight: 11.8%

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(as of July 31, 2011)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>1107</b>	<b>40%</b>	<b>451</b>	<b>48%</b>	<b>41%</b>
<b>Equal-weight/Hold</b>	<b>1136</b>	<b>41%</b>	<b>372</b>	<b>40%</b>	<b>33%</b>
<b>Not-Rated/Hold</b>	<b>114</b>	<b>4%</b>	<b>20</b>	<b>2%</b>	<b>18%</b>
<b>Underweight/Sell</b>	<b>384</b>	<b>14%</b>	<b>97</b>	<b>10%</b>	<b>25%</b>
<b>Total</b>	<b>2,741</b>		<b>940</b>		

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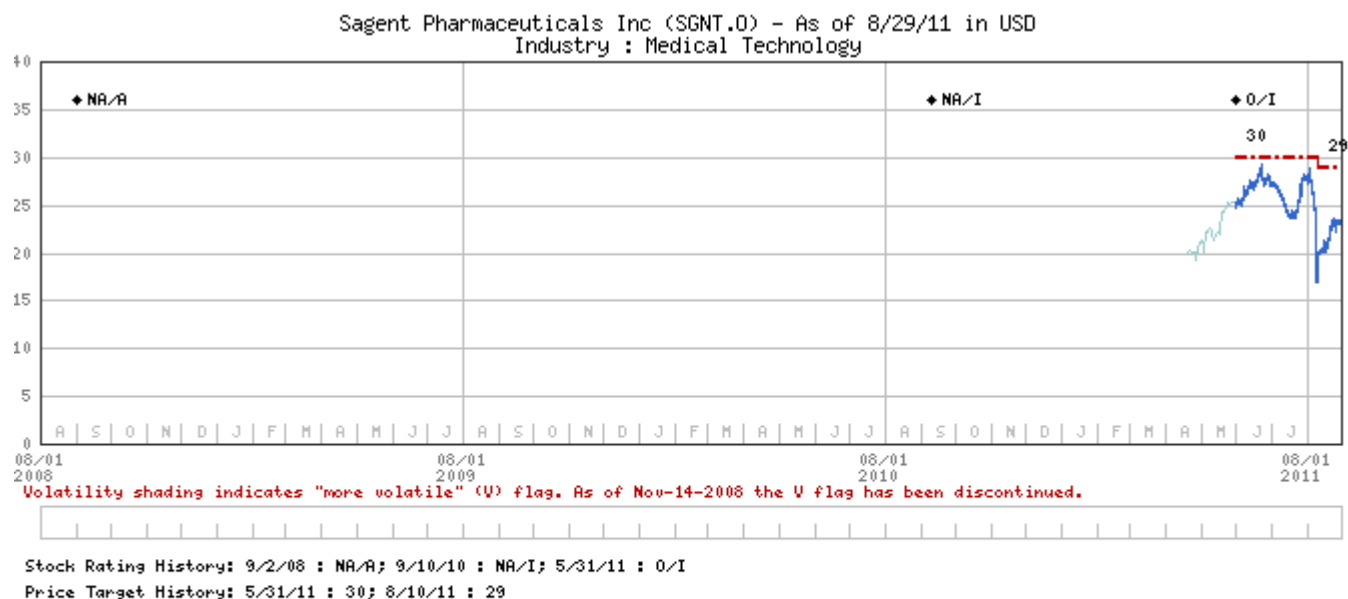
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Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

## Stock Price, Price Target and Rating History (See Rating Definitions)

August 29, 2011  
Sagent Pharmaceuticals



Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)  
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —  
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View  
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)  
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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## Industry Coverage: Medical Technology

Company (Ticker)	Rating (as of)	Price* (08/26/2011)
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Abiomed (ABMD.O)	E (02/06/2009)	\$11.7
Baxter International (BAX.N)	O (09/04/2008)	\$53.73
Becton Dickinson (BDX.N)	E (07/31/2009)	\$79.73
Boston Scientific (BSX.N)	E (09/10/2010)	\$6.37
C.R. Bard (BCR.N)	E (01/03/2011)	\$91.46
CareFusion Corp. (CFN.N)	O (05/20/2010)	\$24.72
Covidien (COV.N)	O (07/15/2010)	\$50.59
Edwards Lifesciences (EW.N)	E (09/04/2008)	\$73.58
Haemonetics Corporation (HAE.N)	U (01/03/2011)	\$60.88
Hansen Medical, Inc. (HNSN.O)	U (01/08/2009)	\$3.18
Hologic, Inc. (HOLX.O)	E (05/05/2009)	\$16.01
Integra LifeSciences (IART.O)	E (09/10/2010)	\$38.38
Intuitive Surgical Inc. (ISRG.O)	E (10/02/2007)	\$356.93
Johnson & Johnson (JNJ.N)	E (08/10/2010)	\$64.28
MAKO Surgical Corp. (MAKO.O)	E (07/11/2011)	\$32.42
Medtronic Inc. (MDT.N)	E (09/04/2008)	\$34.05
St. Jude Medical (STJ.N)	U (01/03/2011)	\$45
Stryker Corporation (SYK.N)	O (01/08/2010)	\$46.17
Zimmer Holdings, Inc. (ZMH.N)	E (07/16/2009)	\$54.18
<b>Marshall Urist, M.D., Ph.D.</b>		
Hospira (HSP.N)	E (07/16/2009)	\$44.5
Sagent Pharmaceuticals Inc (SGNT.O)	O (05/31/2011)	\$23.09

Stock Ratings are subject to change. Please see latest research for each company.  
\* Historical prices are not split adjusted.