Sagent Pharmaceuticals, Inc.

Collins Stewart
Independent thinking

US | Specialty Pharma | SGNT

January 11, 2012

Improving Price & Margin Expansion Will Drive EPS Growth

Fiscal Year Ends: Dec		2010E	2011E	2012E
Revenue (MM)		$74	$148	$226
PF Earnings per Share				
	Q1	NM	(2.09)A	(0.06)
	Q2	NM	(0.37)A	0.00
	Q3	NM	(0.17)A	0.15
	Q4	NM	(0.17)	0.25
Year		NM	(1.10)	0.34
P/E ProForma		NM	NM	62.7x
Diluted Shares (MM)		NM	20.0	28.4

Recommendation	BUY
Price	$21.32
Target	$25.00

Key Data	
52-Week Range	$29.23-$13.50
Shares Outstanding (MM)	27.9
Market Cap (MM)	$594
Avg. Daily Volume (000)	93
Float (MM)	6.4
% Held Institutionally	136.4%

■ More positive on SGNT growth prospects post mgt. meetings
We are reiterating our Buy rating and $25 price target for SGNT shares post our management meeting on Tuesday with Jeff Yordon (CEO), Ron Pauli (Chief Business Officer), and Jonathan Singer (CFO). We highlight the key topics discussed below. Also, SGNT is likely to give 2012 financial guidance on its 4Q11 earnings release 2/16/12.

■ SGNT sees many opportunities to expand its gross margin
Gross margin expansion will be driven by, (1) Higher margin products manufactured in its own facilities (like KSP), (2) New product launches at market formation, And (3) Increased pricing of critical shortage drugs. SGNT may launch a large drug in 2012 (in the range of $500MM in sales like Propofol for APP). Also, SGNT noted that it can get 40% gross margins on some drugs even with profit sharing.

■ SGNT getting better prices for critical shortage drugs
The shortage of injectable drugs in the market is at unprecedented levels. The company believes the primary reason for the shortage is low profitability (caused by Medicare cap). On average, manufacturers have to price drugs well over the Medicare cap to get a positive profit margin. For example, paclitaxel sells for $93, but SGNT needed to price it at $163 to get a 30% gross margin. As a result, companies have stopped making these drugs. SGNT's strategy is to be a consistent supplier of injectable drugs to its customers at a higher price, and this is starting to work. Select customers are beginning to pay more for critical shortage drugs. SGNT sells 10 shortage drugs and will launch more in 2012.

■ China is 12x US market & may be good opportunity for SGNT
Though the Chinese pharma market is competitive and fragmented, SGNT noted that low cost domestic injectable products are often poor quality. Therefore, China will have to import or locally produce higher quality drugs. SGNT is in a good position to take advantage of this situation. The opportunity in China is 12x larger (by volume) than the US.

■ Upcoming Catalysts
(1) 14 new product launches before mid-2012 (ANDAs already approved), (2) 2012 guidance 2/16, (3) 27 ANDAs on file 31+ months, (4) Biz Dev

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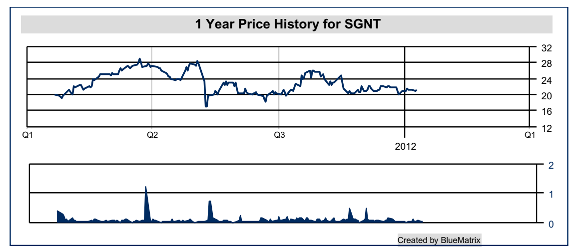
Stock Performance



	1m	3m	12m
Performance	1.7%	0.8%	

Source: Bloomberg

Sagent Pharmaceuticals, Inc., founded in 2006, is a specialty pharmaceutical company focused on developing, manufacturing, sourcing and marketing pharmaceutical products, with a specific emphasis on injectable products. Sagent has created a unique, global network of resources, comprised of rapid development capabilities, sophisticated manufacturing and innovative drug-delivery technologies, quickly yielding an extensive portfolio of pharmaceutical products that fulfills the evolving needs of patients.

Please see page 2 for risks to valuation and rating.

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Valuation & Risks

Sagent Valuation Methodology: We use a blend of price to earnings (P/E), discounted cash flow (DCF) and sum of the parts analysis to get to our 12-month price target of $25. Using a P/E analysis, we arrive at a 12-month value of $22. We apply a 17 times multiple to 2013 earnings of $1.30. This multiple is higher than SGNT's peers which are trading at a 15 times forward P/E multiple. We believe that SGNT deserves to trade at a higher multiple than its peers because it has better earnings potential than its more mature peers. We also believe that SGNT could be an acquisition target in a consolidating industry and this provides a floor to its valuation. Our DCF analysis arrives at a 12-month value of $27. We use a WACC of 10% and an exit multiple of 7 times EBIT. Using a sum of the parts analysis we arrive at a 12-month value of $32. We have excluded any redundant overhead to determine what each division would be worth if the company were broken up and spun off or acquired by another company.

There are four key risks to our price target.

(1) Supply and/or manufacturing issues

(2) Inability to get new products approved and launched

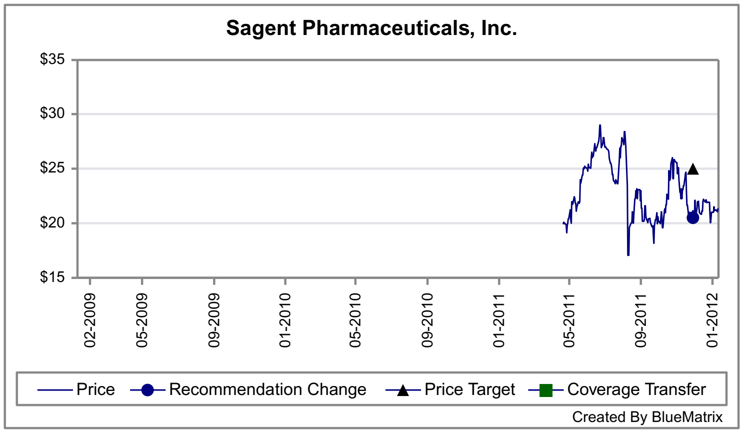
(3) Increasing competition for generic injectable drugs

Disruption in key partnerships

Important Disclosure / Disclaimer Information

Other Public Companies Mentioned in this Report

Company	Ticker	Price	Recommendation
Sagent Pharmaceuticals, Inc.	SGNT	$21.32	BUY



Ticker	Date	Action	Prior Rating	Current Rating	Price	Target Price
SGNT	2011-11-29	Initiation of Coverage	NA	BUY	$20.51	$25.00

Collins Stewart LLC Ratings

Valuation and Risks

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BUY: Improving fundamentals and/or identifiable catalysts in place expected to cause stock to outperform its industry

NEUTRAL: Company's fundamental backdrop suggest stock should perform in line with industry

SELL: Deteriorating fundamentals and/or identifiable catalysts in place expected to cause stock to underperform its industry

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	% of CSTI Universe with this rating	% of rating tier for which CSTI provided IB services
Buy	54%	0%
Hold	43%	0%
Sell	3%	0%

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