Initiation
Neutral

SGNT, SGNT US
Price: $20.96

Price Target: $25.00

Sagent Pharmaceuticals

Initiating with a Neutral Rating and $25 Price Target

We are initiating coverage of Sagent, an emerging generic injectable pharmaceutical company, with a Neutral rating and a $25 December 2012 price target. We believe Sagent's unique injectable generic model, which combines a network of development and manufacturing partners with a highly experienced sales organization, positions the company well for long-term market share gains and significant top-line and EPS growth. However, at a relatively early stage in its development, we believe near-term results could remain volatile (in both a positive and negative direction) and see a fairly balanced risk/reward at current levels.

- **Unique business model within generic injectable pharmaceuticals.** Sagent operates a virtual development and manufacturing model that relies on a network of roughly 50 partners worldwide. While this model has its challenges, we believe it also provides the company with several clear advantages over its more traditional competitors including increased/flexible capacity, diversification of supply and reduced development expenses. These advantages have enabled the company to build a portfolio of over 30 products in the short period since Sagent's founding in 2006. In addition, Sagent has built a robust product pipeline of 75 pending ANDAs covering 42 products that should translate into acceleration of new product introductions in 2012 and 2013.
- **Anticipating profitability in 2012 and improved economics over time.** As its business model evolves, we expect Sagent will see improved margins based on a combination of improved supplier terms, better economics on newer partnerships and through the completion of a manufacturing facility developed with Chengdu Kanghong Technology Group in Chengdu, China. We forecast gross margins to improve to the mid-30% level by 2015, up from 15% estimated for 2011. With little debt on the balance sheet, we believe the company may also seek to expand its existing US product portfolio, although the timing and scope of such activities remain unclear.
- **Experienced management team key to SGNT's success.** With decades of experience in the generic injectables market, we believe Sagent's management team has the contacts and expertise to both successfully source new product opportunities as well as navigate the group purchasing landscape. In particular, Sagent's CEO Jeffrey Yordon has over 40 years of experience in the injectable generics industry and has held management roles at nearly every major injectable generic manufacturer.
- **Valuation: Initiating with $25 Price Target.** As Sagent is not yet profitable and with few pure comparisons to Sagent in the generic pharmaceutical universe, we use a DCF methodology to arrive at a $25 December 2012 price target for SGNT shares.

Generic Pharmaceuticals

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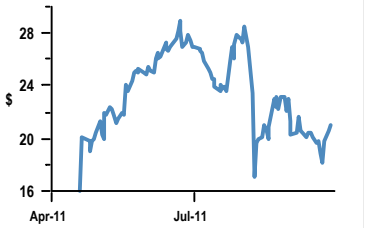
Price Performance



	YTD	1m	3m	12m
Abs	31.0%	-9.2%	-23.2%	31.0%

Sagent Pharmaceuticals, Inc. (SGNT;SGNT US)

FYE Dec	2011E	2012E	2013E	2014E	2015E
EPS Reported ($)					
Q1 (Mar)	(2.09)A	(0.01)	-	-	-
Q2 (Jun)	(0.37)A	0.05	-	-	-
Q3 (Sep)	(0.11)	0.14	-	-	-
Q4 (Dec)	(0.06)	0.23	-	-	-
FY	(0.86)	0.42	1.70	2.38	2.69
Bloomberg EPS FY ($)	(0.85)	0.48	1.85	-	-

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	20.96
Date Of Price	27 Sep 11
52-week Range ($)	29.23 - 13.50
Mkt Cap ($ mn)	586.88
Fiscal Year End	Dec
Shares O/S (mn)	28
Price Target ($)	25.00
Price Target End Date	31 Dec 12

See page 33 for analyst certification and important disclosures.

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Investment Thesis

Sagent (SGNT)

Neutral

Sagent brings a unique business model to generic injectable pharmaceuticals

In our view, Sagent can reap several benefits from its development and manufacturing model that we believe give it distinct advantages over its more established competitors in the generic injectable market including increased capacity, diversification of supply and reduced development expenses. These advantages have enabled the company to build a portfolio of over 30 products in the short period since its founding in 2006. In addition, Sagent has built a robust product pipeline of 75 pending ANDAs covering 42 products that should translate into an acceleration of new product introductions in 2012 and 2013.

Experienced management team key to SGNT's success

With decades of experience in the generic injectables market, most recently at APP (now part of Fresenius), we believe Sagent's management team has the contacts and expertise to both successfully source new product opportunities as well as navigate the group purchasing landscape. In particular, Sagent's CEO Jeffrey Yordon has over 40 years of experience in the generic injectables industry and has held management roles at nearly every major generic injectables manufacturer. In our view, this experienced management team is translating into better than expected market share for a new generics manufacturer. Despite significantly larger competitors, Sagent has an average 19% share in the markets in which it competes.

Targeting the high barrier-to-entry generic injectables market

With relatively few competitors, ongoing industry capacity constraints and a different purchasing model than traditional generic non-injectable products, we see the injectable generic market as a very attractive segment of the generic market. Similar to the oral generic market, there are a number of large injectable products that have lost or are losing patent protection over the next several years. Equally important, if not more so, there are a substantial number of smaller, niche injectable products with either limited competition or current supply shortages. These smaller products represent a significant opportunity for Sagent to gain share in markets with high margins and sustainable pricing. We will watch these overall dynamics of the injectable market closely as Sagent expands its product portfolio and a number of larger pharmaceutical players seek to expand their injectable product offerings.

Sagent's portfolio is just emerging; current high product concentration could translate to volatile stock performance

As Sagent is a relatively young company and has yet to reach quarterly profitability, we expect the company's P&L could be quite volatile from quarter to quarter as the company's product portfolio reaches critical mass. As of 2Q/11, the company's top 5 products account for roughly 70% of IMS sales and its largest product (heparin) faces two recently approved competitors. This product concentration should decline over time (especially with recent launches such as generic Gemzar, Zosyn, Levaquin and Norcuron). That said, we expect stock performance to be particularly volatile around quarterly earnings reports as seen with 2Q/11 results.

Looking for improved product economics over time

As its business model evolves, we expect Sagent will see better economics based on improved supplier terms (including lower API prices), newer partnerships that offer improved profit splits and through the completion of a manufacturing facility in Chengdu, China, through Sagent's KSP joint venture. As such, we are targeting gross margins of close to 35% over time compared with a 1H/11 gross margin of 12%. With little debt on the balance sheet, we believe the company may also seek to expand its existing US product portfolio, although the timing and scope of such activities remain unclear.

Expecting significant sales growth and margin leverage over the next several quarters

We expect that Sagent's continued portfolio rollout should enable annual sales to reach roughly $350 million by 2013 and close to $500 million by 2015 from roughly $150 million estimated in 2011. In addition, we expect the launch of higher-margin products, coupled with supply chain and sourcing optimization, to increase overall gross margin from under 16% estimated in 2011 to over 35% by 2015. We expect Sagent to reach profitability in 2012 with an estimated EPS of $0.42 for the year, ramping to an estimated $2.69 by 2015.

$25 price target based on DCF analysis; additional product clarity could drive potential upside to our estimates.

Given that Sagent is not yet profitable and there are few pure comparisons to Sagent in the generic pharmaceutical universe, we use a DCF methodology to arrive at a $25 December 2012 valuation for SGNT shares.

Risks to Rating and Price Target

Downside Risks

Production issues with a large number of suppliers

Given the high rate of product difficulties in the generic injectables industry, coupled with Sagent's broad exposure to a range of manufacturing partners, we expect Sagent could from time to time experience product shortages or quality issues. This has already occurred with one supplier and Sagent was forced to exit the markets for ondansetron and metronidazole as a result. At the same time, we believe it is unlikely the company will face a high concentration of product recalls given the diversification that comes with its broad manufacturing network.

Sagent's current product revenue is concentrated in just a few products

We estimate that Sagent's top selling product – heparin – accounts for around 33% of overall revenue. This is one of highest single-product exposures within our generics coverage universe. Any aggressive competition (two additional suppliers were recently approved) and/or supply issues for this product could negatively impact Sagent's revenue and earnings potential.

Sagent must substantially expand margins to achieve profitability

Sagent's 1H/11 gross margin – while impacted by a number of one-time items – was only 12% and the company has yet to post a profitable quarter. In order for the company to achieve profitability, Sagent must significantly expand its gross margins

through increased margins on its existing products, coupled with the addition of higher-margin products to its portfolio.

Current management is key to Sagent's success

Sagent's development model is reliant on the current management team's industry knowledge and expertise. Any significant disruptions to the current management, particularly the company's CEO, could adversely impact the company's growth prospects, in our view.

A majority of SGNT shares are held by insiders

Three funds currently hold nearly 60% of SGNT's outstanding shares and the stock could be weak if any of these investors sought to liquidate their position in the company. In addition, the company has a relatively low daily volume, averaging roughly 130,000 shares per day. As such, we expect SGNT shares to be more volatile than other pharmaceutical companies, especially with catalyst news flow and when the company reports quarterly earnings.

Upside Risks

Product launches could significantly contribute to revenue/profitability

While we expect significant product flow from Sagent over the next several quarters, we have only partial visibility into the actual products management plans to launch during this period. In the event of an earlier-than-expected major product approval such as generic Taxotere, we could see significant upside to our near-term sales and EPS estimates and we believe the stock could trade meaningfully higher on such an event.

Competitors could face manufacturing/supply issues

Based on increased vigilance from FDA over recent years, we expect several manufacturers could face product shortages and/or manufacturing issues over the next several years. If these products should align with Sagent's current or planned portfolio, Sagent could perform significantly better than expected.

Management could grow through business development

With little debt on the balance sheet, management could build out Sagent's US product portfolio through targeted business development transactions. While we do not model business development for Sagent in the near future, product or pipeline acquisitions could accelerate the company's growth rate over the mid- and long-term.

Company Description

Sagent Pharmaceuticals focuses on the development and marketing of generic injectable pharmaceuticals for the US market. Founded in 2006 and based outside of Chicago, the company uses a virtual development model utilizing partnerships and joint ventures to develop and manufacture generic injectable products for distribution in the United States. Most partnerships are based overseas, with concentrations in China, India and Europe.

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Unique Business Model Gives Sagent a Distinct Advantage in Generic Injectables

Founded in 2006, Sagent Pharmaceuticals focuses on the development and marketing of generic injectable pharmaceuticals for the US market. Unlike its main competitors Hospira, Fresenius and injectable pharma divisions of companies such as Pfizer and Sandoz, Sagent operates a virtual development and production model. This model relies on dozens of global partners to develop and manufacture generic injectables, which Sagent then sells into the US market. These partnerships range from one-off product development agreements to full-fledged joint ventures with companies such as Chengdu Kanghong Technology Group in China and Strides Arcolab in India.

Benefits of Sagent's Development Model

Sagent's model offers a number of benefits relative to its more traditional competitors in the generic injectables market including increased/flexible capacity, diversification of supply and reduced development expense.

Flexible capacity

As the company uses several dozen suppliers for its product portfolio, Sagent can scale production of a certain product up or down depending on market conditions and is not constrained to a limited number of production facilities like its main competitors.

Supply diversification

Several of Sagent's competitors have had high-profile supply issues over the last several years due to increased manufacturing oversight from FDA, coupled with the aging infrastructure of many generic injectables manufacturing facilities in the US. This has led to supply shortages for several critical care and oncology injectables due to the concentration of manufacturing for these products. Sagent's partner production facilities, mainly located in Europe, China and India, are an average of three years old and even if a supplier issue should be identified, it would likely only impact a handful of products in Sagent's product portfolio. This differs markedly from more traditional manufacturers that often operate with manufacturing concentrated in a relatively smaller number of large product facilities.

Reduced development expense

Because its partners are located in relatively low-cost regions of the world with high scientific expertise, Sagent is able to develop products at a much lower cost than its competitors. While its partners are able to reap the benefits of Sagent's deep marketing expertise in the US market, Sagent maintains control of the ANDA and leads the application process. As a result of this model, Sagent was able to file 103 ANDAs in the US market between 2008 and 2010.

Drawbacks to Sagent's Development Model

Along with the aforementioned benefits, there are several key drawbacks to Sagent's development and manufacturing model relative to its competitors, including managing a widespread partnering operation and dependence on partnerships to develop products and supply the market.

Management of scale

Given that Sagent's partners are based in Latin America, Europe, India and China, managing geographically diverse partners that often have relatively limited experience with the US market represents a potential challenge to the company's business model. Despite a widespread partnership base, Sagent generally owns its product ANDAs and carefully manages quality control/quality assurance among its partners to ensure compliance with current good manufacturing procedures (cGMP) procedures and provide a safe product for its customers. All partners must adhere to Sagent's QA/QC systems and submit to inspections from Sagent personnel. Coupled with a relatively new manufacturing infrastructure in relation to its competitors, we believe Sagent should be able to manage this complex infrastructure effectively.

Partnership dependence and potential for future competition

While Sagent is building its own manufacturing facility in China through its KSP joint venture, the company is generally dependent on its partners for development and manufacturing of its product portfolio. Given that some of its partners desire to enter the US market on their own at some point, Sagent may face the possibility of losing partners over time. Sagent's partnership agreements generally run for seven years from the first commercial sale, with the option to renew at the end of the seven-year term.

Margin sharing could impact profitability

Although a manufacturing facility is under construction in China through Sagent's KSP joint venture, Sagent currently lacks its own manufacturing infrastructure. As such, the company will continue to need partners to develop and supply product and the company will have to share margins with other partners. We expect this sharing could impact margins, particularly in more competitive markets with a greater potential for price erosion.

Sagent's Management Is Key to the Company's Success

Management highly experienced in generic injectables

Sagent's management team, led by CEO Jeffrey Yordon, brings substantial experience in the generic injectables market as well as extensive contacts both for sourcing products and selling. Yordon has served in key leadership roles at virtually every major generic injectable manufacturer, including most recently as president of APP Pharmaceuticals (sold to Fresenius) as well as president of Faulding Pharmaceuticals (sold to Mayne Pharmaceuticals and subsequently Hospira) and executive vice president of Gensia Laboratories (sold to Sicor and subsequently Teva). Given the nature of purchasing and contracting in the generic injectables market, we view Sagent's management experience and contacts as a key competitive advantage that helps compensate for the company's current relatively limited product portfolio. In addition, we view management's experience in the industry to be essential to developing strong supplier/partner relationships when sourcing product.

GPO relationships are critical to selling generic injectables

The core of Sagent's sales team has extensive experience in the generic injectables industry, most recently at APP Pharmaceuticals, and the sales team has average experience of over twenty years in the industry. In addition, several members of the management team come from major group purchasing organizations (GPOs) and therefore clearly understand the dynamics of selling in the industry both from the

buyer's and seller's perspective. While the current management team is critical to the company's success as Sagent works to build scale, we believe the depth of the management team's experience ensures that organizational knowledge and abilities will carry as the company scales its business.

Sagent Capitalizing on Several Product Opportunities

Current Product Portfolio

Sagent's current product portfolio consists of over 30 generic injectable products, with several additional products approved and awaiting launch. Sagent's largest product is the anticoagulant heparin. In addition, we expect recent launches of generic versions of Zosyn, Gemzar and Levaquin to be incremental contributors to the company's top line starting in the third quarter.

Figure 1: Sagent Product Portfolio, September 2011

Product	Source	July 2011 IMS Sales (000)	SGNT IMS Dollar Share	Relevant Competitors
adenosine	Gland	$310	34%	APP, Bedford
amiodarone	Gland	n/a	n/a	APP, Mylan
ampicillin	Hanford	$169	7%	APP, Sandoz, Claris
ampicillin/sulbactam	ACS Dobfar	$164	8%	APP, GeneraMedix, Hospira, Sandoz, Hikma
azithromycin	Sagent Strides	$123	11%	APP, Apotex, Hospira, Teva
bacitracin	Sagent Strides	$127	9%	APP, Pfizer
cefazolin sodium	Steri Pharma	$86	4%	APP, Apotex, Hospira, Pfizer, Sandoz, Hikma
cefepime HCl	ACS Dobfar	$1,272	32%	APP, Apotex
cefoxitin sodium	ACS Dobfar	$216	14%	APP, Apotex
ceftazidime	ACS Dobfar	$200	35%	Sandoz
ceftriaxone sodium	ACS Dobfar	$213	4%	Several
cefuroxime sodium	Hikma	$41	19%	Hikma, B. Braun
ciprofloxacin	ACS Dobfar	$103	10%	Hospira, Sandoz, Teva
epirubicin HCl	Actavis	$117	46%	Hospira, Sandoz
fluconazole	ACS Dobfar	$252	28%	Hospira, Bedford, Baxter
fludarabine phosphate	Actavis	$249	32%	APP, Hospira, Sandoz, Teva
gemcitabine	Actavis	n/a	n/a	several
granisetron HCl	Sagent Strides	$130	21%	Sandoz, Wockhardt
haloperidol	n/a	n/a	n/a	APP, Bedford
heparin sodium	**Gland**	**$3,412**	**20%**	**Hospira, APP, Hikma**
labetalol HCl	Sagent Strides	n/a	n/a	Bedford, Hospira
levofloxacin	ACS Dobfar	n/a	n/a	Sandoz, Akorn
mesna	Sagent Strides	$129	18%	APP, Bedford, Baxter
metoprolol tartrate	Sagent Strides	$52	6%	APP, Bedford, Hospira, Sandoz
orphenadrine citrate	n/a	n/a	n/a	Akorn, Bedford, Watson
paclitaxel	n/a	n/a	n/a	APP, Bedford, Hospira, Sandoz, Teva
pamidronate disodium	Mustafa Nevzat	$41	9%	APP, Bedford, Hospira
piperacillin/tazobactam	Aurobindo	n/a	n/a	APP, Apotex, Hospira, Sandoz, Pfizer
polymyxin B	Sagent Strides	n/a	n/a	APP, Bedford, X-Gen
sumatriptan succinate	Sagent Strides	$61	9%	APP, Sandoz
topotecan HCl	Actavis	$698	23%	APP, Bedford, Hospira
vecuronium bromide	Mustafa Nevzat	n/a	n/a	Bedford, Sun
vinorelbine tartrate	Actavis	$184	35%	Bedford, Hospira, Sandoz, Teva

Source: Company reports, FDA, IMS Health, J.P. Morgan.

Generic heparin: watching additional competition for Sagent's largest product

Sagent currently markets heparin in 1,000, 5,000, 10,000 and 20,000 unit presentations with multiple fill volumes. Other competitors in the market include Hospira and APP. Hikma and Sandoz recently launched several presentations of

heparin into the US market but IMS data has not yet recorded any impact from the companies' launch.

We estimate that Sagent will generate $50 million in 2011 heparin sales, representing approximately 33% of total company sales for the year.

Figure 2: Relevant Heparin Presentation Market Share

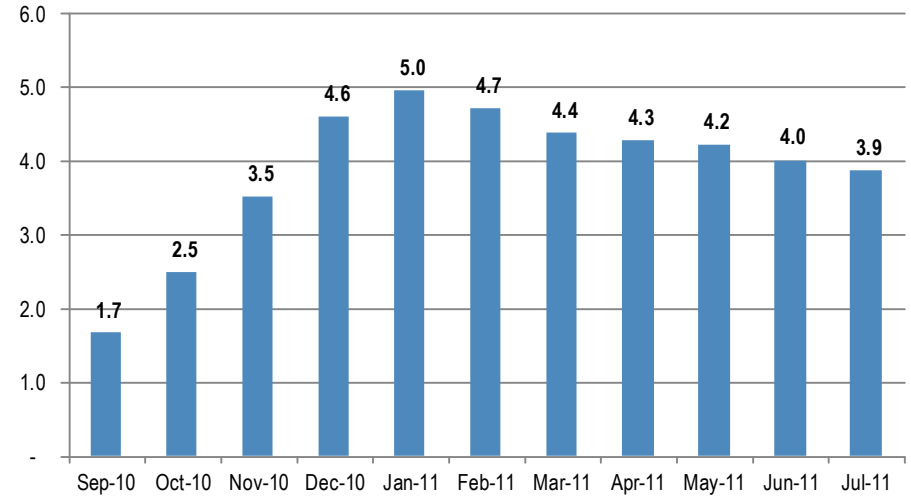
$ in millions

Presentation Dose	APP	TTM IMS sales Hospira	Sagent	Sagent IMS Share
1,000 units/mL	$71	$18	$14	14%
5,000 units/mL	$62	$23	$27	24%
10,000 units/mL	$15	$22	$4	9%
20,000 units/mL	$4	n/a	$2	31%

Source: IMS Health, J.P. Morgan.

Figure 3: Three-Month Rolling Average Monthly Sagent Heparin Sales

$ in millions



Source: IMS Health, J.P. Morgan.

Generic Gemzar: significant product but a competitive market

Through a partnership with Actavis, Sagent recently launched a generic form of Gemzar (gemcitabine) in 200mg and 1g single-dose vials late July. While APP, Hospira and Sandoz (with an authorized generic) have been on the market several months, Sagent and a number of competitors (including Watson, Sun, Reddy, Accord and Onco Therapies, a division of Strides Arcolab) received approvals in late July.

We will closely watch the dynamics of the market over the coming months, particularly with a number of recent competitor approvals and Hospira's recent approval of a solution form of the product. Our forecasts assume Sagent will take roughly 8% of the generic Gemzar market over time.

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Figure 4: Approved Gemcitabine Products

$ in millions

Company	Presentations	2Q/11 IMS Sales	2Q/11 IMS Share
Lilly (brand)	200mg, 1g	$8	6%
APP	200mg, 1g, 2g	$39	30%
Hospira	200mg, 1g, 2g	$24	18%
Sandoz (AG)	200mg, 1g	$60	46%
Accord	200mg, 1g, 2g	Approved 7/25/11	
Onco Therapies (Strides)	200mg, 1g, 2g	Approved 7/25/11	
Reddy	200mg, 1g	Approved 7/25/11	
Sagent/Actavis	**200mg, 1g**	**Approved 7/25/11**	
Sun	200mg, 1g	Approved 7/25/11	
Watson	200mg, 1g	Approved 7/25/11	

Source: IMS Health, J.P. Morgan.

Zosyn: aggressive pricing impacting market opportunity

Through a partnership with Aurobindo, Sagent launched a generic form of Zosyn (piperacillin/tazobactam) in 2.25g, 3.375g and 4.5g single dose vials in mid-June 2011. Competitors in this market include Apotex, APP, Hospira and Sandoz. Following the latest round of generic approvals in May 2011, pricing in what had been a very stable market has come under intense pressure as Pfizer, the innovator, aggressively matched generic pricing. As a result, we see generic Zosyn as a significantly less attractive generic market than earlier in 2011, when generics were realizing brand-like pricing.

Taxol: capitalizing on drug shortages

On September 27, Sagent announced the launch of paclitaxel injection in 30mg, 100mg and 300mg multi-dose vials. The market for paclitaxel is relatively large at around $50 million annually and all competitors in the market (Sandoz, APP, Hospira, Bedford and Teva) are dealing with backorders or manufacturing issues resulting in severe supply shortages of the product. We expect generic Taxol will become a significant product for Sagent relatively quickly at potentially higher prices given the company's product availability.

A Number of Opportunities Lie Ahead

Given the over 600 molecules, salt forms and combinations available in the injectable pharmaceutical market, Sagent still has plenty of room to grow its product portfolio. At the end of the second quarter, Sagent had 75 pending ANDAs covering 42 unique products and a pipeline of 26 ANDAs covering 25 products under development. Given that the average time to obtain ANDA approval is about 30 months for a normal generic product, we expect a number of products from the submissions in 2008 and 2009 to be up for potential approval over the coming months. Sagent submitted 82 ANDAs during this period.

Figure 5: Sagent ANDA and Product Flow, 2007 – 2011-to-Date

	ANDAs Submitted	ANDAs Approved	Products Launched
2007	14	4	1
2008	40	15	7
2009	42	16	6
2010	21	17	8
2011 TD	n/a	13	8

Source: Company reports.

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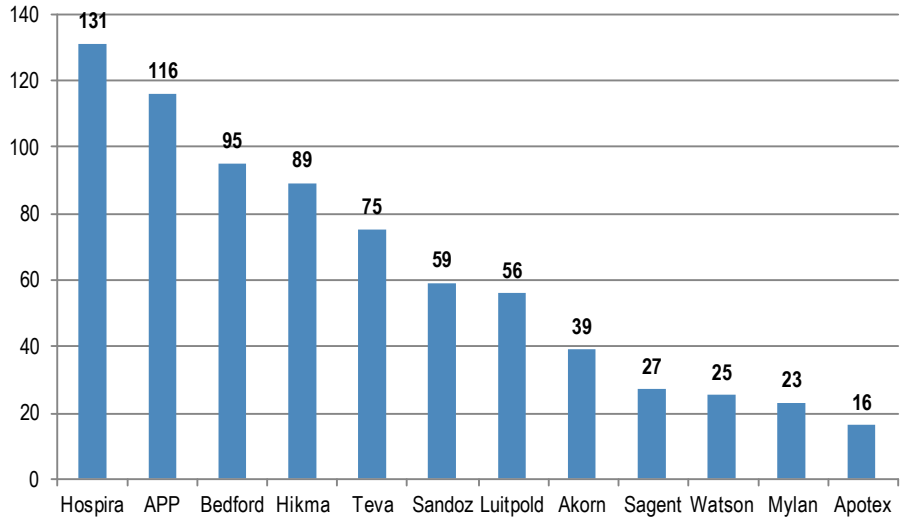
Plenty of room to expand in legacy products

Sagent's current product portfolio, which consists of over 30 products concentrated in oncolytics, acute care therapies and antibiotics, has significant room to expand. In comparison, Hospira and APP offer portfolios of well over 100 products and we anticipate Sagent will meaningfully expand its product offering over the next several years.

In addition to expanding the number of products its offers, Sagent also plans to launch these products in new convenient presentations (such as liquids, pre-filled syringes and pre-mix bags), which we expect will enable Sagent to break into established markets, command higher prices and drive higher margins over time.

Figure 6: Active Product Portfolios



Source: IMS Health, FDA, company reports, J.P. Morgan.

Sagent planning to capitalize on niche/shortage products

With close to 50 injectable products on the FDA drug shortages list, we believe there is ample opportunity for Sagent to capitalize on these products, which we expect to command higher prices/margins at launch due to limited supply. While many of the drugs on this shortage list are smaller products, these ANDAs are often prioritized by the FDA, resulting in faster approval timelines. In addition, we see a meaningful opportunity for Sagent to quickly capture market share at very attractive margins for these products given the limited supply available to its customers. As a result, we believe these smaller, niche products are as important, if not more important, to Sagent's growth over the next several years as larger blockbuster assets with multiple competitors.

Several approved products await launch

Based on FDA approvals, there are four products for which Sagent currently has approval but has not yet launched. These include recent approvals for haloperidol and orphenadrine, which Sagent plans to launch later this year along with rocuronium and midazolam, which we assume could be launched by the end of 2011. In addition, significant recent launches in the generic injectable market such as generic Taxotere represent significant longer-term opportunities for Sagent.

Figure 7: Pending Sagent Launches

Product	TTM IMS Sales (millions)	Relevant Competitors	Comments
haloperidol	$13	APP, Bedford	Approved 9/2/11
orphenadrine citrate	$4	Akorn, Bedford, Watson	Approved 8/30/11
rocuronium bromide	$42	APP, GeneraMedix, Hospira, Sandoz	Approved 7/28/10
midazolam HCl	$46	APP, Hikma, Hospira	Approved 11/29/10 and 5/4/11

Source: FDA, company reports, IMS Health, J.P. Morgan.

Several major patent expiries could contribute to Sagent's portfolio

In addition to a significant number of product opportunities with limited competition that Sagent can pursue, there are a number of major injectable products facing patent expiration in the coming years. The top 15 branded injectable drugs on the US market represent more than $6.3 billion in annual sales and a number are expected to lose exclusivity over the next 3-5 years. While larger companies (notably Teva) are chasing first-to-file Paragraph IV challenges for these products, we expect Sagent will seek to enter these markets after first-filer exclusivity expires.

Figure 8: Top 15 Branded Injectable Products Approved Since 2000

Drug	Active	Innovator	Therapeutic Area	TTM IMS Injectable Sales (millions)	Last Relevant Patent (JPMe)	Known Generic Filers	Comments
Alimta	pemetrexed	Lilly	Oncology	$854	July 2016	Teva, APP	Teva FTF; lost DC case (along with APP); appealed to CAFC 8/2011; APP has TA
Zometa	zoledronic acid	Novartis	Oncology	$729	March 2013	Teva	Teva FTF; case settled in July 2010 along with Reclast; 10 TAs
Velcade	bortezomib	Millennium	Oncology	$632	Jan 2022	Teva	Teva FTF but withdrew ANDA; no TA
Cubicin	daptomycin	Cubist	Antibiotic	$543	Sept 2019	Teva	Teva FTF; settled for June 2018 launch (on peds excl); no TA
Aloxi	palonosetron	Eisai/Helsinn	Oncology	$475	Jan 2024	Teva, Reddy, Sandoz	Relatively new case; Reddy has TA
Reclast	zoledronic acid	Novartis	Osteoporosis	$414	March 2013	Teva	Teva FTF; case settled in July 2010 along with Zometa; no TAs
Treanda	bendamustine	Cephalon	Oncology	$413	none	n/a	Orphan exclusivity until March 2015; no TA yet
Angiomax	bivalirudin	Medicines Co	Cardiovascular	$401	Jan 2029	Teva, APP, Hospira, Mylan, Reddy	Teva FTF; late listed patent so no 30-month stay; no TA
Lexiscan	regadenoson	Astellas	Cardiovascular	$395	June 2019	n/a	NCE exclusivity runs through 4/10/13 (expect filers in 2012)
Arixtra	fondaparinux	GSK	Cardiovascular	$337	none	Reddy	No exclusivity but difficult to mfg; Reddy launched in July 2011
Abraxane	paclitaxel	Abraxis	Oncology	$328	March 2024	n/a	no TA
Zyvox	linezolid	Pfizer	Antibiotic	$286	May 2015	Teva	Teva FTF; TA on oral forms
Hectorol	doxercalciferol	Hectorol	Endocrine	$257	Sept 2023	Perrigo, Mylan, Sandoz	Perrigo is FTF; TA on injection from Perrigo, Mylan and Sandoz
Faslodex	fulvestrant	AstraZeneca	Oncology	$226	July 2021	Teva	Teva FTF but ANDA withdrawn; no TA
Dacogen	decitabine	Eisai	Cardiovascular	$215	none	n/a	Orphan exclusivity until May 2, 2013; no TA yet

Source: Company reports, FDA Orange Book, PACER, IMS Health, J.P. Morgan estimates. Byetta is excluded from this analysis due to its use of a pen injection device and retail driven market.

KSP China facility is expected to give Sagent its own capacity

Through its KSP joint venture, Sagent is currently constructing a 300,000 square foot facility in Chengdu, China that should be ready for FDA inspection in 2012. Sagent is targeting products currently on the drug shortages list as the first products produced in the facility for US distribution.

Sagent starting to pursue Paragraph IV challenges

Since 2010, Sagent has filed two Paragraph IV patent challenges: one for APP's Naropin in 2010 and the other for Astellas' Adenoscan in 2011.

Naropin. APP filed suit against Hospira, Sandoz/Navinta and Sagent in July 2010 claiming infringement on the '524 and '489 patents covering Naropin, both expiring in May 2014. The case against Sagent was dismissed in October 2010 as Sagent did not expect approval of its product for at least 18 months (May 2012). Sagent received tentative approval for its product on August 12, 2011, but we do not expect a launch until patent expiry in 2014. Hospira was removed from the case when the company decided not to seek approval of its ANDA until the expiration of the '524 and '489 patents.

Adenoscan. Astellas filed suit against Sagent in June 2011 claiming that Sagent's ANDA for a generic version of Adenoscan infringes the '296 patent, which expires in March 2015. The case was settled in July 2011 and terms of the settlement were not disclosed. Astellas settled a similar case against Teva in 2007, which provides for a September 2012 launch. Another case against Wockhardt was settled in March 2010. We expect Sagent will launch the product sometime around March 2013.

Injectables Represent a Large Market Opportunity with a Limited Set of Players

Unlike traditional generics, there are a limited number of players in the injectable generic market

While there are dozens of companies located throughout the world competing in the US non-injectable generics market, there is only a handful of major competitors in the US generic injectables market. Looking at revenue, Novartis' Sandoz arm leads in the US market following the unit's recent launch of a generic Lovenox. However, Hospira maintains the largest active portfolio in the US market, with over 130 products. Other players in the market include APP (now a division of Fresenius), Bedford (a division of Boehringer Ingelheim), Hikma (which consists of Baxter's former injectables business along with West-Ward), Teva, Sandoz and Luitpold (also branded as American Regent, a division of Daiichi Sankyo).

Figure 9: Injectable Portfolio Comparison, 2Q/11

Company	Active Portfolio	Trailing 4Q IMS Sales (millions)	Largest Product
Sandoz	59	$1,699	enoxaparin
Hospira	131	$1,297	oxaliplatin
APP (Fresenius)	116	$992	heparin
Hikma (Baxter & West-Ward)	89	$336	cyclophosphamide
Bedford (Boehringer Ingelheim)	95	$266	octreotide acetate
Teva	75	$202	oxaliplatin
Luitpold (Daiichi Sankyo)	56	$160	betamethasone/sodium phosphate
Mylan (Bioniche)	23	$139	melphalan
Sagent	**27**	**$111**	**heparin**
Apotex	16	$67	piperacillin/tazobactam
Watson	25	$48	testosterone
Akorn	39	$36	vancomycin

Source: IMS Health, J.P. Morgan estimates.

Significant barriers to entry

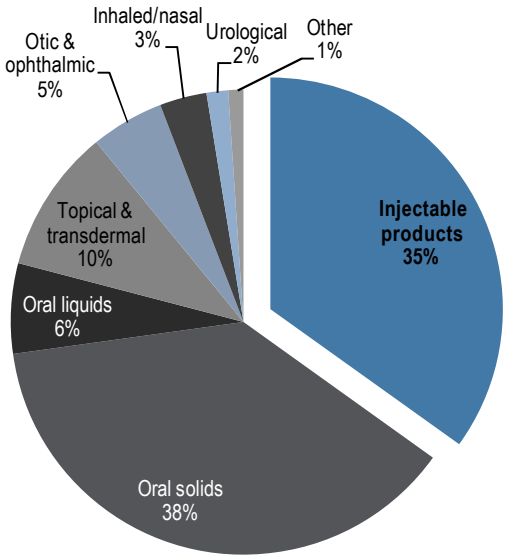
The barriers to entry in the injectable generic market are steep. First, a company must develop injectable manufacturing capability, which must be sterile and often is

dedicated to one or a handful of products, requiring a significant capital outlay. Sagent has avoided this through contracting with overseas manufacturers, but there are a limited number of companies worldwide with the capabilities to manufacture injectable generics. Once product flow is secured, a generic injectable company must sell its products through different channels than traditional non-injectable generic companies, and relationships with group purchasing organizations are key to winning business. Finally, in order to maintain business, a generic injectables company must ensure a consistent supply and continued innovation to prevent share loss to competitors, even in established static markets.

Despite a lack of visibility through traditional channels, there is ample product flow

While much (warranted) investor attention is paid to the pipelines for traditional non-injectable generics companies, the injectables market has significant product flow, both from products now available to commercialize as well as potential future pipeline products. A little over one-third of all active NDA approvals are for injectable products, which over time should translate into a significant opportunity for Sagent to pursue.

Figure 10: Currently Active NDA Approvals by Product Type



Source: FDA, J.P. Morgan.

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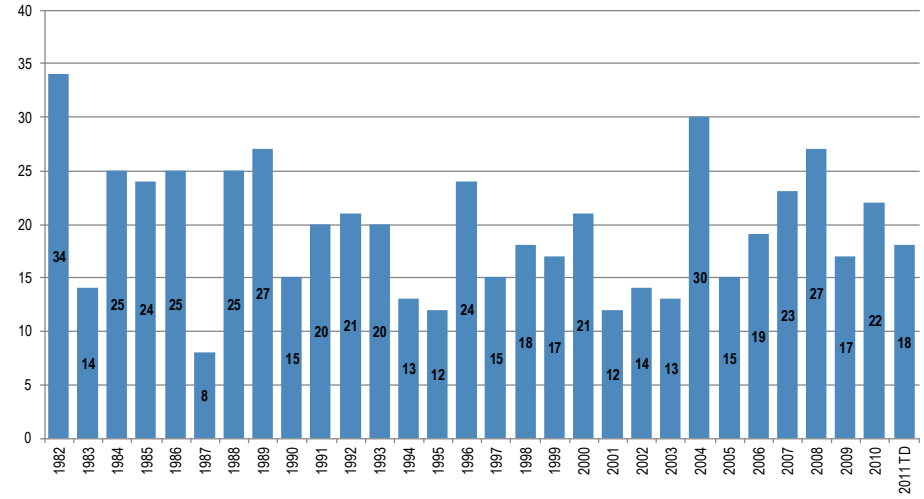
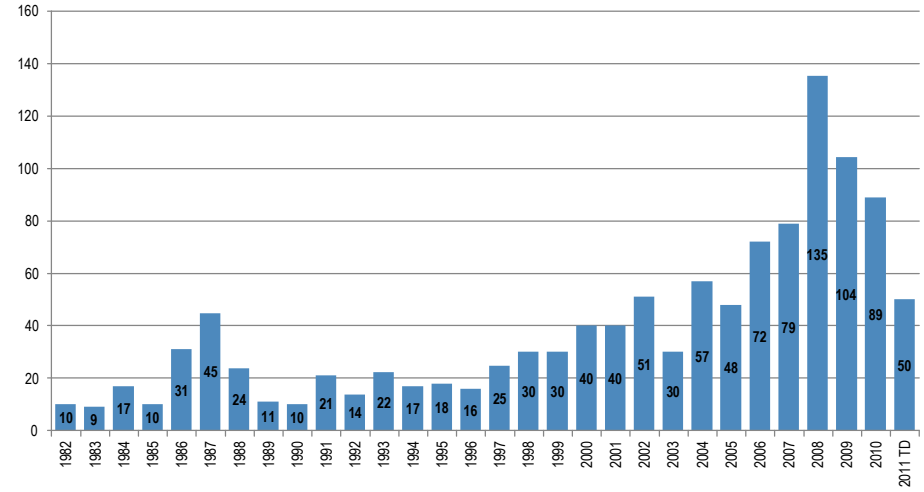
Figure 11: Injectable NDA Approvals, 1982 - August 2011



Source: FDA, J.P. Morgan.

The generic injectables industry has been productive since 2000, with over 795 ANDA approvals compared to 203 the preceding decade. Keep in mind that a "product launch" in industry terminology may consist of multiple ANDA approvals due to different dosages and presentations. Meanwhile, injectable NDA approvals were 231 since 2000 and 175 the preceding decade.

Figure 12: Injectable ANDA Approvals, 1982 - August 2011



Source: FDA, J.P. Morgan.

Unique Dynamics of the Injectable Market

Demand and Purchasing Differ from Traditional Generics

Hospitals are by far the largest end-user purchasers of generic injectable products as opposed to oral solids, which are often distributed through retail and mail-order

pharmacies directly to patients with pharmacy benefit managers (PBMs) controlling much of the price negotiation. Notable exceptions to this trend include drugs like Copaxone, TNF inhibitors, diabetes injections and interferons, to name a few, which are typically dispensed to patients through specialty pharmacies.

Group purchasing organizations (GPOs), such Novation, Amerinet, and Premier help hospitals negotiate pricing on injectable products much like retail health plans and patients utilize PBMs in the non-injectable market. GPOs typically sign longer-term supply agreements with generic injectable manufacturers when contracting for products and generic injectable companies have stated in the past that a full portfolio of products often gives the generic company leverage with the GPO, especially when certain products are in short supply.

According to the Health Industry Group Purchasing Association (HIGPA) and J.P. Morgan Healthcare IT analyst Atif Rahim, approximately 97% of US hospitals are a member of a GPO and 72% of purchases made by hospitals are done using GPO contracts. Also according to HIGPA, GPO members and customers receive up-front pricing discounts of 10-15% relative to market prices, and dividends and distributions to member hospitals provide incremental returns. A 2009 study funded by HIGPA estimated that GPOs save the US healthcare industry $36 billion annually in price savings and over $2 billion in savings associated with human resources uncommitted to the purchasing process. HIGPA estimates that there are over 600 GPOs in the US but the six largest GPOs account for 85% of the market.

Figure 13: Largest Group Purchasing Organizations in the US, September 2010

GPO	Hospitals	Other Facilities
Novation	2,911	22,000
Amerinet	2,570	40,000
Premier	2,500	70,000
MedAssets	1,700	40,000
The Broadline Group	1,100	50,000
HealthTrust (owned by HCA)	1,400	2,600
Consorta	530	300

Source: Becker's Hospital Review, September 2010.

Generic Injectables Come in Many Different Forms

Ampoules

Ampoules are small sealed glass vials usually used for powdered or liquid pharmaceuticals that must be protected from outside elements. Considered an old technology, the top of the ampoule must be broken off to gain access to the product, which can result in the need for added filtering to reduce the possibility of introduction of glass contaminants before administration. Given the relative difficulty of using ampoules, Sagent does not offer this presentation.

Vials

An improvement over ampoules, vials offer elemental protection along with easy access to the contained product. Typically, vials are shipped with the drug in a powder form to be reconstituted before use, but Sagent and other companies have developed formulations for several products that can be shipped "wet" or already diluted, reducing the potential for mixing error before administration. "Dry" vials can be reconstituted before administration through dilution in a number of solvents such as sterile water, sodium chloride, dextrose, sodium lactate and others. Sagent currently offers epirubicin, granisetron, haloperidol, heparin, labetalol, mesna,

metoprolol tartrate, orphenadrine, pamidronate, sumatriptan and vinorelbine in wet forms.

Syringes

In a number of critical care applications, the ready access to an injectable drug could be a matter of life and death for a patient, and health care providers cannot spare the extra time to prepare a solution or load a syringe. In these applications, like adenosine, which is used to treat hypoxia, ischemia and seizures, Sagent offers prefilled syringes to speed drug delivery to patients in need.

Pre-mix bags

For therapies that are often infused over a period of time, Sagent provides pre-mixed bags to help reduce product handling and the potential for dilution error before administration. Sagent's products in pre-mixed bags include ciprofloxacin, fluconazole and levofloxacin.

Range of Manufacturing Issues Across the Injectable Drug Industry

As the injectable drug industry in the US matures and FDA continues to raise its safety standards, many older facilities have become susceptible to quality control and quality assurance issues that have significantly interrupted production for several manufacturers. In addition, with newer facilities coming on line in India and China, some foreign manufacturers have been hit with production issues of their own as they adapt to stricter FDA current good manufacturing procedures (cGMP).

Injectables are extremely difficult to manufacture

Although the manufacturing of all drugs is held under strict controls and guidelines, it is much more difficult to manufacture sterile injectable products as compared to traditional oral solid products due to the need for exceptionally sterile manufacturing conditions, the variability of product presentations, and the frequent need for dedicated production lines for individual products.

FDA has become exceptionally vigilant over generic injectables manufacturing

Over the last ten years, FDA has stepped up its enforcement actions against generic injectable manufacturers for perceived violations of cGMP, often resulting in a warning letter that can slow production (if a facility is based in the US) or stop production entirely (if a facility outside of the US becomes subject to an FDA import ban). Recent high-profile warning letters include a 2010 letter covering Hospira's Clayton, NC, and Rocky Mount, NC, facilities, which significantly reduced production from the two facilities (the Clayton facility has subsequently been cleared by the agency while Rocky Mount remains under a warning letter). Teva's Irvine, CA, facility was effectively shut down by a 2009 warning letter and production at the facility has only just resumed.

Sagent's partners are not immune to warning letters

Following the recall of several lots of ondansetron and metronidazole manufactured by Claris Lifesciences in early 2010 due to fungal contamination, Sagent exited the market for both products. As a result of the recalls, Claris' Ahmedabad, India, plant received an FDA warning letter on November 1, 2010, which has yet to be closed out by the agency. In addition, products from the Ahmedabad plant are subject to an

FDA import ban until the warning letter is resolved. Although Sagent has implemented strict QA/QC procedures for its partners' facilities, we expect that given the number of partners Sagent uses, another Sagent-sourced facility may come under a warning letter in the future. However, unlike the concentrated production at Hospira, Teva and other competitors, a warning letter would only impact a small portion of the company's portfolio.

Figure 14: Recent FDA Warning Letters Covering Injectable Facilities

Manufacturer	Date Received	Plant	Issue	Comments
Luitpold	8/31/2011	Shirley, NY	cGMP - procedures	batch validation/control and particulates in reserve lots
Aurobindo	5/20/2011	Hyderabad, India	cGMP - contamination	aseptic procedures/contamination
Baxter	1/20/2011	Jayuya, PR	cGMP - contamination	discolored product and particulate contamination
Claris	11/1/2010	Ahmedabad, India	cGMP - contamination	fungi in metronidazole and ondansetron bags
Hospira	4/12/2010	Clayton, NC	cGMP - adulteration	stainless steel shavings found in propofol lots
Hospira	4/12/2010	Rocky Mount, NC	cGMP - procedures	
Teva	12/11/2009	Irvine, CA	cGMP - contamination	aseptic procedures/contamination
Bedford	11/16/2007	Bedford, OH	cGMP - procedures	batch validation
APP	12/18/2006	Melrose Park, IL	cGMP - procedures	out-of-specification determinations
ACS Dobfar	7/20/2005	Milan, Italy	cGMP - procedures	product separation, batch validation
APP	10/12/2001	Melrose Park, IL	cGMP - contamination	aseptic procedures
Luitpold	9/5/1997	Shirley, NY	cGMP - procedures	batch validation

Source: FDA, company reports, J.P. Morgan.

Warning letters in combination with relatively small markets have led to supply shortages

Production issues at major manufacturers like Teva and Hospira, coupled with the relatively small markets for many injectable products, have contributed to a number of supply shortages, especially in the areas of oncology and acute care. Given the small number of players in many injectable markets, a supply interruption at just one supplier can lead to widespread shortages of a drug.

Oncology. Sagent has made the development and approval of injectable oncology therapies a short-term priority, both for partner suppliers and the KSP joint venture. We expect Sagent is developing products for most of the oncology drugs currently in short supply, especially larger products like dexamethasone, doxorubicin, and fluorouracil. As evidence of this, Sagent announced a launch of paclitaxel on September 27.

Figure 15: Injectable Oncology Drug Shortages, September 2011

Product	2010 IMS Sales (000)	Companies in Market
bleomycin	$4,856	APP, Teva, Bedford, Hospira
cisplatin	$10,164	APP, Teva, Bedford
cytarabine	$5,004	Bedford, APP, Hospira
daunorubicin	$3,842	Teva, Bedford
dexamethasone	$11,252	Luitpold, APP, Hikma
doxorubicin	$17,473	Bedford, JNJ, APP, Teva, Pfizer
etoposide	$6,893	Bedford, Teva, Accord, BMS
fluorouracil	$12,454	Mylan, Teva, APP
leucovorin calcium	$10,798	Bedford, Teva, APP
leuprolide	$9,448	Teva, Sandoz, Sun
mitomycin	$9,631	Accord, Bedford
paclitaxel	**$48,113**	**Sandoz, APP, Hospira, Bedford, Teva**
thiotepa	$5,066	Bedford, Adienne
vincristine sulfate	$4,169	Hospira, Teva

Source: FDA, IMS Health, J.P Morgan.

Anti-infectives. With a strong portfolio of cephalosporin antibiotics and the recent launch of a generic Zosyn, we expect Sagent to show interest in antibiotics in short

supply, especially amikacin, foscarnet and trimethoprim/sulfamethoxazole (TMP-SMZ).

Figure 16: Injectable Anti-Infective Drug Shortages, September 2011

Product	Therapeutic Category	2010 IMS Sales (000)	Companies in Market
amikacin	anti-infective	$3,022	Teva, Bedford
foscarnet sodium	anti-infective	$3,213	Hospira, Clinigen
streptomycin	anti-infective	$373	X-Gen
TMP - SMZ	anti-infective	$2,974	Teva

Source: FDA, IMS Health, J.P Morgan.

Acute care. Given recent production issues at both Teva and Hospira, leaders in acute care injectables, we expect Sagent to develop products to help address shortages in the space, especially propofol, magnesium sulfate and lorazepam.

Figure 17: Injectable Acute Care Drug Shortages, September 2011

Product	2010 IMS Sales (000)	Companies in Market
acetylcysteine	$8,451	Hospira, Bedford, Luitpold
aminocaproic acid	$1,188	Hospira, Luitpold
ammonium chloride	n/a	Hospira
ammonium molybdate	n/a	Luitpold
buprenorphine	$3,052	Bedford, Hospira, Luitpold
calcitriol	$5,050	Luitpold, APP, Hikma
calcium chloride	$95	Hospira, Luitpold, Amphastar
calcium gluconate	$268	APP, Luitpold
cyanocobalamin	$11,592	APP, Luitpold
desmopressin	$5,513	Ferring, Hospira, Sanofi, Teva
digoxin	$1,085	Hikma, Sandoz, GSK
diltiazem	$7,672	Hikma, Hospira, Bedford
fosphenytoin sodium	$3,422	Bedford, Hospira, Akorn, APP, Hikma, Luitpold
furosemide	$19,836	Hospira, Luitpold, APP
haloperidol decanoate	$13,720	Teva, JNJ, APP, Bedford
lorazepam	$22,725	Hikma, Bedford, Hospira, Akorn
magnesium sulfate	$20,390	APP, Luitpold, Hospira
metoclopramide	$6,840	Hikma, Hospira, Teva
nalbuphine	$7,517	Hospira
neostigmine methylsulfate	$9,181	Hikma, Luitpold, APP
norepinephrine bitartrate	$8,756	Bedford, Hospira, Teva, Sandoz
phenylephrine	$8,924	Hikma, Sandoz, Luitpold
potassium phosphate	n/a	Hospira, Luitpold
procainamide	$4,820	Hospira
propofol	$68,534	Hospira, APP
sodium chloride	$3,759	APP, Hospira
sodium phosphate	n/a	Hospira, Luitpold
vasopressin	$4,975	Luitpold, APP, JHP
vecuronium	n/a	Bedford, Sun, Teva, Hospira

Source: FDA, IMS Health, J.P Morgan.

Management's Experience Is Key to Sagent's Success

Sagent's management team, led by CEO Jeffrey Yordon, brings substantial experience in the generic injectables market as well as extensive contacts both for sourcing products and selling. Yordon has served in key leadership roles at a number of generic injectable manufacturers, most recently APP while other members of the management bring similar exposure to the market. Given the nature of purchasing and contracting in the generic injectables market, we view management's experience and contacts as key to gaining business as the company seeks to achieve economies

of scale. In addition, we view management's experience in the industry to be essential to developing strong supplier/partner relationships when sourcing product.

Jeffrey Yordon, President, CEO and Chairman

Yordon founded Sagent in April 2006 following a career at APP, Faulding Pharmaceuticals, Gensia Laboratories, YorPharm and LyphoMed. Yordon has served on the boards of Pharmaceutical Partners of Canada (chairman), Drug Source Company (chairman), and the Drug, Chemical and Associated Technologies Association.

Ronald Pauli, Chief Business Officer

Previously Sagent's CFO, Pauli was appointed Chief Business Officer in September 2011. In this new position, he is responsible for product launch execution, product pipeline management and business development. Pauli brings experience from Neopharm, Abraxis BioScience, Ersco Corporation, Applied Power, R.P. Scherer and Kmart.

Jonathon Singer, CFO

Singer was appointed CFO in September 2011 and was previously CFO at Landauer, a provider of radiation devices and services. In addition he brings experience from Teleflex, Cardinal Health and R.R. Donnelley.

Albert Patterson, SVP Operations

Patterson was appointed SVP of Operations in June 2010 most recently from private consulting as the former CEO of Excel Rx GSO, a group service organization concentrating on the alternate site healthcare sector. In addition, Patterson brings experience from Premier (a national group purchasing organization), the Department of Veterans Affairs, and several colleges of pharmacy.

Michael Logerfo, Chief Legal Officer

Logerfo joined Sagent in 2007 and was appointed Chief Legal Officer in April 2010 and served as the COO of the KSP joint venture from March 2007 to August 2008. Logerfo brings experience from Flavine Holding Company, a developer of active pharmaceutical ingredients as well as having been an attorney in private practice.

Lorin Drake, VP Sales & Marketing

Drake was appointed VP of sales and marketing in May 2006. He brings experience from APP, Fujisawa and LyphoMed.

Anthony Gulczynski, VP Corporate Development

Gulczynski was appointed VP of corporate development in May 2006. He brings experience from Premier, and IVonyx.

Sheila Moran, VP Quality

Moran joined Sagent in August 2007 and was appointed VP of quality in June 2009. She brings experience from Regis Technologies and Cardinal Health.

Ravi Malhotra, VP Project Management

Malhotra was appointed VP of project management in October 2006 and brings experience from APP and Fujisawa.

Tom Moutvic VP, Regulatory Affairs

Moutvic was appointed VP of regulatory affairs in May 2007 and brings experience from Hospira, Abbott Laboratories, and Baxter.

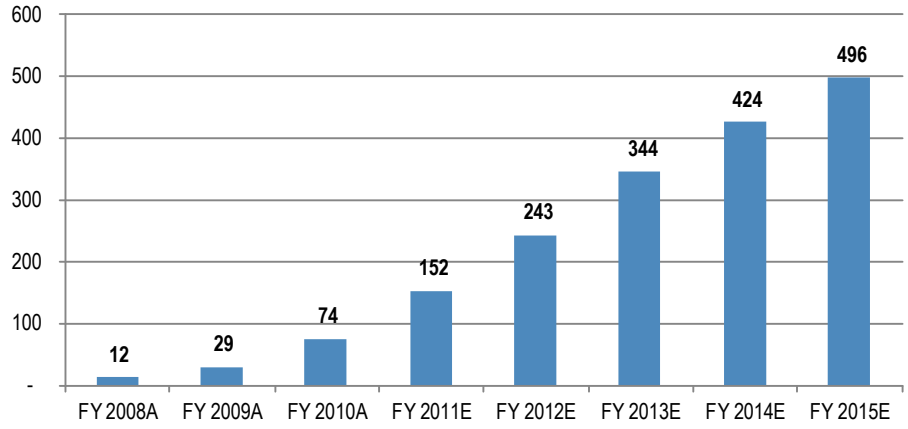
Financial Outlook

Expecting Significant Revenue Ramp with Product Launches

With 75 ANDAs pending at FDA covering 42 products and a number of significant product approvals expected for the remainder of 2011 through 2013, we expect a significant ramp in Sagent's revenue through 2015. Our model assumes Sagent's base business will remain relatively stable while its heparin share declines due to anticipated competition, and market share for Zosyn and Gemzar remains relatively stable over time. For 2012 and 2013, we estimate launches of ten products per year.

Figure 18: Sagent Revenue, 2008 - 2015E

$ in millions

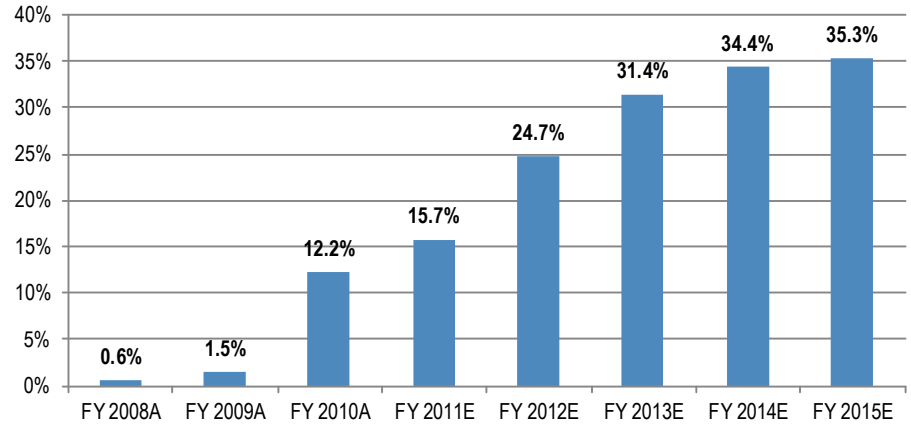


Source: Company reports and J.P. Morgan estimates.

Gross Margins Should Improve As New Partnerships Evolve

As Sagent launches new partnerships, launches products into larger and less competitive markets and brings its own manufacturing facility on-line, we expect significant expansion in gross margins over time. In addition, we expect to see margins on existing products to increase over time as Sagent reduces manufacturing costs at its partners, sources new, lower-cost API and improves logistics within its partnership infrastructure.

Figure 19: Sagent Gross Margin, 2008 - 2015E

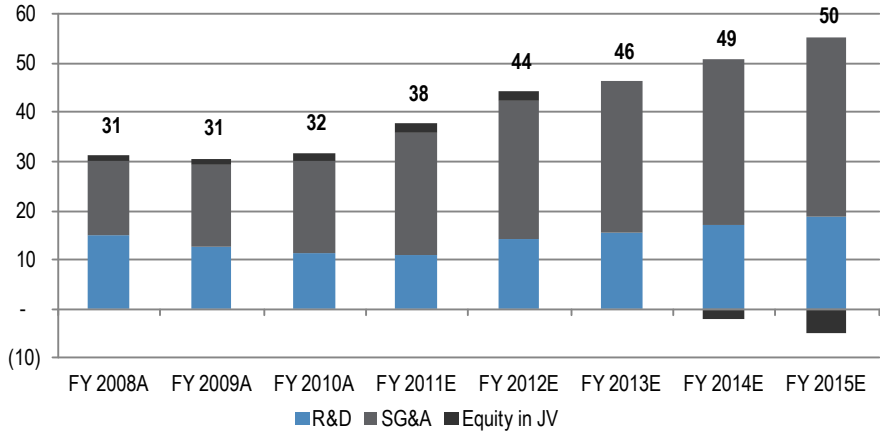


Source: Company reports and J.P. Morgan estimates.

Virtual Development Model Limits Operating Expenses

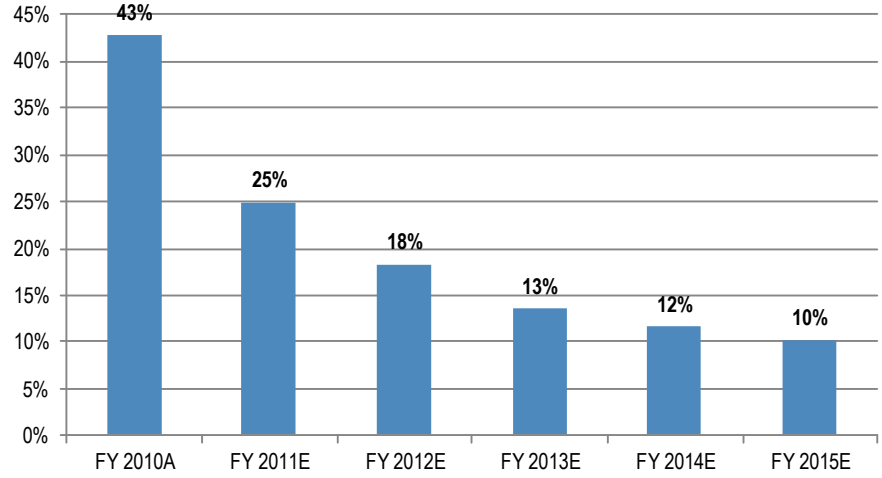
With a virtual development model that shifts the majority of the product development cost burden to its partners, we expect little increase in Sagent's R&D expense over the next several years. The majority of the increase in estimated operating spend through 2015 is expected to come from increased SG&A spend as Sagent's product portfolio continues to grow. Coupled with an expected ramp in revenue, we expect operating spend to stabilize at around 10% of revenue over the long term.

Figure 20: Sagent Operating Expenses, 2008 - 2015E
$ in millions



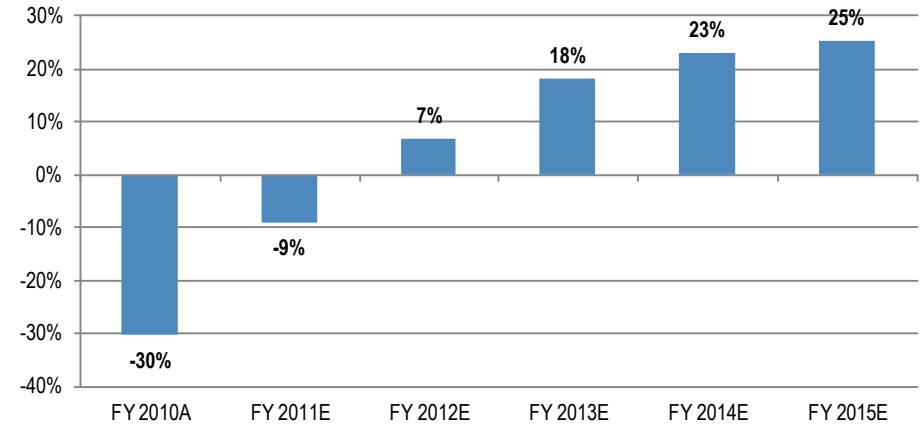
Source: Company reports and J.P. Morgan estimates.

Figure 21: SG&A and R&D as a Percent of Revenue, 2010 - 2015E



Source: Company reports and J.P. Morgan estimates.

Figure 22: Sagent Operating Margins, 2010 - 2015E



Source: Company reports and J.P. Morgan estimates.

Taxes Should Increase with Profitability

While not profitable and not currently a taxpayer (Sagent had about $70 million in net operating loss carry-forwards at the end of 2Q/11), we expect Sagent's tax rate will increase over time once the company reaches profitability and depletes existing net operating loss carry-forwards. With some tax-advantaged operations in China, we expect Sagent's long-term tax rate to normalize around the 35% level.

Share Count Should Remain Stable

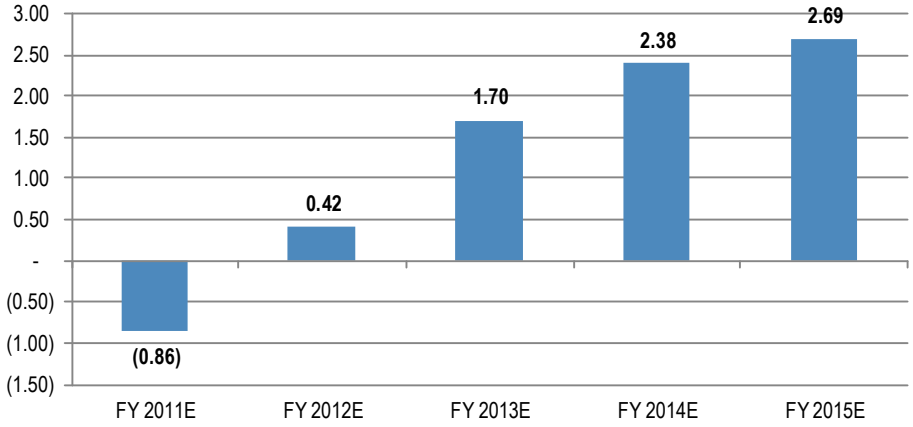
Given an expected stock compensation expense of around $2-3 million annually, we expect Sagent's fully-diluted share count to remain relatively stable around 30 million shares once the company reaches profitability.

Expecting Profitability in 2012

We estimate Sagent's increased product flow and revenue base, coupled with a low expense base and tax loss carry-forwards, should enable the company to reach

profitability for full year 2012, with a significant expected growth in earnings through 2015.

Figure 23: Sagent Earnings per Share, 2011E - 2015E



Source: Source: Company reports and J.P. Morgan estimates.

Valuation

While Sagent's business remains solid and poised for significant growth through new launches, we believe much of the company's growth expectations are already priced into SGNT shares.

Discounted Cash Flow Analysis Supports $25 Valuation

Our discounted cash flow (DCF) analysis leads us to a price target of $25/share for SGNT. Our DCF considers our estimates through 2015 and then modest revenue growth through 2025, flattening out thereafter. In addition, we expect Sagent's cost structure to remain consistent with 2015 levels. We believe our terminal growth rate of zero (off 2030 estimated cash flow) reflects a long-term strategy of additional product launches and share gains offsetting any normal price erosion in the industry.

We estimate a weighted average cost of capital (WACC) of 10.5%, which is higher than our normal WACC estimates due to the risk in Sagent's business model relative to other more established generics companies. We expect Sagent's WACC will decrease over time as the company continues to build scale in the generics injectables market. We use a long-term estimated tax rate of 30% in our analysis.

Figure 24: DCF Scenario Analysis Adjusting WACC and Terminal Growth Rate

	WACC				
terminal growth	9.5%	10.0%	**10.5%**	11.0%	11.5%
-1.0%	27	26	25	24	23
-0.5%	28	26	25	24	23
0.0%	28	26	**25**	24	23
0.5%	28	27	25	24	23
1.0%	29	27	26	24	23

Source: J.P. Morgan estimates.

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J.P.Morgan

Figure 25: Sagent DCF Valuation

$ in millions

millions USD, fiscal year ends 12/31	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Terminal
Product revenue																						
heparin	19	50	40	36	30	28	27	26	24	23	22	21	20	19	18	17	16	15	15	14	13	
piperacillin/tazobactam (Zosyn)	-	5	12	12	11	10	10	9	9	8	8	8	7	7	7	6	6	6	5	5	5	
gemcitabine (Gemzar)	-	10	25	23	22	20	18	17	15	13	12	11	10	9	8	7	6	6	5	5	4	
New products/pipeline		14	97	209	297	372	428	470	494	519	519	519	508	498	488	478	469	459	450	441	432	
growth				*116%*	*42%*	*25%*	*15%*	*10%*	*5%*	*5%*	*0%*	*0%*	*-2%*	*-2%*	*-2%*	*-2%*	*-2%*	*-2%*	*-2%*	*-2%*	*-2%*	
Current base business	55	72	69	65	65	65	62	59	56	53	50	48	46	43	41	39	37	35	33	32	30	
growth																						
Total Revenue	**74**	**152**	**243**	**344**	**424**	**496**	**545**	**581**	**598**	**617**	**611**	**606**	**591**	**576**	**562**	**548**	**534**	**521**	**509**	**497**	**485**	
growth		*105%*	*60%*	*42%*	*23%*	*17%*	*10%*	*7%*	*3%*	*3%*	*-1%*	*-1%*	*-3%*	*-3%*	*-2%*	*-2%*	*-2%*	*-2%*	*-2%*	*-2%*	*-2%*	
Margins																						
COGS	88%	84%	75%	69%	66%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	
SG&A	26%	16%	12%	9%	8%	7%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	
R&D	15%	7%	6%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	
Operating expenses	130%	109%	93%	82%	77%	75%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	
EBIT margin	-30%	-9%	7%	18%	23%	25%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	
P&L/Cash Flow																						
COGS	65	128	183	236	279	321	354	378	389	401	397	394	384	374	365	356	347	339	331	323	315	
SG&A	19	25	28	31	34	37	44	46	48	49	49	48	47	46	45	44	43	42	41	40	39	
R&D	11	11	14	15	17	19	22	23	24	25	24	24	24	23	22	22	21	21	20	20	19	
Equity in JV	1	2	2	-	(2)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	
Operating expenses	97	165	227	282	327	371	415	442	455	470	466	462	450	438	427	417	406	396	387	377	368	
EBIT	**(23)**	**(14)**	**16**	**62**	**97**	**125**	**130**	**139**	**143**	**147**	**146**	**144**	**141**	**137**	**134**	**131**	**128**	**125**	**122**	**119**	**117**	
Tax rate	*nm*	*nm*	*10%*	*15%*	*25%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*32%*	*32%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	
Tax	-	-	(2)	(9)	(24)	(44)	(46)	(49)	(50)	(51)	(51)	(46)	(45)	(41)	(40)	(39)	(38)	(37)	(37)	(36)	(35)	
D&A	1	1	1	1	1	1	1	1	1	1	0	0	0	0	0	0	0	0	0	0	0	
Acquisitions/capex	(2)	(2)	(3)	(5)	(6)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	
Change in NWC	(8)	(20)	(16)	(12)	(16)	(15)	5	4	2	2	(1)	(1)	(2)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
Free Cash Flow	**(31)**	**(34)**	**(3)**	**38**	**53**	**62**	**84**	**88**	**89**	**91**	**88**	**92**	**88**	**88**	**86**	**84**	**82**	**80**	**78**	**76**	**74**	
PV Analysis																						
Year		-	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
PV factor		1.00	1.11	1.22	1.35	1.49	1.65	1.82	2.01	2.22	2.46	2.71	3.00	3.31	3.66	4.05	4.47	4.94	5.46	6.03	6.67	7.37
PV of FCF		**(34)**	**(3)**	**31**	**39**	**41**	**51**	**48**	**44**	**41**	**36**	**34**	**29**	**27**	**24**	**21**	**18**	**16**	**14**	**13**	**11**	**106**

DCF	
WACC	10.5%
Terminal growth rate	0%
PV of estimate periods (now-2015)	126
PV of long-term periods (2016-2030)	376
Terminal PV	106
PV of FCF	**607**
Less: net debt	(99)
Equity value	**706**
Shares outstanding	28
DCF/share	**25.21**

Source: Company reports and J.P. Morgan estimates.

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Comparables Are Difficult for Sagent

While there are several generic pharmaceutical companies that can be used for comparison to Sagent, we believe the closest comparisons can be drawn from two other generic injectables companies: Hospira (HSP) and Akorn (AKRX). However, given Sagent's lack of profitability and the size disparity among the three companies, even comparisons to Akorn and Hospira are difficult.

Figure 26: US Generics P/E Comparisons

Company	Price 9/27/2011	Market Cap (mln USD)	Net Debt (mln USD)	EV (mln USD)	EPS (calendar) 2010	2011E	2012E	2013E	CAGR 10-13
Akorn	8.40	795	(42)	753	0.38	0.27	0.42	0.48	8%
Hospira	38.41	6,333	1,119	7,451	3.30	3.95	4.14	4.51	11%
Impax	19.13	1,258	(348)	910	2.97	0.90	1.19	1.57	-19%
Mylan	18.51	7,890	4,534	12,424	1.62	2.00	2.45	2.72	19%
Par	26.91	982	(247)	736	3.00	3.29	3.27	3.57	6%
Perrigo	97.79	9,148	936	10,084	3.51	4.37	5.00	5.70	18%
Teva	36.28	34,124	11,218	45,341	4.54	5.03	5.92	6.35	12%
Watson	72.10	9,671	980	10,651	3.42	4.45	5.53	6.16	22%
Sagent	20.96	584	(91)	493	n/a	(0.86)	0.42	1.70	n/a

Company	P/E Ratio 2010	2011E	2012E	2013E	Relative P/E 2010	2011E	2012E	2013E
Akorn	22.1x	31.1x	19.9x	17.4x	167%	273%	206%	202%
Hospira	11.6x	9.7x	9.3x	8.5x	88%	85%	96%	99%
Impax	6.4x	21.2x	16.1x	12.2x	49%	186%	167%	142%
Mylan	11.4x	9.3x	7.5x	6.8x	86%	81%	78%	79%
Par	9.0x	8.2x	8.2x	7.5x	68%	72%	85%	88%
Perrigo	27.9x	22.4x	19.6x	17.2x	210%	196%	203%	199%
Teva	8.0x	7.2x	6.1x	5.7x	60%	63%	64%	66%
Watson	21.1x	16.2x	13.0x	11.7x	159%	142%	135%	136%
Sagent	n/a	n/a	50.4x	12.3x	n/a	n/a	n/a	143%
Adjusted Average		**13.2x**	**11.4x**	**9.6x**	**8.6x**			

Source: Bloomberg, company reports, J.P. Morgan estimates.
Note: Par and Akorn estimates are Bloomberg consensus. Adjusted average excludes Sagent in 2010, 2011 and 2012 average calculations.

Figure 27: US Generics P/S Comparisons

Company	Price 9/27/2011	Market Cap (mln USD)	Revenue (calendar) 2010	2011E	2012E	2013E	CAGR 10-13
Akorn	8.40	795	86	128	188	262	45%
Hospira	38.41	6,333	3,917	4,307	4,537	4,924	8%
Impax	19.13	1,258	683	498	550	584	-5%
Mylan	18.51	7,890	5,451	6,117	7,155	7,395	11%
Par	26.91	982	1,009	862	802	837	-6%
Perrigo	97.79	9,148	2,520	2,964	3,312	3,509	12%
Teva	36.28	34,124	16,121	18,668	23,231	24,283	15%
Watson	72.10	9,671	3,539	4,497	5,276	5,302	14%
Sagent	20.96	584	74	152	243	344	67%

Company	P/S Ratio 2010	2011E	2012E	2013E	Relative P/S 2010	2011E	2012E	2013E
Akorn	9.2x	6.2x	4.2x	3.0x	399%	318%	255%	192%
Hospira	1.6x	1.5x	1.4x	1.3x	70%	75%	84%	81%
Impax	1.8x	2.5x	2.3x	2.2x	80%	129%	138%	136%
Mylan	1.4x	1.3x	1.1x	1.1x	63%	66%	66%	67%
Par	1.0x	1.1x	1.2x	1.2x	42%	58%	74%	74%
Perrigo	3.6x	3.1x	2.8x	2.6x	157%	157%	166%	165%
Teva	2.1x	1.8x	1.5x	1.4x	92%	93%	89%	89%
Watson	2.7x	2.2x	1.8x	1.8x	118%	110%	110%	115%
Sagent	7.9x	3.9x	2.4x	1.7x	342%	196%	145%	107%
Average	**2.3x**	**2.0x**	**1.7x**	**1.6x**				

Source: Bloomberg, company reports, J.P. Morgan estimates.

Note: Par and Akorn estimates are Bloomberg consensus.

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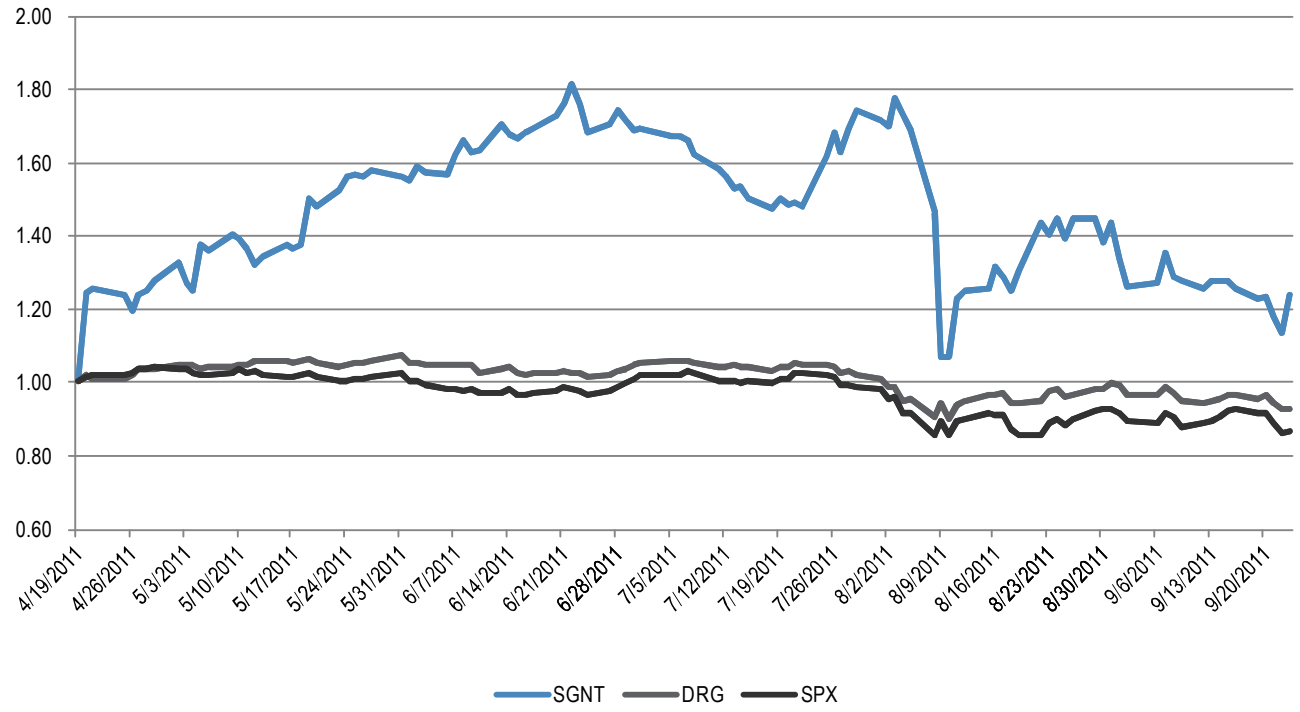
Figure 28: Sagent Relative Price Performance since IPO (Indexed to 4/19/2011)



Source: Bloomberg, J.P. Morgan.

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Financial Models

Figure 29: Sagent Annual Revenue Model

$ in millions

millions USD Fiscal year ends December 31	FY 2008A	FY 2009A	FY 2010A	Mar 2011 1QA	Jun 2011 2QA	Sep 2011 3QE	Dec 2011 4QE	FY 2011E	Mar 2012 1QE	Jun 2012 2QE	Sep 2012 3QE	Dec 2012 4QE	FY 2012E	FY 2013E	FY 2014E	FY 2015E
Revenue																
heparin			18.8	13.1	12.1	13.0	11.5	49.7	10.3	9.4	10.1	9.9	39.7	35.6	29.8	28.4
growth						*160%*	*-17%*	*164%*	*-22%*	*-22%*	*-22%*	*-15%*	*-20%*	*-10%*	*-16%*	*-5%*
piperacillin/tazobactam (Zosyn)						2.1	3.2	5.3	3.0	3.1	3.0	3.1	12.1	11.5	11.0	10.4
growth											*43%*	*-5%*	*128%*	*-5%*	*-5%*	*-5%*
gemcitabine (Gemzar)						4.7	5.7	10.4	6.4	6.3	6.4	6.2	25.2	22.7	21.6	20.5
growth												*9%*	*142%*	*-10%*	*-5%*	*-5%*
New products						4.0	10.0	14.0	14.9	19.9	27.3	34.8	96.9	209.4	296.9	371.9
growth														*116%*	*42%*	*25%*
Current base business	12.0	29.2	55.2	17.2	20.2	17.1	17.8	72.3	16.4	19.2	16.2	16.9	68.6	65.2	65.2	65.2
growth		*143%*	*89%*	*99%*	*91%*	*5%*	*-10%*	*31%*	*-5%*	*-5%*	*-5%*	*-5%*	*-5%*	*-5%*	*0%*	*0%*
TOTAL REVENUE	**12.0**	**29.2**	**74.1**	**30.3**	**32.3**	**40.9**	**48.2**	**151.7**	**50.9**	**57.8**	**63.0**	**70.8**	**242.6**	**344.4**	**424.5**	**496.3**
growth		143%	153%	*251%*	205%	92%	44%	105%	68%	79%	54%	47%	60%	42%	23%	17%

New Product Assumptions																
3Q/11 products						4.0	4.0	8.0	3.9	3.9	3.8	3.8	15.4	15.4	15.4	15.4
growth											*-5%*	*-5%*	*93%*	*0%*	*0%*	*0%*
4Q/11 products							6.0	6.0	6.0	6.0	6.0	6.0	24.0	24.0	24.0	24.0
growth													*300%*	*0%*	*0%*	*0%*
2011 New Products						**4.0**	**10.0**	**14.0**	**9.9**	**9.9**	**9.8**	**9.8**	**39.4**	**39.4**	**39.4**	**39.4**
growth														0%	0%	0%
1Q/12 products									5.0	5.0	5.0	5.0	20.0	19.0	19.0	19.0
growth														*-5%*	*0%*	*0%*
2Q/12 products										5.0	5.0	5.0	15.0	19.0	19.0	19.0
annualized growth														*27%*	*0%*	*0%*
3Q/12 products											7.5	7.5	15.0	28.5	28.5	28.5
annualized growth														*90%*	*0%*	*0%*
4Q/12 products												7.5	7.5	28.5	28.5	28.5
annualized growth														*280%*	*0%*	*0%*
2012 New Products									**5.0**	**10.0**	**17.5**	**25.0**	**57.5**	**95.0**	**95.0**	**95.0**
growth														65%	0%	0%
2013 products														75.0	112.5	112.5
growth															*50%*	*0%*
2014 products															50.0	75.0
growth																*50%*
2015 products																50.0
growth																
Total New Products						**4.0**	**10.0**	**14.0**	**14.9**	**19.9**	**27.3**	**34.8**	**96.9**	**209.4**	**296.9**	**371.9**

Source: Company reports and J.P. Morgan estimates.

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J.P.Morgan

Figure 30: Sagent Quarterly Financial Model

$ in millions

millions USD Fiscal year ends December 31	FY 2006A	FY 2007A	FY 2008A	FY 2009A	FY 2010A	Mar 2011 1QA	Jun 2011 2QA	Sep 2011 3QE	Dec 2011 4QE	FY 2011E	Mar 2012 1QE	Jun 2012 2QE	Sep 2012 3QE	Dec 2012 4QE	FY 2012E	FY 2013E	FY 2014E	FY 2015E
Income Statement																		
Net sales	**-**	**0.1**	**12.0**	**29.2**	**74.1**	**30.3**	**32.3**	**40.9**	**48.2**	**151.7**	**50.9**	**57.8**	**63.0**	**70.8**	**242.6**	**344.4**	**424.5**	**496.3**
COGS	-	0.1	11.9	28.8	65.0	25.8	29.5	33.7	38.8	127.8	40.4	44.6	46.7	50.9	182.6	236.1	278.6	321.2
Gross profit	**-**	**0.0**	**0.1**	**0.4**	**9.0**	**4.6**	**2.7**	**7.2**	**9.4**	**23.9**	**10.6**	**13.2**	**16.4**	**19.8**	**60.0**	**108.3**	**145.9**	**175.2**
Research & Development	-	2.5	14.9	12.4	11.2	2.4	2.4	3.0	3.2	10.9	3.5	3.5	3.5	3.5	14.0	15.4	16.9	18.6
SG&A	1.7	10.6	15.0	16.7	18.9	5.0	6.5	6.3	6.8	24.5	6.2	7.1	7.2	7.5	28.1	30.9	33.9	36.7
Equity in JV	-	0.7	1.1	1.5	1.5	0.7	0.5	0.5	0.5	2.2	0.5	0.5	0.5	0.5	2.0	-	(2.0)	(5.0)
Total operating expense	**1.7**	**13.8**	**31.1**	**30.6**	**31.6**	**8.0**	**9.4**	**9.8**	**10.5**	**37.7**	**10.2**	**11.1**	**11.2**	**11.5**	**44.1**	**46.3**	**48.9**	**50.3**
Operating income (loss)	**(1.7)**	**(13.8)**	**(31.0)**	**(30.1)**	**(22.6)**	**(3.4)**	**(6.6)**	**(2.6)**	**(1.1)**	**(13.8)**	**0.4**	**2.1**	**5.1**	**8.3**	**16.0**	**62.0**	**97.0**	**124.9**
Interest income & other	0.0	0.6	0.5	0.1	0.0	0.0	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.6	1.3	2.5
Interest expense	(0.1)	(0.0)	-	(0.5)	(1.1)	(0.5)	(1.2)	(0.6)	(0.6)	(2.9)	(0.6)	(0.6)	(0.6)	(0.6)	(2.3)	(2.3)	(2.3)	(2.3)
Change in value of p/s warrants	-	-	-	-	(0.8)	(0.5)	(0.4)	-	-	(0.8)	-	-	-	-	-	-	-	-
Income (loss) before taxes	**(1.7)**	**(13.2)**	**(30.5)**	**(30.5)**	**(24.5)**	**(4.4)**	**(8.2)**	**(3.1)**	**(1.6)**	**(17.3)**	**(0.1)**	**1.6**	**4.6**	**7.8**	**13.9**	**60.4**	**96.0**	**125.1**
Income tax	-	-	-	-	-	-	-	-	-	-	-	(0.2)	(0.5)	(0.8)	(1.4)	(9.1)	(24.0)	(43.8)
NET INCOME	**(1.7)**	**(13.2)**	**(30.5)**	**(30.5)**	**(24.5)**	**(4.4)**	**(8.2)**	**(3.1)**	**(1.6)**	**(17.3)**	**(0.1)**	**1.4**	**4.2**	**7.0**	**12.5**	**51.3**	**72.0**	**81.3**
Adjusted EPS						**(2.09)**	**(0.37)**	**(0.11)**	**(0.06)**	**(0.86)**	**(0.01)**	**0.05**	**0.14**	**0.23**	**0.42**	**1.70**	**2.38**	**2.69**
Basic shares outstanding						2.1	22.2	28.0	28.0	20.1	28.0	28.0	28.1	28.1	28.1	28.1	28.2	28.3
FD shares outstanding						2.1	22.2	28.0	28.0	20.1	28.0	30.0	30.1	30.1	30.1	30.1	30.2	30.3
Margins																		
Gross margin		37.5%	0.6%	1.5%	12.2%	15.1%	8.5%	17.5%	19.5%	15.7%	20.8%	22.9%	25.9%	28.0%	24.7%	31.4%	34.4%	35.3%
R&D		nm	124.5%	42.4%	15.2%	7.8%	7.4%	7.3%	6.6%	7.2%	6.9%	6.1%	5.6%	4.9%	5.8%	4.5%	4.0%	3.8%
SG&A		nm	125.1%	57.1%	25.6%	16.4%	20.1%	15.3%	14.1%	16.2%	12.2%	12.3%	11.4%	10.6%	11.6%	9.0%	8.0%	7.4%
Equity in JV			9.1%	5.1%	2.0%	2.2%	1.6%	1.2%	1.0%	1.4%	1.0%	0.9%	0.8%	0.7%	0.8%	0.0%	-0.5%	-1.0%
Opex		nm	258.7%	104.6%	42.7%	26.4%	29.1%	23.9%	21.8%	24.8%	20.1%	19.2%	17.8%	16.2%	18.2%	13.4%	11.5%	10.1%
Operating margin		nm	-258.1%	-103.1%	-30.5%	-11.3%	-20.5%	-6.4%	-2.3%	-9.1%	0.7%	3.7%	8.2%	11.8%	6.6%	18.0%	22.9%	25.2%
Pretax margin		nm	-253.7%	-104.5%	-33.1%	-14.4%	-25.4%	-7.6%	-3.4%	-11.4%	-0.3%	2.8%	7.3%	11.1%	5.7%	17.5%	22.6%	25.2%
Tax rate		nm	nm	nm	nm	nm	nm	10.0%	10.0%	0.0%	10.0%	10.0%	10.0%	10.0%	10.1%	15.0%	25.0%	35.0%
NET MARGIN		nm	-253.7%	-104.5%	-33.1%	-14.4%	-25.4%	-7.6%	-3.4%	-11.4%	-0.3%	2.8%	7.3%	11.1%	5.7%	17.5%	22.6%	25.2%
Growth Rates																		
Sales					153%	251%	205%	92%	44%	105%	68%	79%	54%	47%	60%	42%	23%	17%
COGS					126%	208%	177%	82%	41%	97%	57%	51%	38%	31%	43%	29%	18%	15%
R&D					-10%	-16%	-27%	18%	22%	-3%	48%	47%	17%	9%	28%	10%	10%	10%
SG&A					14%	19%	49%	40%	15%	30%	25%	10%	15%	10%	14%	10%	10%	8%
Equity in JV					-1%	55%	58%	136%	1%	49%	-26%	-5%	0%	0%	-9%	-100%		150%
Opex					3%	8%	18%	35%	16%	19%	28%	19%	15%	9%	17%	5%	6%	3%
Operating income																**289%**	**56%**	**29%**
Pretax income																**334%**	**59%**	**30%**
NET INCOME																**310%**	**40%**	**13%**
EPS																**309%**	**40%**	**13%**

Source: Company reports and J.P. Morgan estimates.

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Figure 31: Sagent Annual Balance Sheet

$ in millions

millions USD Fiscal year ends December 31	FY 2008A	FY 2009A	FY 2010A	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E
BALANCE SHEET								
ASSETS								
Cash & equivalents	25.7	7.7	34.4	69.9	73.1	122.9	201.7	306.8
Restricted cash	0.0	0.3	0.2	0.7	0.7	0.7	0.7	0.7
Short-term investments				49.2	49.2	49.2	49.2	49.2
Accounts receivable, net	0.2	6.9	18.9	29.5	43.3	52.6	64.8	75.8
Inventories	6.5	19.0	30.6	36.7	45.3	52.5	61.9	71.4
Prepaid expenses and OCA	0.2	8.4	5.3	4.7	4.7	4.7	4.7	4.7
Due from related party	-	0.5	0.9	0.2	0.2	0.2	0.2	0.2
Note receivable	-	0.1	0.1	-	-	-	-	-
Deferred income taxes	-	0.1	0.0	-	-	-	-	-
Total current assets	**32.6**	**43.0**	**90.4**	**190.9**	**216.5**	**282.9**	**383.3**	**508.9**
Long-term restricted cash	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
PP&E, net	0.9	0.7	0.8	0.9	1.7	3.4	5.7	8.5
Investment in JV	12.2	19.5	24.5	21.0	16.6	14.2	13.8	16.4
Intangible assets, net	5.2	1.7	2.6	3.1	3.9	5.3	7.1	9.5
Other assets	-	0.2	0.2	0.8	0.8	0.8	0.8	0.8
TOTAL ASSETS	**51.0**	**65.1**	**118.6**	**216.7**	**239.6**	**306.7**	**410.8**	**544.1**
LIABILITIES								
Accounts payable	9.0	17.3	24.4	21.6	28.3	32.8	38.7	44.6
Due to related party	-	-	2.5	1.9	1.9	1.9	1.9	1.9
Accrued profit sharing	-	-	3.7	2.9	2.9	2.9	2.9	2.9
Accrued liabilities	3.9	4.9	4.8	4.8	4.8	4.8	4.8	4.8
Preferred stock warrants	-	-	1.4	-	-	-	-	-
Current portion of long-term debt	-	-	-	-	-	-	-	-
Notes payable	-	4.5	20.7	20.1	20.1	20.1	20.1	20.1
Total current liabilities	**13.0**	**26.8**	**57.6**	**51.2**	**57.9**	**62.4**	**68.3**	**74.2**
Long-term debt	-	-	-	15.0	15.0	15.0	15.0	15.0
Deferred income taxes	-	0.1	0.0	-	-	-	-	-
Other long-term liabilities	-	-	-	0.6	0.6	0.6	0.6	0.6
TOTAL LIABILITIES	**13.0**	**26.9**	**57.6**	**66.8**	**73.5**	**78.0**	**83.9**	**89.8**
STOCKHOLDERS' EQUITY								
Preferred stock	83.0	113.0	157.8	-	-	-	-	-
Common stock & APIC	0.5	1.1	2.3	265.9	268.1	270.4	272.6	274.9
Accumulated OCI	-	-	1.3	1.8	1.8	1.8	1.8	1.8
Retained earnings (accum deficit)	(45.4)	(75.9)	(100.4)	(117.7)	(103.8)	(43.5)	52.5	177.7
Total stockholders' equity	**38.1**	**38.2**	**61.0**	**149.9**	**166.1**	**228.7**	**326.9**	**454.3**
TOTAL LIABILITIES & S/H EQUITY	**51.0**	**65.1**	**118.6**	**216.7**	**239.6**	**306.7**	**410.8**	**544.1**

Source: Company reports and J.P. Morgan estimates.

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Figure 32: Sagent Annual Cash Flows

$ in millions

millions USD Fiscal year ends December 31	FY 2009A	FY 2010A	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E
CASH FLOW STATEMENT (quarterly)							
OPERATIONS							
Net income (loss)	(30.5)	(24.5)	(17.3)	13.9	60.4	96.0	125.1
Depreciation	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Amortization	4.0	1.0	1.0	1.1	1.1	1.1	1.1
Stock-based compensation	0.6	0.9	2.2	2.2	2.2	2.2	2.2
Equity in JV	1.5	1.5	2.2	2.0	-	(2.0)	(5.0)
Other non-cash items	0.1	0.9	0.8	-	-	-	-
Changes in working captial	(18.6)	(7.8)	(20.0)	(15.7)	(12.1)	(15.8)	(14.5)
CASH FLOW FROM OPERATING ACTIVITIES	**(42.8)**	**(27.8)**	**(30.9)**	**3.8**	**51.9**	**81.9**	**109.2**
INVESTING							
Capex	(0.1)	(0.3)	(0.3)	(1.0)	(2.0)	(2.5)	(3.0)
Purchase of intangibles/businesses	(0.3)	(1.8)	(1.2)	(2.0)	(2.5)	(3.0)	(3.5)
Investment/return from JVs	(8.8)	(5.2)	1.9	2.4	2.4	2.4	2.4
Other	(0.3)	0.1	(49.9)	-	-	-	-
CASH FLOW FROM INVESTING ACTIVITIES	**(9.4)**	**(7.3)**	**(49.5)**	**(0.6)**	**(2.1)**	**(3.1)**	**(4.1)**
FINANCING							
Change in notes payable	4.5	16.2	(0.6)	-	-	-	-
Change in long-term debt	-	-	15.0	-	-	-	-
Change in preferred stock	30.0	45.4	-	-	-	-	-
Change in common stock	0.1	0.2	101.6	-	-	-	-
Other	(0.3)	(0.1)	(0.1)	-	-	-	-
CASH FLOW FROM FINANCING ACTIVITIES	**34.3**	**61.7**	**115.9**	**-**	**-**	**-**	**-**
FX effect	-	-	-	-	-	-	-
NET CASH FLOW	**(17.9)**	**26.6**	**35.5**	**3.2**	**49.8**	**78.8**	**105.1**
Cash & equivalents, beginning of period	25.7	7.7	34.4	69.9	73.1	122.9	201.7
Cash & equivalents, end of period	7.7	34.4	69.9	73.1	122.9	201.7	306.8

Source: Company reports and J.P. Morgan estimates.

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Sagent Pharmaceuticals: Summary of Financials

Income Statement - Annual	FY10A	FY11E	FY12E	FY13E	Income Statement - Quarterly	1Q11A	2Q11A	3Q11E	4Q11E
Revenues	74	152	243	344	Revenues	30A	32A	41	48
Cost of products sold	65	128	183	236	Cost of products sold	26A	30A	34	39
Gross profit	9	24	60	108	Gross profit	5A	3A	7	9
SG&A	19	25	28	31	SG&A	5A	6A	6	7
R&D	11	11	14	15	R&D	2A	2A	3	3
Operating Income	32	38	44	46	Operating income	8A	9A	10	11
Note: EBITDA	(21)	(13)	17	63	Note: EBITDA	(3)A	(6)A	(2)	(1)
Net interest income / (expense)	(1)	(3)	(2)	(2)	Net interest income / (expense)	(1)A	(1)A	(1)	(1)
Other income / (expense)	(1)	(1)	0	0	Other income / (expense)	(0)A	(0)A	0	0
Pretax income	(24)	(17)	14	60	Pretax income	(4)A	(8)A	(3)	(2)
Income taxes	0	0	(1)	(9)	Income taxes	0A	0A	0	0
Net income - GAAP	-	-	-	-	Net income - GAAP	-	-	-	-
Net income - recurring	(24)	(17)	13	51	Net income - recurring	(4)A	(8)A	(3)	(2)
Diluted shares outstanding	-	20	30	30	Diluted shares outstanding	2A	22A	28	28
EPS - excluding non-recurring	-	(0.86)	0.42	1.70	EPS - excluding non-recurring	(2.09)A	(0.37)A	(0.11)	(0.06)
EPS - recurring	-	(0.86)	0.42	1.70	EPS - recurring	(2.09)A	(0.37)A	(0.11)	(0.06)

Balance Sheet and Cash Flow Data	FY10A	FY11E	FY12E	FY13E	Ratio Analysis	FY10A	FY11E	FY12E	FY13E
Cash and cash equivalents	35	71	74	124	Sales growth	-	-	-	-
Accounts receivable	19	29	43	53	EBIT growth	-	-	-	-
Inventories	31	37	45	52	EPS growth	-	-	-	-
Other current assets	6	54	54	54					
Current assets	90	191	217	283	Gross margin	-	-	-	-
PP&E	1	1	2	3	EBIT margin	-	-	-	-
Total assets	119	217	240	307	EBITDA margin	-	-	-	-
					Tax rate	-	-	-	-
Total debt	21	35	35	35	Net margin	-	-	-	-
Total liabilities	58	67	74	78					
Shareholders' equity	61	150	166	229	Debt / EBITDA	-	-	-	-
					Debt / Capital (book)	-	-	-	-
Net income (including charges)	(24)	(17)	14	60	Return on assets (ROA)	-	-	-	-
D&A	1	1	1	1	Return on equity (ROE)	-	-	-	-
Change in working capital	(8)	(20)	(16)	(12)	Return on invested capital (ROIC)	-	-	-	-
Other									
Cash flow from operations	(28)	(31)	4	52	Enterprise value / sales	-	-	-	-
					Enterprise value / EBITDA	-	-	-	-
Capex	(0)	(0)	(1)	(2)	Free cash flow yield	-	-	-	-
Free cash flow	(28)	(31)	3	50					
Cash flow from investing activities	(7)	(50)	(1)	(2)					
Cash flow from financing activities	62	116	0	0					
Dividends	-	-	-	-					
Dividend yield	-	-	-	-					

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec

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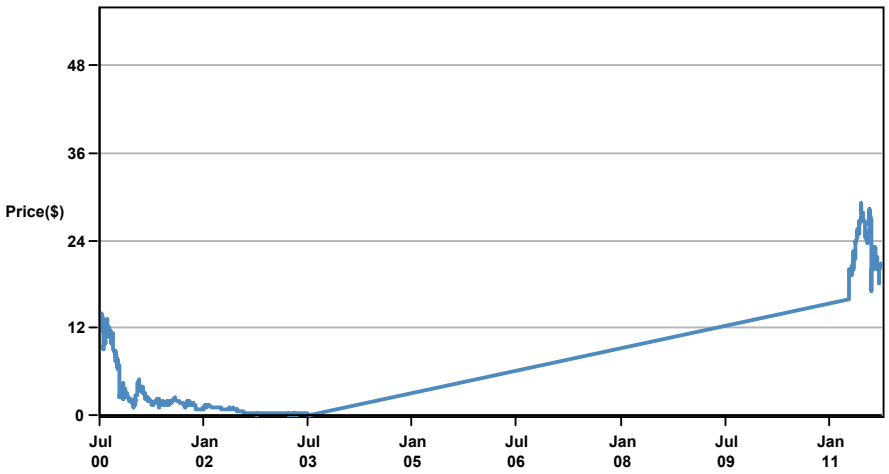
Sagent Pharmaceuticals (SGNT) Price Chart



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