



COMPANY UPDATE | COMMENT

NOVEMBER 7, 2011

Sagent Pharmaceuticals Inc (NASDAQ: SGNT)**Reaffirm Buy; Management Delivering Directionally on Strategy Despite Quarter Miss****Outperform
Above Average Risk**

| | | | |
|------------------|-------|------------------------|-------|
| Price: | 22.25 | Price Target: | 25.00 |
| Shares O/S (MM): | 27.8 | Implied All-In Return: | 12% |
| Dividend: | 0.00 | Market Cap (MM): | 619 |
| Yield: | | | 0.0% |

Priced at market close November 7, 2011 ET.

Event: 3Q11 Earnings**Investment Opinion**

We affirm our Outperform rating and \$25 PT on Sagent. Despite weaker than expected 3Q11 results we believe management delivered directionally on its strategy in the quarter of: growing revenues; expanding gross margins; increasing operating leverage; and continuing to develop a pipeline of attractive products. We also expect Sagent to benefit from its focus on injectables that are currently in short supply.

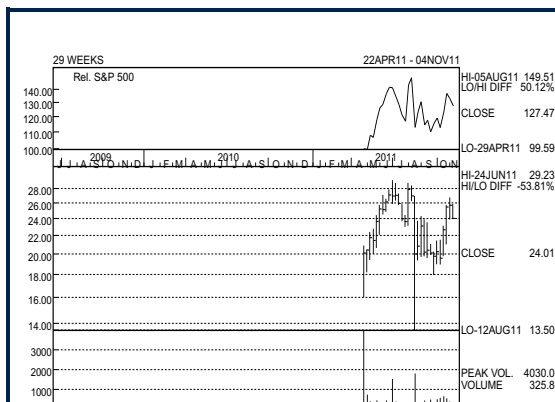
Regarding earnings, we expect these to remain volatile as they are still driven by a few key products, but we also expect more stability as the company expands and diversifies its revenue base further over the next few quarters. Sagent is a long term operating leverage story and we continue to expect further earnings growth as the company expands its top line with minimal additional charges expected to SG&A and R&D.

We view today's weakness (SGNT down 7.3% vs. a 0.6% increase for the S&P) as a buying opportunity and we remind investors that while the stock was down 27% post 2Q earnings, it rapidly recovered, reaching its high of \$26.08 within 12 weeks.

Sagent should benefit from its focus on drugs currently in short supply. We expect Sagent to benefit from the manufacturing issues facing its competitors and the reduced API supply for key products which in combination are driving shortages in numerous injectable products. Sagent has 24 products in its pipeline currently on the drug shortage list, 11 of which are expected to be launched next year. The company has 16 ANDA's that have already been approved, eight of which are from the Sagent-Strides JV and are expected to launch in 1H12. Management commented that 'several' of those eight ANDA's are products currently on the FDA's drug shortage list. Further the KSP China JV facility is now validated and operational. Management expects that most of the initial products launched from this facility will be on the FDA's critical drug shortage list.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Conflicts Disclosures, see Page 7.

**RBC Capital Markets, LLC****Shibani Malhotra (Analyst)**

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| FY Dec | 2009A | 2010A | 2011E | 2012E |
|---------------|---------|---------|---------|---------|
| Revenue (MM) | 29.2 | 74.1 | 150.2 | 216.4 |
| Prev. | | | 149.4 | 226.5 |
| EPS (Op) - FD | | | (1.04) | 0.53 |
| Prev. | | | (0.86) | 0.73 |
| P/E | NM | NM | NM | 42.0x |
| Revenue (MM) | Q1 | Q2 | Q3 | Q4 |
| 2011 | 30.3A | 32.3A | 41.3A | 46.3E |
| Prev. | | | 40.7E | 46.0E |
| EPS (Op) - FD | | | | |
| 2011 | (2.09)A | (0.37)A | (0.17)A | (0.12)E |
| Prev. | | | (0.13)E | (0.04)E |

All values in USD unless otherwise noted.

Changes to our model: We have reduced our gross margin assumptions to account for the difficult pricing environment for key products including Heparin, Cefepime, Gemcitabine and Piperacillin and Tazobactam. We have reduced our 4Q11 gross margin estimate to 17.9% from 21.3% driving our 2011 gross margin estimate down to 15% from 16.7%. We have also increase our 4Q11 and 2011 revenue estimates slightly to \$46.3mn and \$150.2mn from \$46mn and \$149.4mn respectively to account for the new product launches in 3Q11. This drives our 4Q11 EPS estimate down to (\$0.12) from (\$0.04) and our 2011 EPS estimate down to (\$1.04) from (\$0.86). We also reduce our 2012 EPS estimate to \$0.53 from \$0.73. We affirm our \$25 PT

Overview of Quarter Results: Sagent reported 3Q2011 GAAP EPS of (\$0.17), which was below our estimate of (\$0.13) and consensus of (\$0.12). Revenues of \$41.3mn came in above our \$40.7mn estimate and slightly below consensus estimates of \$41.8mn. Gross margin was 16.8%, below our 19.2%. Operating expenses came in at \$10.5mn versus our \$11.1mn, driven by lower than-expected SG&A expense partially offset by higher than expected product development costs. While 3Q11 results were below our and consensus estimates we note that our gross margin projections did not fully capture the competitive environment for key products. The 3Q11 earnings miss was driven by a weak pricing environment for products; which we believe are of declining importance to the company.

Exhibit 1: Last published estimates vs. revised estimates post 3Q2011 results

| Sagent Pharmaceuticals | | | | | | |
|------------------------------|-----------------|-----------------|-----------------|---------------|---------------|-----------------|
| US\$M, Except per share data | 2011E | Pub | Chg | 2012E | Pub | Chg |
| Base Molecules | 41.6 | 33.2 | 8.4 | 45.0 | 35.9 | 9.1 |
| Cefepime | 15.0 | 19.0 | (4.0) | 11.9 | 20.8 | (8.9) |
| Azithromycin | 8.0 | 8.0 | - | 8.8 | 8.8 | - |
| Heparin | 38.0 | 45.4 | (7.4) | 23.7 | 44.2 | (20.5) |
| Topotecan | 8.8 | 8.8 | - | 9.1 | 9.1 | - |
| Ampicillin | 5.3 | 5.3 | - | 5.8 | 5.8 | - |
| Gemcitabine | 7.0 | 13.3 | (6.3) | 12.8 | 20.3 | (7.5) |
| Piperacillin and Tazobactam | 0.7 | 1.5 | (0.9) | 2.5 | 5.6 | (3.1) |
| Nafcillin | 0.7 | 0.7 | - | 7.3 | 7.3 | - |
| ANEClear | 0.9 | 2.1 | (1.2) | - | 4.0 | (4.0) |
| Levofloxacin | 17.7 | 5.0 | 12.8 | 14.6 | 9.6 | 5.0 |
| Midazolam | 0.9 | 0.9 | - | 4.1 | 4.1 | - |
| Oxacillin | - | 0.6 | (0.6) | 4.0 | 4.4 | (0.4) |
| Caffeine Citrate | 0.3 | 0.3 | - | 3.6 | 3.6 | - |
| Paclitaxel | 1.3 | 1.3 | - | 4.0 | 4.0 | - |
| Oxaliplatin | - | - | - | 7.8 | 7.8 | - |
| Imipenem | - | - | - | 4.1 | 4.1 | - |
| Vancomycin | - | - | - | 5.6 | 5.6 | - |
| Lidogel | - | - | - | 3.3 | 3.3 | - |
| Zoledronic Acid | - | - | - | - | - | - |
| Docetaxel | - | - | - | - | - | - |
| Iron Sucrose | - | - | - | - | - | - |
| Other | 3.7 | 4.0 | (0.3) | 36.6 | 18.2 | 18.5 |
| Revenue | 150.2 | 149.4 | 0.8 | 216.4 | 226.5 | (10.1) |
| Cost of Goods Sold | 127.6 | 124.4 | 3.2 | 157.6 | 167.7 | (10.1) |
| Gross Profit | 22.6 | 25.0 | (2.4) | 58.7 | 58.8 | (0.0) |
| Gross Margin | 15.0% | 16.7% | (0.0) | 27.1% | 25.9% | 0.0 |
| Product Development | 11.6 | 10.5 | 1.1 | 12.1 | 11.0 | 1.1 |
| % Sales | 7.7% | 7.1% | 0.0 | 5.6% | 4.8% | 0.0 |
| SG&A | 24.8 | 25.3 | (0.4) | 25.8 | 26.3 | (0.4) |
| % Sales | 16.5% | 16.9% | (0.0) | 11.9% | 11.6% | 0.0 |
| Equity (income) loss | 2.1 | 3.2 | (1.1) | 2.0 | 1.0 | 1.0 |
| EBITDA (adj) | (14.9) | (12.9) | (1.9) | 21.1 | 22.8 | (1.7) |
| Depreciation | 0.2 | 0.2 | - | 0.3 | 0.3 | - |
| Amortization | 0.9 | 0.9 | 0.0 | 2.0 | 2.0 | - |
| Loss on Impairment | - | - | - | - | - | - |
| EBIT | (16.0) | (14.0) | (1.9) | 18.8 | 20.5 | (1.7) |
| Total Other (Income)/Expense | (4.8) | (3.1) | (1.6) | (3.7) | 0.1 | (3.9) |
| Pretax Income | (20.7) | (17.1) | (3.6) | 15.1 | 20.6 | (5.6) |
| Total Tax | - | - | - | - | - | - |
| Tax Rate (effective) | 0% | 0% | - | 0% | 0% | - |
| GAAP Net Income | -20.7 | -17.1 | (3.6) | 15.1 | 20.6 | (5.6) |
| Net Margin | NM | NM | NM | 7.0% | 9.1% | (0.0) |
| GAAP FD EPS | (\$1.04) | (\$0.86) | (\$0.18) | \$0.53 | \$0.73 | (\$0.20) |
| Avg. Shares (fully diluted) | 20.0 | 20.0 | 0.0 | 28.4 | 28.3 | 0.0 |

Source: Company Data, RBC Capital Markets Estimates

Exhibit 2: 3Q2011 Reported Earnings vs. RBC Estimates

Sagent Pharmaceuticals
Quarterly Earnings

| P&L Analysis (millions) | 3Q:10A | 3Q:11A | YoY Growth | RBC 3Q:11E | Difference vs RBC | Variance | Contribution to EPS | Consensus 3Q11E |
|----------------------------|----------|----------|---------------|---------------|----------------------|----------|------------------------|--------------------|
| Total Sales | \$21.27 | \$41.3 | 94.1% | \$41.28 | \$0.0 | 0.0% | \$0.00 | \$41.8 |
| COGS | \$18.54 | \$34.3 | 85.3% | \$34.34 | \$0.0 | 0.0% | \$0.00 | |
| Gross Profit | \$2.73 | \$6.9 | 153.7% | \$6.94 | \$0.0 | 0.0% | \$0.00 | |
| SG&A | \$4.48 | \$6.7 | 49.3% | \$6.69 | \$0.0 | 0.0% | \$0.00 | |
| Product Development | \$2.53 | \$3.5 | 36.5% | \$3.46 | \$0.0 | 0.0% | \$0.00 | |
| Equity (Income) Loss | \$0.21 | \$0.4 | 89.2% | \$0.40 | \$0.0 | 0.0% | \$0.00 | |
| Operating Income (Loss) | (\$4.49) | (\$3.6) | -19.6% | (\$3.61) | \$0.0 | 0.0% | \$0.00 | |
| Interest and Other Income | (\$0.23) | (\$1.4) | 526.7% | (\$1.12) | (\$0.3) | 28.3% | \$0.00 | |
| Pretax Income | (\$5) | (\$4.7) | -2.7% | (\$5) | \$0.0 | 0.0% | \$0.00 | |
| Tax | \$0 | \$0.0 | NM | \$0 | \$0.0 | NM | \$0.00 | |
| GAAP Net Income | (\$5) | (\$4.7) | -2.7% | (\$5) | \$0.0 | 0.0% | \$0.00 | |
| GAAP Diluted EPS | N/A | (\$0.17) | NM | (\$0.17) | \$0.00 | 0.0% | \$0.00 | (\$0.12) |
| Diluted Share Count | N/A | 27.9 | NM | 27.9 | - | 0.0% | \$0.00 | |

| Margin Analysis (as a % of sales) | 3Q:10A | 3Q:11A | YoY Change | RBC 3Q:11E | Difference vs RBC | Variance | Contribution to EPS | |
|--------------------------------------|--------|--------|---------------|---------------|----------------------|----------|------------------------|--|
| COGS | 87.1% | 83.2% | -3.9% | 83.2% | 0.0% | 0.0% | | |
| Gross Margin | 12.9% | 16.8% | 3.9% | 16.8% | 0.0% | 0.0% | | |
| SG&A | 21.1% | 16.2% | -4.9% | 16.2% | 0.0% | 0.0% | | |
| Product Development | 11.9% | 8.4% | -3.5% | 8.4% | 0.0% | 0.0% | | |
| Operating Margin | -21.1% | -8.7% | 12.4% | -8.7% | 0.0% | 0.0% | | |
| Pretax Margin | -22.9% | -11.5% | 11.4% | -11.5% | 0.0% | 0.0% | | |
| Tax Rate | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | NM | | |
| Net Margin | -22.9% | -11.5% | 11.4% | -11.5% | 0.0% | 0.0% | | |

Source: Company Data, RBC Capital Markets Estimates, StreetAccount

Valuation

Using our DCF model, which assumes a cost of capital of 16% and a terminal growth rate of 3%, we calculate a 12-month price target of \$25 for Sagent.

Price Target Impediment

Major risks to our price target include:

- 1) Delay in timing or non-approval of ANDAs currently under FDA review.
- 2) Manufacturing issues and product recalls.
- 3) Greater than expected shift in gemcitabine market toward 2gm dose, which Sagent will not have in near-future
- 4) Lower than expected gross margins on new product launches.
- 5) Greater than anticipated competition and pricing pressure.
- 6) Loss of key personnel.

Company Description

Sagent is a generics injectable company that develops and sources products to sell in the United States. The company currently offers a portfolio of products across a range of therapeutic areas, including anti-infectives, oncology, and critical care in a variety of preparations. Sagent has developed an extensive international network of collaborations, which involves more than 60 worldwide manufacturing and development facilities. While a fairly new company, Sagent has developed or licensed more than 100 ANDAs and launched 24 products in the last three years, a testament to management's execution abilities.

| Sagent Pharmaceuticals Shibani Malhotra | | | | | | | RBC Capital Markets shibani.malhotra@rbccm.com | | |
|--|--------|--------|----------|----------|----------|----------|---|--------|--------|
| INCOME STATEMENT | | | | | | | | | |
| US\$M, except per-share amounts | 2009A | 2010A | 1Q11A | 2Q11A | 3Q11E | 4Q11E | 2011E | 2012E | 2013E |
| Total Revenue | 29.2 | 74.1 | 30.3 | 32.3 | 41.3 | 46.3 | 150.2 | 216.4 | 389.0 |
| Cost of Goods Sold | 28.8 | 65.0 | 25.8 | 29.5 | 34.3 | 38.0 | 127.6 | 157.6 | 244.5 |
| Gross Profit | 0.4 | 9.0 | 4.6 | 2.7 | 6.9 | 8.3 | 22.6 | 58.7 | 144.5 |
| <i>Gross Margin</i> | 1.5% | 12.2% | 15.1% | 8.5% | 16.8% | 17.9% | 15.0% | 27.1% | 37.2% |
| Product Development | 12.4 | 11.2 | 2.4 | 2.4 | 3.5 | 3.4 | 11.6 | 12.1 | 12.7 |
| <i>% Sales</i> | 42.4% | 15.2% | 7.8% | 7.4% | 8.4% | 7.4% | 7.7% | 5.6% | 3.3% |
| SG&A | 16.7 | 18.9 | 5.0 | 6.5 | 6.7 | 6.7 | 24.8 | 25.8 | 27.9 |
| <i>% Sales</i> | 57.1% | 25.6% | 16.4% | 20.1% | 16.2% | 14.5% | 16.5% | 11.9% | 7.2% |
| Equity (income) loss | 1.5 | 1.5 | 0.7 | 0.5 | 0.4 | 0.5 | 2.1 | 2.0 | 2.0 |
| EBIT | (30.1) | (22.6) | (3.4) | (6.6) | (3.6) | (2.3) | (16.0) | 18.8 | 101.9 |
| <i>Operating Margin</i> | NM | NM | NM | NM | NM | NM | NM | 8.7% | 26.2% |
| Interest Income | 0.1 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.3 | 0.3 | 0.3 |
| Change in FV of preferred stock warrants | 0.0 | (0.8) | (0.5) | (0.4) | 0.0 | 0.0 | (0.8) | - | 0.0 |
| Interest Expense & Other | (0.5) | (1.1) | (0.5) | (1.2) | (1.2) | (1.2) | (4.2) | (4.0) | (4.0) |
| Total Other (Income)/Expense | (0.4) | (1.9) | (1.0) | (1.6) | (1.1) | (1.1) | (4.8) | (3.7) | (3.7) |
| Pretax Income | (30.5) | (24.5) | (4.4) | (8.2) | (4.7) | (3.4) | (20.7) | 15.1 | 98.2 |
| <i>Pretax Margin</i> | NM | NM | NM | NM | NM | NM | NM | 7.0% | 25.2% |
| Underlying Taxes | 0.0 | 0.0 | - | - | - | - | 0.0 | 5.3 | 34.4 |
| Tax Credits | 0.0 | 0.0 | - | - | - | - | 0.0 | (5.3) | (12.0) |
| Total Tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 22.4 |
| <i>Tax Rate (underlying)</i> | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% |
| <i>Tax Rate (effective)</i> | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 22.8% |
| GAAP Net Income | (30.5) | (24.5) | (4.4) | (8.2) | (4.7) | (3.4) | (20.7) | 15.1 | 75.8 |
| <i>Net Margin</i> | NM | NM | NM | NM | NM | NM | NM | 7.0% | 19.5% |
| GAAP FD EPS | | | (\$2.09) | (\$0.37) | (\$0.17) | (\$0.12) | (\$1.04) | \$0.53 | \$2.58 |
| Avg. Shares (fully diluted) | | | 2.1 | 22.1 | 27.9 | 27.9 | 20.0 | 28.4 | 29.4 |

| REVENUE | | | | | | | | | |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| US\$M | 2009A | 2010A | 1Q11A | 2Q11E | 3Q11E | 4Q11E | 2011E | 2012E | 2013E |
| Base Molecules | 29.2 | 51.2 | 13.9 | 16.0 | 16.5 | 18.2 | 64.6 | 65.6 | 69.1 |
| 2010 | | | | | | | | | |
| Heparin | | 19.6 | 12.3 | 11.5 | 8.1 | 6.1 | 38.0 | 23.7 | 22.5 |
| Topotecan | | 2.7 | 2.5 | 2.0 | 2.2 | 2.1 | 8.8 | 9.1 | 7.2 |
| Ampicillin | | 0.6 | 0.8 | 1.3 | 1.5 | 1.7 | 5.3 | 5.8 | 6.0 |
| 2011 | | | | | | | | | |
| Gemcitabine | | | - | - | 3.3 | 3.7 | 7.0 | 12.8 | 12.3 |
| Levofloxacin | | | - | - | 7.5 | 10.3 | 17.7 | 14.6 | 15.0 |
| Piperacillin and Tazobactam | | | - | - | 0.3 | 0.4 | 0.7 | 2.5 | 4.0 |
| Other | | | 0.9 | 1.4 | 1.9 | 3.8 | 8.0 | 37.8 | 56.9 |
| 2012 | | | | | | | | 44.5 | 102.4 |
| 2013 | | | | | | | | | 93.7 |
| Total | 29.2 | 74.1 | 30.3 | 32.3 | 41.3 | 46.3 | 150.2 | 216.4 | 389.0 |

Source: Company Reports, RBC Capital Markets Estimates

Required Disclosures

Conflicts Disclosures

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A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Sagent Pharmaceuticals Inc in the past 12 months.

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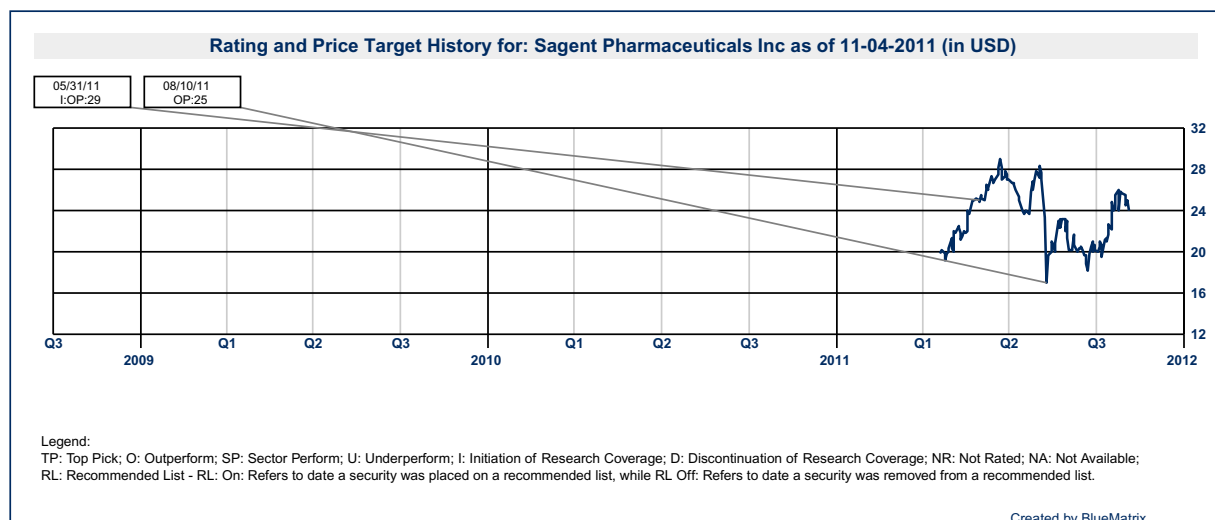
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Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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| Distribution of Ratings RBC Capital Markets, Equity Research | | | | |
|---|-------|---------|--|---------|
| Rating | Count | Percent | Investment Banking Serv./Past 12 Mos. | |
| | | | Count | Percent |
| BUY[TP/O] | 772 | 52.70 | 230 | 29.79 |
| HOLD[SP] | 628 | 42.90 | 136 | 21.66 |
| SELL[U] | 64 | 4.40 | 6 | 9.38 |



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