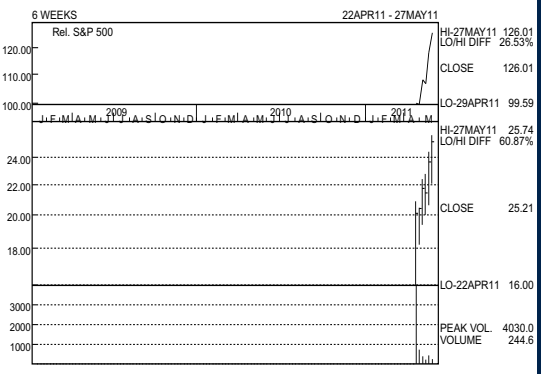
INITIATION | COMMENT

MAY 31, 2011

Sagent Pharmaceuticals Inc (NASDAQ: SGNT)

Low Risk Pipeline Supports Revenue and Margin Expansion; Initiate at Outperform



RBC Capital Markets, LLC

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FY Dec	2009A	2010A	2011E	2012E
Revenue (MM)	29.2	74.1	155.5	243.8
EPS (Op) - FD			(0.36)	1.01
P/E	NM	NM	NM	25.0x

Revenue (MM)	Q1	Q2	Q3	Q4
2011	30.3A	34.5E	41.3E	49.3E
EPS (Op) - FD				
2011	(2.09)A	(0.19)E	(0.03)E	0.07E

All values in USD unless otherwise noted.

Outperform
Above Average Risk

Price:	25.21	**Price Target:**	29.00
		Implied All-In Return:	15%
Shares O/S (MM):	27.8	**Market Cap (MM):**	701
Dividend:	0.00	**Yield:**	NM

Investment Opinion

We initiate coverage on SGNT, a pure-play generic injectables company, with an Outperform, Above Average Risk rating and a 12-month price target of $29. Three points support our thesis:

1) Focus on attractive generic injectables market. Sagent is building a low-risk pipeline of generic injectables to capitalize on the rapidly expanding market by focusing purely on products facing patent expiration. Even without P-IV opportunities, however, we anticipate higher margins and more sustainable cash flows than typical for oral generics.

2) Experienced management team with proven track record. Management has an extensive industry background with many of its top managers previously working for APP, the number two generic injectable player (now part of Fresenius). In a relatively short period of time management has proven it can generate significant market share (averaging 18% per product) in a market dominated by large well established players. Management has done so by leveraging its experience and strong relationships to both build a deep pipeline through an extensive network of third party collaborations and to gain a broad access to end-user customer base.

3) Deep, low risk pipeline driving revenue and margin expansion. A high proportion of the 69 ANDA's currently on file with the FDA are expected to be approved by end of 2012 with another 52 in initial development. We believe that recent and upcoming patent expirations on +$9b in branded injectable sales is a good proxy of Sagent's pipeline. In addition we also view smaller products that sit "under the radar" of large players to be likely pipeline candidates. We expect significant gross margin expansion by 2013 driven by a combination of higher-priced product launches and superior supplier based profit splits going forward. Operating margins will also be enhanced through minimal SGA and R&D spend which we estimate will grow in the single-digit range.

Valuation and risks: Using our DCF model that assumes a cost of capital of 15% and a terminal growth rate of 3%, we calculate a 12-month price target of $29. Key risks include: approval delays, manufacturing issues, greater than expected increase in gemcitabine 2gm market share, lower than expected margins on new product launches, and loss of key personnel.

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

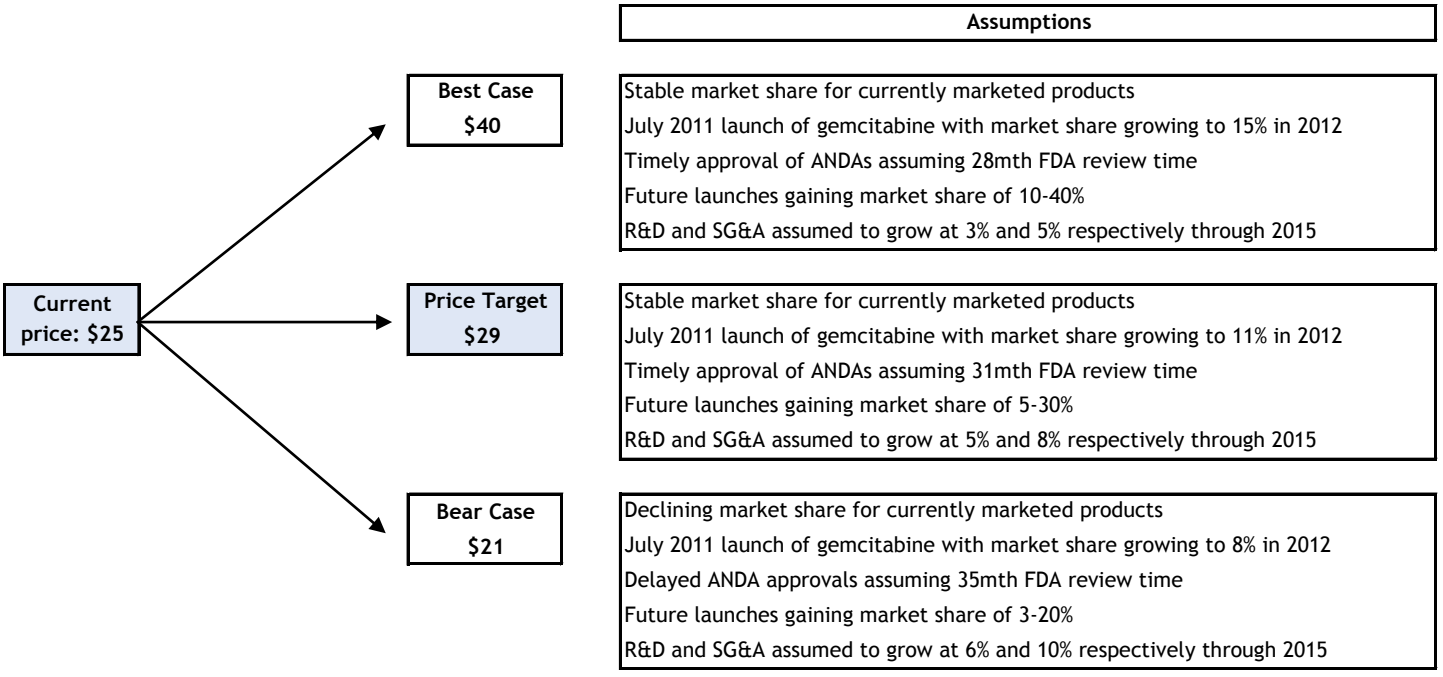
For Required Conflicts Disclosures, see Page 20.

Investment Overview

We initiate coverage on Sagent Pharmaceuticals shares with an Outperform, Above Average Risk rating and a 12-month price target of $29. Sagent listed on the NASDAQ on April 20, 2011 and completed its IPO on April 26 that raised net proceeds of $95.5 million for general corporate purposes. Our Outperform rating is based on our conviction that Sagent stock trades at an attractive valuation with significant near and medium-term top-line growth prospects and an accelerating operating margin. We highlight three key components of our investment opinion:

1) Focused on attractive generic injectables market:
   - i) Generic injectables typically have higher margins and more sustainable cash flows than oral generics.
   - ii) High barriers to entry due to capital requirement and manufacturing complexity.
   - iii) Driven by customer relationships and quality of supply.
2) Solid management team with a track record of execution and value creation:
   - i) Experienced management team with an extensive background in generic injectables.
   - ii) Top management's relationships with suppliers and distributors enables access to significant market share gains and creates barriers to entry for competition.
   - iii) Since its first FDA approval in 2007, Sagent has launched 24 products with an average market share of 18% per product.
3) Deep, low-risk pipeline driving significant operating leverage and earnings growth for the next three years:
   - i) A high proportion of the company's 69 ANDAs (39 separate products) currently on file with the FDA are expected to be approved by end of 2012, with another 52 ANDAs in initial development.
   - ii) Gross margin expansion is driven by a combination of new higher-priced products and superior profit splits with suppliers.
   - iii) Operating leverage further enhanced by maintaining SGA and R&D spend at single-digit growth while growing top line aggressively.

Exhibit 1: Valuation scenario analysis



Source: RBC Capital Markets estimates

RBC Response to Potential Market Concerns

Potential Concerns	RBC View
Business model highly dependant on partnerships: The business model is based on a series of partnerships, so the company is dependant on suppliers for quality control, reliability, and predictability of supply.	**Thorough vetting of suppliers and quality control enables consistent supply:** Sagent expects a significant percentage of its new collaborations will be with business partners located outside the US, so quality control is even more crucial. Our due diligence suggests that the company thoroughly vets its suppliers and is highly focused on quality, so it will take required steps to minimize this risk.
Current portfolio consists of low margin products: Partnerships based model usually means low product margins.	**Future products to have significantly higher margins:** While product margins are currently low (at 15%), we expect future products to have higher margins, thereby giving an estimated 37% in gross margins by 2013. This estimate is driven by a combination of new higher-priced products and superior profit splits with suppliers as Sagent's growth affords the company greater bargaining power with suppliers.
Highly dependent on CEO and other members of the management team: Company depends significantly on Jeff Yordon (CEO) because he holds most of the key relationships.	**Top management's relationships with suppliers and distributors greatest barrier to entry for competition:** The importance of relationships in the generic injectables business (and the resulting customer and supplier loyalty) means that competitors will find it hard to replicate the Sagent business model. We believe that the CEO is an unlikely flight risk.
Small player with fewer resources than competitors: Sagent is a fairly small player in a market that is dominated by companies such as Teva, Hospira, and Fresenius that have access to greater resources.	**Relationships and quality drives success in this market:** Success in the generics market is driven by relationships and product quality, so it is possible to take significant share from more established players. For example, heparin, which was launched in July 2010, has gained more than 20% share despite competition from established players such as APP (part of Fresenius Kabi) and Hospira. Separately, Sagent's strategy is to focus on 'under the radar' opportunities where the big players may not compete. These lower-volume generic products can generate significant profit especially because many large competitors do not stay in markets long term thereby leaving room for increasing share and price.
Current portfolio somewhat concentrated: Sales are concentrated at present, and future delays in product approvals could have a major effect on profitability.	**We anticipate 30–40 new product approvals by end of 2012:** Presently, sales of a limited number of Sagent's products collectively represent a significant portion of its net revenues; however, this will change going forward. While we accept that approval delays could affect the timing of earnings, we note that the actual approval and legal risks are low (given that the company is going after P-III filings).

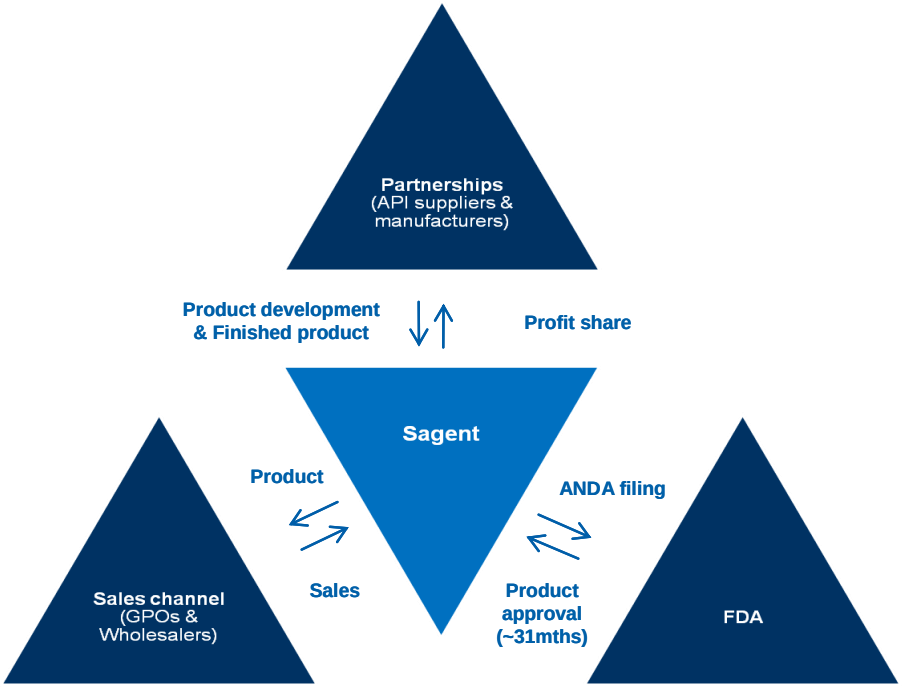
Overview of Sagent

Sagent is a generic injectables company that develops and sources products to sell in the US. The company currently offers 24 products across a range of therapeutic areas include 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. It also has two joint ventures: first, Kanghong Sagent (Chengdu) Pharmaceutical (KSP) with Chengdu Kanghong Technology Group (CKT) to construct and operate an FDA-compliant sterile manufacturing facility in China; and second, Sagent Strides (with Indian manufacturer Strides) to sell a variety of generic injectable products manufactured by Strides in the US. 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.

Unique business model: Sagent has a unique business model in that it sources manufacturing and parts of its product development through third parties and partnerships. In doing so, the company dramatically reduces the capital requirements involved in manufacturing (especially construction of sterile facilities) and minimises exposure to development risk. Instead, capital is allocated toward ANDA filings (average $0.6 million of development costs and product), product launches, and seeking out new pipeline opportunities. Sagent primarily works with Group Purchasing Organizations (GPOs) and pharmaceutical wholesalers to offer and distribute its products to end-user customers, which include hospitals, and other critical care facilities and centres. In 2010, around 85% of Sagent sales were made to the three largest pharmaceutical wholesalers in the US with the five largest GPOs representing end-user customers that accounted for approximately 35% of its sales.

Longer term, the company is constructing a sterile injectable manufacturing facility in China through a joint venture. The facility is designed to be FDA and cGMP (current Good Manufacturing Practices) compliant. The key here is the business model is hard to replicate as only a management team with extensive experience in pharma and injectables, such as Sagent's, could operate under this type of structure.

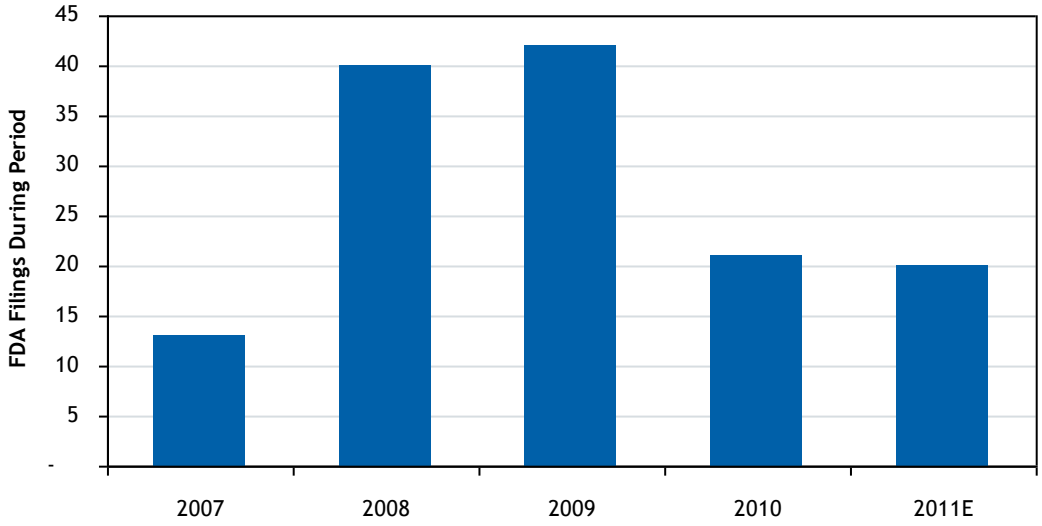
Exhibit 2: Unique business model that develops and sources products through partnerships to market in the US



Source: Company reports, RBC Capital Markets estimates

Strong generics pipeline ahead: With the majority of its 69 ANDAs (39 products) currently on file with the FDA expected to be approved by end of 2012, and another 52 ANDAs in initial development, Sagent is well on its way to developing a broad product portfolio. Importantly, the company only focuses on branded injectables that have reached patent expiry, thereby eliminating the legal risk associated with paragraph IV filings.

Exhibit 3: Strong and consistent history of FDA filings – 69 filings currently under review



Source: Company reports, RBC Capital Markets estimates

Details of Investment Thesis

Generic Injectables Market is Attractive and Growing

Key Drivers of Success in Injectables

The generic injectables market principally operates in a different manner from oral generics. Generic injectables are much more specialised drug formulations than orals, and face unique challenges in both manufacturing and distribution. Because Sagent is a fairly new company, albeit with an experienced management team, we think it prudent to first lay down what we believe are the three key drivers that predicate success in the generic injectables market.

1) Product quality and reliability of supply: Given the specialised and typically complex manufacturing involved in manufacturing injectables, what we hear time and again is the necessity for product quality and a reliable supplier of raw materials. With increased FDA scrutiny following a long series of high-profile product recalls, warning letters, and plant closures, product quality is arguably now more important than ever in setting apart high-quality manufacturers from the rest. Another key differentiating feature we see within the industry is the bottleneck surrounding the limited number of raw material suppliers and the difficulties that this causes in sourcing active ingredients. Without a reliable supply, drug shortages ultimately occur in the channel or at the very least cap a manufacturer's ability to gain share. We, therefore, see significant opportunities and potentially high market share gains for companies that can secure reliably supplies of raw material plus maintain a high level of quality control in what is a highly competitive yet concentrated market.

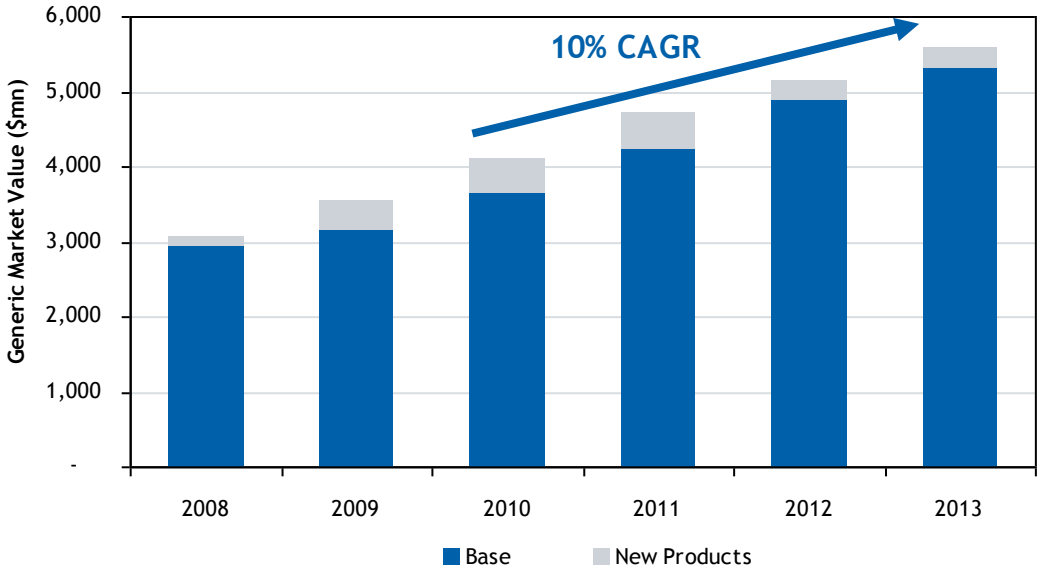
2) Relationships with GPOs and wholesalers: Due to the reasons mentioned above, GPOs, wholesalers, and end-users customers (including hospitals) in the generic injectable industry exhibit strong loyalty to companies they can depend on to meet their requirements. This loyalty stems from the high level of market share that this concentrated number of GPOs and wholesalers provide manufacturers access to and the risks they bare if quality or reliability is compromised.

3) Price: Low-cost manufacturing is an important driver for manufacturers but less so than quality and reliability. With fewer competitors in the market, pricing tends to be more stable with less price erosion and more room to discount if required compared to oral generics.

Trends in the Generics Injectables market

Significant growth opportunity: In 2010, the US generic injectable industry generated approximately $4.6 billion in sales compared to the branded injectable market at around $64.7 billion in sales. The generic injectables market is generally immature in comparison to the oral generics market. At the end of 2009, less than half of the small molecule branded injectable products had generic formulations. During the next two years, more than $9 billion in branded injectable sales is expected to face generic competition. We believe that management's estimates of 10% growth in generic injectables over the next three years are fair.

Exhibit 4: $9B of the $30B US market will go generic in the next two years



Source: Company reports, IMS, RBC Capital Markets estimates

High barriers to entry for new entrants: Injectables have significantly higher barriers to entry than oral pharmaceuticals. There are three reasons for this. First, injectables are typically more complex to manufacture, often require sterilized facilities and specialized staff. As such, injectables are significantly more capital intensive. Second, access to quality suppliers of raw materials is much more limited. The recent increase in scrutiny and regulation by the FDA has raised the bar on quality control, particularly the raw material and manufacturing process. For example one of Sagent's main products, heparin (naturally occurring anticoagulant), requires access to mucosal tissues from pigs intestines. Due to recent heparin contamination issues, access to quality crude material has been limited, so even while the FDA may approve a new entrant's generic product, the manufacturer may not be able to access the materials that it requires to make the product. Third, the distribution channel for injectables is highly specialized and concentrated with several large GPOs and wholesalers dominating; therefore, without strong relationships with the buyers, new entrants could struggle to negotiate contracts, which would limit market share potential.

Exhibit 5: Barriers to entry within generic injectables

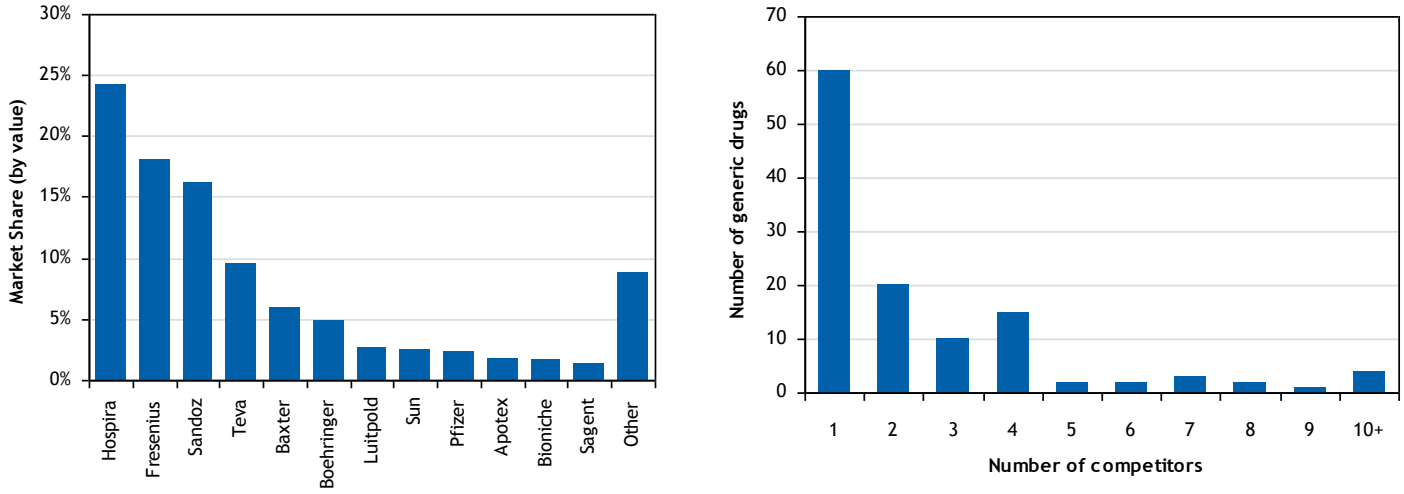
	Barriers to entry	Positives	Negatives
Manufacturing	▪ Often require sterile facilities and specialized staff due to complexity ▪ Highly capital intensive	✓ Fewer competitors ✓ Lower price discounting to brand ✓ Higher gross margins	✗ Highly capital intensive ✗ Prone to product recalls which can be costly and lengthy to resolve if FDA shuts down facility
Raw materials	▪ Limited number of quality suppliers ▪ Increasing FDA regulation and scrutiny makes quality control key	✓ Fewer suppliers reduces competition for finished product	✗ Potential for Increased costs associated with securing a supplier ✗ Important to control quality of supply
Distribution	▪ Highly specialized and concentrated channel ▪ Several large GPOs and wholesalers dominate ▪ Strong relationships necessary gain full access to channel	✓ Discourages new entrants that may have the capital but not the relationships	✗ Since the channel is dominated by a few large purchasers losing a contract is potentially very damaging

Source: RBC Capital Markets

Less competition than typical generic markets… Due to the high barriers to entry, generic injectables typically enjoy less competition than oral generics. Due to this dynamic, the top three generic injectable manufacturers, Hospira, Fresenius, and Sandoz dominate the US market accounting for around a 59% share of the market by value in 2010 (Exhibit 6). The next three largest players, Teva, Baxter (now owned by Hikma), and Boehringer occupy around a 20% share, with Sagent currently in twelfth place at 1.4%. In terms of individual products, the highly concentrated market means that there are fewer competitors per drug. On average, an individual generic product has between one to three generic competitors (Exhibit 6). We estimate that on average Sagent competes with four other generic manufacturers on an individual product basis.

...Leads to high margins and lower price erosion: The lower number of competitors per generic injectable means that gross margins are higher and price erosion less aggressive than with oral generics. As a result, the profit stream from generic injectable products is typically more sustainable than that of oral generics, because what ultimately crushes the price and margin for orals is the introduction of as many as 10–15 competitors. Furthermore, if a competitor has to recall a product due to manufacturing issues (a frequent occurrence in generics market), then given the lower level of competition, the remaining players would stand to benefit significantly from market share and price gains. Importantly we note that a small volume of product could drive significant profitability.

Exhibit 6: Top three players dominate 59% of market with only a few competitors per drug



Source: Company reports, IMS, RBC Capital Markets estimates

Experienced Management Team with Proven Track Record

Sagent's Greatest Asset is its Management Team

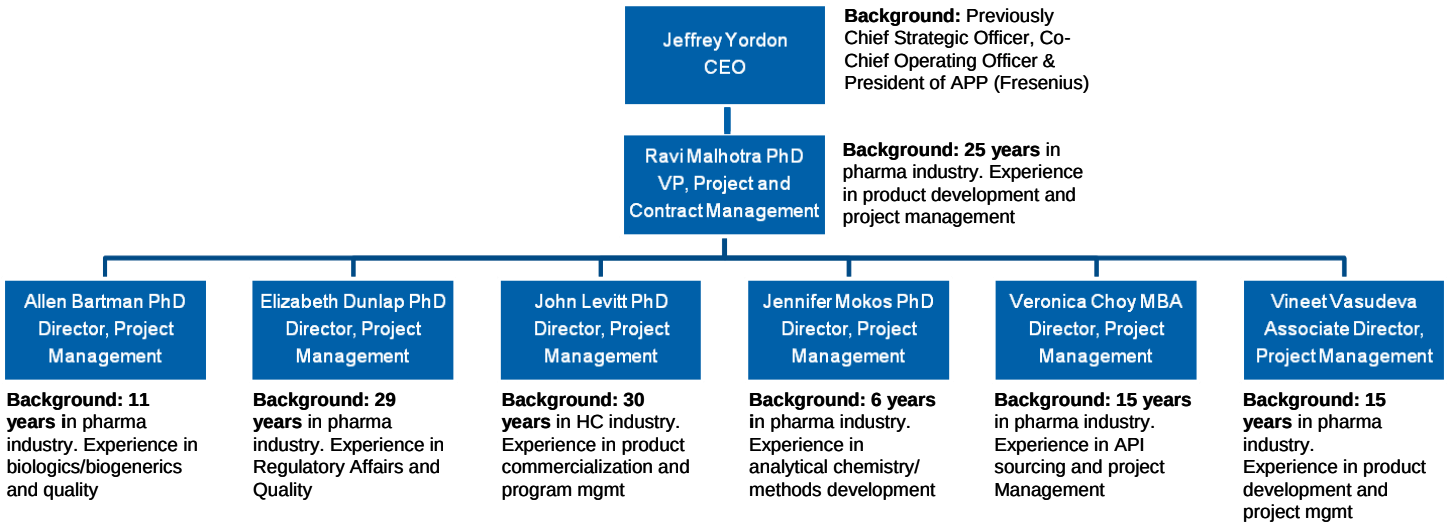
With a business model built almost entirely on relationships, we see an investment in Sagent as an investment in management's ability to leverage its relationships to negotiate contracts for its rapidly growing pipeline. From the CEO, Mr. Yordon, who was Chief Strategic Officer, Co-Chief Operating Officer and President of American Pharmaceutical Partners (currently the second largest generic injectables player) to the project and contract management team with a combined 131 years in the pharma industry and an average of 19 years experience per member, Sagent has a highly experienced team with a proven track record.

Jeffrey Yordon has served as president, chief executive officer, and chairman of Sagent's board of directors since April 2006. Prior to joining the company, from February 1996 to March 2006, Mr. Yordon held the positions of chief strategic officer, co-chief operating officer and president of American Pharmaceutical Partners (now part of Fresenius Kabi) and was a member of its board of directors. Prior to that, Mr. Yordon held the positions of president of Faulding Pharmaceuticals plc, executive vice president of Gensia Laboratories, president and chief executive officer of YorPharm and executive vice president and president of LyphoMed, Inc. Mr. Yordon served as chairman of the board of directors of Pharmaceutical Partners of Canada and Drug Source Company, and as a member of the board of directors of the Drug, Chemical & Associated Technologies Association. Mr. Yordon received a BA from Northern Illinois University.

Ronald Pauli has served as Sagent's chief financial officer since April 2007. Prior to joining the company, from August 2006 to March 2007, Mr. Pauli held the positions of executive vice president and chief financial officer of the biotech company NEOPHARM Inc. Prior to that, Mr. Pauli held the positions of corporate controller and interim chief financial officer of Abraxis BioScience; vice president, controller, and chief financial officer of ERSCO Corporation; corporate controller of Applied Power Inc.; corporate controller of R.P. Scherer; assistant controller, assistant treasurer, and assistant director of investor relations of Kmart Corporation; and senior accountant of Ernst & Whinney (now Ernst & Young). Mr. Pauli served as a certified public accountant licensed in North Carolina and received a BS in Accounting from Michigan State University and an MS in Finance from Walsh College.

Ravi Malhotra, Ph.D., has served as Sagent's vice president, project management since October 2006. Prior to joining the company, from 2000 to October 2006, Dr. Malhotra held the position of director of project management of American Pharmaceutical Partners. Prior to that, Dr. Malhotra held the positions of associate director and manager of project management of Fujisawa Pharmaceuticals. Dr Malhotra completed his post-doctoral studies at the Ohio State University and the University of Kansas.

Exhibit 7: Experienced management team with proven track record



Source: Company reports, RBC Capital Markets estimates

Extensive sourcing, development, and manufacturing collaborations: Each third party and partnership is first vetted by Sagent's in-house quality assurance and facility compliance teams that inspect, assess, train, qualify, and periodically audit the facilities to ensure that the products meet and maintain cGMP compliance. Currently, more than 60 third-party facilities have been qualified worldwide, including several dedicated facilities used to manufacture specific complex APIs and finished products. Sagent is actively involved in the sourcing of API and price negotiation, which allows Sagent to connect manufacturer with supplier, help to control the cost base, and to manage quality of the raw material. As for regulatory affairs, Sagent's regulatory team manages many of its partners' issues.

Focus on innovative product labeling and packaging to drive differentiation: In an effort to differentiate its product from the competition, Sagent has developed a proprietary labeling and packaging system, known as PreventIV Measures, aimed at preventing medication errors through the use of color coding and easy to read labeling. For example, with the recent safety issues surrounding some competing heparin products, Sagent used its PreventIV packaging as a differential selling point. While it is difficult to say exactly how much additional share it might have captured because of the safety conscious packaging, we understand that it was well received by the market in a time when a step up in patient safety has commercial value.

Strong relationships with GPOs and wholesalers: We already discussed the importance of strong relationships with GPOs and wholesalers for the success of a generic injectables company in terms of pricing and access to the channel. GPOs and end-user customers in generic injectables industry exhibit strong loyalty to companies that they can depend on to meet their requirements.

Proven ability at gaining significant market share: Although Sagent is a fairly new entrant to the US generic injectables market, management has so far demonstrated that it can gain significant market share despite competing against some of the industries top players such as Hospira and APP (now part of Fresenius Kabi). Exhibit 8 shows how on average Sagent products have gained a market share of 18% while competing against an average of four generic competitors. Probably more important is that for those products together representing 90% of total sales, each product has gained an average market share of 33%.

Exhibit 8: Breakdown Sagent product sales - 90% of sales from products with >20% market share (Q1/11)

Sagent Products	Launch	IMS Sales ($m)	Market Share	# Generic Competitors
epirubicin hcl	Aug 2009	0.9	57%	3
topotecan hcl	Dec 2010	4.9	48%	3
adenosine	Jan 2008	1.3	42%	5
vinorelbine tart	Oct 2009	0.5	34%	5
cefepime hcl	Apr 2008	4.4	33%	3
ceftazidime	Jul 2008	0.7	31%	3
azithromycin	May 2009	1.9	29%	5
cefuroxime sod	Aug 2008	0.1	22%	3
heparin sod	Jul 2010	13.1	22%	2
fluconazole/ns	Sep 2009	0.7	21%	5
fludarabine phos	Aug 2009	0.7	20%	4
cefoxitin sod	Dec 2009	0.5	16%	3
granisetron hcl	Jan 2011	0.2	13%	6
pamidronate disod	Jan 2010	0.2	12%	6
cefazolin sod	Mar 2008	0.8	10%	8
ciprofloxacin lact	Mar 2008	0.3	9%	2
amiodarone hcl	Aug 2008	0.1	7%	3
ampicillin/sulbactam	Aug 2010	0.5	7%	5
bacitracin	Oct 2010	0.2	5%	2
ceftriaxone sod	Aug 2008	0.8	5%	13
mesna	Jan 2011	0.1	4%	4
metoprolol tart	Oct 2010	0.1	4%	5
labetalol hcl	May 2010	0.1	4%	3
ampicillin	Jul 2010	0.3	4%	4
sumatriptan succin	Feb 2011	0.1	2%	5
Average			**18%**	**4**

Source: Company reports, RBC Capital Markets estimates

Robust, Low-Risk Pipeline Driving Significant Near-Term Operating Leverage and Earnings Growth

Deep and Diversified Near-term Portfolio of Low-risk Products

Large number of ANDAs should be approved by mid 2012: For a fairly new company, Sagent has developed or in-licensed more than 100 ANDAs and launched 24 products in the last three years. At the end of 2010, the company had 68 ANDAs under FDA review with another 20 expected to be filed this year. Exhibit 9 shows how the majority of Sagent's ANDAs have been on file with the FDA for more than a year. Assuming a conservative FDA approval time of 31 months, we estimate that close to 50 of these ANDAs should be approved by mid 2012, adding to Sagent's currently marketed products, which generated approximately $30 million of sales in the first quarter of 2011.

Exhibit 9: Close to 50 ANDAs should be approved by mid 2012

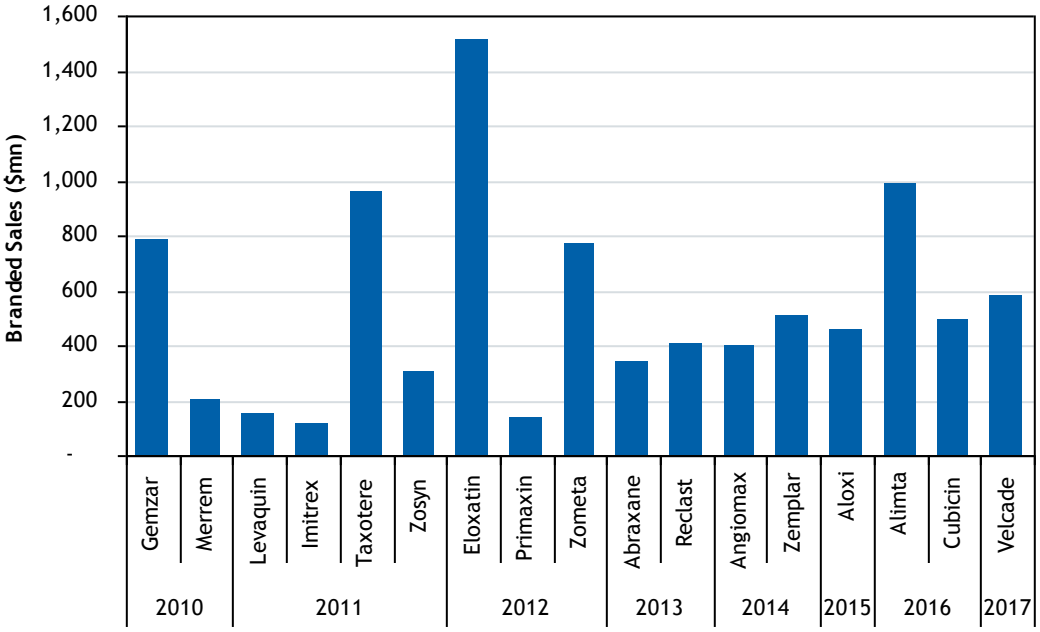
Time on file (as at Dec 31, 2010)	Number ANDAs
<12mths	19
12-24mths	23
>24mths	26
Avg approval time 31mths	**68**

Source: Company reports, RBC Capital Markets estimates

Pipeline attractive despite low visibility on identity of actual products: While we know that Sagent has a deep near-term pipeline, what we do not know is the identity of these products. Although not perfect, we believe a good proxy for Sagent's pipeline is the group of branded small molecule injectables that recently went off patent or are just about to do so. Exhibit 10 highlights the key

products in the US that will face or recently faced generic competition due to patent expiry or as a result of patent litigation. Importantly, we note that the distribution of the opportunity is diverse and not contingent on any one product.

Exhibit 10: Likely focus of Sagent's pipeline - patent expiry for key injectable brands



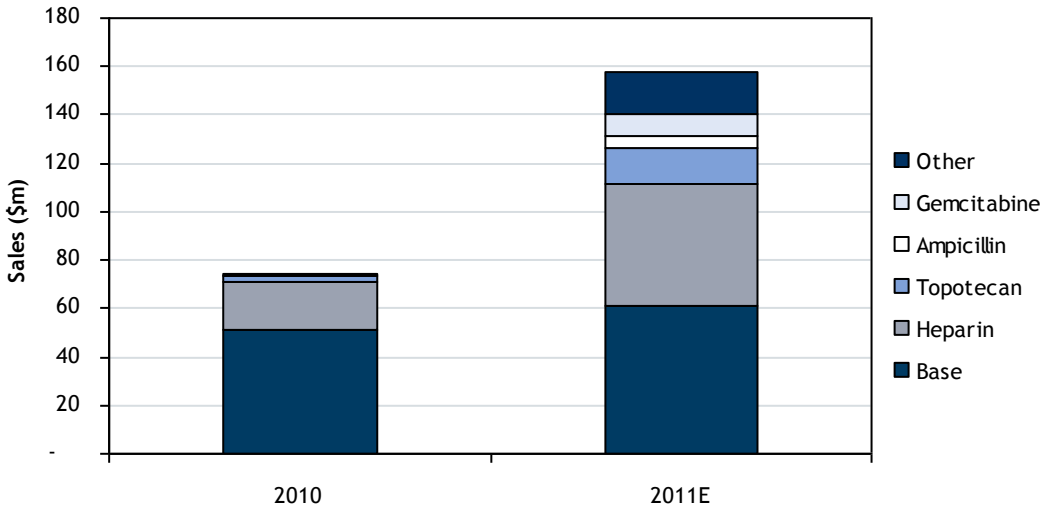
Source: IMS, RBC Capital Markets estimates

Low legal risk as pipeline focused on drugs facing patent expiry: Typically, generics companies focus on highly profitable paragraph IV products in the US where the first challenger is granted 180-days exclusively in which to sell its generic. This strategy, however, carries with it significant legal risk as the generic manufacturer is almost always sued by the branded pharmaceutical company for patent infringement. On average, one-third of the patent cases are lost by the generic company, one-third are won by the branded company, and one-third are settled. Sagent avoids this legal risk and expense by focusing on launching products after patent expiry. Although this strategy would limit the growth of a large generic manufacturer, we believe that given its size, Sagent can still generate significant earnings growth by pursuing this low-risk approach.

2011 Sales Expected to Double Driven by Heparin and Gemcitabine

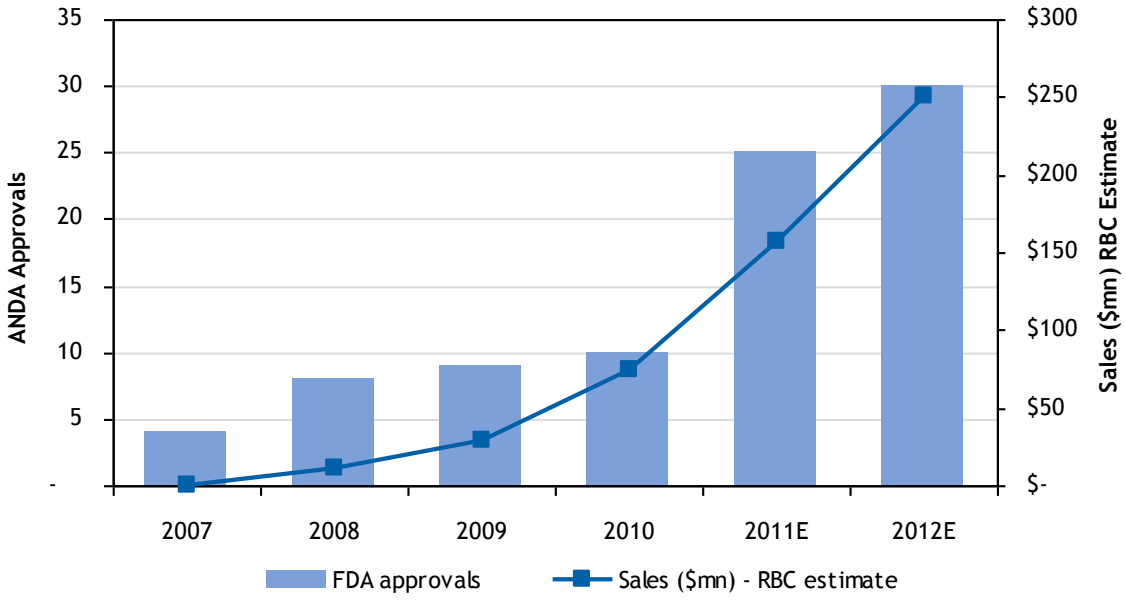
Management expects sales to double in 2011 driven by upcoming launch of gemcitabine, continued strength of heparin and topotecan, and the potential for an undisclosed approval of one or two significant products within the next 12 months (excluding recently accounted generic Zosyn). We believe that management's expectations are achievable assuming the first quarter of 2011's run rate of the base business, timely launch of gemcitabine, and other smaller product launches throughout the year. In 2012, we forecast sales growth of around 60% driven by the approval and subsequent launch of a large number of ANDAs currently under review with the FDA. We estimate close to 50 ANDAs will be approved between now and mid 2012 assuming a 31-month FDA approval turnaround.

Exhibit 11: 2011 Sales contribution by product



Source: Company reports, RBC Capital Markets estimates

Exhibit 12: Majority of current filings expected to be approved by end of 2012

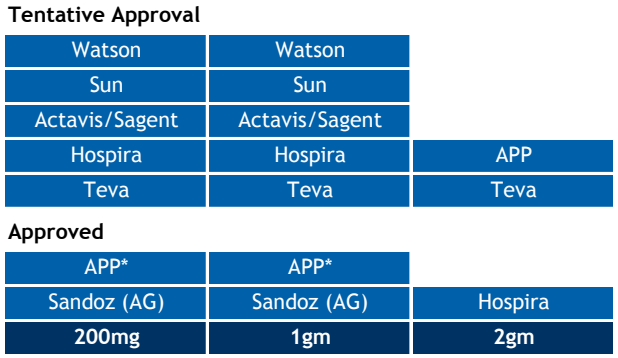


Source: Company reports, RBC Capital Markets estimates

Gemcitabine launch key driver in the second half of 2011: We expect Sagent to launch 200mg and 1gm strengths of gemcitabine (Gemzar) on July 25 following the completion of Teva's 180-day exclusivity period (currently licensed to APP). We suspect that Sagent signed an agreement with Actavis to market its product, which currently has tentative approval on both strengths. Branded gemcitabine generated $723 million in sales during 2010 split 15% and 85% respectively between the 200mg and 1gm strengths. When generics entered the market, Hospira launched a third new strength (2gm) that to date has gained 20% share by value mostly taking share from the 1gm strength. We understand that Sagent does not have an ANDA filing on the 2gm dose.

Competition for both the 200mg and 1gm strengths should be higher than normal for generic injectables with around six competing generic players (Exhibit 13). The three key variables determining the magnitude of the opportunity for Sagent will be market share, pricing, and the ultimate shift in the market to 2gm strength. We conservatively expect that Sagent gains an 8% share of the total market by the fourth quarter of 2011 (assuming an 80% share for 200mg and 1gm strengths in an eight-player market) with 60% discount to the brand name. Based on these assumptions, we estimate gemcitabine sales of $9 million and EPS contribution of $0.11 (zero tax) in 2011.

Exhibit 13: Sagent to launch gemcitabine on July 25, 2011



	Market Share	Market Share	Market Share
Mar-11	15%	65%	20%
Dec-10	16%	72%	12%
Sep-10	16%	84%	0%

* APP licensed Teva's 200mg and 1gm strengths to market within Teva's 180-day exclusivity.
Source: Company reports, FDA, IMS, RBC Capital Markets estimates

Exhibit 14: Gemcitabine sales model

Gemcitabine (GEMZAR)	3Q11E	4Q11E	2011E	2012E	2013E
Brand/generic market ($m)	194.3	194.3	777.2	792.7	808.6
Growth			*2%*	*2%*	*2%*
Generic substitution	95%	95%	83%	95%	95%
- Sagent % generic share	4%	8%	3%	11%	12%
Price discount	60%	60%	60%	70%	70%
Sagent sales ($m)	**3.0**	**5.9**	**8.9**	**24.9**	**27.7**

Source: Company reports, IMS, RBC Capital Markets estimates

Heparin is an attractive top-line opportunity, but EPS contribution is low due to profit split: While a significant contributor to sales, heparin is a low gross margin product due to a profit split agreement with partner Gland. We suspect that net of the profit split, heparin gross margins are in the 20% range, much lower than expected margins on new product launches. Looking forward, management believes that, while Baxter's injectables division (now part of Hikma) may try to return during the year, it is currently very difficult to obtain raw materials (availability of crude). As crude suppliers also provide material for the low-molecular weight heparin manufacturers, new entrants will likely find it difficult to gain any substantial raw materials and is unlikely to affect near-term market dynamics; therefore, we assume Sagent holds heparin sodium (injection vials only) market share stable at around 20% for the remainder of 2011.

Generic Zosyn attractive opportunity but not a significant 2011 driver: Sagent recently announced the approval for three strengths of piperacillin/tazobactam (Zosyn) single dose vials which have annual IMS sales of around ~$350m (single dose vials only). The company expects to launch the product in 3Q11. To date the generic manufacturers (Apotex, Hospira, Sandoz) have struggled to gain more than 30% market share due to limited access to raw materials and the strength of Pfizer's existing relationships with GPOs and wholesalers for this particular product. Until we have greater visibility on the degree of market access that Sagent manages to gain through GPOs and distributors, and the scope of the company's access to raw materials we prefer to be conservative on expected market share gains. We assume 5% share in 4Q11 and 10% share for 2012, which together with our expectations for 50% price discount equates to sales of $2m and $11m in 2011 and 2012 respectively.

Room for Significant Margin Leverage by 2013

We estimate that Sagent gross margins will expand to mid 30% by 2013 from 12% in 2010 driven by a series of higher margin product launches. Similarly, we expect operating margins to increase to around 27% in 2013 from negative territory currently due to sales growth exceeding growth in operating expenses.

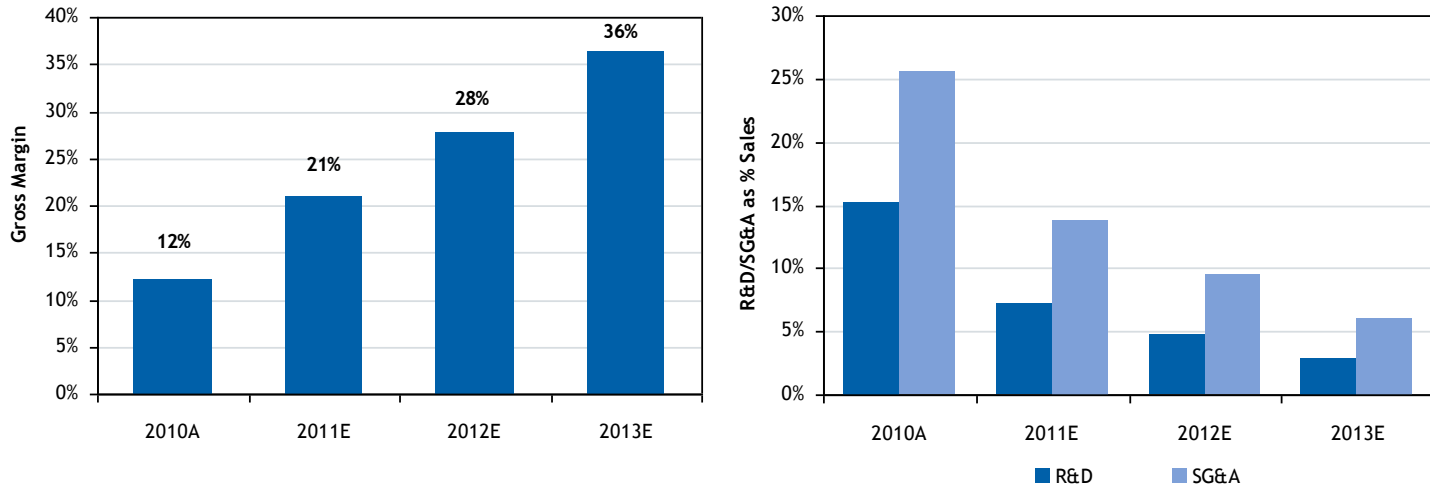
Injectable generics more profitable than oral generics… Typically, gross margins on generic injectables are significantly higher than oral generics due to the lower level of competition and subsequent price erosion (injectables 10–70% compared to orals around 95%).

…However, Sagent's product margins also depend on terms of partnership agreement: While gross margins may be significantly higher than oral generics, Sagent's partnership-based business model means that it tends to pay away a proportion of the profits. We understand that the degree of profit sharing is set at the contract level and often varies between individual contracts. We believe future product launches have superior profit splits with suppliers as Sagent's growth affords the company greater bargaining power with suppliers.

Near-term margin expansion driven by high-value product launches: Sagent plans to launch a series of higher-margin products that should lift gross margins for the next couple of year to a mid-30% range. We also expect gross margins to benefit from gradual shift in sales contribution away from low-margin heparin product as new products are launched. Beyond 2013, we expect that further gross margin expansion is contingent on the status and number of products coming out of its Chinese manufacturing facility. For now, we assume gross margins stabilize from 2013 onward, until we have further clarity on the size and timing of the opportunity of products coming out of this in-house facility.

Operating leverage from moderate R&D and SG&A growth: We forecast R&D and SG&A as a percentage of sales to contract significantly during the next couple of years as sales growth outstrip that of operating expenses. In anticipation of a large number of product launches, Sagent recently made substantial investments in its US-based sales and marketing team. Management now believes that it has sufficient capacity to commercialize upcoming launches without having to dramatically increase SG&A spending near term. We estimate SG&A to grow by 15% and 9% in 2011 and 2012, respectively. As for product development, we expect that given its business model, R&D spending should only increase at a modest rate of around 5% per annum.

Exhibit 15: New products and minimal growth in operating expenses driving gross margin expansion



Source: Company reports, RBC Capital Markets estimates

Valuation

Using our DCF model, which assumes a cost of capital of 15% and a terminal growth rate of 3%, we calculate a 12-month price target of $29 for Sagent.

Exhibit 16: Sagent discounted cashflow model

Discounted Cash Flow	2010A	2011E	2012E	2013E	2014E	2015E	2016E	Terminal
Revenue	74.1	155.5	243.8	416.7	504.7	582.8	662.1	
YOY Growth		*110%*	*57%*	*71%*	*21%*	*15%*	*14%*	
EBITDA	(22.0)	(3.4)	31.5	114.7	143.6	169.1	196.0	
EBITDA Margin	*-30%*	*-2%*	*13%*	*28%*	*28%*	*29%*	*30%*	
EBIT	(22.6)	(4.4)	29.2	114.1	143.1	168.6	195.5	
EBIT Margin	*-30%*	*-3%*	*12%*	*27%*	*28%*	*29%*	*30%*	
(+) Depreciation & Amortization	0.6	1.0	2.3	0.6	0.5	0.5	0.6	
D&A as a % sales	0.8%	0.7%	0.9%	0.1%	0.1%	0.1%	0.1%	
(-) Cash Taxes	-	-	-	28.0	38.3	38.0	68.8	
(-) CAPEX	0.3	0.1	0.2	0.3	0.4	0.5	0.6	
Capex as a % of sales	0.5%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	
(+) Change in Working Capital	(7.8)	(27.1)	(15.3)	(24.9)	(11.1)	(6.9)	(4.9)	
Unlevered Free Cash Flow	(30.1)	(30.6)	16.0	61.5	93.8	123.8	121.8	1,045.1
% of FCF to be received (time from current date)		60%	100%	100%	100%	100%	100%	
Total future FCF		(18.5)	16.0	61.5	93.8	123.8	121.8	1,045.1
Discount factor		0.9	0.8	0.7	0.6	0.5	0.5	0.5
Unlevered PV FCF		(17.0)	12.7	42.7	56.7	65.0	55.6	477.3

Valuation	
NPV FCF	215.8
PV OF TV	477.3
PV of (FCF+ TV)	693.1
Net Cash	(1.2)
Equity Value	691.9
Shares Outstanding	27.8
Fair Value/Share	24.9
12mth Price Target	**28.6**

Terminal Growth Rate	Discount Rate				
	10.0%	12.5%	15.0%	17.5%	20.0%
0.0%	974.2	739.4	585.3	477.0	397.2
1.5%	1,112.7	816.6	632.7	508.0	418.5
3.0%	1,310.5	918.2	691.9	545.5	443.6
4.5%	1,616.3	1,057.9	768.0	591.6	473.5
6.0%	2,151.4	1,262.0	869.5	649.7	509.9

Source: Company reports, RBC Capital Markets estimates

Price target impediments

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 to 2gm dose, which Sagent will not have.
4. Lower than expected gross margins on new product launches.
5. Greater than anticipated competition in heparin market with return of Baxter injectables (now part of Hikma).
6. Loss of key personnel.

Financial Models

Exhibit 17: Income statement and revenue model

INCOME STATEMENT									
US$M, except per-share amounts	**2009A**	**2010A**	**1Q11A**	**2Q11E**	**3Q11E**	**4Q11E**	**2011E**	**2012E**	**2013E**
Total Revenue	**29.2**	**74.1**	**30.3**	**34.5**	**41.3**	**49.3**	**155.5**	**243.8**	**416.7**
Cost of Goods Sold	28.8	65.0	25.8	28.0	32.4	37.1	123.3	176.0	264.6
Gross Profit	**0.4**	**9.0**	**4.6**	**6.5**	**9.0**	**12.2**	**32.2**	**67.7**	**152.1**
Gross Margin	*1.5%*	*12.2%*	*15.1%*	*18.8%*	*21.7%*	*24.7%*	*20.7%*	*27.8%*	*36.5%*
Product Development	12.4	11.2	2.4	3.1	2.9	2.9	11.3	11.8	12.4
% Sales	*42.4%*	*15.2%*	*7.8%*	*9.0%*	*7.0%*	*5.8%*	*7.2%*	*4.9%*	*3.0%*
SG&A	16.7	18.9	5.0	5.4	5.4	5.9	21.7	23.7	25.6
% Sales	*57.1%*	*25.6%*	*16.4%*	*15.8%*	*13.0%*	*12.0%*	*14.0%*	*9.7%*	*6.1%*
Equity (income) loss	1.5	1.5	0.7	1.0	1.0	1.0	3.7	3.0	0.0
EBIT	**(30.1)**	**(22.6)**	**(3.4)**	**(3.1)**	**(0.3)**	**2.4**	**(4.4)**	**29.2**	**114.1**
Operating Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*4.8%*	*NM*	*12.0%*	*27.4%*
Interest Income	0.1	0.0	0.0	0.0	0.1	0.1	0.2	0.3	0.3
Change in FV of preferred stock warrants	0.0	(0.8)	(0.5)	(0.4)	0.0	0.0	(0.9)	-	0.0
Interest Expense & Other	(0.5)	(1.1)	(0.5)	(0.5)	(0.4)	(0.4)	(1.8)	(1.0)	(0.2)
Total Other (Income)/Expense	(0.4)	(1.9)	(1.0)	(0.8)	(0.4)	(0.3)	(2.5)	(0.7)	0.1
Pretax Income	**(30.5)**	**(24.5)**	**(4.4)**	**(3.9)**	**(0.7)**	**2.0**	**(6.9)**	**28.6**	**114.2**
Pretax Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*4.1%*	*NM*	*11.7%*	*27.4%*
Underlying Taxes	0.0	0.0	-	-	-	0.7	0.7	10.0	40.0
Tax Credits	0.0	0.0	-	-	-	(0.7)	(0.7)	(10.0)	(12.0)
Total Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	28.0
Tax Rate (underlying)	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	*35.0%*	35.0%
Tax Rate (effective)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	24.5%
GAAP Net Income	**(30.5)**	**(24.5)**	**(4.4)**	**(3.9)**	**(0.7)**	**2.0**	**(6.9)**	**28.6**	**86.2**
Net Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*4.1%*	*NM*	*11.7%*	*20.7%*
GAAP FD EPS			**($2.09)**	**($0.19)**	**($0.03)**	**$0.07**	**($0.36)**	**$1.01**	**$2.94**
Avg. Shares (fully diluted)			2.1	20.5	27.8	27.8	19.6	28.3	29.3

REVENUE									
US$M	**2009A**	**2010A**	**1Q11A**	**2Q11E**	**3Q11E**	**4Q11E**	**2011E**	**2012E**	**2013E**
Base Molecules	29.2	51.2	13.8	15.3	15.6	16.2	60.9	65.8	69.9
2010									
Heparin		19.6	12.3	12.6	12.9	13.2	50.9	51.1	49.6
Topotecan		2.7	2.5	3.5	4.0	4.3	14.4	10.6	7.2
Ampicillin		0.6	0.8	1.3	1.5	1.7	5.3	5.8	6.0
2011									
Gemcitabine			-	-	3.0	5.9	8.9	24.9	27.7
Piperacillin and Tazobactam			-	-	0.5	1.0	1.5	11.2	13.6
Other			0.9	1.8	3.8	7.1	13.6	44.9	66.4
2012								29.6	82.6
2013									93.7
Total	**29.2**	**74.1**	**30.3**	**34.5**	**41.3**	**49.3**	**155.5**	**243.8**	**416.7**

Source: Company reports, RBC Capital Markets estimates

Exhibit 18: Balance sheet

BALANCE SHEET									
US$M	2009A	2010A	1Q11A	2Q11E	3Q11E	4Q11E	2011E	2012E	2013E
ASSETS									
Current Assets:									
Cash and cash equivalents	7.7	34.4	32.4	105.0	102.4	97.2	97.2	109.1	167.9
Restricted cash and cash equivalents	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Short-term investments	-	-	-	-	-	-	-	-	-
Accounts receivable, net	6.9	18.9	19.9	23.0	27.6	32.9	32.9	46.8	74.2
Inventories	19.0	30.6	31.4	34.2	36.0	41.3	41.3	53.0	72.5
Prepaid expenses and other current assets	8.9	6.2	6.7	6.9	8.3	9.9	9.9	12.2	20.8
Advance to Partners & Other Deposits	0.2	0.1	0.5	0.6	0.6	0.7	0.7	1.2	2.1
Other assets	-	-	-	-	-	-	-	-	-
Total current assets	43.0	90.4	91.0	169.8	174.9	182.1	182.1	222.4	337.6
Property, plant, and equipment, net	0.7	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.6
Investments	19.5	24.5	23.4	22.2	21.0	19.8	19.8	14.8	14.5
Intangible assets, net	1.7	2.6	2.6	2.8	3.3	3.9	3.9	4.9	7.5
Deferred financing costs	0.2	0.2	0.8	1.0	1.2	1.4	1.4	1.2	2.1
Other assets	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total assets	**65.1**	**118.6**	**118.7**	**196.5**	**201.2**	**207.9**	**207.9**	**243.9**	**362.3**
LIABILITIES AND STOCKHOLDERS' EQUITY									
Current Liabilities:									
Accounts payable & accrued expenses	17.3	24.4	14.9	16.2	18.7	21.5	21.5	29.9	44.9
Accrued liabilities	4.9	12.4	11.7	12.4	14.9	17.8	17.8	21.9	37.5
Short-term debt	4.5	20.7	23.5	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-
Total Current Liabilities	26.8	57.6	50.2	28.6	33.6	39.2	39.2	51.8	82.4
Long-term debt	4.5	20.7	10.2	15.0	14.3	12.3	12.3	4.1	-
Deferred revenue	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	0.6	2.8	3.3	3.9	3.9	4.9	8.3
Deferred tax liabilities	0.1	0.0	0.0	-	-	-	-	-	-
Total liabilities	**26.9**	**57.6**	**61.0**	**46.4**	**51.2**	**55.4**	**55.4**	**60.8**	**90.8**
STOCKHOLDERS' EQUITY									
Common stock	-	-	-	-	-	-	-	-	-
Paid in Capital	114.1	160.1	160.9	256.8	256.8	256.8	256.8	256.8	256.8
Retained earnings	(75.9)	(100.4)	(104.8)	(108.2)	(108.4)	(105.9)	(105.9)	(75.2)	13.2
Accumulated other comprehensive income	-	1.3	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Treasury stock, at cost	-	-	-	-	-	-	-	-	-
Total stockholders' equity	**38.2**	**61.0**	**57.7**	**150.2**	**149.9**	**152.5**	**152.5**	**183.1**	**271.5**
Noncontrolling interest	-	-	-	-	-	-	-	-	-
Total liabilities and stockholders' equity	**65.1**	**118.6**	**118.7**	**196.5**	**201.2**	**207.9**	**207.9**	**243.9**	**362.3**

Source: Company reports, RBC Capital Markets estimates

Exhibit 19: Cash flows

CASH FLOW									
US$M	2009A	2010A	1Q11A	2Q11E	3Q11E	4Q11E	2011E	2012E	2013E
CASH FLOWS FROM OPERATING ACTIVITIES									
Net income (GAAP)	(30.5)	(24.5)	(4.4)	(3.9)	(0.7)	2.0	(6.9)	28.6	86.2
Depreciation	0.3	0.2	0.1	0.1	0.1	0.1	0.2	0.3	0.3
Amortization	4.0	1.0	0.1	0.2	0.2	0.2	0.8	2.0	0.3
Product development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in FV of preferred stock warrants	0.0	0.8	0.5	0.4	0.0	0.0	0.9	0.0	0.0
Deferred Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock Compensation	0.6	0.9	0.5	0.5	0.5	0.5	2.0	2.1	2.2
Restricted stock repurchasing liability	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity Loss	1.5	1.5	0.7	1.0	1.0	1.0	3.7	3.0	0.0
Deferred Product rights	0.0	0.0	0.0	(0.2)	(0.5)	(0.6)	(1.4)	(0.9)	(2.6)
Adjustments to reconcile net income to net cash	2.1	3.2	1.6	1.7	1.0	0.9	5.1	4.2	(0.4)
Accounts receivable	(6.7)	(12.1)	(1.0)	(3.1)	(4.6)	(5.3)	(13.9)	(13.9)	(27.4)
Accounts payable	9.3	13.2	(10.9)	1.3	2.5	2.7	(4.4)	8.4	15.0
Accrued liabilities	(0.6)	(0.4)	0.5	0.7	2.5	2.9	6.5	4.2	15.6
Inventory	(12.5)	(11.6)	(0.9)	(2.8)	(1.8)	(5.3)	(10.7)	(11.8)	(19.4)
Prepaid expenses and other current assets	(8.1)	3.1	(1.3)	(0.2)	(1.4)	(1.6)	(4.6)	(2.3)	(8.6)
Changes in working capital	(18.6)	(7.8)	(13.6)	(4.2)	(2.7)	(6.6)	(27.1)	(15.3)	(24.9)
Net cash provided by operating activities	**(42.8)**	**(27.8)**	**(16.2)**	**(6.1)**	**(2.2)**	**(3.4)**	**(27.9)**	**19.6**	**61.5**
CASH FLOWS FROM INVESTING ACTIVITIES									
Capital expenditure	(0.1)	(0.3)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.2)	(0.3)
Net purchase of marketable securities	-	-	-	-	-	-	-	-	-
Acquisition of business, product rights and others	(0.3)	(1.8)	(0.1)	(0.1)	(0.2)	(0.2)	(0.6)	0.2	(0.9)
Other investing activities, net	(9.1)	(5.1)	0.8	(0.0)	(0.1)	(0.1)	0.6	(0.5)	(0.9)
Net cash provided by investing activities	**(9.4)**	**(7.3)**	**0.7**	**(0.2)**	**(0.3)**	**(0.3)**	**(0.2)**	**(0.5)**	**(2.0)**
CASH FLOWS FROM FINANCING ACTIVITIES									
Issuance of debt, net	4.5	16.2	15.0	(18.7)	(0.7)	(2.0)	(6.5)	(8.2)	(4.1)
Equity financing	30.1	45.6	0.6	95.5	-	-	96.1	-	-
Repayment of I/C debt	-	-	(2.0)	-	-	-	(2.0)	-	-
Other financing activities, net	(0.3)	(0.1)	(0.0)	2.2	0.5	0.6	3.3	0.9	3.5
Net cash provided by financing activities	**34.3**	**61.7**	**13.5**	**78.9**	**(0.1)**	**(1.4)**	**90.9**	**(7.3)**	**(0.6)**
Exchange rate effect	-	-	-	-	-	-	-	-	-
Net increase (decrease) in cash & cash equiv.	**(17.9)**	**26.6**	**(2.0)**	**72.6**	**(2.6)**	**(5.1)**	**62.9**	**11.9**	**58.8**
Cash & cash equiv., beginning of period	25.7	7.7	34.4	32.4	105.0	102.4	34.4	97.2	109.1
Cash & cash equiv., end of period	**7.7**	**34.4**	**32.4**	**105.0**	**102.4**	**97.2**	**97.2**	**109.1**	**167.9**
Unexplained adjustment	-	-	-	-	-	-	-	-	-
Ending Cash flowing to balance sheet	7.7	34.4	32.4	105.0	102.4	97.2	97.2	109.1	167.9
Marketable securities	-	-	-	-	-	-	-	-	-
Cash & cash equivalents and marketable securities, end of period	**7.7**	**34.4**	**32.4**	**105.0**	**102.4**	**97.2**	**97.2**	**109.1**	**167.9**

Source: Company reports, RBC Capital Markets estimates

Valuation

Using our DCF model, which assumes a cost of capital of 15% and a terminal growth rate of 3%, we calculate a 12-month price target of $29 for Sagent.

Price Target Impediment

Major risks to our price target include:

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3) Greater than expected shift in gemcitabine market toward 2gm dose, which Sagent will not have.

4) Lower than expected gross margins on new product launches.

5) Greater than anticipated competition in heparin market with return of Baxter injectables (now part of Hikma).

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.

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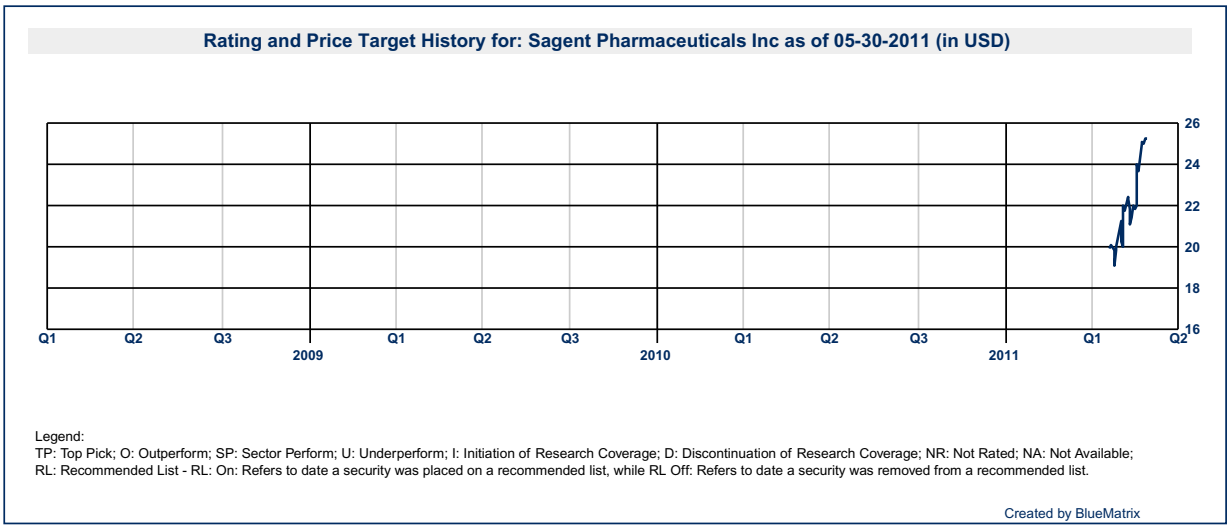

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