

June 21, 2011

Stock Rating
Overweight

Industry View
In-Line

Sagent Pharmaceuticals Levofloxacin Approval Adds to Pipeline Story

Levofloxacin adds to pipeline momentum story. The approval of Sagent/Strides generic levofloxacin provides further evidence of ANDA pipeline productivity, the key debate on the stock. The approval was in-line with our expectations and thus implicitly reflected in our current estimates for 2011+.

Now waiting for pre-mixed bag approval. The Sagent/ Strides approval is for the vial presentation of levofloxacin, which represents just ~4% of the injectable market with the pre-mixed bag formulation much more important (96% of the market) according to IMS. With the vial approved, our management conversations suggest good progress on pre-mixed bag approval.

Competition the question. Our analysis suggests FDA could grant approval to a total of ~5 injectable formulations (6 players total including J&J). However, the number of potential approvals in the vial and/or bag formulations is unclear at this point, but pro-rata share could be in the 15-20% range for Sagent.

~10% of incremental MSe 2011 revenue growth. Together all formulations of branded injectable levofloxacin represent a \$155MM market according to IMS. Thus, at a 50-60% price discount, the generic market opportunity is ~\$60MM. ~10-15% share annualizes at ~\$8MM or pro-rated for 2011 ~10% of MSe revenue growth from the current run rate. Gross margins will likely approximate 20-30% so that ~10-15% share is worth ~\$1.2M in EBIT for 2011 or \$0.04 in fully-taxed EPS. On a full year basis, each 500bps of share is worth \$3.5MM in revenue and ~\$1MM in EBIT.

Key Ratios and Statistics

Reuters: **SGNT.O** Bloomberg: **SGNT US**
Medical Technology / United States of America

Shr price, close (Jun 20, 2011)	\$27.56
Mkt cap, curr (mm)	\$58
52-Week Range	\$27.86-17.98

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Exhibit 1

Levofloxacin revenue sensitivity analysis

Impact on 2011 Revenue (\$MM)						
Price Discount	Market Share					
	10%	15%	17%	20%	25%	
50%	4.1	6.2	7.0	8.2	10.3	
55%	3.7	5.5	6.3	7.4	9.2	
60%	3.3	4.9	5.6	6.6	8.2	
65%	2.9	4.3	4.9	5.8	7.2	
70%	2.5	3.7	4.2	4.9	6.2	

Top-Line Growth Contribution to Incremental Revenue						
Price Discount	Market Share					
	10%	15%	17%	20%	25%	
50%	8.9%	13.4%	15.2%	17.9%	22.3%	
55%	8.0%	12.1%	13.7%	16.1%	20.1%	
60%	7.1%	10.7%	12.1%	14.3%	17.9%	
65%	6.2%	9.4%	10.6%	12.5%	15.6%	
70%	5.4%	8.0%	9.1%	10.7%	13.4%	

Source: Company data, Morgan Stanley Research estimates

Exhibit 2

EPS and EBIT sensitivity analysis

Levofloxacin Effect on 2011 Operating Income (\$MM)						
Contribution Margin	Market Share					
	10%	15%	17%	20%	25%	
20%	0.7	1.0	1.1	1.3	1.6	
23%	0.8	1.1	1.3	1.5	1.9	
26%	0.9	1.3	1.5	1.7	2.1	
29%	1.0	1.4	1.6	1.9	2.4	
32%	1.1	1.6	1.8	2.1	2.6	

Levofloxacin EPS Impact - No Tax Burden						
Contribution Margin	Market Share					
	10%	15%	17%	20%	25%	
20%	\$0.03	\$0.05	\$0.06	\$0.07	\$0.08	
23%	\$0.04	\$0.06	\$0.07	\$0.08	\$0.10	
26%	\$0.04	\$0.07	\$0.07	\$0.09	\$0.11	
29%	\$0.05	\$0.07	\$0.08	\$0.10	\$0.12	
32%	\$0.05	\$0.08	\$0.09	\$0.11	\$0.13	

Levofloxacin EPS Impact - Fully Taxed						
Contribution Margin	Market Share					
	10%	15%	17%	20%	25%	
20%	\$0.02	\$0.03	\$0.04	\$0.04	\$0.06	
23%	\$0.03	\$0.04	\$0.04	\$0.05	\$0.06	
26%	\$0.03	\$0.04	\$0.05	\$0.06	\$0.07	
29%	\$0.03	\$0.05	\$0.06	\$0.06	\$0.08	
32%	\$0.04	\$0.05	\$0.06	\$0.07	\$0.09	

Source: IMS, Company Data, Morgan Stanley Research estimates

Company Description

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

Medical Technology/United States of America

Industry View: In-Line

GICS Sector: Health Care

Stratigist's Recommended Weight: 16.0%

S&P 500 Weight: 11.9%

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(as of May 31, 2011)

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	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1153	41%	464	48%	40%
Equal-weight/Hold	1140	41%	365	38%	32%
Not-Rated/Hold	108	4%	20	2%	19%
Underweight/Sell	390	14%	108	11%	28%
Total	2,791		957		

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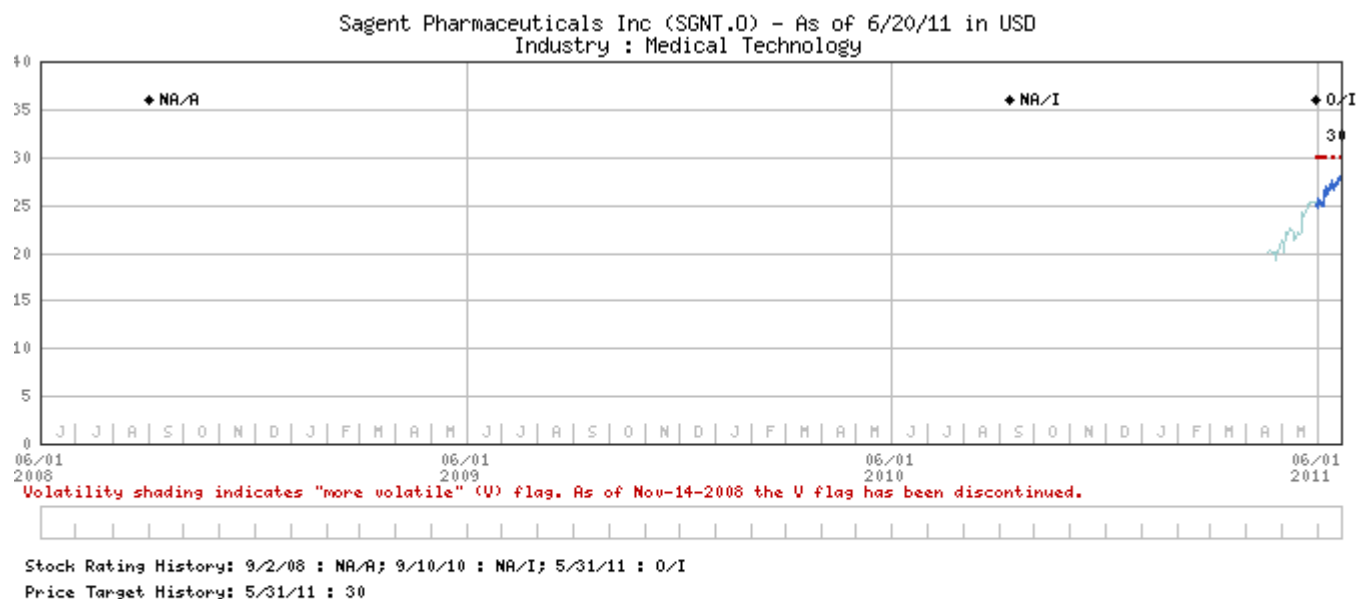
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Stock Price, Price Target and Rating History (See Rating Definitions)

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

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The Americas

1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe

20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan

4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
Tel: +81 (0) 3 5424 5000

Asia/Pacific

1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

Industry Coverage: Medical Technology

Company (Ticker)	Rating (as of)	Price* (06/20/2011)
David R. Lewis		
Abbott Laboratories (ABT.N)	O (09/04/2008)	\$52.02
Abiomed (ABMD.O)	E (02/06/2009)	\$16.8
American Medical Systems Holdings, Inc. (AMMD.O)	NA (05/26/2011)	\$29.98
Baxter International (BAX.N)	O (09/04/2008)	\$59.93
Becton Dickinson (BDX.N)	E (07/31/2009)	\$85.96
Boston Scientific (BSX.N)	E (09/10/2010)	\$6.74
C.R. Bard (BCR.N)	E (01/03/2011)	\$109.14
CareFusion Corp. (CFN.N)	O (05/20/2010)	\$26.81
Covidien (COV.N)	O (07/15/2010)	\$52.91
Edwards Lifesciences (EW.N)	E (09/04/2008)	\$83.92
Haemonetics Corporation (HAE.N)	U (01/03/2011)	\$64.1
Hansen Medical, Inc. (HNSN.O)	U (01/08/2009)	\$3.03
Hologic, Inc. (HOLX.O)	E (05/05/2009)	\$19.99
Integra LifeSciences (IART.O)	E (09/10/2010)	\$47.68
Intuitive Surgical Inc. (ISRG.O)	E (10/02/2007)	\$351.71
Johnson & Johnson (JNJ.N)	E (08/10/2010)	\$66.51
Medtronic Inc. (MDT.N)	E (09/04/2008)	\$38.68
St. Jude Medical (STJ.N)	U (01/03/2011)	\$49.3
Stryker Corporation (SYK.N)	O (01/08/2010)	\$58
Zimmer Holdings, Inc. (ZMH.N)	E (07/16/2009)	\$62.24
Marshall Urist, M.D., Ph.D.		
Affymetrix (AFFX.O)	E (07/20/2009)	\$7.11
Beckman Coulter (BEC.N)	++	\$83.47
Gen-Probe Inc. (GPRO.O)	E (11/21/2008)	\$68.03
Hospira (HSP.N)	E (07/16/2009)	\$54.84
Illumina (ILMN.O)	O (01/23/2009)	\$72.4
Life Technologies (LIFE.O)	O (03/19/2009)	\$51.99
Myriad Genetics (MYGN.O)	E (03/19/2009)	\$22.76
Pacific Biosciences of California, Inc. (PACB.O)	O (12/06/2010)	\$11.57
Qiagen NV (QGEN.O)	E (10/25/2010)	\$19.18
Sagent Pharmaceuticals Inc (SGNT.O)	O (05/31/2011)	\$27.56
Thermo Fisher Scientific Inc (TMO.N)	O (09/11/2009)	\$62.8
Waters Corp (WAT.N)	E (12/12/2008)	\$92.59

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