

## COMPANY NOTE

Estimate Change

USA | Healthcare | Pharmaceuticals/Specialty

November 8, 2011

# Jefferies

## Sagent Pharmaceuticals (SGNT) 3Q: Unnecessary Roughness

### Key Takeaway

**3Q results were relatively in-line with our forecasts, but failed to impress higher Street expectations, and the stock took a hit for it (down 7% yday). But given our view that SGNT is well-positioned to benefit from current drug shortages, has excellent momentum on new product approvals/launches, and has a GM% expansion story that remains intact, we're sticking with our Buy and \$28 PT.**

**3Q results.** Revenue of \$41.3M was a hair below us & cons. of \$42.0M & \$41.8M, but was +94% y/y and +28% q/q. SGNT posted a 16.8% GM% (vs. our 17.0% forecast), a vast improvement from the 8.5% GM% seen last qtr (which caused SGNT's stock to plunge 27%). Mgmt guided that GM% would increase in 4Q, importantly *reassuring us that the GM % expansion thesis on SGNT remains intact*. Cons. (according to Thomson) was looking for 18.1%, so in that respect, SGNT "missed" on GM%. We note, however, that as Thomson included only 4 of the 6 sell-side estimates for GM%, had the other 2 est's been included, cons. GM% would have been below 18% -- thus, not nearly as big a "miss". Total OpEx of \$10.1M (+45%) was higher than our \$8.5M, but doesn't signal a worrisome trend. See p. 2 for a full 3Q variance analysis. EPS was (\$0.17), vs. (\$0.11)/(\$0.12) for us/cons. We've now tweaked estimates; our new 4Q11/2011 EPS is (\$0.08)/(\$0.97) vs. our prior (\$0.01)/(\$0.79).

**Locked and loaded.** As highlighted in our note last week, SGNT is well-positioned to take advantage of the current increase in drugs on FDA's critical shortage list (CSL), having already launched two such products (vecuronium, paclitaxel) in 3Q. In addition, two more CSL drugs could launch in 4Q, w/ 11 more on tap for launch in 2012. In a new update, FDA inspection of the Chengdu facility (from where 8-10 add'l CSL products could come) might now occur by mid-2012 --- ahead of our expectations. While pricing for some of the base business (older, higher volume products, primarily heparin) has been weaker, this should be more than offset with new product approvals/launches. As of 9/30/11, SGNT had 59 ANDAs (32 products) pending approval, 47 more in development (several filed by YE'11), and through the Strides JV, an additional 16 ANDAs approved but not yet launched (many expected during 1H12, some being CSL drugs).

### Valuation/Risks

Our \$28 PT reflects an 18.1x PE multiple on our 2013 EPS of \$1.55. This is a premium to peers, but one we think is deserved given SGNT's growth profile & scarcity value as a generic injectables pure-play. Risks incl: cont'd FDA delays in approving ANDAs, unforeseen MFG issues, worse than expected pricing pressure, and the loss of key members of management.

USD	Prev.	2010A	Prev.	2011E	Prev.	2012E	Prev.	2013E
Rev. (MM)	--	74.1	151.6	150.9	--	245.9	--	351.4
EV/Rev		7.0x		3.4x		2.1x		1.5x
Consensus	--	--	--	(0.85)	--	0.46	--	1.80
<b>EPS</b>								
Mar	--	--	--	(2.09)A	--	0.00	--	--
Jun	--	--	--	(0.37)A	--	0.06	--	--
Sep	--	--	(0.11)	(0.17)A	--	0.14	--	--
Dec	--	--	(0.01)	(0.08)	--	0.26	--	--
FY Dec	--	NA	(0.79)	(0.97)	0.50	0.45	1.60	1.55
FY P/E				NM		49.4x		14.4x

**BUY**

Price target \$28.00

Price \$22.25

### Financial Summary

Net Debt (MM): (\$101.3)

### Market Data

52 Week Range:	\$29.23 - \$13.50
Total Entprs. Value (MM):	\$519.5
Market Cap. (MM):	\$620.8
Insider Ownership:	2.5%
Institutional Ownership:	67.9%
Shares Out. (MM):	27.9
Float (MM):	6.3
Avg. Daily Vol.:	102,693

**Corey Davis, Ph.D. \***

Equity Analyst

(212) 336-7187 cdavis@jefferies.com

**Graig Suvannavejh, Ph.D. \***

Equity Analyst

(212) 284-2170 gsuvannavejh@jefferies.com

**Oren G. Livnat, CFA \***

Equity Associate

(212) 284-2214 olivnat@jefferies.com

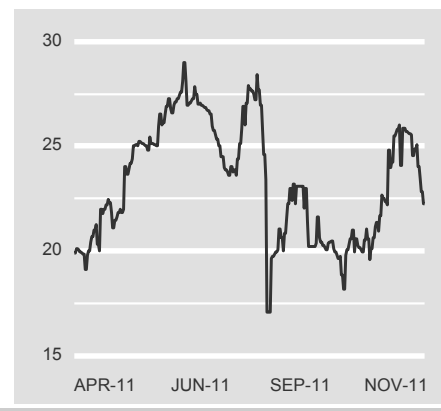
**Matthew Weiss, CFA \***

Equity Associate

(212) 707-6446 mweiss@jefferies.com

\* Jefferies & Company, Inc.

### Price Performance



## Incremental 3Q Tidbits

### On Pricing Trends

- Price erosion of some of Sagent's higher volume products – primarily heparin – has been greater than Sagent had originally anticipated. While heparin (which represented 46% of SGNT's revenue last year in 3Q10) has become a smaller contributor, pricing appears to have stabilized.
- In general, we continue to see Sagent's core advantage being on the smaller products that attract less competition. Hence for generics like Taxotere (docetaxel), that went generic earlier this year, we don't see as a major opportunity since Sagent wouldn't be approved for a few years and there are already three generics approved – despite it peaking above \$1B in branded sales in the US.
- Sagent's generic Levaquin (levofloxacin) bags currently faces one competitor, and its contribution is expected to be higher in 4Q; new competition is expected in 1Q12; that said, Sagent feels confident that its head start will position it relatively well when the new entrants come to market.
- Pfizer's (PFE, \$20.07, Buy) pricing on generic Zosyn (piperacillin/tazobactam) remains aggressive. Pricing for generic Gemzar (gemcitabine) is also challenging given nine other competitors, but that has been completely in line with expectations.
- While Sagent's pricing on generic Taxol (paclitaxel) is higher than the two other current competitors, pull-through nonetheless has been quite good; current margins are very accretive to Sagent's overall GM% -- a testament to what good service and supply can do for Sagent's reputation.

### On Shortage Products

- According to Sagent, YTD, there have been 232 drug shortages, and SGNT expects this number to rise to 250 by YE'11 (again highlighting the opportunity).
- Sagent currently supplies 10 shortage products; 24 more are in the pipeline, and of these 24, two are expected to launch during 4Q, and 11 more are to be introduced in 2012.
- Given FDA's focus on addressing shortage products, Sagent believes FDA inspection of the Chengdu (China) manufacturing facility (JV with KSP) could occur during 1H12; one ANDA for a CSL product has already been filed (during 4Q11) from Chengdu, with at least two more ANDAs targeted within the next 90 days; ultimately, the first 8-10 products out of Chengdu could be CSL products.

### Other Miscellaneous

- 3Q11 revenue of \$41.3M was well diversified as no one product accounted for more than 10% of total revenue; 49% of revenue came from anti-infective products, 28% came from oncology products, and 23% came from critical care products (vs. 53%/8%/39%, respectively in 3Q10).
- Sagent expects to launch an incremental new 16 products from the JV with Strides that are already FDA approved but not yet launched; these products are in the midst of being transferred from Strides' older facilities into a newer Strides facility; the majority of which are expected to complete the transfer no later than

1Q12; these products were described as being on average mid-\$30M brand opportunities.

- Sagent just last week acquired two approved products on the critical shortage list; product launches are expected in 1Q12.

## Model Adjustments

Incorporating management guidance and our own model adjustments:

- Revenue: comfort on doubling of 2010 revenue in 2011 (implies \$148.2M in 2011).
- Gross margin (GM%): “mid-teens” for full-year 2011.
- R&D: \$10-\$12M for full-year 2011 remains in-line with initial 2011 guidance.
- SG&A: \$6.3-\$6.8M represents a good run rate going forward – slightly higher than we had previously modeled.
- Interest expense: current 2Q/3Q figure (~\$1.2M) represents a good run rate.
- As of September 30, 2011, Sagent had \$37.5M in cash and cash equivalents, \$76.8M invested in debt securities; and \$34M in debt (obligations).

We've made some minor model changes, and after lowering revenue by the small 3Q shortfall (just \$0.7M) and adding ~\$1.5M in additional OpEx, our new 4Q11 and 2011 EPS forecasts are (\$0.08) and (\$0.97) compared with our prior (\$0.01) and (\$0.79).

For 2012-2014, we lowered our full year EPS estimates by a nickel and 2015 by a dime as follows:

- 2012: \$0.50 to \$0.45
- 2013: \$1.60 to \$1.55
- 2014: \$2.30 to \$2.25
- 2015: \$2.80 to \$2.70

Importantly, we still see Sagent turning profitable during 1H12 (possibly as early as 1Q12 where we're currently at break-even – \$0.00). We expect Sagent to provide first-time '12 guidance on its 4Q11 call.

**Exhibit 1: 3Q11 Variance Table**

(\$ in millions, except for EPS)

Item	Actual	% Chg	Jefferies	% Chg	Variance	Consensus	Comment
Total revenue	\$41.3	94%	\$42.0	97%	(0.7)	\$41.8	Slight revenue miss vs. us and Street consensus, and came in below the \$43.6 tracked by monthly IMS (which demonstrates that IMS is not necessarily a good proxy for reported revenue). Results were buoyed by 6 new product launches during the quarter (including gemcitabine, levofloxacin, paclitaxel, and vecuronium). For full-year 2011, management maintained its comfort with revenue doubling the level seen in 2010 (or \$148.2M). This implies at least \$44.3M in 4Q11; we've left our estimate unchanged at \$47.0M.
COGS	34.3	85%	34.9	88%	(0.5)		COGS was lower than we expected, driven by good product mix - more high-margin, low volume, high value products (in particular, levofloxacin, gemcitabine, topotecan) offsetting higher volume, low margin products (i.e., heparin).
GM%	16.8%	+390 bps	17.0%	+410 bps	(0.2%)	18.1%	Came in 20 bps lower than we expected, but this was a dramatic improvement over 2Q11 GM% of 8.5%. Consensus was, however, looking for more, but we note that consensus only included 4 of the 6 estimates; inclusion of the missing 2 estimates would have brought the consensus estimate down. For full-year 2011, management reiterated comfort on "mid-teens" -- we're now at 15.4% versus a prior 16.1%.
SG&A	6.7	49%	5.8	29%	0.9		Higher than our forecast, due an increased in headcount and higher costs of being a public company. As a percentage of revenue, SG&A was 16.2%, lower than the 20.1% we saw in 2Q11.
R&D	3.5	37%	2.7	7%	0.8		Also higher than we expected, with the increase due to higher milestone payments for ongoing development activities and ANDA filing fees. Company reaffirmed to us guidance of \$10-\$12M in annual R&D spend -- we're currently at \$11.2M.
Total OpEx	10.1	45%	8.5	21%	1.6		The higher total OpEx in 3Q11 was driven by increases in both SG&A and R&D. However, given a 94% increase on the top-line, the 45% increase in total OpEx is illustrative of the leverage in Sagent's business model.
Net Income	(4.7)	NM	(3.0)	NM	(1.7)		
EPS	(\$0.17)	NM	(\$0.11)	NM	(\$0.06)	(\$0.12)	A \$0.06 miss relative to our estimate (\$0.07 miss relative to consensus), but since Sagent is still early in its story, we don't think the EPS miss should matter that much. We continue to target EPS profitability during 1H12.

Note: in millions of \$, except for EPS

Source: Jefferies estimates, company data, Thomson One Analytics for consensus

**Exhibit 2: Summary P&L***(In millions of \$, except per share amount)*

Year End: December 31	2009	2010	1Q11	2Q11	3Q11	4Q11E	2011E	2012E	2013E	2014E	2015E
<b>Total Revenue</b>	<b>\$29.2</b>	<b>\$74.1</b>	<b>\$30.3</b>	<b>\$32.3</b>	<b>\$41.3</b>	<b>\$47.0</b>	<b>\$150.9</b>	<b>\$245.9</b>	<b>\$351.4</b>	<b>\$439.3</b>	<b>\$505.2</b>
COGS	\$28.8	\$65.0	\$25.8	\$29.5	\$34.3	\$38.1	\$127.7	\$185.4	\$237.9	\$288.2	\$328.4
Gross Profit	\$0.4	\$9.0	\$4.6	\$2.7	\$6.9	\$8.9	\$23.2	\$60.5	\$113.5	\$151.1	\$176.8
Gross Margin	1.5%	12.2%	15.1%	8.5%	16.8%	19.0%	15.4%	24.6%	32.3%	34.4%	35.0%
SG&A	\$16.7	\$18.9	\$5.0	\$6.5	\$6.7	\$6.6	\$24.7	\$28.0	\$30.2	\$32.1	\$33.7
R&D	12.4	11.2	2.4	2.4	3.5	3.0	11.2	12.6	13.9	15.0	15.7
Operating Margin	(104.5%)	(33.1%)	(14.4%)	(25.4%)	(11.5%)	(4.7%)	(12.9%)	5.4%	19.1%	23.5%	25.2%
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	(1.7%)	29.6%	31.8%	32.6%
Net Income	(30.5)	(24.5)	(4.4)	(8.2)	(4.7)	(2.2)	(19.5)	13.6	47.3	70.3	85.9
Net Margin	(104.5%)	(33.1%)	(14%)	(25%)	(11%)	(5%)	(12.9%)	5.5%	13.5%	16.0%	17.0%
<b>Adjusted EPS</b>	<b>NA</b>	<b>NA</b>	<b>(\$2.09)</b>	<b>(\$0.37)</b>	<b>(\$0.17)</b>	<b>(\$0.08)</b>	<b>(\$0.97)</b>	<b>\$0.45</b>	<b>\$1.55</b>	<b>\$2.25</b>	<b>\$2.70</b>
Shares Out. (MM)	0.0	0.0	2.1	22.2	27.9	28.0	20.0	30.0	30.6	31.2	31.8
<b>Year-over Year Growth</b>											
<b>Total Revenue</b>	143%	153%	251%	205%	94%	40%	104%	63%	43%	25%	15%
COGS	141%	126%	208%	177%	85%	39%	96%	45%	28%	21%	14%
SG&A	11%	14%	19%	49%	49%	11%	31%	13%	8%	6%	5%
R&D	(17%)	(10%)	(16%)	(27%)	37%	14%	(0%)	13%	10%	8%	5%
Net Income	0%	(20%)	(40%)	(6%)	(3%)	(38%)	(20%)	(170%)	248%	49%	22%
<b>Adjusted EPS</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>(147%)</b>	<b>241%</b>	<b>46%</b>	<b>20%</b>

Note: in millions of \$, except for EPS

Source: Jefferies estimates, company data

## Company Description

Sagent Pharmaceuticals is a specialty pharmaceuticals company focused primarily on hospital-based, generic injectable drugs sold in the US. Founded in 2006, Sagent has sourcing, development, manufacturing, and sales and marketing capabilities, and has amassed an extensive, global network of partnerships and collaborations that provide for a low cost business model and a deep pipeline of ANDA opportunities.

## Analyst Certification

I, Corey Davis, Ph.D., certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Graig Suvannavejh, Ph.D., certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Oren G. Livnat, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Matthew Weiss, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

As is the case with all Jefferies employees, the analyst(s) responsible for the coverage of the financial instruments discussed in this report receives compensation based in part on the overall performance of the firm, including investment banking income. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Aside from certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgement.

Jefferies & Company, Inc makes a market in the securities or ADRs of Sagent Pharmaceuticals.

Jefferies Group, Inc, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from Sagent Pharmaceuticals within the next three months.

Within the past 12 months, Jefferies Group, Inc, its affiliates or subsidiaries has received compensation from investment banking services from Sagent Pharmaceuticals.

Jefferies Group, Inc, its affiliates or subsidiaries has acted as a manager or co-manager in the underwriting or placement of securities for Sagent Pharmaceuticals or one of its affiliates within the past twelve months.

Within the past 12 months, Jefferies Group, Inc, its affiliates or subsidiaries has received compensation from investment banking services from Pfizer, Inc..

## Meanings of Jefferies Ratings

Buy - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.

CS - Coverage Suspended. Jefferies has suspended coverage of this company.

NC - Not covered. Jefferies does not cover this company.

Restricted - Describes issuers where, in conjunction with Jefferies engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

## Valuation Methodology

Jefferies' methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

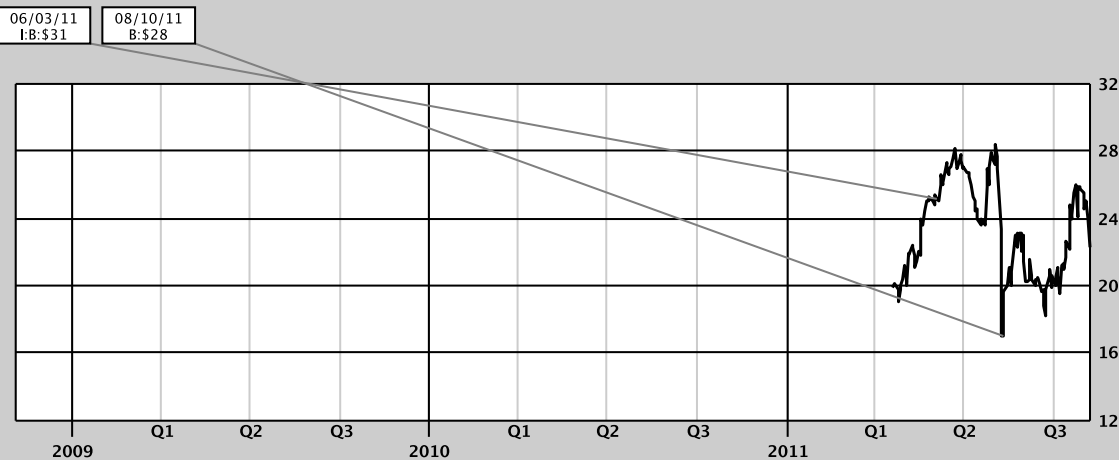
## Risk which may impede the achievement of our Price Target

This report was prepared for general circulation and does not provide investment recommendations specific to individual investors. As such, the financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions based upon their specific investment objectives and financial situation utilizing their own financial advisors as they deem necessary. Past performance of the financial instruments recommended in this report should not be taken as an indication or guarantee of future results. The price, value of, and income from, any of the financial instruments mentioned in this report can rise as well as fall and may be affected by changes in economic, financial and political factors. If a financial instrument is denominated in a currency other than the investor's home currency, a change in exchange rates may adversely affect the price of, value of, or income derived from the financial instrument described in this report. In addition, investors in securities such as ADRs, whose values are affected by the currency of the underlying security, effectively assume currency risk.

## Other Companies Mentioned in This Report

- Pfizer, Inc. (PFE: \$20.07, BUY)

Rating and Price Target History for: Sagent Pharmaceuticals (SGNT) as of 11-07-2011



Rating and Price Target History for: Pfizer, Inc. (PFE) as of 11-07-2011





## Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	745	53.80%	104	13.96%
HOLD	565	40.80%	55	9.73%
UNDERPERFORM	74	5.30%	2	2.70%

## Other Important Disclosures

Jefferies Equity Research refers to research reports produced by analysts employed by one of the following Jefferies Group, Inc. ("Jefferies") group companies:

**United States:** Jefferies & Company, Inc., which is an SEC registered firm and a member of FINRA.

**United Kingdom:** Jefferies International Limited, which is authorized and regulated by the Financial Services Authority; registered in England and Wales No. 1978621; registered office: Vintners Place, 68 Upper Thames Street, London EC4V 3BJ; telephone +44 (0)20 7029 8000; facsimile +44 (0)20 7029 8010.

**Hong Kong:** Jefferies Hong Kong Limited, which is licensed by the Securities and Futures Commission of Hong Kong with CE number ATS546; located at Suite 2201, 22nd Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

**Singapore:** Jefferies Singapore Limited, which is licensed by the Monetary Authority of Singapore; located at 80 Raffles Place #15-20, UOB Plaza 2, Singapore 048624, telephone: +65 6551 3950.

**Japan:** Jefferies (Japan) Limited, Tokyo Branch, which is a securities company registered by the Financial Services Agency of Japan and is a member of the Japan Securities Dealers Association; located at Hibiya Marine Bldg, 3F, 1-5-1 Yuraku-cho, Chiyoda-ku, Tokyo 100-0006; telephone +813 5251 6100; facsimile +813 5251 6101.

**India:** Jefferies India Private Limited, which is licensed by the Securities and Exchange Board of India as a Merchant Banker (INM000011443) and a Stock Broker with Bombay Stock Exchange Limited (INB011438539) and National Stock Exchange of India Limited (INB231438533) in the Capital Market Segment; located at 42/43, 2 North Avenue, Maker Maxity, Bandra-Kurla Complex, Bandra (East) Mumbai 400 051, India; Tel +91 22 4356 6000.

This material has been prepared by Jefferies employing appropriate expertise, and in the belief that it is fair and not misleading. The information set forth herein was obtained from sources believed to be reliable, but has not been independently verified by Jefferies. Therefore, except for any obligation under applicable rules we do not guarantee its accuracy. Additional and supporting information is available upon request. Unless prohibited by the provisions of Regulation S of the U.S. Securities Act of 1933, this material is distributed in the United States ("US"), by Jefferies & Company, Inc., a US-registered broker-dealer, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6, under the US Securities Exchange Act of 1934. Transactions by or on behalf of any US person may only be effected through Jefferies & Company, Inc. In the United Kingdom and European Economic Area this report is issued and/or approved for distribution by Jefferies International Limited and is intended for use only by persons who have, or have been assessed as having, suitable professional experience and expertise, or by persons to whom it can be otherwise lawfully distributed. Jefferies International Limited has adopted a conflicts management policy in connection with the preparation and publication of research, the details of which are available upon request in writing to the Compliance Officer. For Canadian investors, this material is intended for use only by professional or institutional investors. None of the investments or investment services mentioned or described herein is available to other persons or to anyone in Canada who is not a "Designated Institution" as defined by the Securities Act (Ontario). For investors in the Republic of Singapore, this material is provided by Jefferies Singapore Limited pursuant to Regulation 32C of the Financial Advisers Regulations. The material contained in this document is intended solely for accredited, expert or institutional investors, as defined under the Securities and Futures Act (Cap. 289 of Singapore). If there are any matters arising from, or in connection with this material, please contact Jefferies Singapore Limited. In Japan this material is issued and distributed by Jefferies (Japan) Limited to institutional investors only. In Hong Kong, this report is issued and approved by Jefferies Hong Kong Limited and is intended for use only by professional investors as defined in the Hong Kong Securities and Futures Ordinance and its subsidiary legislation. In the Republic of China (Taiwan), this report should not be distributed. In India this report is made available by Jefferies India Private Limited. In Australia this information is issued solely by Jefferies International Limited and is directed solely at wholesale clients within the meaning of the Corporations Act 2001 of Australia (the "Act") in connection with their consideration of any investment or investment service that is the subject of this document. Any offer or issue that is the subject of this document does not require, and this document is not, a disclosure document or product disclosure statement within the meaning of the Act. Jefferies International Limited is authorised and regulated by the Financial Services Authority under the laws of the United Kingdom, which differ from Australian laws. Jefferies International Limited has obtained relief under Australian Securities and Investments Commission Class Order 03/1099, which conditionally exempts it from holding an Australian financial services licence under the Act in respect of the provision of certain financial services to wholesale clients. Recipients of this document in any other jurisdictions should inform themselves about and observe any applicable legal requirements in relation to the receipt of this document.

This report is not an offer or solicitation of an offer to buy or sell any security or derivative instrument, or to make any investment. Any opinion or estimate constitutes the preparer's best judgment as of the date of preparation, and is subject to change without notice. Jefferies assumes no obligation to maintain or update this report based on subsequent information and events. Jefferies, its associates or affiliates, and its respective officers, directors, and employees may have long or short positions in, or may buy or sell any of the securities, derivative instruments or other investments mentioned or described herein, either as agent or as principal for their own account. Upon request Jefferies may provide specialized research products or services to certain customers focusing on the prospects for individual covered stocks as compared to other covered stocks over varying time horizons or under differing market conditions. While the views expressed in these situations may not always be directionally consistent with the long-term views expressed in the analyst's published research, the analyst has a reasonable basis and any inconsistencies can be reasonably explained. This material does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of the investments referred to herein and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments. This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of securities. None



of Jefferies, any of its affiliates or its research analysts has any authority whatsoever to make any representations or warranty on behalf of the issuer(s). Jefferies policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis. Any comments or statements made herein are those of the author(s) and may differ from the views of Jefferies.

This report may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Jefferies research reports are disseminated and available primarily electronically, and, in some cases, in printed form. Electronic research is simultaneously available to all clients. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Jefferies. Neither Jefferies nor any officer nor employee of Jefferies accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.

For Important Disclosure information, please visit our website at <https://javatar.bluematrix.com/sellside/Disclosures.action> or call 1.888.JEfferies

© 2011 Jefferies Group, Inc.