Morgan Stanley

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August 10, 2011

Stock Rating
Overweight

Industry View
In-Line

Sagent Pharmaceuticals

Trio of 2H Launches Key

What's Changed

Price Target	**$30.00 to $29.00**

Investment conclusion: 2Q margin performance was below expectations as pricing pressure and a brief delay in new product launches pressured gross margins with revenue only slightly below our estimate. The near and longer term debate for SGNT remains margin realization, and the trio of major second-half product launches is the next catalyst to provide evidence of revenue re-acceleration and GM leverage. Our positive thesis remains that a widening product portfolio will drive GM leverage, revenue growth and reduce margin volatility over time. Moreover, strategic evolution on self-manufacturing (KSP) and lower-risk Paragraph IV challenges are additive to these trends but hold risk.

2H launches key for the stock: 2011 continues to be a 2H focused year with 61% of consensus revenue in 2H with the launches of 1) levofloxacin, 2) gemcitabine, and 3) Zosyn. Levofloxacin (Sandoz only generic competitor) looks like the major driver as the pricing environment for Zosyn (Pfizer pricing the question) and gemcitabine are uncertain. Management’s mid-teens full-year GM expectations imply 2H gross margins of 16% - 17% as these launches take hold, which sets a high but likely achievable bar for the next two quarters.

Weak GM focus for 2Q. Revenue of $32MM was modestly below MSe of $33MM and consensus of $35MM. However, GM of 8.5% vs. MSe of 16% was a negative surprise due to pricing pressure on Sagent’s still concentrated profit base. Operating expenses were broadly in-line at ~$9MM vs $10MM MSe as higher SG&A offset lower development expenses.

Pipeline update: 75 ANDAs compared to 69 in 1Q.

Trimming estimates modestly: We are trimming estimates modestly for 2011 and lowering GM going forward with our target falling to $29 from $30.

Key Ratios and Statistics

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

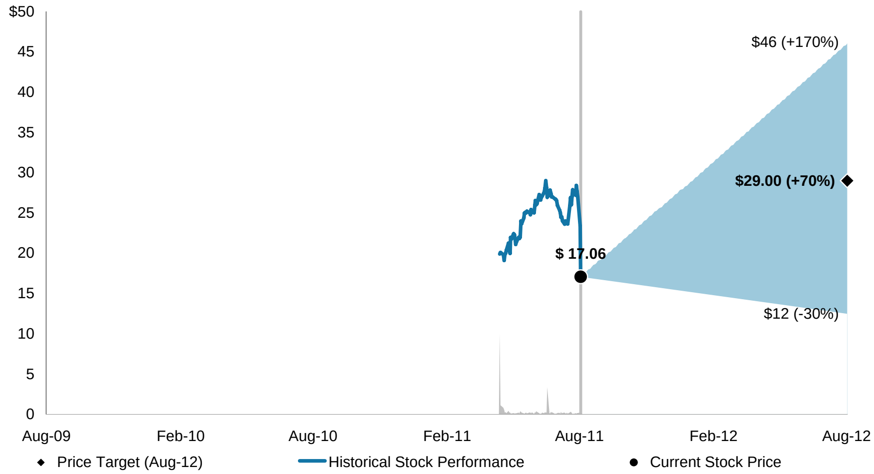
Price target	**$29.00**
Shr price, close (Aug 8, 2011)	$23.39
Mkt cap, curr (mm)	$437
52-Week Range	$29.23-17.06

Fiscal Year ending	**12/10**	**12/11e**	**12/12e**	**12/13e**
ModelWare EPS ($)	**ND**	**(1.11)**	**0.35**	**1.21**
Prior ModelWare EPS ($)	**-**	**(0.60)**	**0.46**	**1.55**
P/E	**ND**	**NM**	**67.7**	**19.3**
Consensus EPS ($)§	**(7.28)**	**(0.39)**	**0.67**	**2.03**
Div yld (%)	ND	0.0	0.0	0.0

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by FactSet Estimates.
e = Morgan Stanley Research estimates

Risk-Reward Snapshot: Sagent Pharmaceuticals (SGNT, OW, $29)

Risk-Reward View: Pipeline Approvals and Margin Expansion Drive Positive View



Source: Company data, Morgan Stanley Research

Price Target $29		**3.5x 2012 EV/Revenue and 10.5x 2013 EV/EBITDA which is a premium to peers** given Sagent's higher growth and margin expansion potential.
Bull Case $46	Blended valuation	**Generic blockbusters abound creating upside to margins.** Sagent receives approval for nearly every major product likely to be in the pipeline including taxotere, oxaliplatin, and vancomycin with upside to share expectations (average of 14% vs. 9% in base case) as Sagent emerges as a major injectables player. Revenue upside falls to operating profit at high rates with greater margin expansion. Success merits a premium multiple.
Base Case $29	Blended valuation	**Strong new product approval cadence drives margin expansion,** Revenue CAGR of 67% through 2013 driven by new product approvals across oncology, anti-infectives and critical care. Important high margin product approval come through on time allowing GM to expand to 30% from 12.2% in 2010. Sagent model is validated as these approvals flow through at high margin with OM reaching 18% by 2013.
Bear Case $12	Blended valuation	**Sagent's novel model sees margin challenges**. Here the pace of new product approvals and particularly the larger, important opportunities proves harder to come by capping gross and operating margins. Alternatively, Sagent could require greater spending levels despite new approvals so that margin expansion disappoints. Revenue CAGR of 54% through 2013 with operating margins of 9.5% by 2013 vs. 18% in our base case.

Why Overweight?

- **Revenue growth potential.** We see a clear path to sustainable >20% revenue growth for the next three years as Sagent's pipeline matures off a low base. >100% growth in 2010

- **Margin expansion potential** mounting approvals on a non-vertically integrated cost structure allow incremental revenue to flow to the bottom line at high margins.

- **Room for new players** the generics space is competitive but chronic shortages and Sagent's strong management team leave us positive on share gain opportunity

Key Value Drivers

- Pipeline approvals
- New additions to the pipeline
- Lack of vertical integration creates margin expansion potential
- Lean middle of the income statement
- High contribution margins of the generic injectables model
- Successful launches of heparin, topotecan and others prove the company's capability.

Key Risks

- Maintaining product quality with worldwide supply chain while controlling spending
- Competition from larger players and new entrants
- FDA approval timing of important, high margin products
- Management continuity
- Pricing pressure

Potential Catalysts

- New product approvals
- Quarterly results
-

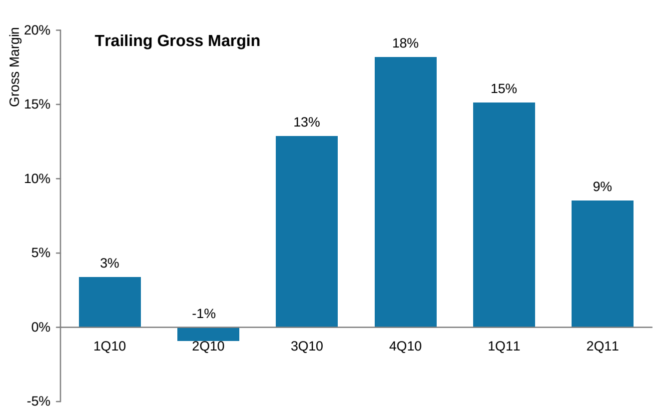
Investment Case

2Q Summary. 2Q revenue increased sequentially over 1Q by 6% but $32MM missed MSe of $33MM and consensus of $35MM by -2% and -6% respectively. GM was the bigger surprise with a ~750 bps decline to 8.5% over 1Q11 vs. MSe of 16%, and consensus of 19%. Operating expenses were broadly in-line at ~$9MM vs $10MM MSe as modestly higher SG&A offset lower development expenses. Pricing pressure in topotecan in a competitive market (see our July 29th note for more detail) and heparin, which are among Sagent's highest margin products, drove the bulk of the gross margin pressure.

Admittedly, the shortfall in GM raises fundamental concerns about the business model as achieving margin leverage remains the primary long term risk to this story for most investors. Pricing pressure is a structural part of generic businesses and Sagent's low revenue base with further concentrated profits leaves the company open to the extreme margin volatility seen in 2Q results.

The path forward. The key to the story remains product approvals and resultant mix improvements that will grow revenue and create margin expansion. This will diversify the business and reduce the risk of extensive margin erosion from single product pricing pressures. The 2H launches of levofloxacin, gemcitabine, and Zosyn as well as flow through from heparin supplier pricing concessions will be key to validating our positive thesis on SGNT.

Exhibit 1
GM ramp key to stock performance going forward

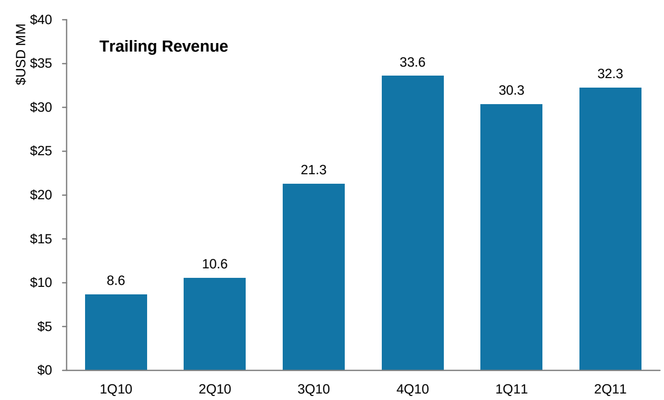


Source.: Company data, Morgan Stanley Research

Thus, clear evidence of a revenue and GM step-up in 3Q and 4Q will be the key catalyst for the stock. In the interim, IMS data for August and September will be closely scrutinized as the first evidence that new launches are gaining traction. However, given the margin issues raised by 2Q, revenue is the first step, but investors are likely to await for the evidence that margin leverage will follow revenue reacceleration.

Operating expenses generally as expected. Total operating expenses were $9.4MM vs our $9.5M as lower product development offset slightly higher SG&A. Product development expenses declined nominally YoY, with the number of R&D projects remaining constant. We model product development as approximately flat in 2H11 vs 1H11.

Exhibit 2
Trio of product launches key to revenue reacceleration



Source: Company data, Morgan Stanley Research.

SG&A increased ~ $2MM over 2Q10 from headcount additions and IPO expenses (approximately ~$0.5MM). Management commentary suggests ~$6MM per quarter in SG&A for the next two quarters versus our $5.3MM previously. Sagent's ability to control SG&A spend as revenue grows will be the second most important driver of margin expansion beyond gross margin.

2Q11 Product & Pipeline Updates

Gemcitabine. Early launch commentary suggests intensive competition with 11 competitors approved by FDA and recent approval for Hospira's solution form a headwind to the entire market. Despite this, commentary around some early contracting success is encouraging for Sagent.

Levofloxacin. Launched in July, 12 days later than expected which likely contributed to Sagent's revenue and margin shortfall in 2Q. Sagent's one to two generic competitors offering a pre-mixed bag formulation, which should help both revenue and gross margins with a more favorable pricing environment. This is a $150MM branded market that assuming generic pricing at 40-50% of branded could be a $75-90-MM market or $38-45MM in 2H with Sagent margins in the 20-30% range. Thus, depending on share this product could add $8-10MM per quarter of revenue.

Zosyn- Pfizer aggressive pricing. Zosyn was approved in late May but the actual launch occurred in July. The key question with Zosyn remains pricing as Pfizer has substantially cut pricing in response to one-time discounting by another manufacturer who maintained short-date inventory suggesting they intend to maintain share. Where pricing will settle once this inventory works through the system is a key question for the second half in a $100MM generic market.

Pipeline Updates. There were few pipeline updates. Sagent has 27 products on the market, with another 75 ANDAs on file or pending commercial launch covering 42 products. The company sees the majority launching within the next 2 years, with 6 new launches expected in 2H11.. There are also 25 active R&D projects for which management is guiding that half of them will translate into new ANDA filings in 2H. The pipeline was largely stable over 1Q11.

Exhibit 3

Pipeline Update

	12/31/08	12/31/09	10/31/10	12/31/10	03/31/11	06/30/11
On File:						
Total Products	*ND*	*ND*	38	38	39	42
ANDAs	38	63	68	68	69	75
Age of Filings:						
Average On File (months)	*ND*	*ND*	*19*	*21*	*ND*	*ND*
<12 months	*ND*	*ND*	21	19	*ND*	*ND*
12-24 months	*ND*	*ND*	24	23	*ND*	*ND*
>24 months	*ND*	*ND*	16	26	*ND*	*ND*
Initial Development						
Total Products	*ND*	*ND*	41	51	32	26
ANDAs	*ND*	*ND*	*ND*	*ND*	52	25
Approved Not Launched						
Total Products	*ND*	*ND*	7	8	6	6
ANDAs	*ND*	*ND*	9	9	9	*ND*

Source.: Company data, Morgan Stanley Research

Vertical integration initiatives - KSP JV China facility. Stability testing was completed in 2Q11 in the new Chengdu, China manufacturing facility. Management sees the first ANDA filings in 2H11. The initial filings will be focused on FDA critical shortage list products which may help to get priority review.

More aggressive strategy? Management commentary showed an increased appetite for potentially tackling some product and small company acquisitions, as well as paragraph IV patent challenges given Sagent's strong cash position post-IPO. This would be a departure from a prior strategy of "risk aversion," although it was said explicitly that only acquisitions Sagent had the ability to finance would be considered. We think the strategy could make sense but caution taking it too far.

Gross Margin Guidance Sets High Bar

Margin outlook for 2H step-up. Management sees margins in the mid-teens for the full year. For 2Q, margins for the quarter were lower than expected due to 1) a 12 day delay in launching levofloxacin that pushed revenue for this higher margin product into 3Q and 2) price erosion in heparin and topotecan. Additionally, accounting for profits from Strides JV products (equity income vs gross profit) cost 100bps of GM and as well.

Analysis implies 16% - 17% GM in 2H versus ~ 12% in 1H11. Our analysis of guidance implies 2H11 GM of ~16% - 17% to reach the first year, which is a material step up of 400-500bps from 1H11. Central to achieving guidance will be strong performance in the key product approvals during 2Q11. Levofloxacin is likely the biggest contributor given a 1) $150MM branded market, 2) higher than corporate average GM, and 3) only three generic players. Gemcitabine pricing and competition from Hospira's solution formulation are key risks as well as aggressive early pricing dynamics in Zosyn from Pfizer.

From a pacing perspective, the company sees the majority of the gain in 3Q rather than a progressive ramp over 2H. Risks remain but our sense is that the bulk of margin expansion in 2H is driven by already launched product. In addition, approval and launch of products from the Strides JV (currently undergoing a facility transition) and cost concession from Sagent's heparin API supplier will also contribute to GM expansion.

Exhibit 4

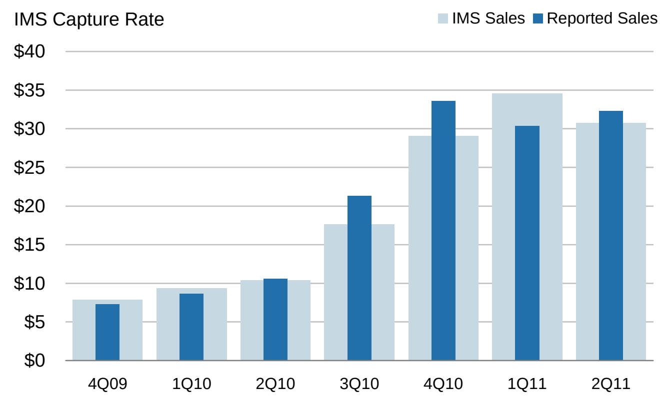
Guidance Implies High Bar for 2H11 GM

Required 2H11 GM to Meet Guidance					
		Revenue for FY11 (MM $USD)			
		$ 148	$ 153	$ 158	$ 163
FY11 Margin	13%	13.9%	13.9%	13.8%	13.8%
	14%	15.7%	15.6%	15.5%	15.4%
	15%	17.4%	17.3%	17.2%	17.1%
	16%	19.2%	19.0%	18.8%	18.7%
	17%	20.9%	20.7%	20.5%	20.3%

Source: Company data, Morgan Stanley Research

IMS data will be an important catalyst - capture running at 99%. Through 2Q, IMS sales capture ranges in accuracy between 83% - 114% with an average of 99%. Thus, going forward, IMS results should be interpreted with caution. Sagent sells through certain specialty distributors that may not be captured in IMS. Depending on revenue mix, this may be offset by gross to net adjustments. For example, IMS in 2H showed significant dollar and unit share loss in topotecan. Sagent reported sequential unit growth for this drug on a reported basis.

Exhibit 5
Capture is averaging ~99% with range of 83% to 114%



Source IMS, company data, Morgan Stanley.

Morgan Stanley is currently acting as financial advisor to Pfizer Inc. ("Pfizer") with respect to the sale of its Capsugel business to Kohlberg Kravis and Roberts & Co L.P., as announced on April 4, 2011. Upon completion of the transaction, Pfizer will pay fees to Morgan Stanley for its financial advisory services. Morgan Stanley is acting as a financial advisor to Pfizer Inc. ("Pfizer") in relation to its review of strategic alternatives for its Nutrition business. Pfizer will pay fees to Morgan Stanley for its services, including transaction fees that will be subject to the consummation of any resulting transaction. Please refer to the notes at the end of the report.

Exhibit 6

Variance

($ in millions, except EPS)	2Q11E	2Q11A	Current Quarter A vs E ($)	A vs E (%)	Cons Est 2Q11	2Q10A	Y/Y % Change	Comments
Total Revenues	**$33**	**$32**	**(1)**	**(2%)**	**$35**	**$11**	**205%**	delay in levofloxacin launch pushed revenue into 3Q
COGS	$28	**$30**	2	6%	$28	$11	177%	
Gross Profit	**$5**	**$3**	**(3)**	**(48%)**	$7	**($0)**		
Operating Expenses:								
Product Development	$3	$2	(1)	(21%)		$3	(27%)	
SG&A	$5	$6	1	25%		$4	49%	~$0.5MM in IPO expenses, ~~$6MM run rate is reasonable
Total Operating Expenses*	**$10**	**$9**	**(0)**	**(1%)**		**$8**	**23%**	
Operating Income (Loss)	**($4)**	**($7)**	**(2)**	**57%**	**($3)**	**($8)**		
Interest Income (Expense)	$1.5	**$1.6**	0	6%		$0		
Net Income (Loss)	**($6)**	**($5)**	**1**	**(11%)**	**($4)**	**($7)**		
Shares Outstanding	20	22	2	11%		ND		
EPS, Diluted	**($0.28)**	**($0.23)**	**$0.06**		**($0.21)**	**N/A**		
Margin Analysis								
Gross Margin	16.0%	8.5%	(0 bps)	(750 bps)	**19%**	-0.9%	950 bps	accounting change for Strides JV 100bp GM headwind, pricing pressure on heparin and topotecan
Product Development	9.1%	7.4%	(0 bps)	(170 bps)		31.0%	(2,360 bps)	
SG&A	15.7%	20.1%	0 bps	440 bps		41.2%	(2,120 bps)	~$0.5MM in IPO expenses, ~~$6MM run rate is reasonable
Operating Income	-12.7%	-20.5%	(0 bps)	(780 bps)	-8%	-73.2%	5,260 bps	
Net Income	-17.2%	-15.7%	0 bps	150 bps	**-12%**	-70.0%	5,440 bps	

***Includes JV Equity**

Source: Company data, Morgan Stanley Research

Exhibit 7

Changes to Model

Last Updated May 31, 2011

	2011	2012	2013	2014	2015	2016	Revision
Total Revenues							
Current	$155	$249	$343	$426	$497	$556	lowering modestly reflects pricing pressure and lower Zosyn contribution with aggressive Pfizer pricing
% Growth (y/y)		*61%*	*38%*	*24%*	*17%*	*12%*	
Prior	$167	$250	$343	$427	$498	$556	
% Growth (y/y)		*49%*	*37%*	*24%*	*17%*	*12%*	
Gross Profit							
Current	$20	$62	$103	$141	$174	$195	lowering on heparin and topotecan pricing, market wide pricing environment, and Zosyn pricing pressure
% Gross Margin	*13%*	*25%*	*30%*	*33.0%*	*35%*	*35%*	
Prior	$31	$67	$118	$156	$182	$204	
% Gross Margin	*18%*	*27%*	*35%*	*36.5%*	*37%*	*37%*	
SG&A							
Current	$23	$24	$26	$28	$29	$31	
% of Sales	*15%*	*10%*	*8%*	*6.5%*	*6%*	*6%*	slightly higher based on current run rate
Prior	$21	$24	$26	$28	$29	$31	
% of Sales	*12%*	*10%*	*8%*	*6.5%*	*6%*	*6%*	
Product Development							
Current	$10	$15	$17	$19	$21	$22	
% of Sales	*7%*	*6%*	*5%*	*5%*	*4%*	*4%*	slightly lower based on current run rate
Prior	$12	$15	$17	$19	$21	$22	
% of Sales	*7%*	*6%*	*5%*	*5%*	*4%*	*4%*	
EPS, diluted							
Current	($1.11)	$0.35	$1.21	$1.90	$2.47	$2.77	
% Growth (y/y)		*-131%*	*251%*	*57%*	*30%*	*12%*	
Prior	($0.60)	$0.46	$1.55	$2.22	$2.63	$2.96	
% Growth (y/y)		*-176%*	*236%*	*44%*	*18%*	*12%*	
Diluted Shares Outstanding							
Current	20	31	31	32	33	33	
Prior	20	31	31	32	33	33	
Free Cash Flow							
Current	($27)	($3)	$20	$44	$67	$80	
Prior	($18)	$2	$32	$55	$71	$86	

Source: Company data, Morgan Stanley Research

Exhibit 8

Income Statement

	2007A	2008A	2009A	2010A	2011E					2012E	2013E	2014E	2015E	2016E
					Mar-11	Jun-11	Sep-11	Dec-11						
Total Revenue	**$0.1**	**$12.0**	**$29.2**	**$74.1**	**$30.3**	**$32.3**	**$43.0**	**$49.0**	**$154.6**	**$249.1**	**$342.6**	**$426.3**	**$497.4**	**$555.9**
% Growth (y/y)	*1%*	*11906%*	*144%*	*153%*	*251%*	*205%*	*102%*	*46%*	*109%*	*61%*	*38%*	*24%*	*17%*	*12%*
Total Cost of Goods Sold	0.0650	12	29	65	26	30	37	42	134	187	240	286	323	361
gross margin	*35.0%*	*0.6%*	*1.6%*	*12.2%*	*15.1%*	*8.5%*	*13.5%*	*14.5%*	*13.1%*	*25.0%*	*30.0%*	*33.0%*	*35.0%*	*35.0%*
Gross Profit	**$0.0**	**$0.1**	**$0.5**	**$9.0**	**$4.6**	**$2.7**	**$5.8**	**$7.1**	**$20.2**	**$62.3**	**$102.8**	**$140.7**	**$174.1**	**$194.6**
Operating Expenses														
Product Development	2.5	18.7	11.9	11.2	2.4	2.4	2.8	2.8	10.3	14.9	17.1	19.2	21.1	22.2
% of revenue	*NM*	*156.1%*	*40.6%*	*15.2%*	*7.8%*	*7.4%*	*6.5%*	*5.7%*	*6.7%*	*6.0%*	*5.0%*	*4.5%*	*4.3%*	*4.0%*
SG&A	10.6	11.0	12.1	18.9	5.0	6.5	5.8	5.8	23.1	24.3	25.7	27.7	28.6	30.6
% of revenue	*NM*	*91.6%*	*41.3%*	*25.6%*	*16.4%*	*20.1%*	*13.5%*	*11.8%*	*11.0%*	*9.8%*	*7.5%*	*6.5%*	*5.8%*	*5.5%*
Total Operating Expenses	$13.9	$30.8	$25.4	$31.6	$8.0	$9.4	$9.9	$10.0	$37.3	$42.2	$42.8	$46.9	$49.7	$52.8
EBIT (non-GAAP)	**($13.8)**	**($30.8)**	**($25.0)**	**($22.6)**	**($3.4)**	**($6.6)**	**($4.1)**	**($2.9)**	**($17.0)**	**$20.0**	**$60.0**	**$93.8**	**$124.4**	**$141.7**
Other (Income) Expense, Net	(0.6)	0.8	7.0	2	1	2	1	1	5	4.1	3.1	2.7	3.9	3.8
Pretax Income	**(13.2)**	**(31.6)**	**(32.0)**	**(24.5)**	**(4.4)**	**(8.2)**	**(5.5)**	**(4.3)**	**(22.4)**	**15.9**	**56.9**	**91.1**	**120.4**	**137.9**
Income Tax Expense (benefit)	-	-	-	-	-	-	-	-	-	5.2	18.8	30.1	39.7	45.5
Income Tax Rate	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*5%*	*5%*	*NM*	*33%*	*33%*	*33%*	*33%*	*33%*
Net Income	**($13.2)**	**($31.6)**	**($32.0)**	**($24)**	**($4.4)**	**($8.2)**	**($5.5)**	**($4.3)**	**($22)**	**$10.6**	**$38.1**	**$61.1**	**$80.7**	**$92.4**
One Time Items - Post Tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income Reported	**($13.2)**	**($31.6)**	**($32.0)**	**($24.5)**	**($4.4)**	**($8.2)**	**($5.5)**	**($4.3)**	**($22.4)**	**$10.6**	**$38.1**	**$61.1**	**$80.7**	**$92.4**
Basic EPS					**($2.09)**	**($0.37)**	**($0.20)**	**($0.15)**	**($1.11)**	**$0.37**	**$1.30**	**$2.04**	**$2.64**	**$2.96**
Diluted EPS (fully taxed)					**($2.09)**	**($0.37)**	**($0.20)**	**($0.15)**	**($1.11)**	**$0.35**	**$1.21**	**$1.90**	**$2.47**	**$2.77**
Basic Shares Outstanding	ND	ND	ND	ND	2.1	22.1	28.3	28.4	20.2	28.8	29.4	30.0	30.6	31.2
Diluted Shares Outstanding	ND	ND	ND	ND	2.1	22.1	28.3	28.4	20.2	30.8	31.4	32.1	32.7	33.4
Margins/Expense Analysis:														
Gross Margin														
Total Gross Margin	*35.0%*	***0.6%***	***2%***	***12.2%***	***15.1%***	***8.5%***	***13.5%***	***14.5%***	***13.1%***	***25.0%***	***30.0%***	***33.0%***	***35.0%***	***35.0%***
R&D	*2540.0%*	*156.1%*	*40.6%*	*15.2%*	*7.8%*	*7.4%*	*6.5%*	*5.7%*	*6.7%*	*6.0%*	*5.0%*	*4.5%*	*4.3%*	*4.0%*
SG&A	*10630.0%*	*91.6%*	*41.3%*	*25.6%*	*16.4%*	*20.1%*	*13.5%*	*11.8%*	*14.9%*	*9.8%*	*7.5%*	*6.5%*	*5.8%*	*5.5%*
EBIT		*-256.1%*	*-85.4%*	*-30.5%*	*-11.3%*	*-20.5%*	*-9.5%*	*-5.9%*	*-11.0%*	*8.0%*	*17.5%*	*22.0%*	*25.0%*	*25.5%*
Net Income		*-262.8%*	-109.5%	*-33.1%*	*-14.4%*	*-25.4%*	*-12.9%*	*-8.9%*	*-14.5%*	*4.3%*	*11.1%*	*14.3%*	*16.2%*	*16.6%*
Incremental EBIT		*-142.1%*	*33.6%*	*5.3%*	*17.0%*	*5.1%*	*0.9%*	*-3.0%*	*6.9%*	*39.2%*	*42.7%*	*40.4%*	*43.0%*	*29.8%*
Operating Expense	*13868.0%*	*256.7%*	*86.9%*	*42.7%*	*26.4%*	*29.1%*	*23.0%*	*20.4%*	*24.1%*	*17.0%*	*12.5%*	*11.0%*	*10.0%*	*9.5%*
Growth Analysis:														
Total revenue		*11906%*	*144%*	*153%*	*251%*	*205%*	*102%*	*46%*	*109%*	*61%*	*38%*	*24%*	*17%*	*12%*
EBIT		*122%*	*NA*	*NA*	*NA*	*NA*	*NA*	*19%*	*NA*	*NA*	*199%*	*56%*	*33%*	*14%*
EPS		*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*251%*	*57%*	*30%*	*12%*

Source: Company data, Morgan Stanley Research

Exhibit 9

Balance Sheet

	2008A	2009A	2010A	2011E	2012E	2013E	2014E	2015E	2016E
Assets									
Cash and Investments	25.7	8.0	34.6	128.2	120.0	132.0	174.3	240.8	320.4
Accounts Receivables, Net	0.2	6.9	18.9	17.2	27.7	38.1	47.4	55.3	61.8
Inventories	6.5	18.985	30.6	42.0	58.4	74.9	89.3	101.0	112.9
Prepaid Expenses & Other Current Assets	0.2	8.4	5.3	6.3	7.1	7.2	7.9	8.3	8.9
Due from related party and other	0.0	0.5	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Note receivable	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Deferred income taxes	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Assets	**32.7**	**42.96**	**90.4**	**194.6**	**214.1**	**253.2**	**319.8**	**406.5**	**505.0**
Restricted cash and cash equivalents	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net Property, Plant & Equipment	0.9	0.7	0.8	2.5	3.2	5.7	8.3	10.9	13.6
Investment in joint ventures	12.2	19.5	24.5	20.0	17.1	17.2	17.2	17.3	17.3
Deferred financing costs	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Intangible assets, net	5.2	1.7	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Total Assets	**51.1**	**65.1**	**118.6**	**220.0**	**237.4**	**279.0**	**348.2**	**437.6**	**538.8**
Liabilities									
Accounts Payable	9.0	17.3	24.4	26.9	37.4	48.0	57.1	64.7	72.3
Accrued Liabilities	3.9	4.9	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Preferred stock w arrants	0.0	0.0	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Notes payable	0.0	4.5	20.7	20.7	20.7	20.7	20.7	20.7	20.7
Total Current Liabilities	**13.0**	**26.8**	**57.6**	**60.0**	**70.5**	**81.1**	**90.3**	**97.8**	**105.4**
Deferred Income Taxes	0.0	sv	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term Debt	0.0	0.0	0.0	25.0	20.2	12.0	10.0	10.0	10.0
Total Liabilities	**13.0**	**26.8**	**57.6**	**85.0**	**90.8**	**93.2**	**100.3**	**107.8**	**115.4**
Preferred stock (Series A)	83.0	113.0	113.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred stock (Series B)	0.0	0.0	44.8	0.0	0.0	0.0	0.0	0.0	0.0
Total preferred stock (Series A & B)	**83.0**	**113.0**	**157.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Common stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred stock (non-series)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additional paid-in capital	0.5	1.1	2.3	256.5	257.5	258.6	259.7	260.8	262.0
Accumulated deficit	(45.4)	(75.9)	(100.4)	(122.8)	(112.2)	(74.1)	(13.0)	67.7	160.1
Accumulated Other Comprehensive Income	0.0	0.0	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Treasury at Cost	0.0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' Equity	**(44.9)**	**(74.8)**	**(96.8)**	**135.0**	**146.6**	**185.8**	**247.9**	**329.8**	**423.4**
Total Liabilities & Shareholders' Equity	**51.0**	**65.0**	**118.6**	**220.0**	**237.4**	**279.0**	**348.2**	**437.6**	**538.8**

Source: Company data, Morgan Stanley Research

Exhibit 10

Cash Flow Statement

	2007A	2008A	2009A	2010A	2011E	2012E	2013E	2014E	2015E	2016E
From Operating Activity										
Net Income (loss)	**(13.2)**	**(30.5)**	**(30.5)**	**(24.5)**	**(22.4)**	**10.6**	**38.1**	**61.1**	**80.7**	**92.4**
Depreciation	0.1	0.2	0.3	0.2	0.3	0.4	0.4	0.5	0.6	0.6
Amortization	0.5	1.8	4.0	1.0	1.0	2.0	0.3	0.1	0.1	0.1
Stock-based compensation, net of tax	0.0	0.3	0.6	0.9	0.9	1.0	1.0	1.1	1.2	1.2
Restricted stock repurchase liability	(0.2)	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Equity in net loss of unconsolidated JVs	0.7	1.1	1.5	1.5	4.6	3.0	0.0	0.0	0.0	0.0
Change in fair value of preferred stock w arrants	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Net Change in Working Capital	**2.1**	**2.2**	**(18.6)**	**(7.8)**	**(8.2)**	**(17.2)**	**(16.5)**	**(15.1)**	**(12.6)**	**(11.3)**
Accounts Receivable	(0.1)	(0.1)	(6.7)	(12.1)	1.8	(10.5)	(10.4)	(9.3)	(7.9)	(6.5)
Inventories	(0.7)	(5.7)	(12.5)	(11.6)	(11.4)	(16.4)	(16.6)	(14.3)	(11.8)	(11.9)
Prepaid Expenses/Other Current Assets	(0.5)	0.3	(8.1)	3.1	(0.9)	(0.8)	(0.1)	(0.7)	(0.5)	(0.5)
Due from related party	0.0	0.0	(0.5)	(0.4)	0.0	0.0	0.0	0.0	0.0	0.0
Note receivable	(0.3)	0.3	(0.1)	-	0.0	0.0	0.0	0.0	0.0	0.0
Accounts Payable	3.2	7.9	9.3	13.2	2.4	10.5	10.6	9.2	7.5	7.6
Deferred revenue	0.5	(0.5)	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0
Cash From Operations	**(10.0)**	**(24.9)**	**(42.8)**	**(27.8)**	**(23.8)**	**(0.2)**	**23.4**	**47.6**	**69.9**	**83.0**
From Investing Activity										
Capital expenditures	(0.6)	(0.5)	(0.1)	(0.3)	(3.0)	(3.1)	(3.2)	(3.2)	(3.3)	(3.4)
Funding of restricted cash, net	(0.2)	0.3	(0.3)	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Investments in unconsolidated JVs	(4.8)	(7.5)	(8.8)	(5.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Purchase of product licensing rights	(0.3)	(1.4)	(0.2)	(0.4)	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of product development rights	(2.6)	(3.2)	(0.1)	(1.5)	0.0	0.0	0.0	0.0	0.0	0.0
Net from Investing	**(8.5)**	**(12.4)**	**(9.4)**	**(7.276)**	**(3.1)**	**(3.2)**	**(3.3)**	**(3.3)**	**(3.4)**	**(3.4)**
From Financing Activity										
Additions to notes payable	0.0	0.0	4.5	16.2	25.0	(4.8)	(8.2)	(2.0)	0.0	0.0
Payment of deferred financing costs	0.0	0.0	(0.3)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from issuance of preferred stock (Series A anc	49.0	30.0	30.0	45.4	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from issuance of preferred stock (non-Series A	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from issuance of common stock	0.0	0.0	0.1	0.2	95.5	0.0	0.0	0.0	0.0	0.0
Net from Financing	**49.0**	**30.0**	**34.3**	**61.7**	**120.5**	**(4.8)**	**(8.2)**	**(2.0)**	**0.0**	**0.0**
Effect of exchange rate change	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flow	**30.6**	**(7.2)**	**(17.9)**	**26.645**	**93.6**	**(8.2)**	**12.0**	**42.3**	**66.6**	**79.6**
Cash at Beginning of Year	2.3	32.9	25.7	7.7	34.4	128.0	119.8	131.8	174.1	240.6
Cash at End of Year	**32.9**	**25.7**	**7.7**	**34.4**	**128.0**	**119.8**	**131.8**	**174.1**	**240.6**	**320.2**

Source: Company data, Morgan Stanley Research

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Not-Rated/Hold	**114**	**4%**	**20**	**2%**	**18%**
Underweight/Sell	**384**	**14%**	**97**	**10%**	**25%**
Total	**2,741**		**940**		

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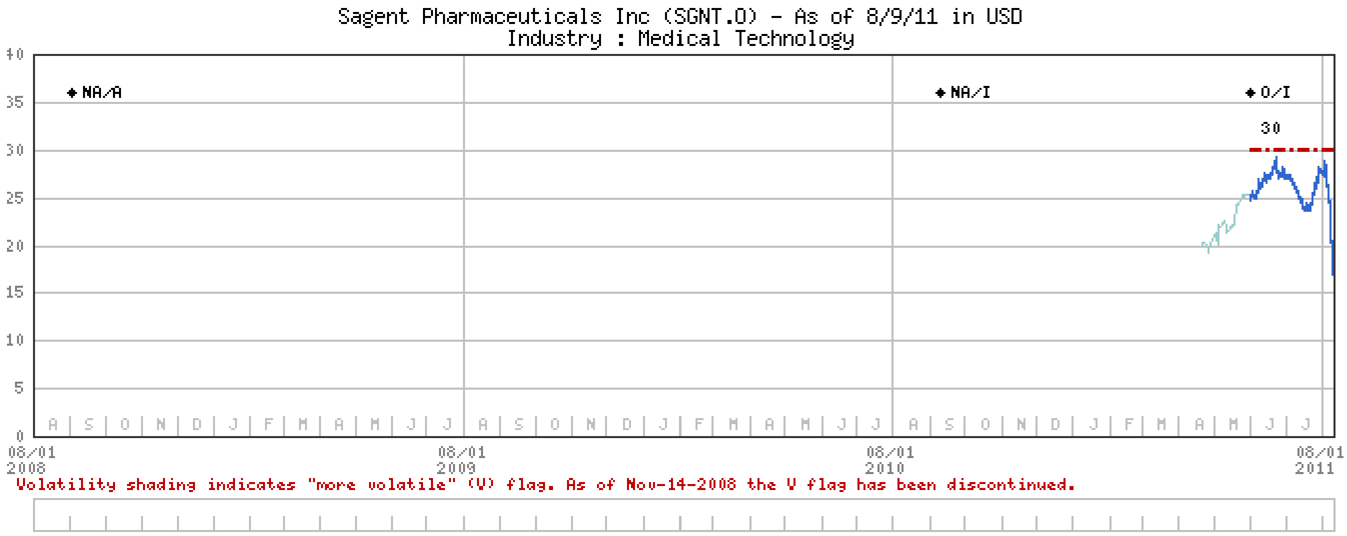
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 9/2/08 : NA/A; 9/10/10 : NA/I; 5/31/11 : O/I

Price Target History: 5/31/11 : 30

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)
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Industry Coverage:Medical Technology

Company (Ticker)	Rating (as of)	Price* (08/09/2011)
David R. Lewis		
Abbott Laboratories (ABT.N)	O (09/04/2008)	$48.56
Abiomed (ABMD.O)	E (02/06/2009)	$11.08
Baxter International (BAX.N)	O (09/04/2008)	$52.31
Becton Dickinson (BDX.N)	E (07/31/2009)	$78.81
Boston Scientific (BSX.N)	E (09/10/2010)	$6.34
C.R. Bard (BCR.N)	E (01/03/2011)	$90.48
CareFusion Corp. (CFN.N)	O (05/20/2010)	$24.48
Covidien (COV.N)	O (07/15/2010)	$47.06
Edwards Lifesciences (EW.N)	E (09/04/2008)	$66.03
Haemonetics Corporation (HAE.N)	U (01/03/2011)	$57.1
Hansen Medical, Inc. (HNSN.O)	U (01/08/2009)	$3.17
Hologic, Inc. (HOLX.O)	E (05/05/2009)	$16.02
Integra LifeSciences (IART.O)	E (09/10/2010)	$40.32
Intuitive Surgical Inc. (ISRG.O)	E (10/02/2007)	$342.57
Johnson & Johnson (JNJ.N)	E (08/10/2010)	$62.2
MAKO Surgical Corp. (MAKO.O)	E (07/11/2011)	$28.88
Medtronic Inc. (MDT.N)	E (09/04/2008)	$31.78
St. Jude Medical (STJ.N)	U (01/03/2011)	$42.86
Stryker Corporation (SYK.N)	O (01/08/2010)	$49.01
Zimmer Holdings, Inc. (ZMH.N)	E (07/16/2009)	$54.35
Marshall Urist, M.D., Ph.D.		
Hospira (HSP.N)	E (07/16/2009)	$45.33
Sagent Pharmaceuticals Inc (SGNT.O)	O (05/31/2011)	$17.06

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