Sagent Pharmaceuticals

(SGNT: NNM; $21.00)

Buy | Target: $27

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SGNT: A NOVEL APPROACH TO INJECTABLE GENRIC DRUGS - BUY

- **Sagent Pharmaceuticals represents a different strategic approach to developing, manufacturing and selling injectable generic drugs.** Through a series of joint ventures and corporate collaboration (48 in total), Sagent has access to a large number of drug compounds and most importantly, abundant access to world class manufacturing. The company has a sizeable pipeline of new products with over 140 ANDAs (Abbreviated New Drug Application) filed with the FDA since 2007.

- **Generics continue growing at ~ 5% annually as more drugs come off patent.**

- **Generics continue to gain favor with GPOs (Group Purchasing Organizations), HMOs (Health Maintenance Organizations)** and other third party payers because they cost less and save the healthcare system money and resources.

- **SGNT will be a beneficiary of the proposed changes in the Obama/FDA regulatory policy** that has contributed to injectable drug shortages but will now encourage generic manufacturing.

- **Injectable generics have very high barriers to entry** due to the manufacturing expertise that must be developed and the steep regulatory hurdles of the FDA and other foreign regulatory bodies that must be overcome and maintained.

- **SGNT has a highly experienced management team** with its founder, Jeffrey Yordon having 40 years of experience in injectable pharmaceuticals and having led four start-ups.

- **BUY with $27 Price Target.** SGNT could reach profitability in 2012 as gross margin continues to improve and operating expenses as a percentage of revenue begin to moderate. Reflecting that Sagent will not reach maximum profitability in 2012, we have utilized a EV/Revenue multiple of 3.2X applied to our 2012 revenue estimate of $215 to generate our Price Target of $27 and thus rate the shares a BUY.

Sagent Pharmaceuticals, Inc.
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Website: http://www.sagentpharma.com

Rating	BUY
Target Price	$27.00
Ticker Symbol	SGNT
Market	NASDAQ
Stock Price	$21.00
52 wk High	$29.23
52 wk Low	$13.50
Shares Outstanding:	27.9 M
Public Market Float:	44.4 M
Avg. Daily Volume	103
Market Capitalization:	$586 M
Institutional Holdings:	N/A
Dividend Yield:	0.0%

Earnings Per Share	**Normalized to exclude unusual items**			
FYE - December	**2009**	**2010A**	**2011E**	**2012E**
1Q - March		$ (3.88)	$ (0.45)	
2Q - June		$ (4.47)	$ (0.37)	
3Q - September		$ (2.47)	$ (0.17) A	
4Q - December		$ (1.80)	$ (0.11)	
Year	**$ (2.19)**	**$ (12.62)**	**$ (1.10)**	**$ 0.29**
EBITDA		**N/M**	**N/M**	
EV/EBITDA		**N/M**	**N/M**	
Revenue ($mm)	**$29.2**	**$74.1**	**$149.3**	**$ 215.0**
EV/Rev	16.6X	6.6X	3.3X	2.3X

Senior Executives

Jeffrey Yordon	CEO & President
Jonathan Singer	CFO
Lorin Drake	VP Sales & Marketing
Albert Patterson	SVP Operations

Common Ownership Profile

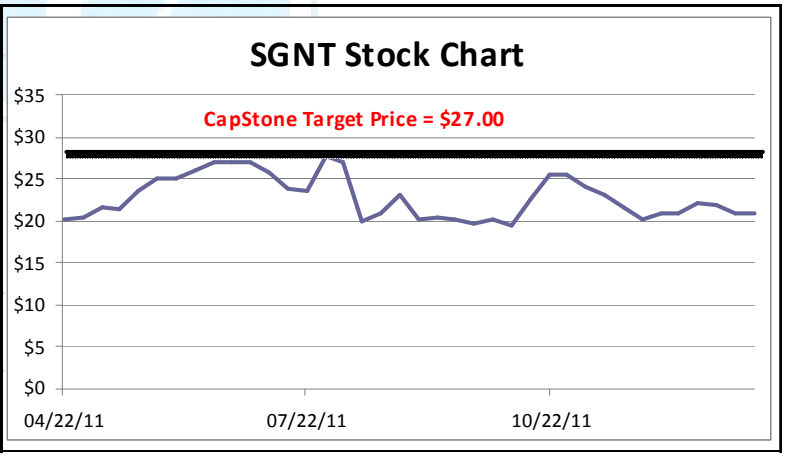
Shareholder	**Shares ('000)**	**% of Total**
Westfield Capital	850	3.0%
Sectoral Asset Mgt	789	2.8%
JP Morgan	755	2.7%
Jennison Assoc.	703	2.5%
Federated	503	1.8%
Directors and Officers(1)	788	2.8%

(1) Direct Ownership

Capitalization

Market Value Basis ('000)	**1/3/2012**
Long-Term Debt	$14,318
Market Value of Equity	585,900
Less: cash	114,311
Enterprise Value	$485,907

Book Value Basis ('000)	**9/30/2009**	**%**
Long-Term Debt	$14,318	6.4%
Other Liabilities	60,596	27.0%
Book Value of Equity	149,412	66.6%
Total Capital	$224,326	100.0%



Source: Company reports and CapStone Investments estimates.

Company Description

Located in Schaumburg, IL, SGNT was founded in 2006 and currently markets 30 products in various presentations and dosage formulations of injectable generic drugs. It has a sizeable pipeline of over 140 ANDA filed with the FDA since 2007 and counts 48 worldwide business partners. The Company completed a successful IPO in April, 2011. With approximately 100 employees in total, SGNT has developed a strong sales and marketing organization that has a worldwide footprint.

Not Your Father's Generic Injectable Drug Company

Sagent Pharmaceuticals made its public debut in April of this year with a successful IPO at $16, the upper end of its offering range of $14 to $16 and raising over $86 million. The offering was over-subscribed by a factor of 10 times. Our investment thesis for owning Sagent Pharmaceuticals relies partially on the favorable industry fundamentals for injectable generic drugs but also, to a great extent, those factors and characteristics that are unique to the company.

New paradigm for the generic injectable drug industry.

The generic injectable drug industry is comprised of several large public companies, such as Hospira (~ 30% market share), Fresenius Medical (~ 9% market share) and Baxter (~ 8% market share) and a number of smaller companies, many of whom are private. Our investment thesis reflects the following points.

- SGNT will be a beneficiary of the proposed changes in the Obama/FDA regulatory policy that has contributed to injectable drug shortages but will now encourage generic manufacturing.

- Generics grew at 6.6% over the past five years but should continue growing at ~ 5% annually as more drugs come off patent.

- Generics continue to gain favor with GPOs (Group Purchasing Organizations) HMOs (Health Maintenance Organizations) and other third party payers because they cost less and save the healthcare system money and resources.

- Injectable generics have very high barriers to entry due to the manufacturing expertise that must be developed and the steep regulatory hurdles of the FDA and other foreign regulatory bodies that must be overcome and maintained.

- SGNT has an attractive product offering and potential pipeline of new injectable drugs.

48 WW business partners contribute new products & mfg. capacity.

- Through more than 48 business partners worldwide, SGNT has substantial, state-of-the art, unused capacity to expand its product portfolio, a huge advantage over its competition.

- SGNT has a highly experienced management team with its founder, Jeffrey Yordon having 40 years of experience in injectable pharmaceuticals and having led four start-ups.

- We are one of a few non-underwriters to initiate coverage.

Who and what is Sagent Pharmaceuticals

Located in Schaumburg, IL, just down the road from Hospira (~ 35 miles), SGNT was founded in 2006 and currently markets 30 products in various presentations and dosage formulations. More importantly, it has a sizeable pipeline of over 140 ANDAs filed with the FDA since 2007 and counts 48 worldwide business partners in the Americas(9), India (8), China (12) and Europe and the Middle East (19).

These relationships are vital to SGNT providing new API (active pharmaceutical ingredients) and most importantly, substantial manufacturing capacity that will drive revenue growth on a global basis for many years to come.

With approximately 100 employees in total, SGNT has developed a strong sales and marketing organization that has a worldwide footprint.

Figure 1: A Partial Glimpse of Sagent's Product Portfolio

Source: Company reports

The Generic Injectable Drug Landscape

DRUG SHORTAGES AND REGULATION

From mid 2011 through the end of October, it had finally become apparent to the Obama administration that the production and market shortage of certain drugs, many of which are generic injectable drugs, was developing into a worsening crisis. By the beginning of November, a record 180 drugs, many of which are oncologic drugs for treating cancer and anti-infectives for dealing with aggressive infections, were deemed to be in critically short supply prompting almost daily articles and TV stories about critically ill patients either not receiving prescribed drugs or receiving less effective drugs as substitutes.

Drug shortages likely to persist.

SO, WHAT CAUSES DRUG SHORTAGES?

Not surprisingly, the administration argues it's the greed and avarice of the drug industry that has caused the shortage. On the other hand, the industry will argue that is exorbitant regulation that is the root cause.

We believe that it is a combination of factors that are contributing to this growing problem which in our opinion will continue for some time, even despite moderate intervention by the government and an effort on the part of industry to address the situation. The major factors causing the calamity in our opinion are 1.) A large number of drugs, especially injectables are coming off patent. 2). This provides companies the opportunity to choice which drugs they will pursue as generics. Presumably companies will make rational decisions based on the number of competitors it predicts will enter into generic competition and what the projected margins on the new products are likely to be. 3.) Manufacturing capacity, especially for injectable drugs, is limited and the ability to add capacity is a long, protracted process because of the FDA's regulatory procedures. From breaking ground for a new manufacturing facility to gaining FDA approval can be a 4 or 5 year process. Even after achieving FDA approval, the manufacturing facility is subject to constant review under the Current Good Manufacturing Processes (CGMPs). Not complying with the CGMPs can cause the FDA to halt production on certain manufacturing lines, as is the case for Hospira, or cause a facility to be completely shut-down.

Thus on October 31, 2011, the President to issue the first executive order affecting the FDA since 1985, instructing the agency to 1.) Broaden reporting of drug shortages; 2.) Speed up reviews of applications to initiate production or change production methods of drugs in short supply; 3.) More aggressively inform the Justice Department of suspected price gouging or manipulation.

While the President's executive order may be a good first step, we do not believe it will remedy the problem any time soon and shortages, especially of injectables will continue to be a constant problem for the foreseeable future.

SO WHAT IS THE IMPACT OF DRUG SHORTAGES ON THE GENERIC INJECTABLE DRUG INDUSTRY AND PARTICULARLY ON SAGENT?

Historically, the generic injectable drug industry has grown at around 5% per annum in revenue dollars. In our opinion, this represents solid growth especially when one takes into account the volatility of price discounts from their patented counterparts which can frequently be as much as 75% at the outset of generic competition and vary widely until the market finds an equilibrium price.

Drug shortages should benefit Sagent.

The shortage of drugs and the limited ability to increase capacity, along with a steady supply of drugs coming off patent, should maintain the annual growth rate at a solid 5%. If demand grows, as is the case for most drugs due in part to an aging population, and supply remains constant, there could be an upward bias of price per dose, but it is important to point out that for the most part, the price paid for prescription drugs is inelastic as is the supply due to manufacturing restrictions.

We believe this environment serves Sagent very well for two reasons. First, the company has 30 products that are FDA approved, and 77 ANDAs pending (over 140 ANDAs filed to date).

Second, unlike its major competition, SGNT has unused capacity. Through a worldwide network of partners, Sagent has 48 partners with abundant, high-quality, cost-competitive development and manufacturing capabilities with 79 facilities qualified and 184 inspections completed. We view this as a major advantage for SGNT by providing it maximum flexibility to quickly scale up production of new products and more efficiently respond to changes either imposed by a changing landscape or self imposed by strategic decisions. This novel approach runs contrary to the industry's historic and usual operating model of having only a very few, owned manufacturing facilities, which in the case of Hospira, for example, has significantly limited is flexibility.

Sagent Product Offering and Pipeline

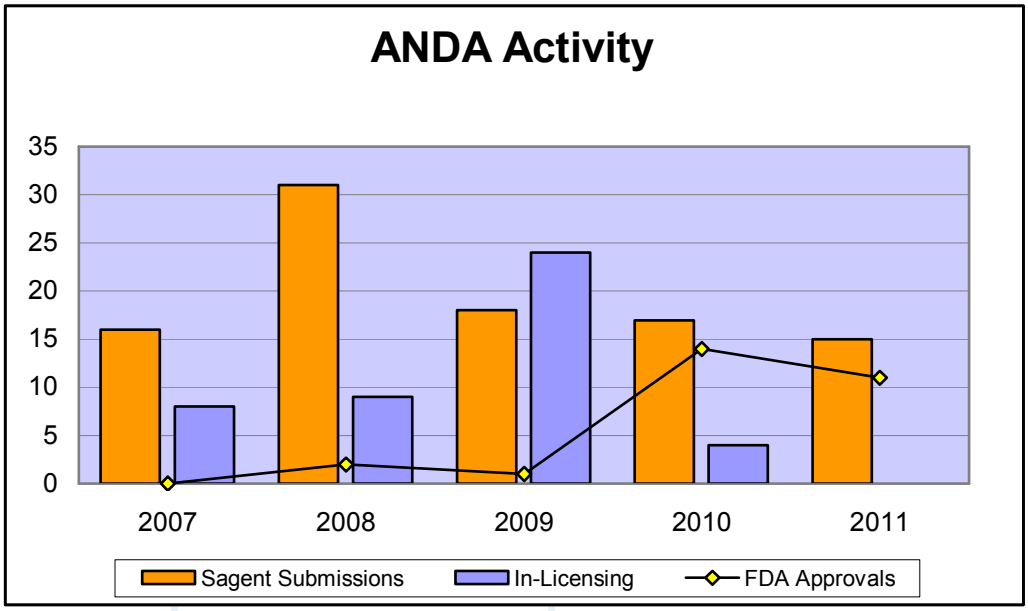
Sagent successful with FDA in record time.

As we have suggested, SGNT has a very attractive pipeline of 77 ANDAs pending before the FDA, most of which should gain agency approval over the next two years. SGNT average approval time for its ANDA before the FDA is approximately 22 months as compared to an industry average of 31 months. Contributing to the shorter approval time is SGNT's totally electronic submission process leading to cleaner submissions, that it is dealing with well known drugs and many are in shortage, prompting more immediate attention from the FDA.

Figure 1 illustrates the depth of activity SGNT has had with licensing partners and with the FDA. In 2007, its first full year after its founding, SGNT filed 24 ANDAs of which eight were in-licensed but a remarkable 16 were its own submissions. The following year it filed 40 ANDAs and in 2009 it filed a record 42 ANDAs. Given the lag time associated with getting FDA approval, its best approval rate was 14 in 2010.

In 2011, year to date, SGNT has filed 15 ANDA, all its own submission with 11 approvals from the FDA, for a total of 30 approvals since 2008.

Figure 2: Sagent's ANDA Activity



Source: Company reports

THE STORY IS MORE THAN JUST THE NUMBERS

While the number of products Sagent has filled with the FDA, from either its own development or in-licensing, is impressive, what Sagent has accomplished in terms of approvals and market share is even more remarkable.

Sagent has a very seasoned sales force of more than 30 professionals in the U.S. with an average tenure in their respective regions of 25 years. Its contracting professionals, those calling on GPOs (Group Purchasing Organizations) have an average tenure of over 30 years and the company's founder, Jeffrey Yordon is well known in the injectable generic industry with over 40 years experience.

Sagent able to gain #1 or #2 market share in short order.

These long-term relationships have allowed Sagent to achieve very high market shares, either #1 or #2 in many of the products it has brought to market, in a very short time after they have become generic. As of December 2011, the list includes 10 of the 30 FDA approvals SGNT has received since the beginning of 2008. Some of the more meaningful examples are:

- Heparin (Anit-coagulant) - launched in August, 2009, SGNT has nine dosage or packaging options on the market and as of June 30th 2011 had a 25.4% market share as compared to the industry leader, APP with 57.5% market share but well ahead of industry giant Hospira, at 16.9% market share.
- Topotecan (Oncology-ovarian, cervical and small cell lung cancer) - first approved as a generic in November, 2010, Sagent was able to fill pre-staged distribution channels in 12 hours of approval and has captured national contracts with Novation, NovaPlus, Greater NY and others resulting in a market leading share of 40% (as compared to 27% for Hospira) as of mid-2011.

- Levofloxacin (Broad-spectrum antibacterial agent) - one of Johnson & Johnson's leading selling drug with revenues in 2007 of $1.6 billion, Sagent launched its generic version at the beginning of July, 2011, just three weeks after levofloxacin reached generic status. It is only one of two generic versions and the launch was aided by a national contract with Novation.

SAGENT'S PRODUCT PORTFOLIO

Noted in figure 3 and partially depicted again in figure 4 is Sagent's current product portfolio which includes three important classes of injectable generics including anti-infectives, oncolytics and critical care. In addition to the drugs listed in figure 3 it is important to note that there may be multiple dose and presentation formats (pre-mixed in vials or bags, lyophilized, and others).

Sagent has a broad product offering for a young company.

Figure 3: Sagent's Product Portfolio

Sagent Product Portfolio

Anti-infectives	Oncolytics
Ampicillin/Sulbactam	Epirubicin
Ampicillin	Fludarabine
Azithromycin	Gemcitabine
Bacitracin	Mesna
Cefazolin	Pamidronate
Cefepime	Topotecan
Cefoxitin	Vinorelbine
Ceftazidime	
Ceftriaxone	**Critical Care**
Cefuroxime	
Ciprofloxacin	Adenosine
Fluconazole	Granisetron
Levofloxacin PMB	Heparin
Piperacillin/ Tazobactam	Labetalol
Polymyxin B	Metoprolol
	Sumatriptan
	Vecuronium

Source: Company reports

Figure 4: Sagent's Product Portfolio Portrait

Source: Company reports

PREVENTIV MEASURES

Sagent has also developed a unique packaging system called PreventIV Measures that utilizes colors and labelling to more accurately identify its products with the goal of reducing medication errors. Figures 5 and 6 best illustrates the concept with respect to the nine different product offerings of its Heparin line.

Unique packaging and delivery system.

Figure 5: Sagent's Heparin Product Line

Source: Company reports

Figures 5 & 6 depict the concept of choosing a different color for each dosage strength and then color coordinating the bottle, label and top (so that it can be identified in a drawer). When physicians, pharmacists and nursing staff become visually educated to the system, it reduces errors from administering the incorrect drug or an inaccurate dose.

Figure 6: Sagent's PreventIV Measure System

Source: Company reports

Access to Abundant, Modern Manufacturing Should Facilitate Strong Growth

AVOIDING THE MANUFACTURING PITFALL

As we have seen with some of Sagent's competition, namely Hospira with its own production problems at Rocky Mount, Clayton (both in North Carolina) and Austin, Texas, reductions in manufacturing capacity brought about by regulatory challenges, can have a significant negative effect on revenues and profits in situations where utilization of existing facilities is almost maxed out.

Such a situation is exacerbated by the inability to bring on new capacity quickly because the process of building a new facility is long and laborious and requires the FDA to inspect and approve the facility through the many phases of planning and construction. Because excess capacity at Hospira is almost non-existent, the option of shifting production from one facility to another is limited and would require additional FDA inspection, elongated the process.

Primary advantage is 48 WW partners providing abundant manufacturing capacity.

One of Sagent's key advantages is that it has changed the industry paradigm as exemplified by Hospira and others of internal product development and large, centralized manufacturing facilities, such that, Sagent has created a worldwide network of more than 48 partners for which it can rely on product development and manufacturing capacity in facilities that are already FDA compliant and approved. To date, 79 facilities in China, India, Europe and the Middle East and the Americas have undergone 184 inspections and have been certified.

Figures 7 and 8 show the exterior and interior of a newly completed state-of-the-art facility in Chengdu China which is operational and for which the company has an accelerated plan to achieve FDA approval.

Figure 7: Exterior View of Newly Constructed Facility in Chengdu, China

Source: Company reports

Figure 8: Interior of Chengdu Facility

Source: Company reports

Not only does this give Sagent an advantage in product development and production but it also gives the company direct participation in established markets, such as in Europe and most importantly in emerging markets such as China, India and the Middle East.

This abundant capacity also gives Sagent the ability to access specialty manufacturing such as beta-lactams and hormones, cephalosporins, and penems and oncolytics. It also enables the company to be more responsive to customer's needs by making it possible to respond quickly to changes in the market.

In order to mitigate the development and manufacturing risks that are associated with such a geographically diverse network, Sagent maintains project teams in all key locations to insure proper development and FDA manufacturing compliance.

SAGENT'S MANAGEMENT TEAM IS HIGHLY EXPERIENCED AS IS ITS SALES AND MARKETING STAFF.

Jeffrey Yordon - President, Chief Executive Officer and Chairman of the Board – Mr. Yordon has over 40 years of experience in the pharmaceutical industry. From February 1996 to March 2006, he held the positions of Chief Strategic Officer, Co-Chief Operating Officer and President of American Pharmaceutical Partners (now known as Abraxis Pharmaceutical Products) 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 member of the board of directors of the Drug, Chemical & Associated Technologies Association. Mr. Yordon received a BA from Northern Illinois University.

Jonathon Singer – Chief Financial Officer - Mr. Singer has more than 26 years of finance experience with publicly-traded companies including Teleflex, Cardinal Health and R.R. Donnelley and Sons. Most recently, he served as senior vice president of finance and CFO of Landauer, Inc., a publicly-traded company in radiation sciences and services. He holds a master's degree from Northwestern University's Kellogg Graduate School of Management, a bachelor's degree in business administration from Miami University in Ohio and is a CPA.

Ronald Pauli - Chief Business Officer - From April 2007 until this past September, Mr. Pauli was CFO. Prior to joining the company, Mr. Pauli held the positions of Executive Vice President and Chief Financial Officer of the biotech company NEOPHARM, Inc. He has also 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. A CPA, he received a BS in Accounting from Michigan State University and an MS in Finance from Walsh College.

Albert Patterson, R.Ph. - Senior Vice President, Operations - Prior to joining Sagent in 2010, Mr. Patterson held the position of Chief Executive Officer of The Bert Patterson Group, a healthcare consulting company focused on the generic pharmaceutical industry. Prior to that, from July 2003 to August 2004, Mr. Patterson held the positions of President and Chief Executive Officer of Excel Rx GSO, a group service organization concentrating on the alternate site healthcare sector. From July 1997 through July 2003, he held the positions of Vice President of Pharmacy, Vice President of the Contract Center of Excellence and Vice President of Alternate Site Healthcare and Business Development of Premier, Inc., a national healthcare Group Purchasing Organization. Mr. Patterson received a BS in Pharmacy from the University of Illinois College of Pharmacy.

Lorin Drake - Vice President, Sales and Marketing - Prior to joining the company in 2006, Mr. Drake held the positions of Senior Director of Sales and Vice President of Sales of American Pharmaceutical Partners from 1996. Prior to that he held various sales related positions at Fujisawa USA and Lyphomed. Mr. Drake received a BS in Economics from Manchester College.

Sheila Moran - Vice President, Quality since June 2009. Ms. Moran joined Sagent in August 2007 and has held the positions of Director and Senior Director of Quality Assurance. Prior to joining the company, from November 2004 to August 2007, she held the position of Directory of Quality Assurance at Regis Technologies. Ms. Moran has held various positions at Cardinal Health, most recent being Director, Scientific Development/Specialty Manufacturing. Ms. Moran received a BS in Biology/Chemistry from Roosevelt University.

Tom Moutvic - Vice President, Regulatory Affairs since May 2007. From 2004 to May 2007, Mr. Moutvic held the position of Director, Global Regulatory Affairs of Hospira, Inc. Prior to that, he held the positions of Associate Director Regulatory Affairs of Abbott Laboratories; and Manager, Procurement Regulatory Affairs and Quality Assurance of Baxter Healthcare Corporation. Mr. Moutvic received a BS in Microbiology from the University of Wisconsin at Madison.

As we commented earlier in this report, Sagent's sales and marketing effort is comprised of approximately 30 people with those calling on geographic regions having an average tenure of 25 years while those calling on GPOs have an average of 30 years experience.

SAGENT COULD BE PROFITABLE IN 2012

Sagent has experienced very rapid revenue growth over the past several years as its portfolio of FDA products has commensurately increased. As such, revenues rose from $29.2 million in 2009 to an estimated $149 million in 2011. While management has not yet issued guidance for 2012, we believe that SGNT could achieve revenues of approximately $215 million, an increase of 44% Y/Y. Street estimates range between $216 million and $246 million.

Sagent should be the beneficiary of an improving operating matrix which is likely to include a continued improvement in gross margin to around 29% and a reduction in the percentage of revenue the company expends for product development to approximately 7% from 8% in 2011 and a lowering of SG&A as a percentage of revenue to 15% from 17%. Reaching these goals would transform Sagent into a profitable company from a loss position in 2011 with potential EPS of approximately $0.29, untaxed, for the full year of 2012. Street EPS estimates currently range between $0.29 and $0.53 with an average of $0.36.

Until management ventures forth with more precise guidance, we have set both our revenue and EPS estimates at the lower end of the Street range with sales of $215 million, an increase of 44% and EPS of $0.29.

VALUATION IS ATTRACTIVE IN OUR OPINION

We are initiating coverage of Sagent with a BUY recommendation and a Target Price of $27 per share. While we believe Sagent will reach profitability in 2012, we do not believe our EPS estimate of $0.29 fully represents the level of profitability that Sagent can eventually achieve. As such, we look to value the shares on an Enterprise Value to Revenue multiple. Presently, Sagent's shares are being valued by the market at an EV/Revenue multiple of 3.5X consensus 2011 revenues, which in our opinion is reasonable given the very rapid revenue growth the company is experiencing.

INVESTMENT RISK

SGNT faces regulatory risks associated with the FDA and manufacturing challenges associated with foreign manufacturing.

VALUATION METHODOLOGY

Based on an EV/Revenue multiple of 3.2X our preliminary 2012 revenue forecast of $215 million results in a PT of $27.00 and as such, we rate the shares a BUY.

Figure 9: Sagent Revenue Model

Sagent Pharmaceuticals, Inc.

REVENUES, 2010A-2012E

($ thous., except per-share data)

Year ends December 31	2010A					2011E					2012E
	1Q	2Q	3Q	4Q	2010	1Q	2Q	3QA	4Q	2011	
Anti-Infectives	$ 6,771	$ 8,037	$ 11,326	$ 14,597	$ 40,731	$ 12,592	$ 9,848	$ 20,122	$ 22,129	$ 64,691	$ 100,000
Critical Care	$ 1,347	$ 1,437	$ 8,279	$ 14,856	$ 25,919	$ 11,327	$ 17,469	$ 9,434	$ 10,375	$ 48,605	$ 70,000
Oncology	$ 526	$ 1,086	$ 1,664	$ 4,130	$ 7,406	$ 6,425	$ 4,937	$ 11,725	$ 12,894	$ 35,981	$ 65,000
Total Revenues	$ 8,644	$ 10,560	$ 21,269	$ 33,583	$ 74,056	$ 30,344	$ 32,254	$ 41,281	$ 45,398	$ 149,277	$ 235,000
Y/Y Percentage Change											
Anti-Infectives						86.0%	22.5%	77.7%	51.6%	58.8%	54.6%
Critical Care						740.9%	1115.7%	14.0%	-30.2%	87.5%	44.0%
Oncology						1121.5%	354.6%	604.6%	212.2%	385.8%	80.7%
Total Revenues						251.0%	205.4%	94.1%	35.2%	101.6%	57.4%

Source: Company reports and CapStone Investments estimates

Figure 10: Sagent Earnings Model

Sagent Pharmaceuticals, Inc.
INCOME STATEMENT, 2010A-2012E
($ thousands, except per-share data)

Year ends December 31	2010A					2011E					
	1Q	2Q	3Q	4Q	2010	Q1	2Q	3QA	4Q	2011	2012E
Net Product Sales	$ 8,644	$ 10,560	$ 21,269	$ 33,583	$ 74,056	$ 30,344	$ 32,254	$ 41,281	$ 45,398	$ 149,277	$ 215,000
Costs and Expenses:											
Cost of Revenues	8,351	10,658	18,535	27,469	65,013	25,755	29,505	34,344	36,318	125,922	152,650
Gross Profit	$ 293	$ (98)	$ 2,734	$ 6,114	$ 9,043	$ 4,589	$ 2,749	$ 6,937	$ 9,080	23,355	$ 62,350
Product Development	2,794	3,272	2,534	2,623	11,223	2,357	2,374	3,460	3,632	11,823	15,050
SG&A	4,166	4,355	4,481	5,929	18,931	4,976	6,476	6,688	7,264	25,404	32,250
Equity in Net Loss of JV	435	332	212	497	1,476	673	524	401	454	2,052	2,150
Total Operating Expenses	7,395	7,959	7,227	9,049	31,630	8,006	9,374	10,549	11,350	39,278	49,450
EBIT	$ (7,102)	$ (8,057)	$ (4,493)	$ (2,935)	$ (22,587)	$ (3,417)	$ (6,625)	$ (3,612)	$ (2,270)	(15,924)	$ 12,900
Interst Income	$ 4	$ 4	$ 14	$ 12		$ 19	$ 56	$ 104	$ 100	279	$ 150
Interst Expense	$ (239)	$ (228)	$ (243)	$ (419)	$ (1,129)	$ (520)	$ (1,242)	$ (1,223)	$ (908)	$ (3,893)	$ (4,300)
Chg. In F.V. Pref. Stk. War.	$ -	$ (408)	$ (140)	$ (265)	$ (813)	(480)	$ (384)	$ -		(864.0)	
Earnings before income taxes	$ (7,337)	$ (8,689)	$ (4,862)	$ (3,607)	$ (24,495)	$ (4,398)	$ (8,195)	$ (4,731)	$ (3,078)	$ (20,402)	$ 8,750
Provision for income taxes					$ -					-	$ 200
Net earnings	$ (7,337)	$ (8,689)	$ (4,862)	$ (3,607)	$ (24,495)	$ (4,398)	$ (8,195)	$ (4,731)	$ (3,078)	$ (20,402)	$ 8,550
Avg. shares outst. (diluted)	1,891.0	1,943.8	1,972.0	2,000	1,952	9,773	22,149	27,875	28,500	22,074	29,300
EPS (Basic & FD)	$ (3.88)	$ (4.47)	$ (2.47)	$ (1.80)	$ (12.62)	$ (0.45)	$ (0.37)	$ (0.17)	$ (0.11)	$ (1.10)	$ 0.29
RATIOS: (as a percentage of total revenues)											
Gross Margin	3.4%	-0.9%	12.9%	18.2%	12.2%	15.1%	8.5%	16.8%	20.0%	15.6%	29.0%
Product Development	32.3%	31.0%	11.9%	7.8%	15.2%	7.8%	7.4%	8.4%	8.0%	7.9%	7.0%
SG&A	48.2%	41.2%	21.1%	17.7%	25.6%	16.4%	20.1%	16.2%	16.0%	17.0%	15.0%
Equity in Net Loss of JV	5.0%	3.1%	1.0%	1.5%	2.0%	2.2%	1.6%	1.0%	1.0%	1.4%	1.0%
Interest Income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interst Expense	-2.8%	-2.2%	-1.1%	-1.2%	-1.5%	-1.7%	-3.9%	-3.0%	-2.0%	-2.6%	-2.0%
Chg. In F.V. Pref. Stk. War.	0.0%	0.0%	0.0%	0.0%	-1.1%						
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Margin	-82.2%	-76.3%	-21.1%	-8.7%	-30.5%	-11.3%	-20.5%	-8.7%	-5.0%	-10.7%	6.0%
Pretax Margin	-84.9%	-82.3%	-22.9%	-10.7%	-33.1%	-14.5%	-25.4%	-11.5%	-6.8%	-13.7%	4.1%
Net Margin	-84.9%	-82.3%	-22.9%	-10.7%	-33.1%	-14.5%	-25.4%	-11.5%	-6.8%	-13.7%	4.0%

Source: Company reports and CapStone Investments estimates

Figure 11: Sagent Cash Flow

Sagent Pharmaceuticals, Inc.
Cash Flow Analysis
(In millions, except share and par value amounts)

	Nine Months Ended September 30	
	2011	**2010**
Cash Flow From Operating Activities:		
Net loss	($17.3)	($20.9)
Depreciation & Amortization	1.9	0.8
Stock-based compensation expense	1.6	0.6
Other	2.4	1.5
Trade receivables	(12.7)	(1.1)
Inventories	(7.2)	-7.7
Prepaid expenses and other assets	2.5	2.4
Trade accounts payable	0.5	-0.3
Other liabilities	(2.9)	2.4
Net Cash Provided by Operating Activities	($31.2)	($22.4)
Cash Flow From Inv. Activities:		
Cap.EX.	($0.2)	($0.2)
Funding Rest. Cash	(0.5)	(0.4)
Invest in Uncon JV	(0.1)	(5.1)
Ret of Cap. From Uncon JV	0.9	
Purchase of Inv.	(93.2)	
Sale of Inv.	15.6	
Purchase of Product Rights	(3.0)	(0.6)
Net Cash Used In Inv. Activities	($80.5)	($6.3)
Cash Flows From Financing Act.		
(Red.) Increase In ST Notes Payable	($1.1)	$4.9
Proceeds From LT Debt	15.0	
Repayment of LT Debt	(0.7)	
Proceeds From Issuance of P.S.		$45.4
Proceeds From Issuance of C.S.	101.6	$0.1
Payment of Def. Fin. Costs	(0.1)	
Net Cash Prov. by Fin. Activities	$ 114.8	$50.5
Net Increase in Cash/Cash Equiv.	$ 3.2	$21.9
Cash/ Cash Equiv. Beg. Of Period	34.4	7.7
Cash/ Cash Equiv. End Of Period	$ 37.5	$29.6

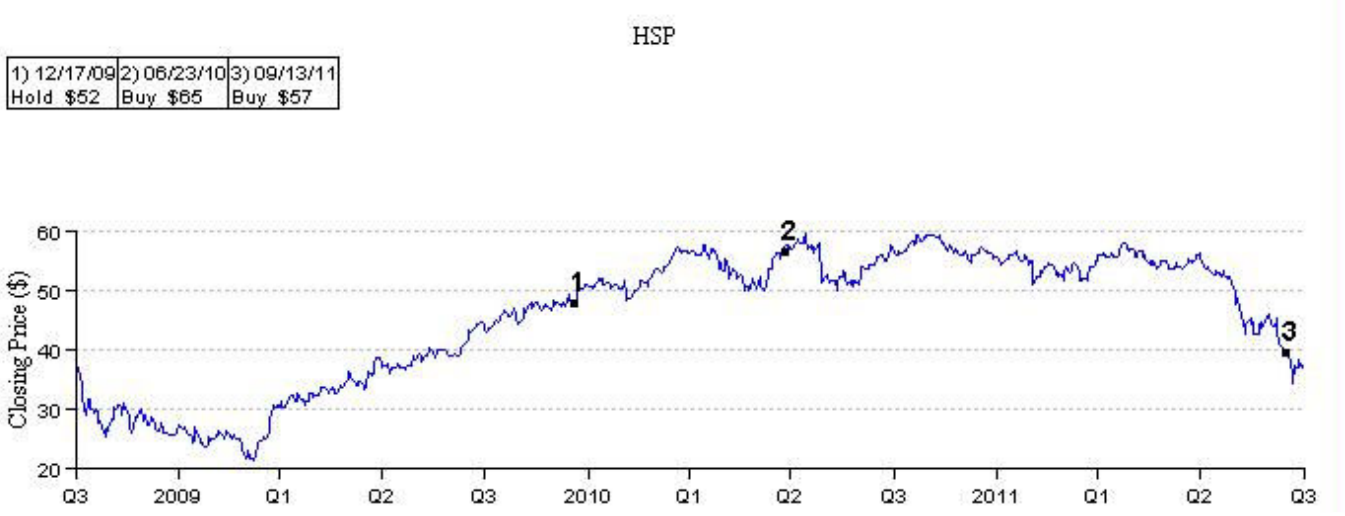
Source: Company reports and CapStone Investments estimates

Figure 12: Sagent Balance Sheet

Sagent Pharmaceuticals, Inc.		
Balance Sheet		
(In millions, except share and par value amounts)		
	30-Sep 2011	31-Dec 2010
Assets		
Current Assets:		
Cash and cash equivalents + Restricted	$38.2	$34.6
ST Investments	$76.8	
Trade receivables	31.6	18.9
Inventories	37.8	30.6
Prepaid expenses and other current assets	3.0	5.4
Other receivables	0.3	0.9
Total Current Assets	187.7	90.4
Property and equipment, net	0.8	0.8
Investment in JV	22.7	24.5
Intangible Assets	4.8	2.6
Other assets	0.7	0.3
Total Assets	216.8	$118.6
Liabilities and Shareholders Equity		
Trade accounts payable	18.5	24.4
Other accrued liabilities	14.3	11.0
Pref. Stock Warrants		1.4
Current Long-term Debt	8.2	-
Notes Payable	19.7	20.7
Total Current Liabilities	60.6	57.6
Long-term debt	6.1	-
Other long-term liabilities	0.6	
Total Pref. Stock		157.8
Total Liabilities	67.3	57.6
Total Shareholders Equity(Deficit)	149.4	(96.8)
Total Liabilities and Shareholders Equity	$216.8	$118.6

Source: Company reports and CapStone Investments estimates

IMPORTANT DISCLOSURES
Price charts generated by Jovus, Inc



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CapStone Equity Research Disclosures as of January 3, 2012

Company	Disclosure
Hospira, Inc. (HSP)	None
Sagent Pharmaceuticals (SGNT)	None

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