

Sagent Pharmaceuticals

Initial Thoughts On 2012 Guidance: Investing For The Long Term - ALERT

Sagent's 4Q/11 EPS and 2012 guidance suggest continued solid top-line growth as the company rolls out its expanded injectable generic portfolio. However, this top-line growth will be offset by higher than expected expenses (COGS, SG&A and R&D), resulting in net income targets for 2012 that are below our/Street expectations (breakeven to a loss of \$5mm v. JPMe of +\$10mm). While this higher level of investment makes sense from a long-term perspective as Sagent scales its R&D portfolio and commercial model, we anticipate shares will be under pressure on today's updates. We are maintaining our Neutral rating.

- **2012 guidance - higher expenses impacting results.** Sagent issued 2012 guidance calling for revenue roughly in line with expectations at \$220mm - \$250 mm (JPMe \$234 mm, consensus \$233 mm) and gross margin marginally below our expectation at 20% - 23% (JPMe 23%). However, R&D spend of between \$22 mm - \$26 mm (JPMe \$18.5 mm) and SG&A spend of between \$30 mm - \$34 mm (JPMe \$28 mm) are meaningfully higher than we have anticipated as the company further builds out its product portfolio and commercial model. As a result, net income is expected to be at breakeven to a loss of \$5 mm, which implies an EPS range of breakeven to (\$0.18), well below JPMe of \$0.33 and consensus \$0.35.
- **4Q: Top line modestly above, offset by higher expenses.** Sagent reported 4Q/11 EPS of (\$0.18) (-\$0.06 v JPMe and -\$0.07 v. consensus) with better than expected revenue of \$48.5 mm (+4 mm v. JPMe/consensus) being offset by higher expenses. Gross margins were up sequentially but roughly 100 bps below our forecast. Meanwhile, operating expenses were about \$1.5 mm ahead of our forecast, leading to a bottom-line miss relative to our/consensus estimates.

Neutral

SGNT, SGNT US

Price: \$21.97

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Generic Pharmaceuticals

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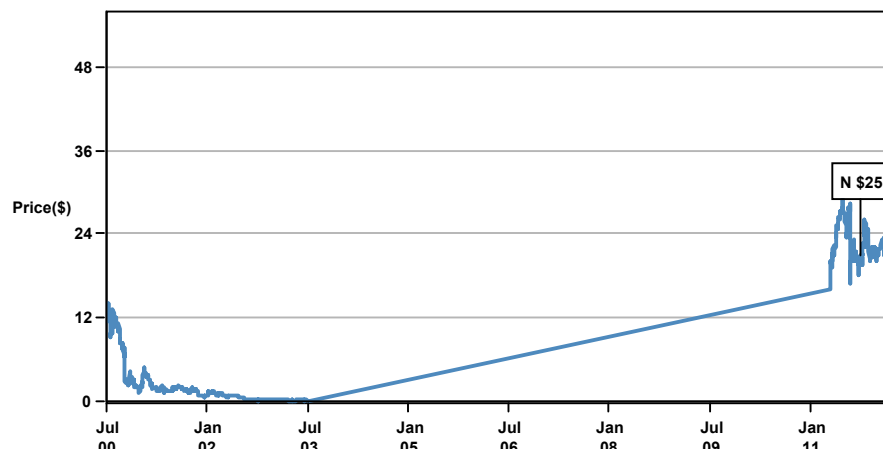
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Sagent Pharmaceuticals (SGNT, SGNT US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
28-Sep-11	N	20.96	25.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Sep 28, 2011.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

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