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Stock Rating
Overweight

Industry View
In-Line

Sagent Pharmaceuticals

Investing in Growth in 2012

What's Changed

Price Target	**$29.00 to $28.00**

Revenue momentum and Sagent's core business model continue to make progress and 2012 should see another solid topline performance. However, a key value driver will now shift to management's ability to deliver margin leverage in 2013+ after 2012's material step-up in operating spending.

A significant step up in operating spending for 2012 with $22-$26 MM (versus MSe of $13 MM) for product development and $30-$34 MM for SG&A (versus MSe of $26 MM). This is the right decision for long term growth in an increasingly competitive market. However, a key debate will be validation of Sagent's middle of the income statement leverage potential into 2013 as sustaining growth may require continued re-investment.

2012 guidance in-line with expectations. 2012 revenue guidance of $220 to $250 MM looks low risk even with significant base business price erosion and modest performance from the 18 planned new product launches (~$2-2.5MM per new product vs. $3.5MM in 2011). Expected GM of 20% to 23% is in-line with previous MSe of ~25% adjusted for the Strides JV.

A Solid 4Q11. 4Q11 revenue of $48.5 MM was modestly better than MSe of $47MM as new launches drove upside and the pace of price erosion abated (~5% on key codes). Adjusted GM of ~17.5% was in-line with MSe of 17.3% and better after adding in Strides net income. The net loss per share of $0.33 was greater than MSe of $0.11 due to a one-time heparin inventory charge ($0.14) and development expenses ($0.06).

Key Changes to Model. We are trimming FY12 revenues from $245 MM to $235 MM and GM goes to 22% from 25%. Higher spending takes our net income to ($7.5)MM from $10.5MM previously. Flowing a modestly slower profitability ramp through our model takes our target to $28 from $29.

Key Ratios and Statistics

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

Price target	**$28.00**
Shr price, close (Feb 16, 2012)	$21.99
Mkt cap, curr (mm)	$442
52-Week Range	$29.23-13.50

Fiscal Year ending	**12/10**	**12/11**	**12/12e**	**12/13e**
ModelWare EPS ($)	**ND**	**(1.31)**	**(0.26)**	**0.65**
Prior ModelWare EPS ($)	**-**	**(0.91)**	**0.34**	**1.22**
P/E	**ND**	**NM**	**NM**	**33.8**
Consensus EPS ($)§	**-**	**(0.98)**	**0.36**	**1.65**
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 Thomson Reuters Estimates.
e = Morgan Stanley Research estimates

Quarterly ModelWare EPS

Quarter	**2010**	**2011 Prior**	**2011 Current**	**2012e Prior**	**2012e Current**
Q1	(3.89)	-	(2.09)	0.09	(0.34)
Q2	ND	-	(0.37)	0.08	(0.19)
Q3	ND	-	(0.09)	0.08	0.07
Q4	ND	-	(0.33)	0.08	0.18

e = Morgan Stanley Research estimates

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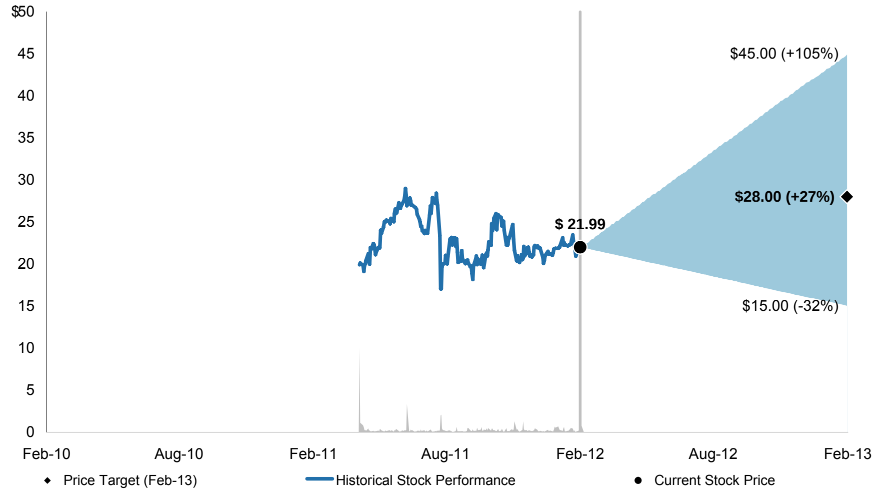
Risk-Reward Snapshot: Sagent Pharmaceuticals (SGNT, OW, $28)

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



Source: Company data, Morgan Stanley Research

Price Target $28		**3.0x 2013 EV/Revenue and 11x 2013 EV/EBITDA and 18x 2014e EPS which is a premium to peers** given Sagent's higher growth and margin expansion potential.
Bull Case $45	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 $28	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 $15	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 manageable 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 to Price Target

- 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
- Shortage dynamics

Investment Case

A Look at 4Q – A Solid Quarter

Overall, 4Q11 was strong for Sagent with upside to revenue at $48.5MM versus MSe of $47MM and consensus of $46MM. The quarter clearly benefited from strength in recent launches including levofloxacin and paclitaxel among others. These were enough to offset continued pricing pressure especially on heparin, where pricing declines have been particularly acute. By product category, anti-infectives were $20.9 MM or 43%, critical care was $16.2 MM or 34%, and oncology was $11.4 MM or 23%. Sequential growth came predominantly from oncology and anti-infectives.

Gross margins remain a focus and the quarter was encouraging on gross margin progress. Sagent's ability to drive gross margin leverage in a competitive generic injectable market remains a key long term debate on the stock. 4Q was a solid performance with GM of 17.5% after adjusting for an inventory write off (~$4MM) and the Strides JV income ($2MM).

New products remain the central margin driver and guidance for sequentially flat 1Q12 in the absence of new launches confirms this important dynamic. Management guidance for ~$42MM in revenue from new products for the FY2011 with a "mid-30"s% GM" implies that new launches accounted for ~65% of total gross profit and the implied gross margin on the remaining business was <5% on a blended average basis.

Finally, operating spending was ahead of expectations with product development at $4.6MM vs MSe of $2.8MM and SG&A at $7.0MM vs MSe of $6.5MM, leaving EBIT at ($8) MM vs MSe of ($2) MM. Sagent's spending has trended ahead of expectations as the topline scales — a dynamic that will continue into 2012 and beyond.

2012 Guidance and Outlook

Sagent guided to 2012 revenue of $220 to $250 MM driven by at least 18 planned new product launches. This implies revenue growth of 44% to 64% and +18 new product launches vs. 2010's 16 new products. We are lowering our 2012e revenue to $234.5MM from $245 to account for greater base business pricing pressure and a slightly lower base in 2011, which is more or less in the middle of the range.

Exhibit 1

2012 Guidance vs. Prior and Current MSe

	FY12 Guidance		FY2012 MSe	
	Low	High	Prior	New
Revenues	$220	$250	$245	$235
Gross Margin *	20%	23%	25%	22%
Product Development	$22	$26	$13	$25
SG&A	$30	$34	$26	$32
Net Income	**($5)**	**$0**	**$10**	**($7)**

Source: Company Data, Morgan Stanley Research

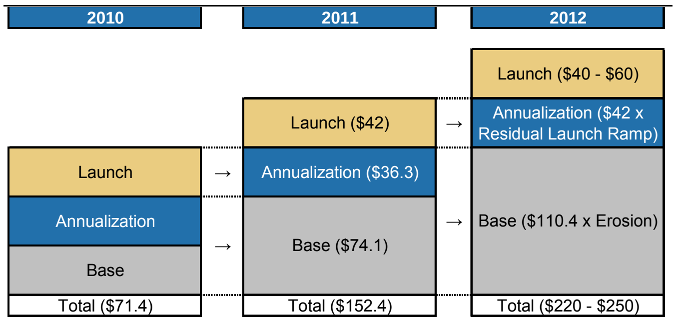
Spending going higher. Perhaps the most notable announcement from the quarter was significant increases in spending with product development up ~95% over 2011 at $25MM from $13MM and SG&A up ~28% from $25MM to $32MM in 2011. Factors like product development investments, ANDA fees and executive stock ownership are understandable for the business. However, conceptually, this level of spending growth is somewhat of a departure from Sagent's lean middle of the income statement based business model.

As Sagent's purview and strategic vision expands with proprietary products, vertical integration (manufacturing facilities) and novel formulations, the key question will be management's ability to deliver margin expansion in an increasingly competitive generic injectables marketplace. Thus, management points to peak R&D levels in 2012, but we expect spending will continue to mount to support growth on a higher revenue base. This is the right business decision in our view but delays meaningful profitability by at least a year. However, we would prefer to see evidence that the current business model can produce significant profitability before expanding into new areas. Moreover, the KSP Joint Venture will provide an early test case of execution in a more traditional generics business model as compared to Sagent's distributed partner model.

Gross margin guidance of 20-23% looks achievable and we are lowering our GM to 21.6% from 25% in light of guidance and adjusting for the Strides JV accounting, which dilutes GM by ~200bps versus our previous estimates. Assuming higher new product GM and a greater mix of more recently launched products, the GM guidance looks achievable. Assuming a similar average revenue per new product (~$3.5MM in 2011), new product launches could account for as much as ~40-50% of total gross profit guidance for 2012. Therefore, even assuming 5% GM on base revenue and ~30% annualization of 2011 launches is sufficient to reach the guidance range.

Conceptualizing revenue growth. Sagent's revenue growth can be divided into three components: 1) existing product base, 2) annualization of products launched in the prior year, and 3) new product launches in the current year (see Exhibit 1). The base business for 2012 is comprised of the ~$110MM in revenue from 2011, the annualization of 2011's new launch revenues of $42 MM, and the 2012 new product launch revenues.

Exhibit 2
Components of Sagent's revenue growth



$ in MM

Source: Company Data, Morgan Stanley Research

With this framework, we conducted a sensitivity analysis (Exhibit 2) to understand the magnitude of new product sales required to meet guidance under different scenarios for base erosion from pricing pressure. Net, net, our analysis suggests little risk to the revenue guidance range. In fact, the low-end of guidance is achievable with -8% to 0% price erosion and $40 MM in new sales from launches, which implies $2.2MM per new product versus $3.5MM in 2011. Moreover, there is room for some erosion on annualized new launches in 2011 as well in our analysis.

Exhibit 3
2012 Revenue Guidance Achievable With > $40 MM in New Product Revenues

	Revenue Impact of 2012 New Product Launches						
	$1.1	$1.7	$2.2	$2.8	$3.3	$3.9	$4.4
Base Erosion	$20	$30	$40	$50	$60	$70	$80
0%	$207	$217	$227	$237	$247	$257	$267
-2%	$205	$215	$225	$235	$245	$255	$265
-4%	$202	$212	$222	$232	$242	$252	$262
-6%	$200	$210	$220	$230	$240	$250	$260
-8%	$198	$208	$218	$228	$238	$248	$258
-10%	$196	$206	$216	$226	$236	$246	$256

Assumes Annualization of 2011 Launch Revenues at 4Q11 Rate of $19.1 MM
*Shaded cells are in guidance range for FY12 revenue
$ in MM

Source: Company Data, Morgan Stanley Research

However, a $40 MM contribution from new products is likely conservative. At the 2011 revenue contribution per new product of $3.5MM (helped by several shortage products), performance implied revenue per new product of $3.5 MM, our sensitivity analysis suggests the mid to high end of the guidance range. Of course, existing or emerging critical drug shortages could accelerate approvals and provide upside to 2012 revenue guidance and our bias is that 2011 approvals could surprise to the upside.

Exhibit 4
Estimated 2012 New Product Launch Revenue More Than Sufficient to Meet Guidance

	2011A	2012 Mse
New Product Launches	12	18
Implied revenues from launches	$42	$63
Revenue Per New Product	$3.5	$3.5

Source: Company Data, Morgan Stanley Research

Pipeline in good shape. The company exited 2011 with six products approved spanning 13 ANDAs that are pending launch (Exhibit 4). The pipeline continues to expand with total products on file of 41 from 32 at 3Q11 and 31 from 27 products in initial development.

Exhibit 5
2011 ANDA Filings & Approvals

	03/31/11	06/30/11	09/30/11	12/31/11
On File:				
Total Products	39	42	32	41
ANDAs	69	75	59	76
Initial Development				
Total Products	32	26	27	31
ANDAs	52	25	30	36
Approved Not Launched				
Total Products	6	6	16	6
ANDAs	9	*ND*	*ND*	*13*

Source: Company Data, Morgan Stanley Research

Sagent Pharmaceuticals, Inc., may be deemed to be controlled by or under common control with MS&Co. due to ownership, board and/or other relationship.

Exhibit 6

Variance Analysis

($ in millions, except EPS)	4Q11E	4Q11A	Current Quarter A vs E (%)	Cons Est 4Q11	2Q10A	Y/Y % Change	Comments
Total Revenues	**$47**	**$49**	**3%**	**$46**	**$11**	**360%**	
COGS	$39	**44**	13%	$37	$11	313%	Charge for excess inventory reserves
Gross Profit	**$8**	**$4**	**(45%)**	$8	**($0)**		
Operating Expenses:							
Product Development	$2.8	$4.6	63%		$3	40%	Reflects initial ramp to guidance of $22-$26 MM in 2012
SG&A	$6.5	$7.0	8%		$4	61%	
JV Equity	$0.5	$0.9					
Total Operating Expenses*	**$9.3**	**$12.5**	**35%**		**$8**	**64%**	
Operating Income (Loss)	**($2)**	**($8)**	**381%**	**($2)**	**($8)**		
Interest Income (Expense)	$1.5	**$1.1**	(25%)		$0		
Net Income (Loss)	**($3)**	**($9.1)**	**190%**	**($3)**	**($7)**		
Shares Outstanding	28	28	(0%)		ND		
EPS, Diluted	**($0.11)**	**($0.33)**		**($0.11)**	**N/A**		
Margin Analysis							
Gross Margin	17.3%	9.3%	(800 bps)	19%	-0.9%	1,020 bps	
Product Development	6.0%	9.4%	350 bps		31.0%	(2,160 bps)	
SG&A	13.8%	14.4%	60 bps		41.2%	(2,680 bps)	
Operating Income	-3.5%	-16.5%	(1,300 bps)	-5%	-73.2%	5,660 bps	
Net Income	-6.7%	-18.8%	(1,210 bps)	**-7%**	-70.0%	5,120 bps	

***Includes JV Equity**

Source: Company Data, Morgan Stanley Research estimates

Exhibit 7

Changes to Model

	2011	2012	2013	2014	2015	2016	Revision
Total Revenues							
Current	$152	$235	$326	$409	$480	$538	Adjusting model for expected weaker 1Q12, continued Heparin pricing pressures offset by new products
% Growth (y/y)		*54%*	*39%*	*25%*	*17%*	*12%*	
Prior	$151	$245	$339	$423	$494	$552	
% Growth (y/y)		*63%*	*38%*	*25%*	*17%*	*12%*	
Gross Profit							
Current	$19	$51	$88	$123	$149	$172	Margins ramping to 25% by YE12
% Gross Margin	*12%*	*22%*	*27%*	*30.0%*	*31%*	*32%*	
Prior	$22	$61	$102	$139	$173	$193	
% Gross Margin	*15%*	*25%*	*30%*	*33.0%*	*35%*	*35%*	
SG&A							
Current	$25	$32	$36	$41	$43	$46	Revisions per guidance
% of Sales	*17%*	*14%*	*11%*	*10.0%*	*9%*	*9%*	
Prior	$25	$26	$27	$27	$28	$30	
% of Sales	*16%*	*11%*	*8%*	*6.5%*	*6%*	*6%*	
Product Development							
Current	$13	$25	$29	$31	$34	$35	Revisions per guidance
% of Sales	*8%*	*11%*	*9%*	*8%*	*7%*	*7%*	
Prior	$11	$13	$15	$18	$20	$22	
% of Sales	*7%*	*5%*	*5%*	*4%*	*4%*	*4%*	
EPS, diluted							
Current	($1.31)	($0.26)	$0.65	$1.26	$1.70	$2.10	
% Growth (y/y)		*-81%*	*-354%*	*94%*	*35%*	*23%*	
Prior	($0.91)	$0.34	$1.22	$1.94	$2.51	$2.79	
% Growth (y/y)		*-138%*	*254%*	*59%*	*29%*	*11%*	
Diluted Shares Outstanding							
Current	20	29	31	31	32	33	
Prior	20	30	31	32	32	33	
Free Cash Flow							
Current	($31)	($22)	$2	$23	$40	$56	
Prior	($22)	($4)	$20	$45	$67	$79	

Source: Company Data, Morgan Stanley Research estimates

Exhibit 8

Income Statement

	2007A	2008A	2009A	2010A	2011E	2012E					2013E	2014E	2015E	2016E
						Mar-12	Jun-12	Sep-12	Dec-12					
Total Revenue	**$0.1**	**$12.0**	**$29.2**	**$74.1**	**$152.4**	**$43.5**	**$52.0**	**$64.0**	**$75.0**	**$234.5**	**$326.5**	**$409.5**	**$479.9**	**$537.8**
% Growth (y/y)	*1%*	*11906%*	*144%*	*153%*	*106%*	*43%*	*61%*	*55%*	*55%*	*54%*	*39%*	*25%*	*17%*	*12%*
Total Cost of Goods Sold	0.0650	12	29	65	134	37	42	49	56	184	238	287	331	366
gross margin	*35.0%*	*0.6%*	*1.6%*	*12.2%*	*12.3%*	*16.0%*	*19.5%*	*23.0%*	*25.0%*	*21.6%*	*27.0%*	*30.0%*	*31.0%*	*32.0%*
Gross Profit	**$0.0**	**$0.1**	**$0.5**	**$9.0**	**$18.8**	**$7.0**	**$10.1**	**$14.7**	**$18.8**	**$50.6**	**$88.1**	**$122.8**	**$148.8**	**$172.1**
Operating Expenses														
Product Development	2.5	18.7	11.9	11.2	12.8	5.8	6.4	6.2	6.5	24.9	29.4	30.7	33.6	35.0
% of revenue	*NM*	*156.1%*	*40.6%*	*15.2%*	*8.4%*	*13.2%*	*12.3%*	*9.7%*	*8.7%*	*10.6%*	*9.0%*	*7.5%*	*7.0%*	*6.5%*
SG&A	10.6	11.0	12.1	18.9	25.1	7.5	7.7	7.9	9.0	32.1	35.9	40.9	43.2	45.7
% of revenue	*NM*	*91.6%*	*41.3%*	*25.6%*	*16.5%*	*17.2%*	*14.8%*	*12.3%*	*12.0%*	*13.7%*	*11.0%*	*10.0%*	*9.0%*	*8.5%*
Total Operating Expenses	$13.9 #	$30.8	$25.4	$31.6	$40.4	$14.8	$15.6	$12.6	$13.0	$56.0	$55.3	$59.7	$61.8	$63.7
EBIT (non-GAAP)	**($13.8)**	**($30.8)**	**($25.0)**	**($22.6)**	**($21.7)**	**($7.8)**	**($5.5)**	**$2.1**	**$5.8**	**($5.4)**	**$32.9**	**$63.2**	**$87.0**	**$108.4**
Other (Income) Expense, Net	(0.6)	0.8	7.0	2	5	1.8	(0.0)	(0.0)	(0.0)	1.7	2.0	2.1	3.0	2.9
Pretax Income	**(13.2)**	**(31.6)**	**(32.0)**	**(24.5)**	**(26.4)**	**(9.6)**	**(5.4)**	**2.1**	**5.8**	**(7.1)**	**30.8**	**61.1**	**84.0**	**105.5**
Income Tax Expense (benefit)	-	-	-	-	-	-	-	0.1	0.3	0.4	10.8	21.4	29.4	36.9
Income Tax Rate	*NM*	*NM*	*NM*	*NM*	*NM*	*0%*	*0%*	*5%*	*5%*	*NM*	*35%*	*35%*	*35%*	*35%*
Net Income	**($13.2)**	**($31.6)**	**($32.0)**	**($24)**	**($26.4)**	**($9.6)**	**($5.4)**	**$2.0**	**$5.5**	**($7.5)**	**$20.0**	**$39.7**	**$54.6**	**$68.6**
One Time Items - Post Tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income Reported	**($13.2)**	**($31.6)**	**($32.0)**	**($24.5)**	**($26.4)**	**($9.6)**	**($5.4)**	**$2.0**	**$5.5**	**($7.5)**	**$20.0**	**$39.7**	**$54.6**	**$68.6**
Basic EPS					**($1.31)**	**($0.34)**	**($0.19)**	**$0.07**	**$0.19**	**($0.26)**	**$0.70**	**$1.35**	**$1.82**	**$2.24**
Diluted EPS (fully taxed)					**($1.31)**	**($0.34)**	**($0.19)**	**$0.07**	**$0.18**	**($0.26)**	**$0.65**	**$1.26**	**$1.70**	**$2.10**
Basic Shares Outstanding	ND	ND	ND	ND	20.1	28.0	28.2	28.3	28.5	28.2	28.8	29.4	30.0	30.6
Diluted Shares Outstanding	ND	ND	ND	ND	20.1	28.0	28.2	30.3	30.4	29.2	30.8	31.4	32.1	32.7

e = Morgan Stanley Research estimates;

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	124.0	102.3	96.4	117.2	157.1	213.5
Accounts Receivables, Net	0.2	6.9	18.9	16.9	26.1	36.3	45.5	53.3	59.8
Inventories	6.5	18.985	30.6	41.8	57.5	74.5	89.6	103.5	114.3
Prepaid Expenses & Other Current Assets	0.2	8.4	5.3	6.8	9.4	9.3	10.0	10.4	10.7
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**	**190.5**	**196.2**	**217.5**	**263.3**	**325.2**	**399.2**
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**	**215.9**	**219.5**	**243.2**	**291.7**	**356.4**	**433.1**
Liabilities									
Accounts Payable	9.0	17.3	24.4	26.7	36.8	47.7	57.3	66.2	73.1
Accrued Liabilities	3.9	4.9	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Preferred stock warrants	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**	**59.9**	**70.0**	**80.8**	**90.5**	**99.4**	**106.3**
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	25.0	16.8	14.8	14.8	14.8
Total Liabilities	**13.0**	**26.8**	**57.6**	**84.9**	**95.0**	**97.7**	**105.3**	**114.2**	**121.1**
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)	(126.8)	(134.3)	(114.3)	(74.5)	(19.9)	48.7
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)**	**131.0**	**124.5**	**145.6**	**186.4**	**242.2**	**312.0**
Total Liabilities & Shareholders' Equity	**51.0**	**65.0**	**118.6**	**215.9**	**219.5**	**243.2**	**291.7**	**356.4**	**433.1**

e = Morgan Stanley Research estimates

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)**	**(26.4)**	**(7.5)**	**20.0**	**39.7**	**54.6**	**68.6**
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 warrants	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)**	**(8.4)**	**(17.4)**	**(16.2)**	**(15.4)**	**(13.2)**	**(10.6)**
Accounts Receivable	(0.1)	(0.1)	(6.7)	(12.1)	2.0	(9.1)	(10.2)	(9.2)	(7.8)	(6.4)
Inventories	(0.7)	(5.7)	(12.5)	(11.6)	(11.2)	(15.7)	(17.0)	(15.1)	(13.9)	(10.8)
Prepaid Expenses/Other Current Assets	(0.5)	0.3	(8.1)	3.1	(1.5)	(2.6)	0.1	(0.7)	(0.4)	(0.3)
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	2.3	10.1	10.9	9.7	8.9	6.9
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)**	**(28.0)**	**(18.5)**	**5.6**	**26.1**	**43.3**	**59.9**
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	0.0	(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 and B), ı	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 and	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**	**0.0**	**(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**	**89.4**	**(21.7)**	**(5.9)**	**20.7**	**39.9**	**56.4**
Cash at Beginning of Year	2.3	32.9	25.7	7.7	34.4	123.8	102.1	96.2	117.0	156.9
Cash at End of Year	**32.9**	**25.7**	**7.7**	**34.4**	**123.8**	**102.1**	**96.2**	**117.0**	**156.9**	**213.3**

e = Morgan Stanley Research estimates

Source: Company Data, Morgan Stanley Research

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

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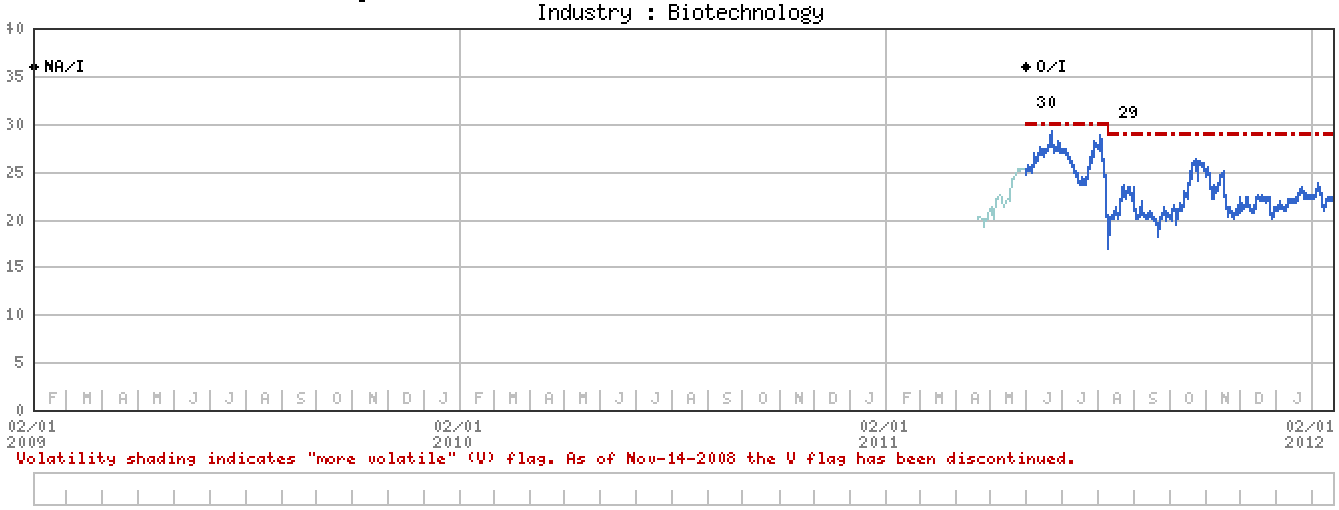
Industry : Biotechnology



Stock Rating History: 2/1/09 : NA/I; 5/31/11 : O/I

Price Target History: 5/31/11 : 30; 8/10/11 : 29

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:Biotechnology

Company (Ticker)	Rating (as of)	Price* (02/16/2012)
David Friedman, M.D.		
AMAG Pharmaceuticals, Inc. (AMAG.O)	E (11/21/2011)	$16.99
Alexion Pharmaceuticals (ALXN.O)	O (09/07/2010)	$83
Amylin Pharmaceuticals (AMLN.O)	U (09/07/2010)	$18.07
Auxilium Pharmaceuticals (AUXL.O)	E (03/18/2011)	$20.01
Idenix Pharmaceuticals, Inc. (IDIX.O)	E (03/18/2011)	$11.46
Incyte Corporation (INCY.O)	E (02/16/2012)	$18.02
InterMune (ITMN.O)	E (09/07/2010)	$15.31
Ironwood Pharmaceuticals, Inc. (IRWD.O)	O (03/18/2011)	$14.87
Lexicon Pharmaceuticals, Inc. (LXRX.O)	E (09/07/2010)	$1.84
Theravance Inc (THRX.O)	U (01/31/2012)	$19.3
Vertex Pharmaceuticals (VRTX.O)	E (11/10/2011)	$37.49
XenoPort Inc (XNPT.O)	E (08/26/2011)	$4.48
Marshall Urist, M.D., Ph.D.		
Amgen Inc. (AMGN.O)	E (02/09/2012)	$68.89
Aveo Pharmaceuticals (AVEO.O)	E (02/09/2012)	$13.55
Biogen Idec Inc. (BIIB.O)	O (02/09/2012)	$119.17
Celgene Corp (CELG.O)	O (02/09/2012)	$75.5
Gilead Sciences Inc. (GILD.O)	O (02/09/2012)	$54.81
Hospira (HSP.N)	E (07/16/2009)	$37.92
Onyx Pharmaceuticals Inc. (ONXX.O)	U (02/09/2012)	$40.86
Sagent Pharmaceuticals Inc (SGNT.O)	O (05/31/2011)	$21.99

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

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