

**Sagent Pharmaceuticals****(SGNT: NNM; \$21.66)****Buy | Target: \$27**

February 14, 2012

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12-month Price Target:	\$27
Current Price:	\$21.66
Fully Diluted Shares (M):	27.9
Market Cap (M):	\$604.3
EV (M):	\$504.3
52-wk Range:	\$13.50-\$29.23
Avg. Daily Vol. (000):	103
Book Value/sh:	\$5.36

Financials

FYE Dec		2010A	2011E	2012E
Revenue (M):	Q1	\$8.6	\$30.3	\$46.0
	Q2	\$10.6	\$32.3	\$54.0
	Q3	\$21.3	\$55.9A	\$62.5
	Q4	\$33.6	\$45.4	\$67.5
Total		\$74.1	\$149.3	\$230.0
EPS:	Q1	-\$3.88	-\$0.02	-\$0.03
	Q2	-\$4.47	-\$0.37	-\$0.00
	Q3	-\$2.47	-\$0.17	\$0.11
	Q4	-\$1.80	-\$0.11	\$0.22
Total		-\$12.62	-\$0.67	\$0.30

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.

SGNT: Q4 PREVIEW & FIRST CUT AT 2013 - BUY

- **Anticipate Strong Q4.** We expect SGNT to post a strong year end quarter on Thursday, February 16th with a call at 10:00 A.M. EDT. Our forecast calls for revenues of \$45.4 million, an increase of 10% sequentially and 35% Y/Y.
- **Quarterly loss declining on higher sales volume and higher gross margin.** The quarterly loss should decline to around \$0.11 vs. \$0.17 in Q3 as GM improves to 20% from just below 17% in Q3. We continue to believe that gross margin will improve throughout 2012 and into 2013 bringing Sagent to profitability possibly as early as Q2 2012 but more likely in Q3.
- **Improving gross margin and operating leverage in R&D and SGA should have significant impact on 2013 results.** We are initiating a 2013 estimate that calls for revenues of \$280 million, up 22% and EPS of \$0.88, almost 3X that of 2012.
- **Strategy is correct fit for the times.** SGNT has developed 48 world-wide partnerships that bring as strong flow of new products and unlike its competitors, access to FDA quality manufacturing and a strong sales and marketing organization that has an international footprint.
- **Call in info:** 877-293-5456. No ID required.
- **Remain buyers of the stock.** With PT of \$27 and greater than 20% upside, and with very little visibility yet, we would be adamant buyers of the shares.

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 3.1X our preliminary 2012 revenue forecast of \$230 million results in a PT of \$27.00 and as such, we rate the shares a BUY.

Figure 1: Sagent Earnings Model

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

Year ends December 31	2010A					2011A					2012E					2013E
	1Q	2Q	3Q	4Q	2010	Q1	2Q	3Q	4Q	2011	Q1	2Q	3Q	4Q	2012E	
Net Product Sales	\$ 8,644	\$ 10,560	\$ 21,269	\$ 33,583	\$ 74,056	\$ 30,344	\$ 32,254	\$ 41,281	\$ 45,398	\$ 149,277	\$ 46,000	\$ 54,000	\$ 62,500	\$ 67,500	\$ 230,000	\$ 280,000
Costs and Expenses:																
Cost of Revenues	8,351	10,658	18,535	27,469	65,013	21,544	29,505	34,344	36,318	121,712	34,040	37,800	41,875	43,200	156,915	179,200
Gross Profit	\$ 293	\$ (98)	\$ 2,734	\$ 6,114	\$ 9,043	\$ 8,800	\$ 2,749	\$ 6,937	\$ 9,080	\$ 27,565	\$ 11,960	\$ 16,200	\$ 20,625	\$ 24,300	\$ 73,085	\$ 100,800
Product Development	2,794	3,272	2,534	2,623	11,223	2,357	2,374	3,460	3,632	11,823	3,573	4,212	5,000	5,400	18,185	22,400
SG&A	4,166	4,355	4,481	5,929	18,931	4,976	6,476	6,688	7,264	25,404	7,543	8,748	10,126	10,800	37,217	44,800
Equity in Net Loss of JV	435	332	212	497	1,476	673	524	401	454	2,052	460	877	607	675	2,619	2,800
Total Operating Expenses	7,395	7,959	7,227	9,049	31,630	8,006	9,374	10,549	11,350	39,278	11,576	13,837	15,733	16,875	58,022	70,000
EBIT	\$ (7,102)	\$ (8,057)	\$ (4,493)	\$ (2,935)	\$ (22,587)	\$ 794	\$ (6,625)	\$ (3,612)	\$ (2,270)	\$ (11,713)	\$ 384	\$ 2,363	\$ 4,892	\$ 7,425	\$ 15,063	\$ 30,800
Interest Income	\$ 4	\$ 4	\$ 14	\$ 12		\$ 19	\$ 56	\$ 104	\$ 100	\$ 279	\$ 19	\$ 56	\$ 104	\$ 100	\$ 279	\$ 150
Interest Expense	\$ (239)	\$ (228)	\$ (243)	\$ (419)	\$ (1,129)	\$ (520)	\$ (1,242)	\$ (1,223)	\$ (908)	\$ (3,893)	\$ (788)	\$ (2,079)	\$ (1,852)	\$ (1,350)	\$ (6,069)	\$ (5,600)
Chg. In F.V. Pref. Stk. War.	\$ -	\$ (408)	\$ (140)	\$ (265)	\$ (813)	\$ (480)	\$ (384)	\$ -		\$ (864.0)	\$ (480)	\$ (384)	\$ -		\$ (864.0)	
Earnings before income taxes	\$ (7,337)	\$ (8,689)	\$ (4,862)	\$ (3,607)	\$ (24,495)	\$ (187)	\$ (8,195)	\$ (4,731)	\$ (3,078)	\$ (16,191)	\$ (866)	\$ (45)	\$ 3,145	\$ 6,175	\$ 8,409	\$ 25,350
Provision for income taxes					\$ -					-					-	\$ 200
Net earnings	\$ (7,337)	\$ (8,689)	\$ (4,862)	\$ (3,607)	\$ (24,495)	\$ (187)	\$ (8,195)	\$ (4,731)	\$ (3,078)	\$ (16,191)	\$ (866)	\$ (45)	\$ 3,145	\$ 6,175	\$ 8,409	\$ 25,150
Avg. shares outst. (diluted)	1,891.0	1,943.8	1,972.0	2,000	1,952	9,773	22,149	27,875	27,880	21,919	27,880	27,880	27,880	27,880	27,880	28,500
EPS (Basic & FD)	\$ (3.88)	\$ (4.47)	\$ (2.47)	\$ (1.80)	\$ (12.62)	\$ (0.02)	\$ (0.37)	\$ (0.17)	\$ (0.11)	\$ (0.67)	\$ (0.03)	\$ (0.00)	\$ 0.11	\$ 0.22	\$ 0.30	\$ 0.88
RATIOS:																
(as a percentage of total revenues)																
Gross Margin	3.4%	-0.9%	12.9%	18.2%	12.2%	29.0%	8.5%	16.8%	20.0%	18.5%	26.0%	30.0%	33.0%	36.0%	31.8%	36.0%
Product Development	32.3%	31.0%	11.9%	7.8%	15.2%	7.8%	7.4%	8.4%	8.0%	7.9%	7.8%	7.8%	8.0%	8.0%	7.9%	8.0%
SG&A	48.2%	41.2%	21.1%	17.7%	25.6%	16.4%	20.1%	16.2%	16.0%	17.0%	16.4%	16.2%	16.2%	16.0%	16.2%	16.0%
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%	1.6%	1.0%	1.0%	1.1%	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%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest Expense	-2.8%	-2.2%	-1.1%	-1.2%	-1.5%	-1.7%	-3.9%	-3.0%	-2.0%	-2.6%	-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%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Margin	-82.2%	-76.3%	-21.1%	-8.7%	-30.5%	2.6%	-20.5%	-8.7%	-5.0%	-7.8%	0.8%	4.4%	7.8%	11.0%	6.5%	11.0%
Pretax Margin	-84.9%	-82.3%	-22.9%	-10.7%	-33.1%	-0.6%	-25.4%	-11.5%	-6.8%	-10.8%	-1.9%	-0.1%	5.0%	9.1%	3.7%	9.1%
Net Margin	-84.9%	-82.3%	-22.9%	-10.7%	-33.1%	-0.6%	-25.4%	-11.5%	-6.8%	-10.8%	-1.9%	-0.1%	5.0%	9.1%	3.7%	9.0%

Source: Company reports and CapStone Investments estimates

IMPORTANT DISCLOSURES

Price charts generated by Jovus, Inc

HSP

1) 12/17/09	2) 06/23/10	3) 09/13/11	4) 10/19/11
Hold \$52	Buy \$65	Buy \$57	Hold \$37



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Sagent Pharmaceuticals (SGNT)	None

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