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May 31, 2011

Stock Rating
Overweight

Industry View
In-Line

Initiation

Sagent Pharmaceuticals

Initiation of Coverage: A Novel Take on Injectables

Investment Conclusion: Sagent is an emerging generic drug company focused on US injectable drugs. The stock has performed well since the IPO and we see an additional ~20% upside driven by **1)** strong revenue growth with a three year revenue CAGR of 70% to 2013+, **2)** margin expansion from a modest loss today to operating margins of >20% by 2013, and **3)** a pure play on attractive generic injectable fundamentals and a strong management team. Our $30 target implies 17x 2013e EPS and 3.5x 2012 revenue, compared to high-growth peers at ~22x and ~3x respectively. Additional product approvals beyond our base case rather than margin expansion is the primary source of upside in our $50 bull case.

Strong revenue growth potential. A strong partnering and product development track-record supports our ~70% revenue CAGR with an average of just ~$7MM per product *currently* filed with FDA to reach ~$340MM MSe for 2013 revenue. Moreover, Sagent's just 24 marketed products leave a broad runway in low risk currently generic markets. Larger opportunities like oxaliplatin, and Taxotere can account for 45% of incremental revenue to 2013e even with <10% share with the recent approval of Zosyn a clear example. Moreover, strong launches of heparin and topotecan over the last year validate Sagent's ability to compete with larger players like Hospira and Fresenius.

Attractive margin expansion potential. Gross margin expansion and expense leverage drive ~80% of MSe operating profit growth to 2013e, our valuation year. Our margin expansion thesis is driven by 1) naturally high contribution margins of generic drug business models, 2) later pipeline drugs have more attractive economics than the earliest launches (e.g. heparin's ~15% lift to GM), and 3) the precedent of APP, where revenue grew >300% between 1999 and 2007 on a ~20% expense CAGR vs. ~>300% and ~10% respectively for Sagent from 2011-2013. That said, delivering expense leverage while managing a global supply chain is a key risk.

Key Ratios and Statistics

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

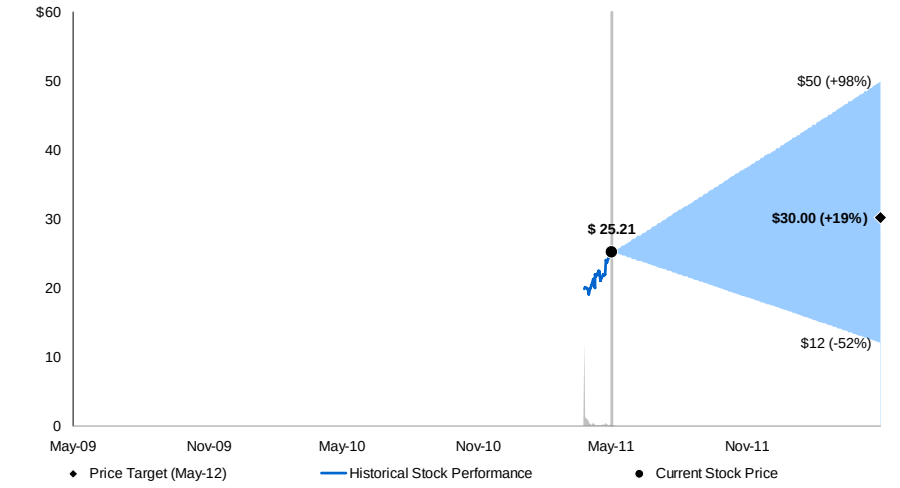
Price target	**$30.00**
Shr price, close (May 27, 2011)	$25.21
Mkt cap, curr (mm)	$53
52-Week Range	$25.74-17.98

Fiscal Year ending	**12/10**	**12/11e**	**12/12e**	**12/13e**
ModelWare EPS ($)	**ND**	**(0.60)**	**0.46**	**1.55**
P/E	**ND**	**NM**	**54.8**	**16.3**
Consensus EPS ($)§	**-**	**-**	**-**	**-**
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, $30)

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



Source: Company data, Morgan Stanley Research

Price Target $30		**3.5x 2012 EV/Revenue and 10.5x 2013 EV/EBITDA which is a premium of peers at ~3x and 9x respectively** given Sagent's higher growth and margin expansion potential.
Bull Case $50	Blended valuation see page 5 for details	**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 $30	Blended valuation see page 5 for details	**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 34.5% from 12.2% in 2010. Sagent model is validated as these approvals flow through at high margin with OM reaching 22% by 2013.
Bear Case $12	Blended valuation see page 5 for details	**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 vs. 22% 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

We are initiating on SGNT with an Overweight rating and $30 price target Sagent is an emerging generic drug company solely focused on injectable drugs in the US. The stock is up ~60% since the IPO and we see an additional ~20% upside from current levels. There are three parts to our thesis **1)** significant revenue growth potential with a three year revenue CAGR of 67% **2)** margin expansion potential from a modest loss today to operating margins of >20% in 2013, and **3)** exposure to the positive fundamentals of generic injectables and an experienced management team

Exhibit 1
Sagent at a Glance

	2011	2012	2013	2014	2015	2016
Revenue	**$ 167**	**$ 250**	**$ 343**	**$ 427**	**$ 498**	**$ 556**
Revenue Growth	126%	49%	37%	24%	17%	12%
COGS	137	182	225	271	316	352
Gross Margin	18%	27%	35%	37%	37%	37%
SG&A	21	24	26	28	29	31
R&D	12	15	17	19	21	22
Total Operating Expenses	37	42	43	47	50	53
EBIT	**$ (7)**	**$ 25**	**$ 75**	**$ 109**	**$ 132**	**$ 151**
EBIT Margin	**-4%**	**10%**	**22%**	**26%**	**27%**	**27%**
Tax Rate	**NM**	**33%**	**33%**	**33%**	**33%**	**33%**
EPS	**$ (0.60)**	**$ 0.46**	**$ 1.55**	**$ 2.23**	**$ 2.63**	**$ 2.96**
EPS Growth	**NA**	**NA**	**236%**	**44%**	**18%**	**12%**

Source: Company data, Morgan Stanley Research

Company Background
Sagent is a generic pharmaceutical company focused solely on the US generic injectable market rather than oral drugs. Founded in 2006, Sagent has a novel business model in generics. Rather than building manufacturing capacity, Sagent partners with manufacturers around the world in Europe, India, and China and then manages FDA approval, quality control, and sales and marketing. Sagent's high quality supply chain partners include Actavis, Strides, Zydus who also work with Hospira and Pfizer.

Moreover, Sagent's management team has a long track record in this space, with many members of senior management and the sales and market team veterans of American Pharmaceutical Partners or APP, which was acquired by Fresenius in 2008. Sagent's major competitors include Hospira, Teva, APP/Fresenius, and Novartis/Sandoz.

By partnering with manufacturers, Sagent's financial model is also distinct, with lower gross margins than typically achieved in generics. This is offset by a leaner middle of the income statement, bringing operating margin potential in-line with generics peers. By 2013, we model Sagent's gross margin at ~35% compared with 50% for peers but operating margin of 22% vs ~25% for more mature generics companies, as operating expenses are 12.5% of revenue compared with ~23% for peers.

Sagent's 2010 revenue was~$74MM with an operating loss of ~$21MM and in 1Q11 had ~$30MM in revenue (a ~$120MM run rate) with a loss of ~$3MM. The first full year of profitability is 2012 in our model, but this could be accelerated with the unexpected launch of Zosyn this quarter. Much of recent revenue growth has been driven by two major products 1) heparin and 2) topotecan, which together account for >50% of IMS sales.

Generics injectable drug segment has the strongest fundamentals within generics from 1) high barriers to entry due to expensive, complex manufacturing, 2) fewer competitors, and 3) less pricing pressure compared to oral generics. Injectables are a ~$4.5B market growing ~5%+. Moreover, a limited number of players creates chronic shortages and thus opportunities for new entrants. Sagent offers public investors one of the few pure-play exposures to this attractive market.

Our $30 price target blends three valuation metrics 1) 17x 2013 P/E vs. high-growth peers at ~22x, 2) 10.5x 2013 EV/EBITDA vs. peers at 10-16x (reflecting Sagent's ramping operating margins), and 3) 3.5x 2012 EV/revenue vs. peers at ~3x. DCF yields $31 per share. Sagent does not have a perfect public comparable given its early stage and specific focus on injectables.

In our DCF analysis, the current share price implies $400MM in revenue by 2015 margins compared to our ~$500MM in our base case. Additional product approvals rather than margin outperformance is the most likely source of upside to our estimates, which take a positive view of management execution on realization of Sagent's margin potential – our $50 bull base.

~70% revenue CAGR through 2013. Sagent's strong partnering and development track-record supports our growth outlook with 39 products currently at FDA awaiting approval which implies an average of just ~$7MM per product to reach 2013e revenue of ~$325MM. Moreover, Sagent has 24 marketed products compared to 120-140 for Hospira and Fresenius meaning there is a significant growth opportunity simply by entering low risk markets of currently generic markets.

There are several larger opportunities (oxaliplatin, Taxotere), that even with <10% share for Sagent could account for 45% of incremental revenue to reach our 2013e revenue. For example, the recent approval of Zosyn adds 13% to revenue growth in 2011 with 10-15% share at a ~30% gross margin.

Sagent must compete with much larger companies like Hospira and Fresenius, which creates risk. However, recent launches for Heparin at 16% share and topotecan at 32% share show that the company can effectively compete with these larger players.

Margin expansion is the other major driver of our positive thesis as gross margin expansion and operating expense leverage drives ~80% of MSe operating profit growth to 2013e our valuation year. Confidence in the margin outlook stems from **1)** the naturally high contribution margins of generic injectables, **2)** diligence suggests later pipeline drugs have more advantaged GM (e.g. ~15% of GM lift with heparin approval and Zosyn at ~30%) 3) the precedent of APP where revenue grew ~200% from 140MM to 405MM on a 21% operating expense CAGR, compared to our 2011-2013 CAGRs of ~70% and 11% for revenue and operating expenses respectively.

That said, risks remain and complete validation of Sagent's model is still emerging. FDA approval timelines may continue to stretch already going from 22 months in 2008 to 31 months in 2010, which is the gating factor for revenue growth. Second, mix is a key driver of GM expansion so that all approvals are not equally important, meaning that delays in the key products are a risk to *both* revenue growth and margin expansion. Third, the business model and our OW thesis is premised on Sagent's ability to manage a worldwide supply chain on a limited expense base in the context of rising FDA scrutiny of injectable manufacturers (recent issues for Hospira, Teva, and BI). As the agency's focus shift beyond the US, the regulatory risk is likely to increase for the stock.

Valuation

We use several approaches to arrive at our $30 price target for Sagent. The principal challenges in valuing Sagent are 1) a steep revenue and profitability ramp, putting the valuation horizon 2-3 years forward and 2) lack of true public comparables. Therefore, we value SGNT using 2012 revenue and 2013 profits/earnings estimates, and while not ideal, we compare Sagent to a broad group of growth companies. We use a combination of valuation methodologies including 1) P/E multiple, 2) EV/revenue, 3) EV/EBITDA, and 4) discounted cash flow.

Multiple comp groups could apply. A broad group of generic drug comps is trading at 12.1x and 10.4x 2012e and 2013e EPS respectively and 2.0x and 1.9x 2012e and 2013e revenue respectively. For EV/EBITDA, the group is trading at 7.3x and 6.6x 2012e and 2013e respectively. That said, we prefer to view Sagent as an emerging growth company rather than a mature generic company for valuation. A growth screen of the MS US coverage universe shows that companies with a two-year revenue CAGR of 20-30% trade at P/E of ~32x and ~22x on 2012 and 2013 and EV/revenue of 3.2x to 2.6x.

Exhibit 2
Emerging Growth Company Comparables

Revenue CAGR Range:	11-'13 Rev CAGR	2012 P/E	2012 EV/EBITDA	2012 EV/Rev	2013 P/E	2013 EV/EBITDA	2013 EV/Rev	2014 P/E	2014 EV/EBITDA	2014 EV/Rev
>10% & <20%	13%	20.4x	12.0x	3.1x	21.8x	9.0x	2.7x	15.9x	8.0x	2.5x
>20% & <30%	23%	31.9x	12.7x	3.2x	21.7x	9.0x	2.6x	19.4x	7.3x	2.2x
>30%	74%	20.4x	18.3x	6.0x	36.2x	16.2x	3.7x	17.2x	9.2x	2.7x
Sagent	**67%**			**3.5x**	**17.0x**	**10.5x**				

Source: Company data, Morgan Stanley Research

Exhibit 3
Generics Comp Table

Ticker	Company Name	2011E EV/REV	2011E EV/EBITDA	2011E P/E	2012E EV/REV	2012E EV/EBITDA	2012E P/E	2013E EV/REV	2013E EV/EBITDA	2013E P/E
U.S. Generic Pharma										
HIK-GB	Hikma	1.4x	6.6x	24.0x	1.2x	NA	19.3x	1.1x	NA	16.2x
AKRX	Akorn	5.5x	22.5x	29.0x	4.1x	NA	21.3x	2.8x	NA	14.5x
HSP	Hospira	2.5x	8.8x	13.8x	2.4x	7.9x	12.0x	2.2x	7.1x	10.4x
IPXL	Impax	2.7x	11.3x	25.8x	2.4x	8.3x	20.1x	2.2x	6.5x	14.8x
MYL	Mylan	2.5x	9.4x	12.2x	2.2x	8.2x	10.3x	2.1x	7.5x	9.0x
PRGO	Perrigo	3.2x	14.0x	21.3x	2.8x	11.6x	18.5x	2.6x	10.6x	16.9x
PRX	Par	1.2x	5.0x	10.8x	1.2x	5.0x	10.7x	1.2x	4.7x	9.8x
TEVA	Teva	2.8x	8.6x	9.9x	2.5x	7.7x	9.0x	2.3x	7.4x	8.7x
WPI	Watson	2.0x	8.9x	15.0x	1.6x	7.3x	11.9x	1.7x	6.8x	10.6x
Mean (ex-PRGO, HIK, AKRX)		2.3x	8.7x	14.6x	2.1x	7.4x	12.3x	1.9x	6.7x	10.6x

Source: Company data, Morgan Stanley Research

P/E. Our price target is 17x our 2013e EPS of $1.55. We use 2013 rather than 2012 (which would be consistent with the rest of our coverage universe) to reflect 1) Sagent's steep revenue ramp as an early stage company and 2) a point in time closer to the mature margin profile given the unique business model and margin structure (lower GM offset by lower operating expense).

EV/sales. For revenue, we value SGNT on 2012e. This provides a check against our earnings based valuation, which ventures further into the future. The $30 target implies 3.5x EV/revenue which is modestly greater than growth peers at ~3x, but this justified by Sagent's more rapid growth.

EV/EBITDA. Finally, we also looked at EV/EBITDA with comparables trading in the range of 9x to 16x. Our target is 10.5x 2013 EBITDA.

Exhibit 4
Valuation Summary

P/E:	
Base	17x
Bull	20x
Bear	13x
Target:	**$26**

EV/Revenue	
Base	3.5x
Bull	4.0x
Bear	1.5x
Target:	**$32**

EV/EBITDA	
Base	10.5x
Bull	11.5x
Bear	7.0x
Target:	**$31**

DCF	**$31**

Valuation Summary	
Scenario:	**Base**
EPS	$26
EV/Revenue	$32
EV/EBITDA	$31
DCF	$31
Blended:	**$30**

Source: Company data, Morgan Stanley Research

To look at valuation from a longer-term perspective, a DCF valuation for Sagent yields $31 per share. Our DCF assumes a 7% intermediate growth rate, which is justified by a Sagent growth runway from drugs that are already generic as well as branded drugs losing patent protection.

Moreover, given the high contribution margins and low capital intensity implicit in Sagent's model, cash flow conversion of margin expansion should be strong. As a result, we use a terminal growth rate at the high end our typical range at 3%. Finally, we value Sagent's remaining net operating loss at $2 per share.

Exhibit 5

Discounted Cash Flow Valuation

Discounted Cash Flow ($ millions):	
Discount Rate (%)	**10.0%**
Intermediate Growth rate	**7%**
Terminal Growth Rate (%)	**3%**
Discounted Net Cash Flow (2011-2018)	**371**
Terminal Value	1,718
Discounted Value of Terminal Value	**695**
Terminal Value as % of total	*65%*
Firm Value	**1,066**
Net Debt (Cash)	135
Equity Value	**931**
NOL	**37**
Shares Outstanding (thousand)	31
Equity Value per Share ($)	**$31**

Source: Company data, Morgan Stanley Research

Current price implies $400MM in revenue by 2015. We also looked at the implied DCF valuation at various levels of revenue and margins in 2015. The current stock price implies $400M in 2015 revenue and a free cash flow margin of 14% or an operating margin of 26%. Our price target implies an incremental $100MM in revenue or an additional 400bps of margin expansion with operating margins of 22%. We see revenue rather than margins as the more likely source of upside.

Reaching our bull case of $50 requires ~$800MM in revenue by 2015 compared to MSe of $688MM with no margin upside. Our analysis implies each $100MM in revenue is worth ~$6-7 per share and each 200 bps of FCF margins $3-4/share in DCF value.

Exhibit 6

DCF Sensitivity Analysis

Implied Equity Value per Share ($)							
	2015 rev						
FCF Margin	$400	$500	$600	$700	$800	$900	$1,000
14%	25	31	37	44	50	57	63
16%	28	36	43	50	58	65	73
18%	32	40	49	57	65	74	82
20%	36	45	54	63	73	82	91
22%	39	50	60	70	80	90	100
24%	43	54	65	76	87	99	110

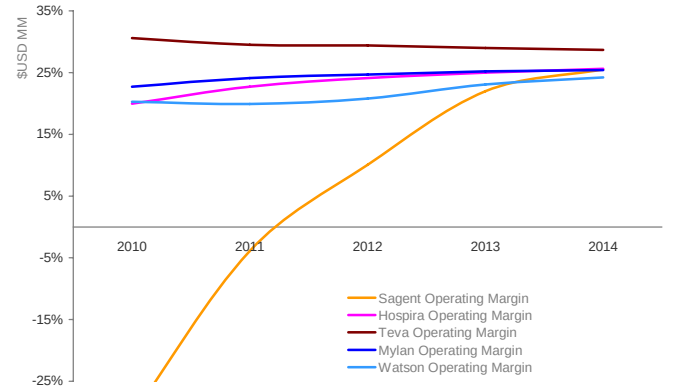
Source: Company data, Morgan Stanley Research

Debate #1: Is the Margin Ramp Achievable?

Sagent's novel business model carries significant potential for profitability. However, the company's early stage leaves the vast majority of margin expansion in the future clouding visibility for investors. Put simply, there are two distinctive characteristics of Sagent's margin model 1) the GM vs. OM trade off and 2) incremental margins on new approvals.

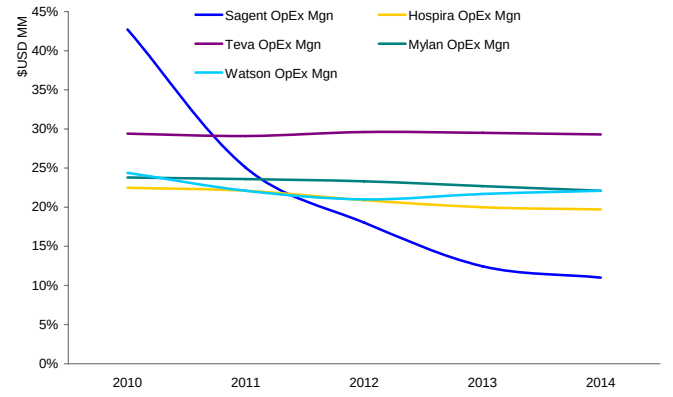
The lack of vertical integration and out-sourced manufacturing means that gross margins will likely always lag generics peers but this can be more than offset by a lean middle of the income statement to bring operating profits more in-line with peers over time (see Exhibit 8). New approvals flow through at relatively high contribution margins given minimal additional expense as the product portfolio grows.

Exhibit 7
Sagent achieves margins on par with generics



Source: Company data, Morgan Stanley Research

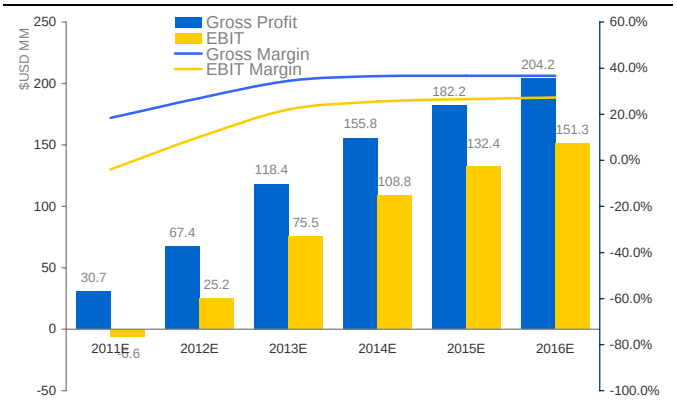
Exhibit 8
…on a lean middle of the income statement



Source: Company data, Morgan Stanley Research

Our estimates and management commentary are consistent with a significant margin ramp over the next few years (Exhibit 9). Specifically, we model GM improving from 12.2% currently to 34.5% by 2013 and operating margin from -30.5% currently to 22% by 2013. Thus, our overweight thesis assumes management delivers on the promise of the underlying business model to drive significant margin expansion and therefore upside for the stock.

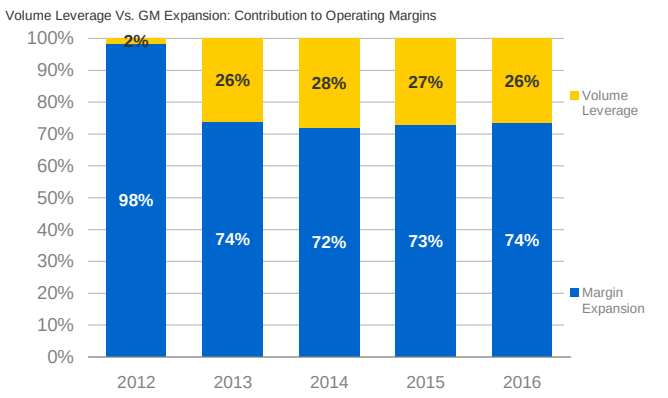
Exhibit 9
Sagent's revenue and margin ramp is steep



Source: Company data, Morgan Stanley Research

There are three key drivers of our positive thesis on Sagent's margin expansion potential 1) the APP precedent, 2) Sagent's performance to date, and 3) the underlying economics of injectable generics and generic drug business models more broadly.

Exhibit 10
Margin expansion more important than volume leverage

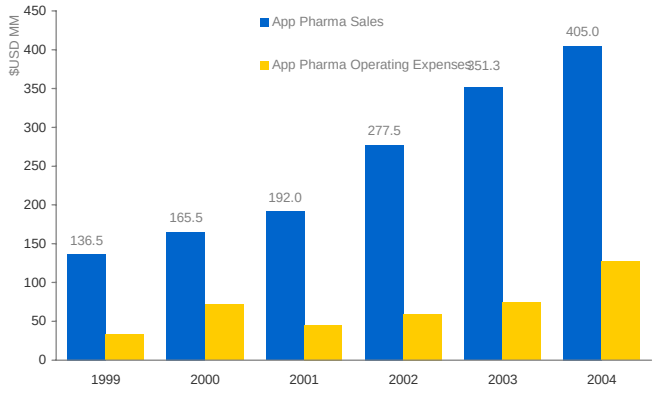


Source: Company data, Morgan Stanley Research

#1 It's all been done before: The APP precedent supports margin expansion potential. American Pharmaceutical Partners (APP) is a generic injectable drug company founded in 1996, acquired by Fresenius in 2008. APP's historical margin trends are instructive given 1) a comparable pure-play generic injectable company and 2) several members of Sagent management spent significant time at APP including CEO Jeff Yordon (Co-COO of APP) and VP of Sales and Marketing Lorin Drake (VP of sales for APP).

Reviewing APP's margin history provides encouraging historical content for Sagent. APP went from ~$140MM to ~$650MM in revenue with an operating expense CAGR of ~21% (see Exhibit 11). This compares well to our revenue and margin ramp for Sagent, which assumes a ~10% operating expense CAGR through 2015.

Exhibit 11
APP generated a similar expense leverage

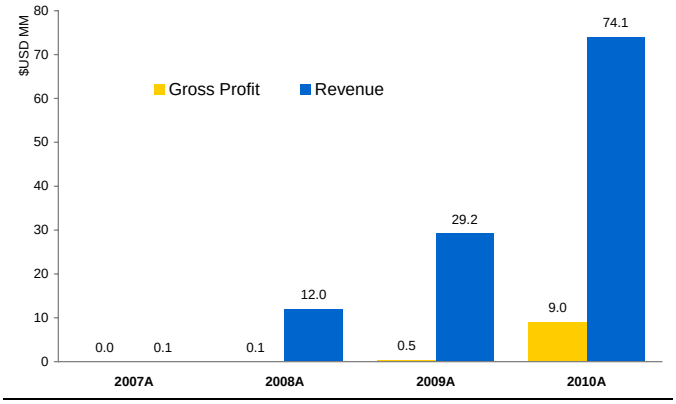


Source: Company data, Morgan Stanley Research

The APP precedent highlights the natural scalability of generic injectables as approvals drop to operating profit at high rates. Moreover, the higher barriers to entry for injectables mean less pricing pressure and thus margin erosion so that new approvals are generally only modestly offset by pressure on current products. Finally, management's deep experience in a similar operating model lowers execution risk for Sagent to recapitulate similar success.

#2 Sagent's performance to date is encouraging. Admittedly, the bulk of margin performance lies ahead for Sagent. However, we see encouraging signs to date. In 2010 and into 2011, the gross margin ramp has already shown significant improvement, improving from 12.2% to 15.1% through 1Q (See Exhibit 12). Therefore, the margin performance to date begins to validate underlying margin dynamics. The same basic drivers that will expand margins through our valuation horizon in 2013 are already working for as the company nears breakeven.

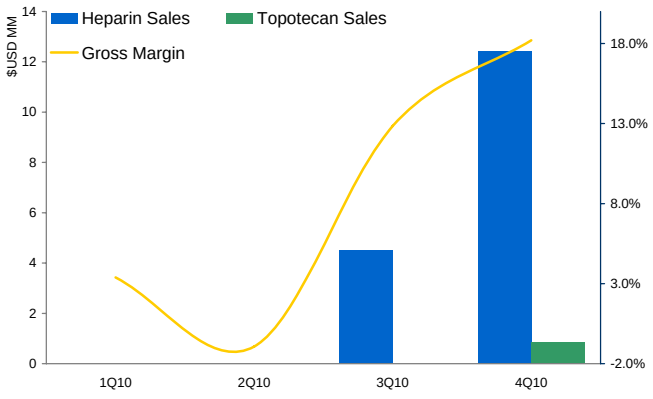
Exhibit 12
GM expansion has lagged revenue ramp thus far



Source: Company data, Morgan Stanley Research

Notably, from a product point of view, the bulk of GM expansion to date is the result of two major product approvals in heparin (approved July, 2010) and topotecan (approved December, 2010), which have been the major drivers of GM lift during 2010. For example, our scenario analysis below highlights how layering on of higher GM product approvals like heparin and topotecan drives rapid margin expansion. Therefore, looking forward, the potential of pipeline approvals (discussed on pages 15 to 16) should drive margin expansion.

Exhibit 13
…but new products like heparin and topotecan are starting drive GM expansion as the pipeline matures



Source: Company data, Morgan Stanley Research

#3 The Contribution Margin Power of Injectable Generics. A relatively simple point, but new approvals in injectable generics can have considerable margin impact at any generics company, and thus, not a dynamic unique to Sagent.

For example, Hospira received approval of generic Taxotere (docetaxel) in 2011. Hospira's initial 2011 guidance did not include Taxotere so updated guidance provides insight into the underlying margin power of a single product within a road injectables portfolio. Our analysis implies contribution margins of ~60% on sales of Taxotere so that even for a company of Hospira's scale new, large generic injectable approvals can have an outsized impact on margins.

Exhibit 14

Hospira's experience with Taxotere shows incremental margin potential of generics

Change in revenue due to taxotere	$45MM
Change in EPS due to taxotere	$ 0.12
Tax Rate	22.50%
Projected Shares Outstanding (Millions)	170
Change in EBIT due to Taxotere	$26MM
Implied Incremental Margin	**58%**

*all figures in millions except per share data and percentages

Source: Company data, Morgan Stanley Research

Extending this analysis to Sagent amplifies this conclusion on the company's smaller EBIT base. To illustrate this point, we performed a GM and OM accretion scenario analysis for several large generic injectables that are likely in Sagent's pipeline although specifics have not been disclosed.

Moreover, GM will tend to rise as Sagent works through the early pipeline products. Sagent's early partnership terms were not as favorable given the company had little track record to validate the business model to partners. Therefore, going forward, as later product deals are approved Sagent's per molecule economics will rise on average. Moreover, later product approvals have greater mix of Indian and Chinese partners relative to European partners, which also improves the cost position.

As a first example, we estimate approval and launch of generic oxaliplatin in 2013 could add ~140 bps to gross margin and 200 bps to operating margins on the 2011 EBIT base. Recall, oxaplatin went generic in 2009 and then after a settlement with Sanofi Aventis, the generics exited the market in June of 2010 and will return in August of 2012. In our analysis, even assuming 10-15% market share, this single drug can have a meaningful impact on margins.

Exhibit 15

Oxaliplatin alone could drive 200 bps of margin expansion in 2012

Oxaliplatin Effect on Operating Margin

	Market Share				
Contribution Margin	5%	10%	15%	20%	25%
15%	24 bps	47 bps	67 bps	85 bps	102 bps
20%	49 bps	94 bps	135 bps	172 bps	206 bps
25%	74 bps	142 bps	203 bps	259 bps	310 bps
30%	99 bps	189 bps	271 bps	346 bps	414 bps
35%	124 bps	237 bps	339 bps	432 bps	518 bps

Oxaliplatin Effect on Operating Income ($$MM)

	Market Share				
Contribution Margin	5%	10%	15%	20%	25%
15%	2.0	3.9	5.9	7.9	9.8
20%	2.6	5.2	7.9	10.5	13.1
25%	3.3	6.6	9.8	13.1	16.4
30%	3.9	7.9	11.8	15.7	19.7
35%	4.6	9.2	13.8	18.4	22.9

Oxaliplatin % of Incremental Revenue

Market Share				
5%	10%	15%	20%	25%
5%	10%	15%	19%	24%

Source: Company data, Morgan Stanley Research

Our analysis of gemcitabine leads to a similar conclusion. Following the expiration of Teva and APP's exclusivity in June, Sagent plans to launch a generic version of gemcitabine with partner Actavis. 10-12% share of the gemcitabine market (excluding the 2g dose form), accounts for ~400bps of GM and ~100bps of operating margin life in FY11.

Exhibit 16

Gemcitabine may add ~150 bps to margins in 2011

Gemcitabine Effect on Operating Margin

	Market Share				
Contribution Margin	5%	10%	12%	20%	25%
15%	74 bps	25 bps	30 bps	48 bps	59 bps
20%	26 bps	51 bps	61 bps	97 bps	118 bps
25%	39 bps	77 bps	91 bps	146 bps	178 bps
30%	53 bps	102 bps	122 bps	195 bps	238 bps
35%	66 bps	128 bps	152 bps	244 bps	298 bps

Gemcitabine Effect on Operating Income ($$MM)

	Market Share				
Contribution Margin	5%	10%	12%	20%	25%
15%	1.0	2.0	2.4	4.1	5.1
20%	1.4	2.7	3.3	5.4	6.8
25%	1.7	3.4	4.1	6.8	8.5
30%	2.0	4.1	4.9	8.1	10.2
35%	2.4	4.7	5.7	9.5	11.9

Gemcitabine % of Incremental Revenue

Market Share				
5%	10%	12%	20%	25%
3%	5%	6%	10%	13%

Source: Company data, Morgan Stanley Research

Of course, risks to our margin thesis remain:

- ***Pricing pressure***. One risk to margin maintenance is pricing pressure for the base product portfolio as new competitors enter the market. Our model already reflects this risk as we assume 200 bps of erosion of the base business per year. Assuming 60% contribution margins, this equates to 25-30 bps of operating margin pressure per year.

- ***Delay of new approvals.*** The margin improvement of course requires new product approvals and therefore any FDA-driven delays can have an out-sized impact on margins in any one year — essentially the negative gearing of Sagent's modest earnings base.

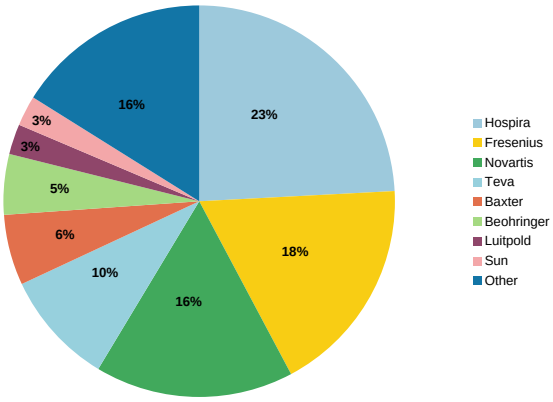
- ***Share falls short of expectations***. Key to Sagent's model is the ability to compete with much larger players. Therefore, if realized share proves lower than expected, margins will not come through. Alternatively, the generic injectable space could become more competitive with multiple new entrants.

- ***Product mix. For Sagent, not all approvals are created equal.*** Some carry much higher gross margins due to varying partner economics or market size. Therefore, if certain products are delayed or underperform, margins could suffer. We do not have complete insight into either the pipeline or the per-product GM.

Debate #2: Can Sagent Win in a Competitive Injectables Market?

A key investor debate is Sagent's ability to compete with the larger players in generic injectables. Hospira is the largest player with 23% of the market and APP at 18%. While Sagent is dramatically smaller, we still see significant opportunity for the company to become a larger player in generic injectables.

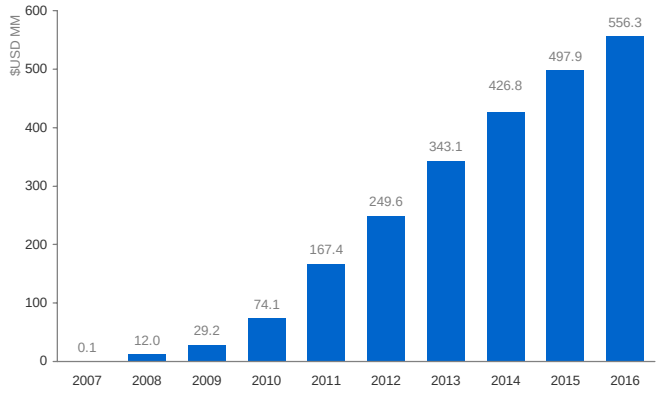
Exhibit 17
Injectables market dominated by Hospira, APP



Source: Company data, Morgan Stanley Research

Strong track record to date. Overall, Sagent has delivered strong growth to date (see Exhibit 18) including ~250% y/y in 1Q11 and the 1Q run rate implies at least 120% y/y for FY11 before considering new product approvals like Zosyn and gemcitabine. In fact, Sagent's position as an industry player in generic injectables has made progress each year and our model for 2011 suggests Sagent will be in the top 10 largest injectables player by revenue (See Exhibit 19).

Exhibit 18
Sagent's strong revenue ramp



Source: Company data, Morgan Stanley Research

Exhibit 19
…would make Sagent a top 5 player by 2013

	Generic Injectables Share Ranking Projections			
Rank	2010 A	2011 E	2012 E	2013 E
1	Hospira	Hospira	Hospira	Hospira
2	Fresenius	Fresenius	Fresenius	Fresenius
3	Novartis	Novartis	Novartis	Novartis
4	Teva	Teva	Teva	Teva
5	Baxter	Baxter	Baxter	**Sagent**
6	Boehringer	Boehringer	**Sagent**	Baxter
7	Luitpold	**Sagent**	Boehringer	Boehringer
8	Sun	Luitpold	Luitpold	Luitpold
9	Pfizer	Sun	Sun	Sun
10	Apotex	Pfizer	Pfizer	Pfizer
11	Bioniche	Apotex	Apotex	Apotex
12	**Sagent**	Bioniche	Bioniche	Bioniche

Source: Company data, Morgan Stanley Research

Looking at Sagent's current portfolio of 24 products, our IMS analysis suggests a wildly varying share per drug, ranging from nominal share to 31% (Exhibit 20) meaning that Sagent's growth to date has been driven by successes both small and large. In addition, share is not entirely driven by the number of competitors as our analysis shows that competitors vary widely across the product portfolio.

Digging deeper into several of Sagent's specific products also helps to build confidence in competitive positioning. We analyze three specific products to show Sagent's ability to **1)** react to a shortage situation to gain share with Heparin, **2)** compete effectively in a drug launch at market formation, which often has distinct competitive dynamics, and **3)** enter an crowded market and take share with cefepime.

 # 1 Heparin – reacting to a complex emergent situation. Sagent launched heparin in the US in mid-2010 and now has 16% of the market. The heparin story is encouraging for several reasons: **1)** heparin is a complex product made from pig intestines, showing Sagent's ability to source complex drug intermediates in a tight market, **2)** heparin became supply constrained in 2008 after Baxter's quality issues and Sagent was able to source the drug and gain approval within ~2.5 years, **3)** Sagent gained 16% share against large players like APP and Hospira, and **4)** Sagent gained FDA approval as a small company for a complex drug under extreme FDA scrutiny. Finally, an emerging competitive question will be the impact of the re-launch of the Baxter/Hikman heparin likely in 2012, but the supply situation remains unclear.

Exhibit 20

Sagent Products: Share and Competitors

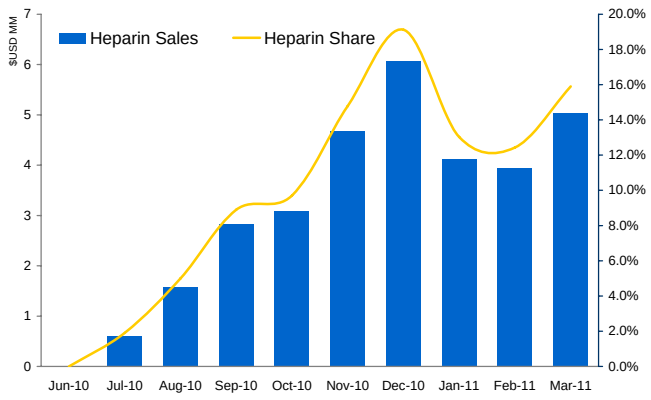
Number of Competitors & Market Share for Sagent products

Drug Name	Comeptitors	Market Share
Epirubicin hcl	4	31%
Cefepime hcl	6	30%
Vinorelbine tartrate	6	20%
Fludarabine phosphate	6	11%
Ceftazidime	5	10%
Heparin sodium	12	10%
Cefoxitin sodium	4	9%
Pamidronate disodium	7	8%
Cefazolin sodium	10	6%
Topotecan hcl	4	5%
Adenosine	6	5%
Fluconazole	12	4%
Ceftriaxone sodium	17	3%
Ampicillin/Sulbactam	6	3%
Amiodarone hcl	15	2%
Cefuroxime sodium	5	1%
Ampicillin	11	1%
Labetalol hcl	11	1%
Granisetron hcl	13	1%
Azithromycin	13	1%
Mesna	4	1%
Ciprofloxacin	23	0%
Bacitracin	26	0%
Sumatriptan Succin	17	0%
Metoprolol tartrate	19	0%

Source: Company data, Morgan Stanley Research *note, market share data is for last twelve months as of 3/31/2011

Exhibit 21

Strong heparin launch validates Sagent's ability to compete with larger injectables players



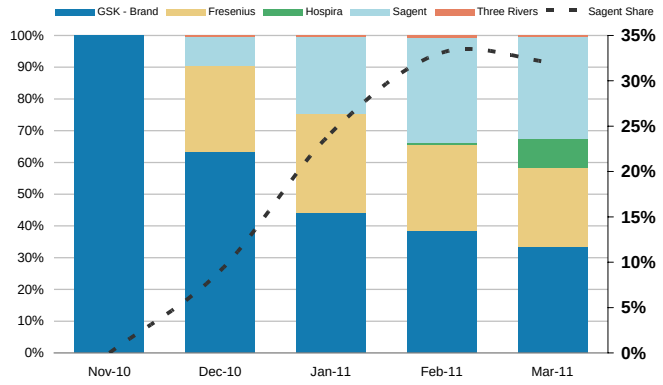
Source: Company data, Morgan Stanley Research

#2 Topotecan: There from the Beginning. Topotecan is the generic version of a GSK oncology drug called Hycamtin that went generic in December 2010. This is an important case study since Sagent launched at market formation when competitive dynamics are distinct and strong distributer relationships in the specialty channel are critical. Sagent launched against APP and gained 33% share in the first three months. In fact, Hospira entered in March 2010 but Sagent has held onto 32% share.

Success here is important as it supports Sagent's ability to compete in a new oncology generic launch as we look forward to important likely pipeline oncology products including gemcitabine (2011), oxaliplatin (2012) and docetaxel (~2013) where these same relationships will be important.

Exhibit 22

Topotecan performance shows Sagent can compete at market formation

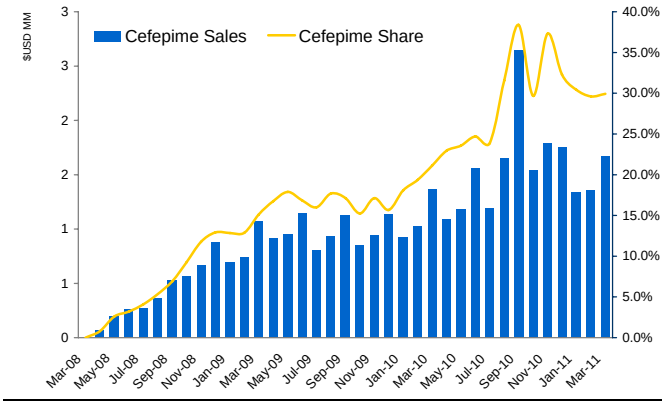


Source: Company data, Morgan Stanley Research

#3 Cefepime: Playing in a Crowded Corner. As a final example, cefepime proves Sagent's ability to compete in a crowded market. Cefepime is a hospital based antibiotic for severe infections. For this drug, Sagent faced competition from multiple players including Apotex, Baxter, Fresenius and Novartis, and was still able to gain 30% of the market. As Sagent's product portfolio broadens, certain product situations are likely to resemble cefepime meaning that success in a highly competitive environment is important.

Exhibit 23

Cefepime: Sagent succeeds in an crowded market



Source: Company data, Morgan Stanley Research

Shortages create significant competitive opportunities

Chronic shortages of certain injectables have been an unfortunate feature of the injectables market for several years. There are currently 69 drugs on the FDA shortage list of which ~30 are injectables. The reasons for this situation are manifold but include 1) regulatory scrutiny of complex injectable manufacturing, 2) scarce API, and 3) manufacturers exiting unprofitable mature markets.

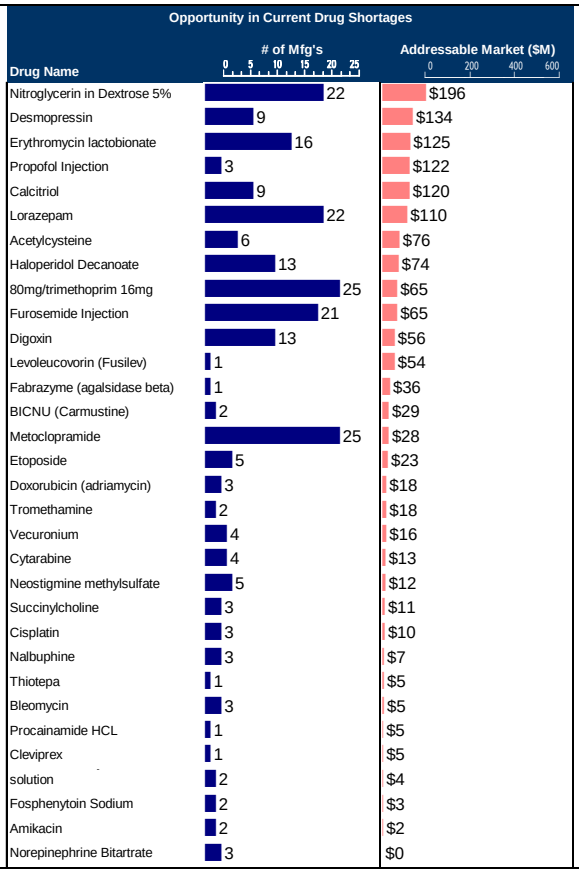
Shortages can be serious by denying patients access to therapy. The recent shortage of cytarabine for leukemia is just one example. Therefore, the depth and breadth of the shortage situation strong suggests there is room for additional players in this market.

For Sagent, shortages create an under-appreciated opportunity. First, shortages are a significant problem for hospital pharmacists who are on the front lines of many shortages, and therefore, companies that bring shortage products to market can win significant customer goodwill. Sagent's launch of Heparin is a good example. Second, focusing on shortages can speed the regulatory process as the FDA works to relieve pressure points in the supply chain. Third, shortages provide a roadmap for Sagent to focus on markets with a favorable competitive environment.

Shortages are a large opportunity. We analyzed the FDA shortage list of injectables by IMS. In total, we estimate the shortage list represents a $1.4Bn market opportunity (see Exhibit 24). Using a sensitivity analysis on the shortage opportunity, we estimate 10% share could explain ~$40MM of >300% of revenue growth between 2011 and 2013.

Exhibit 24

Drug shortages a compelling opportunity



Source: Company data, Morgan Stanley Research

Exhibit 25

Drug Shortage Opportunities – Sensitivity Analysis

Revenue Opportunity

Market Share \ Penetration of large-scale opportunities	10%	20%	30%	40%	50%
3%	4.3	8.7	13.0	17.4	21.7
5%	7.2	14.5	21.7	29.0	36.2
7%	10.1	20.3	30.4	40.6	50.7
10%	14.5	29.0	43.5	58.0	72.5
12%	17.4	34.8	52.2	69.6	87.0
15%	21.7	43.5	65.2	87.0	108.7

% of Incremental Revenue

Market Share \ Penetration of large-scale opportunities	10%	20%	30%	40%	50%
3%	2%	3%	5%	6%	8%
5%	3%	5%	8%	11%	13%
7%	4%	8%	11%	15%	19%
10%	5%	11%	16%	22%	27%
12%	6%	13%	19%	26%	32%
15%	8%	16%	24%	32%	40%

Source: Company data, Morgan Stanley Research

Maintaining product quality is a key issue

A defining characteristic of the Sagent model is a non-vertically integrated global supply chain, which creates both value and risk for the story. FDA scrutiny of generic injectable manufacturing has been on the rise. It appears the FDA has first focused on the US and attention will likely begin to shift beyond the US over time.

Therefore, Sagent's ability to maintain a global supply chain on a relatively limited expense base without significant quality setbacks with FDA will be key to both expanding customer share and exceeding Street expectations. Moreover, Sagent must successfully scale the regulatory organization across a growing number of products and relationships with only modest growth in headcount and overall spending.

In our view, the issue is not whether Sagent will have to deal with a quality/regulatory challenges in future, but rather the company's efficiency with remediation. After all, nearly every manufacturer in the space has seen significant issues regardless of size (see Exhibit 26). For example, Hospira experienced major issues at two facilities in North Carolina, and Teva has been challenged at the Irvine plan.

Exhibit 26

Quality issues are common in this market

	Recent Warning Letter Citations
Hospira	**Apr. 10:** Warning letter lists cGMP vioaltions at Clayton, NC and Rocky Mount, NC facilities. In Clayton stainless steel shavings were found in propofol lots and in Rocky Mount, quality control procedures were found to be inadequate.
Teva	**Dec. 09:** Warrning letter for injectables plant in Irvine, CA, regarding microbiological and endotoxin contamination.
APP Pharma	**Oct. 01:** Warning letter for Melrose Park, IL facility citing cGMP violations in quality control. Out-of-spec lots were assessed for multiple drugs.
Fresenius	**Sep. 10**: Warning letterfor Waltham, MA facility citing cGMP violations pertaining to the production of Liberty Cassettes, a dyalisis product, and labeling concerns surrounding Naturalyte Acid Concentrate products.
Bedford Labs	**Nov. 07:** Warning letter takes issue with endotoxin monitoring in the production of propofol. Claims using end-point detection while excluding in-process monitoring violates cGMP.

Source: Company data, Morgan Stanley Research

Management's long experience in this industry is key to offsetting product quality risk in the current environment. Successfully navigating through the regulatory process with heparin is one example. Management's established relationships across the supply chain allow the selection of the right partners. Moreover, Sagent controls both the ANDA and establishes strict quality standards for qualifying partners *a priori* rather than attempting to upgrade quality systems for established products *post hoc*.

While generally viewed as a risk, Sagent's reliance on oUS partners may be an advantage. Manufacturers exporting products widely across the world means that facilities are being inspected routinely by a variety of regulatory authorities. On the other hand, US-based facilities that produce solely for the US market are on a longer FDA inspection cycle.

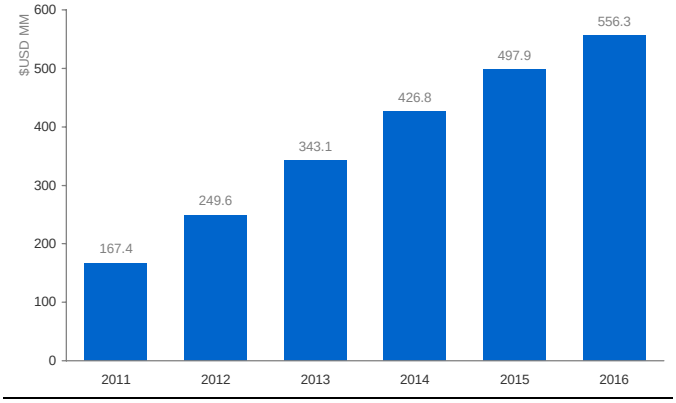
Sagent has already dealt with a product quality issue with metronidazole and odansetron. Here the company was cited for sterility issues in June 2010 from products with the same partner, Claris Lifesciences. Sagent initiated the recall after discovering the issue before customers or the FDA suggesting the company is capable of managing these issues. Sagent took action to cease operations with the partner. More recent announcements related to amiodarone and adenosine are not quality issues per se but rather patient safety issues related the administration via glass syringes. They are industry-wide rather than company specific.

Debate #3: Product Pipeline Visibility

Pipeline visibility is a key challenge for any generic drug investment and in an intensely competitive environment, pipeline details are closely held. The issue is especially acute for emerging generics companies with a low revenue base where new approvals have a dramatic impact on revenue and earnings. Therefore, confidence in Sagent's pipeline and approval pacing is a key investment debate on the stock.

Exhibit 27

New product pipeline key to revenue ramp but visibility is limited



Source: Company data, Morgan Stanley Research

Our positive thesis assumes Sagent's successful track record of pipeline filings for new generic drug applications (ANDA's) and approvals continues. There are three major factors behind our view **1)** Sagent's pace of new filings to date, **2)** a maturing pipeline relative to the current ~31 month FDA average approval timeline, **3)** diligence with management about the pipeline, and **4)** a large number of potential product opportunities given Sagent's early stage and limited product base.

So far so good on pipeline execution

Sagent has executed on a strong new product pipeline to date with 79 new filings compared to peers (see Exhibit 28). With 79 filings, Sagent compares well even with much larger diversified companies like Mylan and Watson. This provides evidence of Sagent's ability to leverage worldwide partner relationships to identify new opportunities and build a strong product pipeline.

Exhibit 28

Pending ANDAs Among Injectable Generics Manufacturers

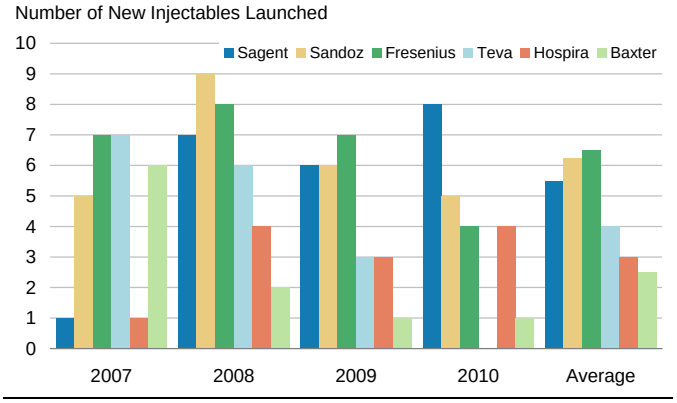
Current Pipeline Analysis	
Drug Name	Total Pending ANDAs (0, 100, 200, 300)
Teva	206
Mylan	165
Watson	130
Sagent	**79**
Impax	39
Par	29
Hospira	11

Source: Company data, Morgan Stanley Research

Filings are only as good as the pace of new approvals and Sagent has performed strongly with new product launches as well. In 2010, Sagent launched eight new products in generic injectables according to IMS, compared with 5, 4, and 4 for Sandoz, Fresenius, and Hospira respectively.

Exhibit 29

Sagent launches comparable to much larger players



Source: Company data, Morgan Stanley Research

That said, revenue concentration is still an issue. Sagent's top two products accounted for 52% of IMS sales in 2010 (heparin, a blood thinner 26% and cefepime, a cephalosporin antibiotic 26%) and 51% in 2011 YTD by IMS. The top 3 products YTD accounted for 68% of IMS sales.

Looking forward: What Our Estimates Imply about the Pipeline

To frame the debate about pipeline visibility, we analyzed what is required from the pipeline reach our revenue estimates through our 2013 valuation horizon. Our 2013e revenue of

$343MM implies ~$269MM of incremental revenue over FY10 results. We analyzed the requirements to reach this figure using several approaches.

First, the current state of the pipeline even before considering additions creates a clear path to our 2013e revenue. Sagent currently has 39 products on file and expects all of them to be approved by the end of 2012.

Our analysis suggests average revenue per product of ~$7MM to reach our 2013e revenue estimate (see Exhibit 30). Similarly, a sensitivity analysis of the approval rate and revenue per product shows that if 50% of the products are approved, average revenue per drug must be $12-14MM to reach our 2013e revenue of ~$343MM. The current average annualized revenue per molecule is $3.1MM, which will need to improve with more major approvals similar to Zosyn to reach our estimates.

Exhibit 30

Pipeline analysis support revenue ramp

	12/31/08	12/31/09	10/31/10	12/31/10	03/31/11
On File:					
Total Products	*ND*	*ND*	38	38	39
ANDAs	38	63	68	68	69
Age of Filings:					
Average On File (months)	*ND*	*ND*	*19*	*21*	*ND*
<12 months	*ND*	*ND*	21	19	*ND*
12-24 months	*ND*	*ND*	24	23	*ND*
>24 months	*ND*	*ND*	16	26	*ND*
Initial Development					
Total Products	*ND*	*ND*	41	51	32
ANDAs	*ND*	*ND*	*ND*	*ND*	52
Approved Not Launched					
Total Products	*ND*	*ND*	7	8	6
ANDAs	*ND*	*ND*	9	9	9
MSe incremental Revenue to 2013:					
$269.1					
Required Revenue Per Product ($M)			**$7.1**	**$7.1**	**$6.9**

Source: Company data, Morgan Stanley Research

Exhibit 31

Sagent pipeline sensitivity analysis

Revenue Opportunity

	% of Pipeline Approved				
	10%	***20%***	***30%***	***40%***	***50%***
rev/product					
$4MM	15.6	31.2	46.8	62.4	78.0
$6MM	23.4	46.8	70.2	93.6	117.0
$8MM	31.2	62.4	93.6	124.8	156.0
$10MM	39.0	78.0	117.0	156.0	195.0
$12MM	46.8	93.6	140.4	187.2	234.0
$14MM	54.6	109.2	163.8	218.4	273.0

% of Incremental Revenue

	% of Pipeline Approved				
	10%	***20%***	***30%***	***40%***	***50%***
rev/product					
$4MM	6%	12%	17%	23%	29%
$6MM	9%	17%	26%	35%	43%
$8MM	12%	23%	35%	46%	58%
$10MM	14%	29%	43%	58%	72%
$12MM	17%	35%	52%	70%	87%
$14MM	20%	41%	61%	81%	101%

Source: Company data, Morgan Stanley Research

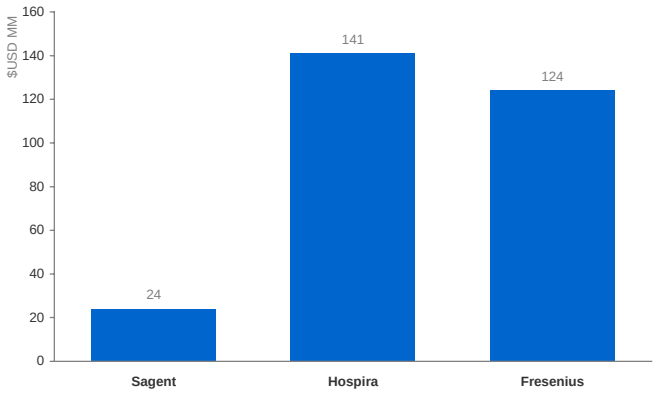
The big opportunities: how do we get there?

Our revenue per drug analysis suggests that Sagent's current portfolio of drugs on file with the FDA is sufficient to reach our revenue estimates at reasonable levels of revenue realization. However, visibility on the specific drugs to reach these revenues is clouded given limited disclosure about the drugs that are in the pipeline. Lacking perfect information about the pipeline, we looked several of the major opportunities in generic injectables for Sagent.

First, Sagent has the advantage of working from a relatively small base of marketed products, with just 24 on the market. Therefore, Sagent has a fundamentally different set of revenue drivers than other generics businesses. For a larger player like Hospira, growth is gated largely by the rate at which new injectable drugs go generic. However, Sagent can grow simply by gaining approval for drugs that are already generic in the current market and taking modest share. We view this as a lower risk and broader opportunity by comparison relative to a mature generics business.

Exhibit 32

Current generic markets provide low risk runway for Sagent



Source: IMS, Morgan Stanley Research

Second, our conversations suggest management is focused on the larger generic injectable opportunities. The logical path to building a new generic injectable business would be to focus on the larger opportunities rather than a large number of small products. Our conversations suggest management is taking just this approach. Therefore, to define those potential opportunities, we analyzed some of the largest generic injectable drugs that Sagent is likely to target.

Exhibit 33 shows that 8 of the larger drugs account for $3.5B in potential generic sales. We believe Sagent has already filed or is planning to file on nearly all of these molecules. Sagent's

success in Heparin (page 11) is just one example of the company's ability to succeed in large markets.

Exhibit 33

Larger generic opportunities remain for Sagent

Drug	IMS Sales	Comments/Questions
Oncology:		
Oxaliplaitn	$844	returns to market in 08/12
Taxotere	$603	last patents in 2013
Gemcitabine	$437	in our 2011 estimates
Zometa	$468	2013 opportunity
Infectious Disease:		
Zosyn	$378	two generics on the market
Vancomycin	$343	already generic market
Other:		
Venofer	$336	IV iron - timing unclear
Ferrlecit	$51	one generic approved
Propofol	$101	difficult to manufacture
Total :	**$3,561MM**	

*LTM Sales as of 3/31/11. Market size was figured using Generic Sales + 50% of Branded Sales; Venofer and Ferrlecit calculated at 30% discount

Source: Company data, Morgan Stanley Research

A sensitivity analysis shows that even if the "big" opportunities account for 10 – 20% of incremental sales through 2013, market share of just 5% yields $30-$50MM or ~10-20% relative to our needed incremental revenue to reach our 2013e revenue estimate, which again is supportive of Sagent's strong topline growth trajectory.

Exhibit 34

..that could explain 33-50% of revenue ramp

Revenue Opportunity

Market Share	Penetration of large-scale opportunities				
	10%	20%	30%	40%	50%
3%	10.7	21.4	32.0	42.7	53.4
5%	17.8	35.6	53.4	71.2	89.0
7%	24.9	49.8	74.8	99.7	124.6
10%	35.6	71.2	106.8	142.4	178.0
12%	42.7	85.5	128.2	170.9	213.6
15%	53.4	106.8	160.2	213.6	267.1

% of Incremental Revenue to 2011-2013

Market Share	Penetration of large-scale opportunities				
	10%	20%	30%	40%	50%
3%	4%	8%	12%	16%	20%
5%	7%	13%	20%	26%	33%
7%	9%	19%	28%	37%	46%
10%	13%	26%	40%	53%	66%
12%	16%	32%	48%	64%	79%
15%	20%	40%	60%	79%	99%

Source: Company data, Morgan Stanley Research

Third, drugs coming off patent can still help. Our positive thesis also assumes the Sagent's revenue trajectory over the next three to five years will be aided by successfully competing in the new generic markets for drugs coming off patent. While a more minor contributor to our model, Sagent has shown the ability establish a strong position at market formation in the recent topotecan launch.

For one representative analysis, we looked at Novartis's Zometa or Zolendronic acid, which goes off patent in 2013. Our model implicitly assumes revenues from this launch. With many players with tentative approval, the market will be competitive. However even with a relatively severe 60% price discount and a modest 5-10% share accounts for ~10-20% of revenue growth between 2012 and 2013.

Exhibit 35

Zometa: An attractive large opportunity

Zometa Effect on Operating Margin

Contribution Margin	Market Share				
	5%	10%	15%	20%	25%
15%	42 bps	77 bps	108 bps	134 bps	156 bps
20%	85 bps	156 bps	217 bps	270 bps	316 bps
25%	128 bps	235 bps	327 bps	406 bps	475 bps
30%	170 bps	314 bps	437 bps	542 bps	635 bps
35%	213 bps	393 bps	546 bps	679 bps	794 bps

Zometa Effect on Operating Income ($$MM)

Contribution Margin	Market Share				
	5%	10%	15%	20%	25%
15%	3.5	7.0	10.5	14.0	17.5
20%	4.7	9.4	14.0	18.7	23.4
25%	5.8	11.7	17.5	23.4	29.2
30%	7.0	14.0	21.0	28.1	35.1
35%	8.2	16.4	24.5	32.7	40.9

ıt to branded Zometa and Reclast Sales.

Zometa % of Incremental Revenue

Market Share					
5%	10%	15%	20%	25%
9%	17%	26%	35%	43%

Source: Company data, Morgan Stanley Research

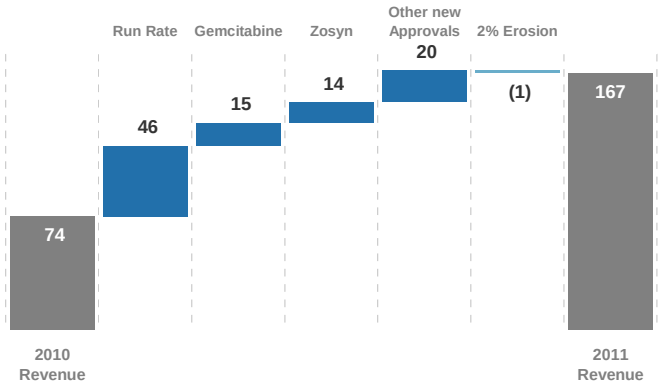
What's in our 2011 revenue estimates?

For any IPO stock, the near term revenue trajectory is important to establishing a track record as a public company. For 2011, we do not model revenue by specific drugs. However, starting from the $120MM revenue run rate in 1Q11, our analysis shows that gemcitabine accounts for $14-$16MM of incremental revenue (10-12% market share) with additional approvals of new products the remainder. Admittedly, the year is somewhat back-end-loaded due to **1)** the June 25th expiry of Teva/APP's gemcitabine exclusivity and **2)** the likely timing of expected new approvals according to management.

For margins, we're assuming incremental margins on gemcitabine in the 25% to 30% range accounts for ~100 bps of the total operating margin expansion for the year. Similarly, we model GM expanding from 12.2% to 18.3%. Gemcitabine

drives ~400bps bps of gross margin lift with ~200 bps coming from other new products or 67% and 33% respectively. Operating expenses growth is modest from ~$32MM in 2010 to ~$37MM in 2011 in our model or just 18% (compared to revenue growth at ~130%).

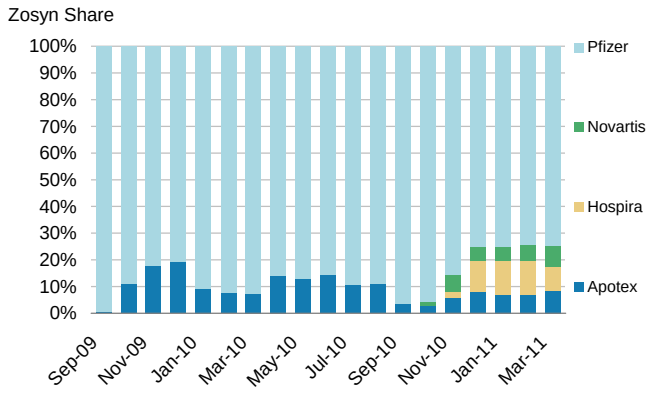
Exhibit 36
2011 Revenue Bridge



Source: Company data, Morgan Stanley Research

Generic Zosyn approval a positive surprise. Injectable piperacillin/tazobactam, also known as Zosyn was approved on May 24th, 2011 and represents a ~$200MM addressable generic market in the vial formulation that Sagent will offer excluding the frozen bag segment. Leading generic competitors in Hospira and Apotex currently hold ~20% of the total vial market and approximately two-thirds of the generic vial market, but Hospira supplies API to Apotex and supply constraints are well known. Thus, Sagent has an opportunity for significant share gains as our management conversations suggest drug supply is not an issue for Sagent.

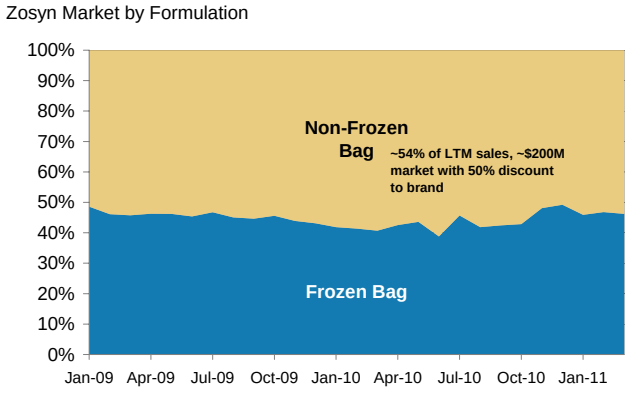
Exhibit 37
Significant opportunity remains in the Zosyn market



Source: Company data, Morgan Stanley Research

Sagent will only produce the vial formulation of the drug, which represents ~64% of the total Zosyn market (valued at ~$700M). When considering a 50% discount from the branded sales, the addressable opportunity for Sagent is ~$200MM.

Exhibit 38
Zosyn Generic Market is~$200MM



Source: Company data, Morgan Stanley Research

Our analysis indicates that with 10%-15% market share, Zosyn adds 20-30% to revenue growth in 2011 and $0.24-$0.36 to EPS. At moderate contribution margins of ~35%, Zosyn should generate ~$5-7MM in incremental EBIT and drive ~300-400 bps of operating margin expansion.

Exhibit 39
Zosyn Sensitivity Analysis

Zosyn Effect on Operating Margin

Contribution Margin	Market Share 5%	10%	15%	20%	25%
15%	74 bps	142 bps	205 bps	264 bps	318 bps
20%	93 bps	179 bps	259 bps	333 bps	402 bps
25%	112 bps	216 bps	313 bps	403 bps	487 bps
30%	132 bps	254 bps	367 bps	472 bps	571 bps
35%	151 bps	291 bps	421 bps	542 bps	655 bps

Zosyn Effect on Operating Income ($$MM)

Contribution Margin	Market Share 5%	10%	15%	20%	25%
15%	1.0	2.0	3.0	4.1	5.1
20%	1.4	2.7	4.1	5.4	6.8
25%	1.7	3.4	5.1	6.8	8.5
30%	2.0	4.1	6.1	8.1	10.2
35%	2.4	4.7	7.1	9.5	11.8

Zosyn % of Incremental Revenue

Market Share 5%	10%	15%	20%	25%
3%	5%	8%	10%	13%

Source: Company data, Morgan Stanley Research

Exhibit 40

Income Statement

	2007A	2008A	2009A	2010A	2011E					2012E	2013E	2014E	2015E	2016E
					Mar-11	Jun-11	Sep-11	Dec-11						
Total Revenue	**$0.10000**	**$12.0**	**$29.2**	**$74.1**	**$30.3**	**$33.1**	**$48.0**	**$56.0**	**$167.4**	**$249.6**	**$343.1**	**$426.8**	**$497.9**	**$556.3**
% Growth (y/y)	*1%*	*11906%*	*144%*	*153%*	*251%*	*213%*	*126%*	*67%*	*126%*	*49%*	*37%*	*24%*	*17%*	*12%*
Total Cost of Goods Sold	0.0650	12	29	65	26	28	39	45	137	182	225	271	316	352
gross margin	*35.0%*	*0.6%*	*1.6%*	*12.2%*	*15.1%*	*16.0%*	*19.5%*	*20.5%*	*18.3%*	*27.0%*	*34.5%*	*36.5%*	*36.6%*	*36.7%*
Gross Profit	**$0.0**	**$0.1**	**$0.5**	**$9.0**	**$4.6**	**$5.3**	**$9.4**	**$11.5**	**$30.7**	**$67.4**	**$118.4**	**$155.8**	**$182.2**	**$204.2**
Operating Expenses														
Product Development	2.5	18.7	11.9	11.2	2.4	3.0	3.2	3.3	11.9	15.5	17.2	19.2	21.2	22.3
% of revenue	*NM*	*156.1%*	*40.6%*	*15.2%*	*7.8%*	*9.1%*	*6.7%*	*5.9%*	*7.1%*	*6.2%*	*5.0%*	*4.5%*	*4.3%*	*4.0%*
SG&A	10.6	11.0	12.1	18.9	5.0	5.2	5.3	5.3	20.8	23.7	25.7	27.7	28.6	30.6
% of revenue	*NM*	*91.6%*	*41.3%*	*25.6%*	*16.4%*	*15.7%*	*11.0%*	*9.5%*	*11.0%*	*9.5%*	*7.5%*	*6.5%*	*5.8%*	*5.5%*
Total Operating Expenses	$13.9	$30.8	$25.4	$31.6	$8.0	$9.5	$9.8	$10.0	$37.3	$42.2	$42.9	$46.9	$49.8	$52.8
EBIT (non-GAAP)	**($13.8)**	**($30.8)**	**($25.0)**	**($22.6)**	**($3.4)**	**($4.2)**	**($0.4)**	**$1.5**	**($6.6)**	**$25.2**	**$75.5**	**$108.8**	**$132.4**	**$151.3**
Other Income Net	(0.6)	0.8	7.0	2	1	1	1	1	5	4.0	2.9	2.3	3.9	3.8
Pretax Income	**(13.2)**	**(31.6)**	**(32.0)**	**(24.5)**	**(4.4)**	**(5.7)**	**(1.9)**	**0.0**	**(11.9)**	**21.2**	**72.6**	**106.5**	**128.6**	**147.5**
Income Tax Expense (benefit)	-	-	-	-	-	-	-	-	-	7.0	24.0	35.1	42.4	48.7
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)**	**($5.7)**	**($1.9)**	**$0.0**	**($12)**	**$14.2**	**$48.6**	**$71.3**	**$86.1**	**$98.8**
One Time Items - Post Tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income Reported	**($13.2)**	**($31.6)**	**($32.0)**	**($24.5)**	**($4.4)**	**($5.7)**	**($1.9)**	**$0.0**	**($11.9)**	**$14.2**	**$48.6**	**$71.3**	**$86.1**	**$98.8**
Basic EPS					**($2.09)**	**($0.28)**	**($0.07)**	**$0.00**	**($0.60)**	**$0.49**	**$1.66**	**$2.38**	**$2.82**	**$3.17**
Diluted EPS (fully taxed)					**($2.09)**	**($0.28)**	**($0.07)**	**$0.00**	**($0.60)**	**$0.46**	**$1.55**	**$2.22**	**$2.63**	**$2.96**
Basic Shares Outstanding	ND	ND	ND	ND	2.1	20.0	28.3	28.4	19.7	28.8	29.4	30.0	30.6	31.2
Diluted Shares Outstanding	ND	ND	ND	ND	2.1	20.0	28.3	28.4	19.7	30.8	31.4	32.1	32.7	33.4

Source: Company data, Morgan Stanley Research

Exhibit 41
Statement of Cash Flows

	2007A	2008A	2009A	2010A	2011E	2012E	2013E	2014E	2015E	2016E
From Operating Activity										
Net Income (loss)	**(13.2)**	**(30.5)**	**(30.5)**	**(24.5)**	**(11.9)**	**14.2**	**48.6**	**71.3**	**86.1**	**98.8**
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)**	**(9.9)**	**(15.1)**	**(15.3)**	**(15.2)**	**(13.4)**	**(11.1)**
Accounts Receivable	(0.1)	(0.1)	(6.7)	(12.1)	0.3	(9.1)	(10.4)	(9.3)	(7.9)	(6.5)
Inventories	(0.7)	(5.7)	(12.5)	(11.6)	(12.2)	(14.2)	(13.3)	(14.5)	(13.9)	(11.4)
Prepaid Expenses/Other Current Assets	(0.5)	0.3	(8.1)	3.1	(1.0)	(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	2.9	9.1	8.5	9.3	8.9	7.3
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)**	**(14.9)**	**5.5**	**35.1**	**57.9**	**74.6**	**89.6**
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 and B), net	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 B)	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**	**102.5**	**(2.5)**	**23.7**	**52.6**	**71.2**	**86.2**
Cash at Beginning of Year	2.3	32.9	25.7	7.7	34.4	136.8	134.3	158.0	210.6	281.8
Cash at End of Year	**32.9**	**25.7**	**7.7**	**34.4**	**136.8**	**134.3**	**158.0**	**210.6**	**281.8**	**368.0**

A = Actual E = Morgan Stanley Research Estimates Source: Company data, Morgan Stanley Research

Source: Company data, Morgan Stanley Research

Exhibit 42
Balance Sheet

	2010A	2011E	2012E	2013E	2014E	2015E	2016E
Assets							
Cash and Investments	34.6	137.0	134.6	158.2	210.8	282.0	368.2
Cash and cash equivalents	*34.4*	*136.8*	*134.3*	*158.0*	*210.6*	*281.8*	*368.0*
Restricted cash and cash equivalents	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*
Accounts Receivables, Net	18.9	18.6	27.7	38.1	47.4	55.3	61.8
Inventories	30.6	42.7	56.9	70.2	84.7	98.6	110.0
Prepaid Expenses & Other Current Assets	5.3	6.3	7.1	7.2	7.9	8.4	8.9
Due from related party and other	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Note receivable	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Deferred income taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Assets	**90.4**	**205.6**	**227.3**	**274.8**	**351.8**	**445.3**	**549.9**
Restricted cash and cash equivalents	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net Property, Plant & Equipment	0.8	2.5	3.2	5.7	8.3	10.9	13.6
Investment in joint ventures	24.5	20.0	17.1	17.2	17.2	17.3	17.3
Deferred financing costs	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Intangible assets, net	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Total Assets	**118.6**	**231.0**	**250.5**	**300.6**	**380.2**	**476.4**	**583.8**
Liabilities							
Accounts Payable	24.4	27.3	36.4	44.9	54.2	63.1	70.4
Accrued Liabilities	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Preferred stock warrants	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Notes payable	20.7	20.7	20.7	20.7	20.7	20.7	20.7
Total Current Liabilities	**57.6**	**60.5**	**69.6**	**78.1**	**87.4**	**96.3**	**103.6**
Deferred Income Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term Debt	0.0	25.0	20.2	12.0	10.0	10.0	10.0
Total Liabilities	**57.6**	**85.5**	**89.8**	**90.2**	**97.4**	**106.3**	**113.6**
Preferred stock (Series A)	113.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred stock (Series B)	44.8	0.0	0.0	0.0	0.0	0.0	0.0
Total preferred stock (Series A & B)	**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
Preferred stock (non-series)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additional paid-in capital	2.3	256.5	257.5	258.6	259.7	260.8	262.0
Accumulated deficit	(100.4)	(112.3)	(98.1)	(49.5)	21.9	108.0	206.8
Accumulated Other Comprehensive Income	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
Shareholders' Equity	**(96.8)**	**145.5**	**160.7**	**210.4**	**282.8**	**370.1**	**470.2**
Total Liabilities & Shareholders' Equity	**118.6**	**231.0**	**250.5**	**300.6**	**380.2**	**476.4**	**583.8**

Source: Company data, Morgan Stanley Research

Company Description
Sagent Pharmaceuticals, Inc., a specialty injectables company, engages in developing, manufacturing, sourcing, and marketing injectable pharmaceutical products in the United States and internationally. It offers injectable products in the therapeutic areas of cardiovascular, anti-infective/antibacterial, antineoplastic agents, and antiemetic.

Medical Technology/United States of America

Industry View: In-Line

GICS Sector: Health Care
Strategist's Recommended Weight: 16.0%
S&P 500 Weight: 11.8%

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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Global Stock Ratings Distribution

(as of April 30, 2011)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1172**	**41%**	**470**	**48%**	**40%**
Equal-weight/Hold	**1158**	**41%**	**386**	**39%**	**33%**
Not-Rated/Hold	**114**	**4%**	**20**	**2%**	**18%**
Underweight/Sell	**384**	**14%**	**102**	**10%**	**27%**
Total	**2,828**		**978**		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
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Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

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Industry Coverage:Medical Technology

Company (Ticker)	Rating (as of)	Price* (05/27/2011)
David R. Lewis		
Abbott Laboratories (ABT.N)	O (09/04/2008)	$51.55
Abiomed (ABMD.O)	E (02/06/2009)	$18.53
American Medical Systems Holdings, Inc. (AMMD.O)	++	$29.9
Baxter International (BAX.N)	O (09/04/2008)	$59.11
Becton Dickinson (BDX.N)	E (07/31/2009)	$87.04
Boston Scientific (BSX.N)	E (09/10/2010)	$7.04
C.R. Bard (BCR.N)	E (01/03/2011)	$110.89
CareFusion Corp. (CFN.N)	O (05/20/2010)	$28.7
Covidien (COV.N)	O (07/15/2010)	$54.53
Edwards Lifesciences (EW.N)	E (09/04/2008)	$88.08
Haemonetics Corporation (HAE.N)	U (01/03/2011)	$67.14
Hansen Medical, Inc. (HNSN.O)	U (01/08/2009)	$2.96
Hologic, Inc. (HOLX.O)	E (05/05/2009)	$21.03
Integra LifeSciences (IART.O)	E (09/10/2010)	$51.17
Intuitive Surgical Inc. (ISRG.O)	E (10/02/2007)	$344.26
Johnson & Johnson (JNJ.N)	E (08/10/2010)	$66.77
Medtronic Inc. (MDT.N)	E (09/04/2008)	$40.31
St. Jude Medical (STJ.N)	U (01/03/2011)	$50.56
Stryker Corporation (SYK.N)	O (01/08/2010)	$62.16
Talecris Biotherapeutics Holdings (TLCR.O)	++	$28.8
Zimmer Holdings, Inc. (ZMH.N)	E (07/16/2009)	$68.18
Marshall Urist, M.D., Ph.D.		
Sagent Pharmaceuticals Inc (SGNT.O)	O (05/23/2011)	$25.21
Affymetrix (AFFX.O)	E (07/20/2009)	$5.99
Beckman Coulter (BEC.N)	++	$83.09
Gen-Probe Inc. (GPRO.O)	E (11/21/2008)	$81.47
Hospira (HSP.N)	E (07/16/2009)	$55.02
Illumina (ILMN.O)	O (01/23/2009)	$72.13
Life Technologies (LIFE.O)	O (03/19/2009)	$51.9
Myriad Genetics (MYGN.O)	E (03/19/2009)	$25.53
Pacific Biosciences of California, Inc. (PACB.O)	O (12/06/2010)	$12.04
Qiagen NV (QGEN.O)	E (10/25/2010)	$19.53
Thermo Fisher Scientific Inc (TMO.N)	O (09/11/2009)	$65.15
Waters Corp (WAT.N)	E (12/12/2008)	$97.8

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* Historical prices are not split adjusted.