Pacira Pharmaceuticals (PCRX/NASDAQ)

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BREAN MURRAY CARRET & CO.

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Reports 1Q11 Results – Already Aggressively Building Awareness Of Exparel

Buy
Target Price: $20

Investment Summary

1Q11 results and 2011 guidance. Pacira reported 1Q11 revenue and EPS basic of $3.9 million and $(0.98), respectively, which missed consensus of $4.2 million and $(0.53). However, neither financial metric is nearly as important as the current cash of about $59.3 million. The 2011 guidance was reiterated with $14-16 million in revenue (excluding any Exparel sales) and $55 million in cash burn, with $25 million of that cash burn occurring in 4Q11 assuming Exparel approval in July. SG&A expense was $3.8 million, which was a $2.8 million increase, due to hiring of commercial personnel and preparation for the Exparel launch, as well as additional stock-based compensation, which occurred due to the eligibility of stock options post IPO. As an offset to the increase in SG&A, R&D decreased by $1.1 million as the company completed Phase 3 trials for Exparel. We look forward to Exparel approval by its July PDUFA date, allowing management to essentially replicate its commercial experience with Angiomax.

Building Exparel awareness and emphasizing economic rationale. Pacira is aggressively doing about as much pre-commercial marketing as it can for Exparel. Exhibit 1 shows just some of the events in which Pacira is participating to prepare for the launch of Exparel. The company is also working closely with major customers and hospital consortiums to educate them on the health economic benefits to both the hospitals and patients. Pacira's data will enable customers to understand the value proposition by the time Exparel is launched, which will accelerate formulary adoption. Pacira will also help the hospitals to develop patient protocol models, so that patients who will benefit the greatest from Exparel use will have full access to Exparel. Pacira is also targeting ambulatory anesthesiologists, and plastic surgeons to communicate the results from trials with specific surgeries. Finally, Pacira reported that these efforts are receiving positive feedback from future potential customers, despite the recent progress made by Cadence with its intravenous acetaminophen.

Exhibit 1: Medical Meeting Presentations

Timing	Event
May-11	Annual Meeting of American Society of Colon & Rectal Surgeons (ASCRS)
May-11	Annual Meeting of International Anesthesia Research Society (IARS)
May-11	American Association of Pharmaceutical Scientists: National Biotechnology Conference
Jun-11	World Pharma Conference (WPC)
Jul-11	American Organization of Foot & Ankle Surgeons (AOFAS)

Source: Company documents

Pacira recently entered into a partnership with Novo Nordisk, to develop, manufacture, and commercialize formulations of Novo's products. Pacira received $1.5 million as an upfront license fee and will likely receive all $24 million in development-based milestones, as we have confidence in Pacira's technology. Additionally, Pacira will receive single-digit royalties based on sales of the products as well as $20 million in sales-based milestones.

Price	$10.43
52-Week High/Low	$11.37 - 6.16
Shares Outstanding (000)	20.80
Market Cap. (000)	$216.94
Average Daily Volume (000)	93.13

EPS	**FY10A**	**FY11E**	**FY12E**
Mar	-	$(0.47)A	-
Prior	-	*$(0.39)*	-
Jun	-	$(0.65)	-
Prior	-	*$(0.57)*	-
Sep	-	$(0.82)	-
Prior	-	*$(0.71)*	-
Dec	-	$(1.38)	-
Prior	-	*$(1.24)*	-
FY	**$(1.58)**	**$(3.29)**	**$(1.00)**
Prior	-	*$(2.92)*	*$(1.01)*
Consensus	-	$(3.16)	$(1.55)
P/E	-	-	-
FY Rev. (000)	$14.56	$16.02	$70.42

**EPS diluted, GAAP*

Source: BigCharts.com

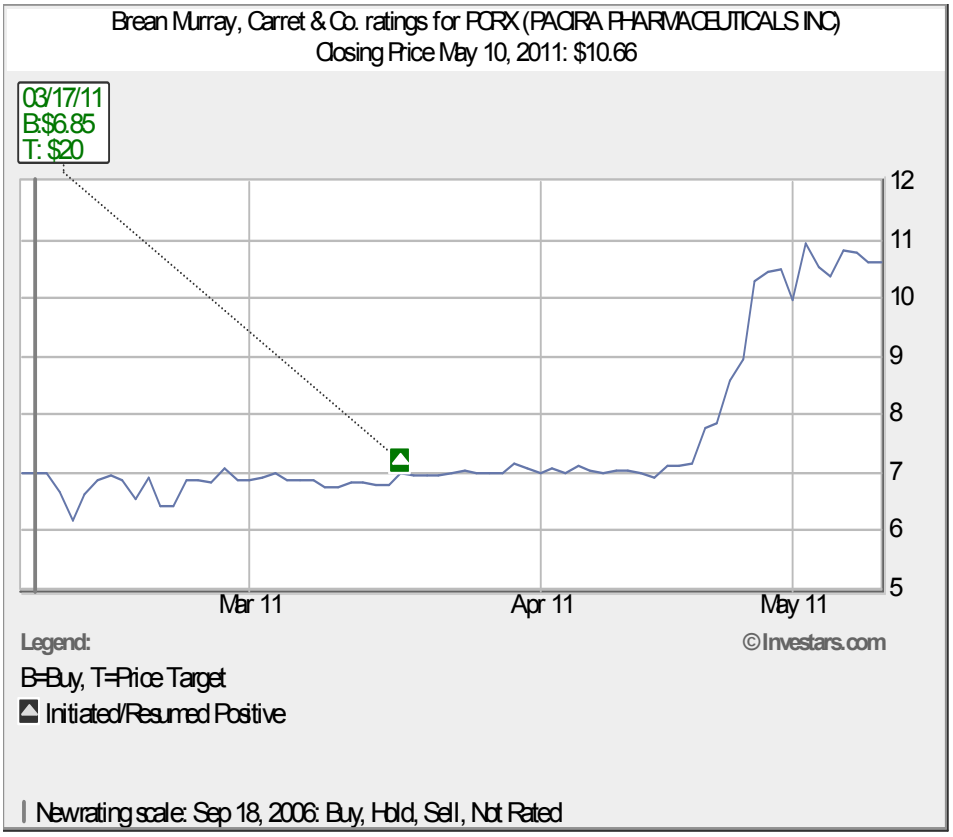
Valuation. Our target price is underpinned by a DCF analysis, based primarily on the revenue generated by Exparel for the infiltration application, and the net cash position. Within the DCF analysis, we assume a 40% discount rate and a 7x multiple of the terminal value for the projected 2016 EBITDA.

Risks. Risks applicable to Pacira not achieving our target price include financial risk, product development risk, competitive risk, the potential for high stock-price volatility, and litigation risk.

PACIRA PHARMACEUTICALS INC Income Statement Fiscal Year ends December (All amounts in 000s except per share items)	2008A	2009A	2010A	1Q11A	2Q11E	3Q11E	4Q11E	2011E	2012E	2013E	2014E	2015E	2016E
PRODUCT Sales:													
Exparel for Pain (infiltration) in the US							1,507	1,507	55,473	132,465	225,326	308,360	360,438
Exparel for Pain (Nerve Block & Epidural) in the US								-	-	3,361	14,057	35,638	48,015
DepoCyt(e) Supply revenue	5,912	5,882	6,820	1,716	1,750	1,750	1,750	6,966	7,175	7,390	7,612	7,840	8,076
DepoDur Supply revenue	940	442	820	-	100	100	100	300	309	318	328	338	348
Other													
Total product revenues	**6,852**	**6,324**	**7,640**	**1,716**	**1,850**	**1,850**	**3,357**	**8,773**	**62,957**	**143,534**	**247,322**	**352,176**	**416,876**
Royalty and license revenues	3,648	4,044	3,705	937	900	900	900	3,637	3,746	3,858	8,877	24,587	41,725
Contract/Collaborative agreement revenues	3,425	4,638	3,217	1,210	800	800	800	3,610	3,718	3,830	3,945	4,063	4,185
Total revenues	**13,925**	**15,006**	**14,562**	**3,863**	**3,550**	**3,550**	**5,057**	**16,020**	**70,422**	**151,223**	**260,144**	**380,826**	**462,786**
COGS	17,463	12,301	12,276	3,667	2,911	2,911	13,220	22,210	41,635	51,960	62,078	83,914	97,529
R&D	33,214	26,233	18,628	3,513	5,500	6,000	6,500	21,513	12,908	14,199	15,618	17,180	18,898
SG&A	8,611	5,020	6,030	3,805	7,610	10,654	12,785	34,854	38,514	43,156	49,420	55,495	61,779
Acquired in-process R&D													
Total operating expenses	**59,288**	**43,554**	**36,934**	**10,985**	**16,021**	**19,565**	**32,505**	**78,576**	**93,057**	**109,315**	**127,116**	**156,589**	**178,206**
Operating income (EBIT)	**(45,363)**	**(28,548)**	**(22,372)**	**(7,122)**	**(12,471)**	**(16,015)**	**(27,448)**	**(62,557)**	**(22,635)**	**41,908**	**133,028**	**224,237**	**284,580**
Other income	(224)	367	(34)	110									
Interest income	235	77	146	29	140	100	50	319	190	100	500	600	700
Interest expense		(1,723)	(3,959)	(2,481)	(1,200)	(1,200)	(1,200)	(6,081)	(4,835)	(4,062)	(3,092)		
Royalty interest obligation	3,490	(1,880)	(930)	(311)									
Income before taxes	**(41,862)**	**(31,707)**	**(27,149)**	**(9,775)**	**(13,531)**	**(17,115)**	**(28,598)**	**(68,319)**	**(27,280)**	**37,949**	**130,438**	**224,838**	**285,281**
Provision for income taxes										13,282	45,653	78,693	99,848
Net income, GAAP	**(41,862)**	**(31,707)**	**(27,149)**	**(9,775)**	**(13,531)**	**(17,115)**	**(28,598)**	**(68,319)**	**(27,280)**	**24,667**	**84,785**	**146,145**	**185,432**
EPS basic	(79)	(55)	$ (47.29)	$ (0.98)	$ (0.79)	$ (0.99)	$ (1.66)	$ (3.96)	$ (1.16)	$ 1.03	$ 3.46	$ 5.84	$ 7.27
EPS diluted, GAAP		(4)	$ (1.58)	$ (0.47)	$ (0.65)	$ (0.82)	$ (1.38)	$ (3.29)	$ (1.00)	$ 0.89	$ 3.00	$ 5.06	$ 6.30
Basic shares outstanding	528	573	574	10,014	17,233	17,233	17,233	17,233	23,578	24,049	24,530	25,021	25,521
Diluted shares outstanding		8,545	17,233	20,791	20,791	20,791	20,791	20,791	27,207	27,751	28,306	28,872	29,450
Source: Company documents and Brean Murray Carret & Co. estimates													

Important Disclosures

Ratings and Target Price History



Priced intraday on 5/11/11.

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Buy - Expected to appreciate by at least 10% within the next 12 months.
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Sell - Expected to decline by at least 10% within the next 12 months.

	# of Securities	% of Total Securities	# of IB-Related Securities in Past 12 mos.	% of Total Securities
BUY	142	58.68%	16	11.27%
HOLD	67	27.69%	2	2.99%
SELL	6	2.48%	0	0%
NOT RATED	27	11.16%	3	11.11%
TOTAL	**242**			

Note: Stock price volatility may cause temporary non-alignment of some ratings with some target prices.

Valuation Methodology and Risks

Pacira Pharmaceuticals (PCRX): Our target price is underpinned by a DCF analysis, based primarily on the revenue generated by Exparel for the infiltration application, and the net cash position. Within the DCF analysis we assume a 40% discount rate and a 7x multiple of the terminal value for the projected 2016 EBITDA. Risks applicable to Pacira not achieving our target price include financial risk, product development risk, competitive risk, the potential for high stock-price volatility, and litigation risk.

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