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Pacira Pharmaceuticals, Inc. (PCRX - OUTPERFORM): Expert Call on Hospital Pain Reinforces Our View That EXPAREL Offers a Unique, Important Tool in Multi-Modal Pain Management. Reiterate OUTPERFORM

Price: \$8.37

Fair Value Estimate: \$16

- **Recap of expert call with Dr. Harold Minkowitz discussing EXPAREL™ and hospital pain management.** We hosted an investor call with Dr. Harold Minkowitz, a practicing anesthesiologist from Memorial Hermann Memorial City Medical Center in Houston. In addition to an active practice, Dr. Minkowitz has also been involved with acute pain research for over 20 years and is actively involved in numerous clinical trials. He has also participated in clinical trials for EXPAREL™.
- **Replay of call available for 30 days.** A replay of the call will be available until January 3, 2012. Please contact your Wedbush Securities salesperson for instructions on accessing the replay.
- **A multi-modal approach to hospital pain management is likely to become the standard with new agents available to physicians.** Traditionally, hospital pain has largely been managed through the use of opioids due to a lack of available non-narcotic alternatives in the U.S. Dr. Minkowitz believes that as new non-narcotic agents, such as EXPAREL™, become available, physicians are likely to use a multi-modal approach to pain management in a concerted effort to reduce narcotic use and their related side effects.
- **Dr. Minkowitz views EXPAREL™ as both safe and effective and sees very few limitations for use.** In his experience with EXPAREL™, he has not seen any safety issues of concern and believes the drug acts as it should — provides three days of pain control. Anecdotally, he commented that some patients undergoing very painful surgeries required no additional pain medications when treated with EXPAREL™. Dr. Minkowitz does not see any evidence that would limit the use of EXPAREL™ in various patient populations and believes it will be widely used, given its ease of use and broad label.
- **According to Dr. Minkowitz, opioid-sparing agents, such as EXPAREL™, have always been the “holy grail” of pain management.** He believes that hospitals will probably infer that a reduction in opioid use is likely to lead to a reduction in opioid-related side effects which would alleviate a major concern — delaying discharge of patients. Furthermore, he noted that starting in October 2012, Medicare will withhold a portion of its payments to hospitals based on patient satisfaction scores. Therefore, hospitals will be even more incentivized to provide the best quality of care and to use the drugs that provide this.
- **Dr. Minkowitz believes that proper education of Pharmacy and Therapeutic (P&T) committees will be key to getting EXPAREL™ on formulary.** He expects EXPAREL™ to gain formulary approval at his hospital on its first pass given that his hospital is fairly forward thinking. While other hospitals may have initial concerns about the price of EXPAREL™ (~\$285/patient), Dr. Minkowitz believes that once the true therapeutic value of EXPAREL™ is understood, this will no longer be an issue. Specifically, he noted that EXPAREL™ is still likely to cost about half of the overall cost of elastomeric bags. In terms of steps to wide-spread adoption, Dr. Minkowitz cited getting on formulary as number one, and physicians understanding of EXPAREL™ and modifying their practice accordingly as number two.
- **Plastic surgeons may be rapid adopters of EXPAREL™ given their strong focus on patient satisfaction, according to Dr. Minkowitz.** He noted that he recently had lunch with a group of plastic surgeons who had not previously heard of EXPAREL™ but showed a very strong interest in it when provided with the simple description of a “3-day bupivacaine.” We believe this bodes well for early (pre-formulary approval) sales of EXPAREL™, given that plastic surgery is largely an all-cash business.
- **We are encouraged by Dr. Minkowitz’ comments and continue to believe that peak sales of EXPAREL™ could reach over \$350MM in the U.S.** In our opinion, Dr. Minkowitz’ views are consistent with the views of other physicians we have talked to about EXPAREL™. Therefore, we remain comfortable with our current sales estimates for the drug. We have modeled year 1 EXPAREL™ sales of about \$18MM assuming that hospital formulary adoption will take about 6-12 months. We project breakeven in H2:13, full-year profitability in 2014, and peak gross U.S. sales of about \$355MM in 2017.

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- **Separately from our expert call, Pacira announced new retrospective data demonstrating the impact of opioid-related adverse events on total hospital cost.** According to a retrospective analysis of adult patients who underwent common soft tissue and orthopedic surgical procedures and received opioids, approximately 20% of surgical patients experienced an opioid-related adverse event (ORAE). Furthermore, patients who experienced an ORAE had a 1.1 day increase in mean length of hospital stay (LOS) and a \$1,028 mean increase in hospitalization cost compared to patients who did not experience an ORAE ($P < 0.0001$). In another retrospective analysis of patients undergoing total abdominal hysterectomy (TAH), 97 TAH patients with the longest LOS, termed “outliers,” were matched to a control group of TAH surgical patients. The results showed 1) total opioid consumption in the outlier group was more than double that of the control group (150 mg vs. 74 mg; $P < 0.01$); 2) respiratory ORAEs occurred 12 times more often (12% vs. 1%; $P < 0.01$); 3) gastrointestinal ORAEs occurred more than twice as often (44% vs. 19%; $P < 0.01$); and 4) total hospitalization cost was more than \$8,500 higher (\$14,275 vs. \$5,745). The data were presented as poster presentations at the 2011 Midyear Clinical Meeting of the American Society of Health-Systems Pharmacists (ASHP; New Orleans; December 4-8, 2011).
- **We believe this retrospective data supports Pacira’s targeted launch strategy and marketing message to physicians.** As we discussed earlier, opioid-related adverse events are a major burden on hospital resources and while we believe hospitals understand this, it is always good to have the data to support it. In our opinion, a 1.1 day increase in LOS is very meaningful especially when considering patient satisfaction. We also think the \$1,028 increase in hospitalization cost is meaningful given hospitals are typically reimbursed a fixed amount based on surgery type regardless of how much it ends up actually costing to treat the patient – in other words, the \$1,028 is essentially lost revenue to the hospital. Furthermore, we believe Pacira’s work in identifying cost outliers will be an important tool to drive adoption of EXPAREL™ and understand that they are working with several large hospital systems to identify these patients ahead of the commercial launch.
- **The next major catalyst for Pacira will be commercial launch of EXPAREL™ in January 2012.** In our view, EXPAREL’s™ launch is differentiated from other recently launched hospital products due to a more targeted launch strategy and higher price point per patient (~\$285/patient). We anticipate that Pacira’s initial launch strategy will focus on high-volume hospitals in the areas of soft tissue surgery, plastic surgery, and elastomeric bag replacement, with potential early (pre-formulary approval) sales from plastic surgeries given it is generally an all-cash business. To support the launch, the company expects to have data from both retrospective and prospective health outcome studies showing the medical and economic benefits of EXPAREL™ treatment due to decreased opioid usage and opioid-related adverse events. The first indication of how initial EXPAREL™ sales are going will likely come from the release of January prescription and sales data from Wolters Kluwer Health on February 22, 2012.
- **We reiterate our OUTPERFORM rating and fair value of \$16.** Our fair value is calculated based on the sum-of-parts for each drug/indication combination using a 30% annual discount from our peak annual revenues projections and 1-10x multiple, depending on stage of development to reflect risk.
- **Risks** to our fair value include commercial risk for Pacira’s lead drug candidate EXPAREL™. Because the formulary process for new hospital drugs typically takes six to twelve months, initial sales of EXPAREL™ may be slow. Furthermore, EXPAREL™ will compete with generic forms of regular bupivacaine and, although we believe EXPAREL™ offers therapeutic advantages, some physicians may still opt for the cheaper alternative.

POTENTIAL UPCOMING MILESTONES (*OUR ESTIMATES)

December 4-8, 2011	First data presentation of retrospective health outcomes research at American Society of Health-System Pharmacists (ASHP; New Orleans, LA)
December 9-13, 2011	Participation at Postgraduate Assembly in Anesthesiology (PGA), New York State Society of Anesthesiologists (NYSSA; New York, NY)
December 17-18, 2011	Participation at New York School of Regional Anesthesia (NYSORA; New York, NY)
2011*	Select clinical candidate from DepoNSAID program
2011/2012*	Potential partnership for ex-US and/or animal health rights of EXPAREL™
2011/2012*	Potential additional technology partnerships
January 2012	US launch of EXPAREL™ (infiltration)
February 22, 2012*	Potential January sales and prescription data for EXPAREL™ from Wolters Kluwer Health

Analyst Certification

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Company	Disclosure
Pacira Pharmaceuticals, Inc.	1,3,4,5,7

Research Disclosure Legend

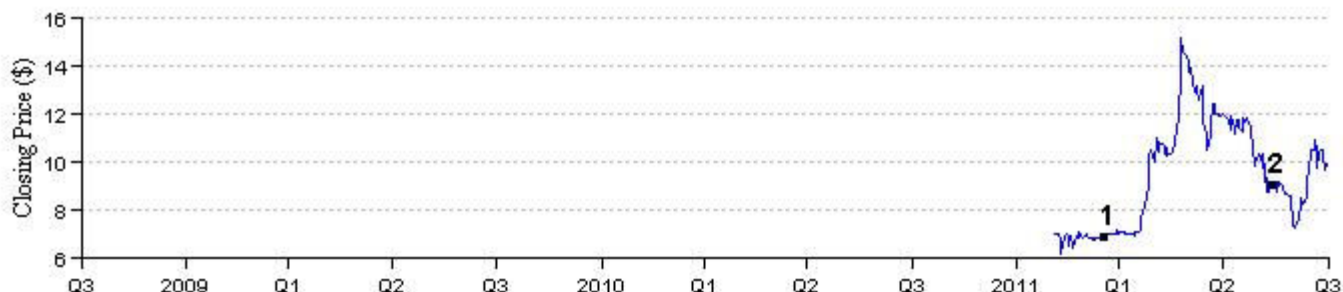
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PCR

1) 03/15/11	2) 08/11/11
Outperform \$19	Outperform \$20



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