

Reports 4Q10 Results – 2011 A Pivotal Year

Buy
Target Price: \$20

Investment Summary

4Q10 results and 2011 guidance. Pacira reported 4Q10 revenue and EPS of \$2.2 million and \$(12.27), respectively, with EPS reflecting the low share count prior to the 1Q11 IPO and with neither financial metric being nearly as important as the current cash of about \$64.5 million minus a 1Q11 burn that we project to be about \$8 million. For 2011, guidance of \$14-16 million in revenue (excluding any Exparel sales) and \$55 million in cash burn was given, with \$25 million of that \$55 million burn occurring in 4Q11, assuming Exparel approval in July.

Discussion

- In April and May, Pacira will have a poster presence at six industry conferences to broaden awareness of its impending launch in 4Q11, which is important, given that a broad postsurgical label would render Exparel amenable to an annual U.S. market opportunity of about 25 million infiltration and elastomeric bag procedures. Two or more years from now, expansion into nerve block and epidural markets would add another 14 million procedures to Exparel's potential sales. We expect current Phase 1 trials in nerve block to cost about \$100,000 and determine a short list of optimal doses for Phase 2.
- Regarding Pacira's DepoNSAID program—which would conveniently leverage the same salesforce as Exparel and could be given to the patient at the same time that Exparel is used in order to block two pain pathways at once—Pacira has a stable formulation that should be finally optimized by YE11. Despite DepoMethotrexate being slightly ahead of DepoNSAID, the ideal salesforce leverage provided by the latter explains why it will be developed much faster. Also, too many early development programs would distract Pacira from its Exparel launch. Other programs also could be partnered as well, and Pacira has already started early partnership talks regarding a few of its programs. There is also early interest from potential partners regarding applying DepoFoam to drugs that Pacira is not developing.

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. Factors 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.

Price	\$6.85
52-Week High/Low	\$7.25 - 6.16
Shares Outstanding (000)	14,911.00
Market Cap. (000)	\$102,140.35
Average Daily Volume (000)	85.81

EPS	FY10A	FY11E	FY12E
Mar	-	\$(0.47)	-
Prior	-	\$(0.46)	-
Jun	-	\$(0.69)	-
Prior	-	\$(0.46)	-
Sep	-	\$(0.86)	-
Prior	-	\$(0.81)	-
Dec	-	\$(1.50)	-
Prior	-	\$(1.33)	-
FY	\$(47.29)	\$(3.52)	\$(1.17)
Prior	\$(49.97)	\$(3.05)	\$(1.10)

Consensus	-	-	-
P/E	-	-	-
FY Rev. (000)	\$14.56	\$16.57	\$70.99

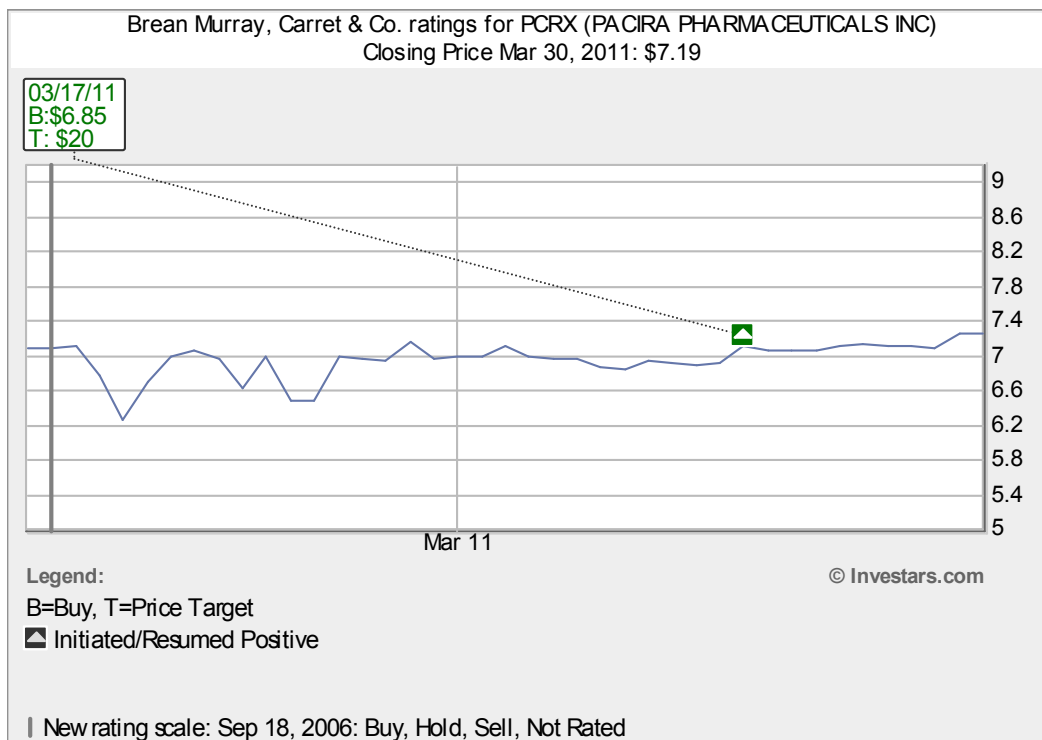


Source: BigCharts.com

PACIRA PHARMACEUTICALS INC													
Income Statement													
Fiscal Year ends December													
(All amounts in 000s except per share items)													
	2008A	2009A	2010A	1Q11E	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	1,750	1,750	1,750	1,750	7,000	7,210	7,426	7,649	7,879	8,115
DepoDur Supply revenue	940	442	820	210	210	210	210	840	865	891	918	945	974
Other													
Total product revenues	6,852	6,324	7,640	1,960	1,960	1,960	3,467	9,347	63,549	144,143	247,949	352,822	417,541
Royalty and license revenues	3,648	4,044	3,705	931	931	931	931	3,724	3,836	3,951	8,972	24,685	41,826
Contract/Collaborative agreement revenues	3,425	4,638	3,217	875	875	875	875	3,500	3,605	3,713	3,825	3,939	4,057
Total revenues	13,925	15,006	14,562	3,766	3,766	3,766	5,273	16,571	70,989	151,807	260,746	381,447	463,425
COGS	17,463	12,301	12,276	3,088	3,088	3,088	13,397	22,661	41,635	51,960	62,571	84,422	98,053
R&D	33,214	26,233	18,628	4,800	5,500	6,000	6,500	22,800	13,680	15,048	16,553	18,208	20,029
SG&A	8,611	5,020	6,030	3,000	6,000	8,400	10,080	27,480	38,514	43,156	49,420	55,495	61,779
Acquired in-process R&D													
Total operating expenses	59,288	43,554	36,934	10,888	14,588	17,488	29,977	72,941	93,829	110,164	128,544	158,126	179,861
Operating income (EBIT)	(45,363)	(28,548)	(22,372)	(7,122)	(10,822)	(13,722)	(24,704)	(56,371)	(22,840)	41,643	132,202	223,321	283,564
Other income	(224)	367	(34)										
Interest income	235	77	146	172	140	100	50	462	190	100	500	600	700
Interest expense		(1,723)	(3,959)	(1,200)	(1,200)	(1,200)	(1,200)	(4,800)	(4,835)	(4,062)	(3,092)		
Royalty interest obligation	3,490	(1,880)	(930)										
Income before taxes	(41,862)	(31,707)	(27,149)	(8,150)	(11,882)	(14,822)	(25,854)	(60,709)	(27,484)	37,684	129,612	223,922	284,265
Provision for income taxes										13,189	45,364	78,373	99,493
Net income, GAAP	(41,862)	(31,707)	(27,149)	(8,150)	(11,882)	(14,822)	(25,854)	(60,709)	(27,484)	24,495	84,248	145,550	184,772
EPS basic	(79)	(55)	\$ (47.29)	\$ (0.47)	\$ (0.69)	\$ (0.86)	\$ (1.50)	\$ (3.52)	\$ (1.17)	\$ 1.02	\$ 3.43	\$ 5.82	\$ 7.24
EPS diluted, GAAP		(4)	\$ (1.58)	\$ (0.39)	\$ (0.57)	\$ (0.71)	\$ (1.24)	\$ (2.92)	\$ (1.01)	\$ 0.88	\$ 2.98	\$ 5.04	\$ 6.27
Basic shares outstanding	528	573	574	17,233	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 3/31/11 .

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Brean Murray, Carret & Co., LLC expects to receive compensation or intends to seek compensation for investment banking and/or advisory services from Pacira Pharmaceuticals within the next 3 months.

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

Hold - Fully valued, not expected to appreciate or decline materially within the next 12 months.

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	146	60.58%	17	11.64%
HOLD	63	26.14%	2	3.17%
SELL	6	2.49%	0	0%
NOT RATED	26	10.79%	2	7.69%
TOTAL	241			

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.

Analyst Certification

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