

Reports 2Q11 Results - Looking Forward to Exparel Launch in 1Q12

Buy
Target Price: \$20

Investment Summary

2Q11 results and 2011 guidance. Pacira reported 2Q11 revenue and EPS of \$3.6 million and \$(0.51), respectively, which was in line enough with consensus of \$3.5 million and \$(0.58) because neither financial metric is nearly as important as the current cash of about \$47.2 million. The 2011 guidance was reiterated with \$14-\$16 million in revenue (excluding any Exparel sales) and \$45 million in cash burn, with \$15 million of that cash burn occurring in 4Q11 assuming Exparel approval in October. R&D expense was \$4.4 million, and SG&A expense was \$4.6 million, which we expect to increase in the 3rd and 4th quarter due to hiring of commercial personnel and preparation for the Exparel launch. We look forward to Exparel approval by its October 28th PDUFA date, allowing management to essentially replicate its commercial experience with Angiomax.

Pacira is continuing to work on the promotional efforts for Exparel both in education initiatives in key clinics and with the health outcome studies. And Pacira expects these efforts to drive the early adoption particularly in the plastic surgery community. Specifically, Pacira expects to have 15 publications, published between now and December targeted at Exparel's potential prescribers. Additionally the health outcome study will be complete, and should be published before the launch of Exparel. In May, Pacira presented new Phase 3 data from patients undergoing mammoplasty at the Society for Ambulatory Anesthesia's (SAMBA) annual meeting, which continues to demonstrate Exparel's ability to reduce the amount of total opioids needed by patients. The company also presented new Phase 3 data for patients undergoing hemorrhoidectomy at the annual meeting of the American Society of Colon and Rectal Surgeons.

We are pleased that Pacira is confident enough in Exparel's October 28 approval to proceed with its original plans to build the sales force in 2011 and launch the drug in 1Q12. The sales team will consist of 6 regional managers which will be hired in October, and responsible for the hiring of the sales force. The initial focus of the sales force will be on plastic surgeons, and then hospitals. Pacira expects plastic surgeons to use Exparel in tummy tucks and mammoplasty immediately, and for doctors to help push the hospitals for the transition to Exparel as opposed to continued use of elastomeric bags.

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 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	\$9.21
52-Week High/Low	\$15.34 - 6.16
Shares Outstanding (000)	17.23
Market Cap. (000)	\$216.94
Average Daily Volume (000)	90.51

EPS	FY10A	FY11E	FY12E
Mar	-	\$(0.47)A	-
Jun	-	\$(0.42)A	-
Sep	-	\$(0.62)	-
Prior		\$(0.82)	
Dec	-	\$(0.71)	-
Prior		\$(1.38)	
FY	\$(1.58)	\$(3.00)	\$(0.95)
Prior	-	\$(3.29)	\$(1.00)
Consensus	-	\$(3.57)	\$(1.87)
P/E	-	-	-
FY Rev. (000)	\$14.56	\$15.40	\$71.36



PACIRA PHARMACEUTICALS INC													
Income Statement													
Fiscal Year ends December													
(All amounts in 000s except per share items)													
	2008A	2009A	2010A	1Q11A	2Q11A	3Q11E	4Q11E	2011E	2012E	2013E	2014E	2015E	2016E
PRODUCT Sales:													
Exparel for Pain (infiltration) in the US							-	-	55,473	132,465	225,326	289,972	341,213
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	1,469	1,750	1,750	6,685	6,886	7,092	7,305	7,524	7,750
DepoDur Supply revenue	940	442	820	-	-	-	-	-	-	-	-	-	-
Other													
Total product revenues	6,852	6,324	7,640	1,716	1,469	1,750	1,750	6,685	62,359	142,918	246,687	333,134	396,977
Royalty and license revenues	3,648	4,044	3,705	937	884	900	900	3,621	3,746	3,858	8,877	24,587	41,725
Contract/Collaborative agreement revenues	3,425	4,638	3,217	1,210	1,283	1,296	1,309	5,098	5,251	5,408	5,570	5,737	5,910
Total revenues	13,925	15,006	14,562	3,863	3,636	3,946	3,959	15,404	71,356	152,184	261,134	363,458	444,612
COGS	17,463	12,301	12,276	3,667	3,115	3,236	3,246	13,264	51,635	51,960	62,890	80,981	94,450
R&D	33,214	26,233	18,628	3,513	4,381	6,000	6,500	20,394	12,236	14,072	16,183	18,610	20,471
SG&A	8,611	5,020	6,030	3,805	4,671	6,539	7,847	22,863	25,149	28,921	33,259	36,585	40,244
Acquired in-process R&D													
Total operating expenses	59,288	43,554	36,934	10,985	12,167	15,775	17,593	56,520	89,020	94,953	112,332	136,177	155,165
Operating income (EBIT)	(45,363)	(28,548)	(22,372)	(7,122)	(8,531)	(11,829)	(13,635)	(41,117)	(17,665)	57,231	148,802	227,282	289,447
Other income	(224)	367	(34)	110	(22)			88					
Interest income	235	77	146	29	37	100	50	216	190	100	500	600	700
Interest expense		(1,723)	(3,959)	(2,481)	(676)	(1,200)	(1,200)	(5,557)	(4,835)	(4,062)	(3,092)		
Royalty interest obligation	3,490	(1,880)	(930)	(311)	429			118					
Income before taxes	(41,862)	(31,707)	(27,149)	(9,775)	(8,763)	(12,929)	(14,785)	(46,252)	(22,310)	53,274	146,212	227,883	290,148
Provision for income taxes										18,646	51,174	79,759	101,552
Net income, GAAP	(41,862)	(31,707)	(27,149)	(9,775)	(8,763)	(12,929)	(14,785)	(46,252)	(22,310)	34,628	95,038	148,124	188,596
EPS basic	(79)	(55)	\$ (47.29)	\$ (0.98)	\$ (0.51)	\$ (0.75)	\$ (0.86)	\$ (3.00)	\$ (0.95)	\$ 1.44	\$ 3.87	\$ 5.92	\$ 7.39
EPS diluted, GAAP		(4)	\$ (1.58)	\$ (0.47)	\$ (0.42)	\$ (0.62)	\$ (0.71)	\$ (2.22)	\$ (0.82)	\$ 1.25	\$ 3.36	\$ 5.13	\$ 6.40
Basic shares outstanding	528	573	574	10,014	17,233	17,233	17,233	15,428	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



All prices are intraday on 8/11/2011.

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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	136	67%	14	10.29%
HOLD	58	28.57%	1	1.72%
SELL	7	3.45%	0	0%
NOT RATED	2	0.99%	0	0%
TOTAL	203			

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

Valuation Methodology and Risks

Pacira (PCRX): Our target price is derived through a DCF analysis by applying a 40% discount rate to our 2016 EBITDA projections. Risks to investing in Pacira include but are not limited to market adoption risk, business development risk, competition risk, and high stock price volatility.

Analyst Certification

I, Jonathan Aschoff, Ph.D., hereby certify that the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers referred to in this document. The analyst and associate analyst further certify that they have not received and will not be receiving direct or indirect compensation in exchange for expressing the recommendation contained in this publication.

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