

Adjusting Financial Model In Response To Launch Update

Investment Summary

Buy
Target Price: \$20

Pacira has issued a launch update explaining that it has followed through with the hiring and training of a salesforce that is focused on creating a formulary-access driven launch, and this sales team will begin selling after a national sales meeting this week. However, Pacira is having some manufacturing challenges which will cause a delay in product availability. Exparel will not be available until April 2012 or later. Despite the general delay of the launch, we are still bullish on long-term market adoption. We have reduced our Exparel sales projections to \$13.4 million from \$32 million in 2012. However, this adjustment is insignificant to our valuation and investment thesis.

In order to correct the manufacturing issues by May 2012, Pacira has appointed John Pratt to the newly created role of general manager for the manufacturing facility in San Diego. Pacira is confident that John Pratt has the added leadership needed to meet the manufacturing goals.

Mr. Pratt brings more than 35 years of experience in building and running pharmaceutical manufacturing and quality control organizations. His previous roles included senior positions at Novo Nordisk and Amylin.

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	\$7.99
52-Week High/Low	\$15.34 - 6.16
Shares Outstanding (000)	17,231.00
Market Cap. (000)	\$137,675.69
Average Daily Volume (000)	180.32

EPS	FY10A	FY11E	FY12E
Mar	-	\$(0.47)A	-
Jun	-	\$(0.42)A	-
Sep	-	\$(0.46)A	-
Dec	-	\$(0.52)	-
FY	\$(1.58)	\$(1.88)	\$(2.24)
<i>Prior</i>	-	-	\$(1.62)
Consensus	-	\$(2.44)	\$(1.48)
P/E	NM	NM	NM
FY Rev. (000)	\$14.56	\$15.47	\$29.37



Source: BigCharts.com

PACIRA PHARMACEUTICALS INC												
Income Statement												
Fiscal Year ends December												
(All amounts in 000s except per share items)												
	2009A	2010A	1Q11A	2Q11A	3Q11A	4Q11E	2011E	2012E	2013E	2014E	2015E	2016E
PRODUCT Sales:												
Exparel for Pain (infiltration) in the US						-	-	13,440	99,172	190,518	271,583	340,809
Exparel for Pain (Nerve Block & Epidural) in the US							-	-	3,361	14,057	35,638	48,015
DepoCyt(e) Supply revenue	5,882	6,820	1,716	1,469	1,682	1,750	6,617	6,816	7,020	7,231	7,447	7,671
DepoDur Supply revenue	442	820	-	-	-	-	-	-	-	-	-	-
Other												
Total product revenues	6,324	7,640	1,716	1,469	1,682	1,750	6,617	20,255	109,553	211,805	314,669	396,495
Royalty and license revenues	4,044	3,705	937	884	922	900	3,643	3,746	3,858	8,877	20,553	36,556
Contract/Collaborative agreement revenues	4,638	3,217	1,210	1,283	1,352	1,366	5,211	5,367	5,528	5,694	5,864	6,040
Total revenues	15,006	14,562	3,863	3,636	3,956	4,016	15,471	29,368	118,939	226,376	341,086	439,091
COGS	12,301	12,276	3,667	3,115	3,357	3,293	13,432	51,635	51,960	55,795	77,253	94,410
R&D	26,233	18,628	3,513	4,381	4,344	4,500	16,738	11,717	13,474	15,495	17,819	19,601
SG&A	5,020	6,030	3,805	4,671	4,988	7,981	21,445	27,020	32,425	37,288	41,017	45,119
Acquired in-process R&D												
Total operating expenses	43,554	36,934	10,985	12,167	12,689	15,774	51,615	90,372	97,859	108,578	136,089	159,130
Operating income (EBIT)	(28,548)	(22,372)	(7,122)	(8,531)	(8,733)	(11,758)	(36,144)	(61,004)	21,081	117,798	204,997	279,962
Other income	367	(34)	110	(22)	(27)		61					
Interest income	77	146	29	37	46	50	162	190	100	500	600	700
Interest expense	(1,723)	(3,959)	(2,481)	(676)	(910)	(1,200)	(5,267)	(4,835)	(4,062)	(3,092)		
Royalty interest obligation	(1,880)	(930)	(311)	429	116		234					
Income before taxes	(31,707)	(27,149)	(9,775)	(8,763)	(9,508)	(12,908)	(40,954)	(65,652)	17,120	115,211	205,598	280,663
Provision for income taxes									5,992	40,324	71,959	98,232
Net income, GAAP	(31,707)	(27,149)	(9,775)	(8,763)	(9,508)	(12,908)	(40,954)	(65,652)	11,128	74,887	133,639	182,431
EPS basic	(55)	\$ (47.29)	\$ (0.98)	\$ (0.51)	\$ (0.55)	\$ (0.61)	\$ (2.49)	\$ (2.56)	\$ 0.43	\$ 2.81	\$ 4.91	\$ 6.57
EPS diluted, GAAP	(4)	\$ (1.58)	\$ (0.47)	\$ (0.42)	\$ (0.46)	\$ (0.52)	\$ (1.88)	\$ (2.24)	\$ 0.37	\$ 2.46	\$ 4.30	\$ 5.75
Basic shares outstanding	573	574	10,014	17,233	17,231	21,233	16,428	25,658	26,171	26,694	27,228	27,773
Diluted shares outstanding	8,545	17,233	20,791	20,791	20,791	24,791	21,791	29,287	29,873	30,470	31,079	31,701
Source: Company documents and Brean Murray Carret & Co. estimates												

Important Disclosures

Ratings and Target Price History



All prices are as of the market close on 1/9/12.

At the time this report was published, Brean Murray, Carret & Co., LLC made a market in the securities of Pacira Pharmaceuticals

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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	136	63.55%	12	8.82%
HOLD	67	31.31%	2	2.99%
SELL	6	2.8%	0	0%
NOT RATED	5	2.34%	1	20%
TOTAL	214			

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

Valuation Methodology and Risks

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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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