

## PACIRA PHARMACEUTICALS INC.

### Thoughts on Launch Delay

**This morning's announcement by PCRX that it was delaying the commercial launch of its lead product, Exparel, is certainly a disappointment, but it does not affect our long-term investment thesis.** Exparel's launch is being pushed out until April in order to ensure adequate supply of the product to meet demand. PCRX decided to delay commercialization after a recent review led them to believe it needed larger inventory to avoid stock-outs. Importantly, this delay was not the result of any regulatory action by the FDA nor was it related to technical problems which would affect PCRX's ability to supply product to meet long-term financial expectations. PCRX currently has the manufacturing capacity to supply \$50-60M of Exparel. PCRX intends to expand capacity in 1H13 which will increase that capacity to more than \$350M in total sales, a level that exceeds our current estimate of \$290M for 2015. We expect sales to reach \$98M in 2013, so the successful addition of that capacity is critical and a point that will require vigilance through this year. PCRX's cash burn will also be a focus for investors.

**Pre-commercialization plans moving ahead according to plan; near-term loss of revenue related to sales to plastic surgeons.** PCRX will still hold its national sales force launch meeting this week and reps will proceed into the field to begin the process of securing formulary approval at hospitals for Exparel. We do not believe the delayed launch will affect the formulary approval process meaningfully. PCRX will clearly lose any sales it expected to generate in 1Q which was largely predicated on selling to plastic surgeons performing procedures outside hospitals, primarily surgery centers. We modeled some sales to "early-adopters" which will be lost and it will affect delay the adoption curve within hospitals since clinicians can't begin to get experience with the product until after the launch. We lower FY12 revenue estimates to \$15.8M from \$30M and FY13 to \$98M from \$102M.

#### PCRX: Quarterly and Annual EPS (USD)

	2011		2012		2013		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2012	2013
Q1	-0.98A	-0.50E	-0.51E	N/A	N/A	-0.17E	N/A	48%	67%
Q2	-0.51A	-0.36E	-0.41E	N/A	N/A	-0.05E	N/A	20%	88%
Q3	-0.55A	-0.28E	-0.34E	N/A	N/A	0.03E	N/A	38%	109%
Q4	-0.48A	-0.23E	-0.25E	N/A	N/A	0.11E	N/A	48%	144%
Year	-2.31A	-1.38E	-1.51E	N/A	N/A	-0.08E	N/A	35%	95%
P/E	N/A		N/A			N/A			

Source: Barclays Capital  
Consensus numbers are from Thomson Reuters

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Stock Rating	<b>1-OVERWEIGHT</b> Unchanged
Sector View	<b>2-NEUTRAL</b> Unchanged
Price Target	<b>USD 12.00</b> Unchanged

Price (06-Jan-2012)	USD 8.50
Potential Upside/Downside	+41%
Tickers	PCRX

Market Cap (USD mn)	206
Shares Outstanding (mn)	24.23
Free Float (%)	59.95
52 Wk Avg Daily Volume (mn)	0.1
Dividend Yield (%)	N/A
Return on Equity TTM (%)	-110.94
Current BVPS (USD)	2.32

Source: FactSet Fundamentals

Price Performance	Exchange-Nasdaq
52 Week range	USD 15.34-6.16



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#### U.S. Specialty Pharmaceuticals

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## COMPANY SNAPSHOT

## PACIRA PHARMACEUTICALS

U.S. Specialty Pharmaceuticals

Income statement (\$mn)	2010A	2011E	2012E	2013E	CAGR
Revenue	15	16	26	108	94.9%
EBITDA	(18)	(30)	(31)	8	NA
EBIT	(22)	(34)	(35)	3	NA
Pre-tax income	(27)	(39)	(38)	0	NA
Net income	(27)	(39)	(38)	(2)	NA
EPS (reported) (\$)	NA	(\$2.31)	(\$1.51)	(\$0.08)	NA
Diluted shares (m)	NA	22	28	28	NA
Dividend per share (\$)	NA	NA	NA	NA	NA

Margin and return data (%)					Average
EBITDA margin	NA	NA	NA	NA	-
EBIT margin	NA	NA	NA	NA	-
Pre-tax margin	NA	NA	NA	NA	-
Net margin	NA	NA	NA	NA	-
ROIC	NA	NA	NA	NA	-
ROA	NA	NA	NA	NA	-
ROE	NA	NA	NA	NA	-

Balance sheet and cash flow (\$mn)					CAGR
Tangible fixed assets	27	27	27	27	0.8%
Intangible fixed assets	9	8	8	8	-2.0%
Cash and equivalents	26	75	26	9	-28.8%
Total assets	67	119	81	100	14.4%
Short and long-term debt	78	29	28	28	-29.3%
Other long-term liabilities	24	24	24	24	-0.5%
Total liabilities	115	68	71	80	-11.4%
Net debt/(funds)	52	(46)	3	18	-29.5%
Shareholders' equity	(48)	51	10	20	NA
Change in working capital	NA	(1)	(2)	(7)	NA
Operating cash flow	NA	(10)	(7)	(3)	NA
Capital expenditure	NA	(2)	(1)	(1)	NA
Free cash flow	NA	(13)	(8)	(4)	NA

Valuation and leverage metrics					Average
P/E (x)	NA	NA	NA	NA	NA
EV/EBITDA (x)	NA	NA	NA	NA	NA
Price/BV (x)	NA	2.8	20.9	12.2	12.0
Dividend yield (%)	NA	NA	NA	NA	NA
Total debt/capital (%)	264.2%	36.3%	73.4%	58.3%	108.0%

Selected operating metrics					
SG&A/sales (%)	41.4%	127.5%	126.0%	47.9%	85.7%
R&D/sales (%)	127.9%	99.7%	59.6%	13.7%	75.2%
R&D growth (%)	-29.0%	-14.4%	-4.6%	-2.6%	-12.7%
SG&A growth (%)	1101.2%	238.2%	57.6%	60.4%	364.4%

Source: Company data, Barclays Capital

Stock Rating	1-OVERWEIGHT
Sector View	2-NEUTRAL
Price (09-Jan-2012)	\$8.50
Price Target	\$12.00
Ticker	PCR

## Investment case

We are 1-Overweight based on our constructive outlook for Pacira's recently approved Exparel for post-surgical pain management. We believe Exparel has the potential to reach close to \$300mn in sales by 2015.

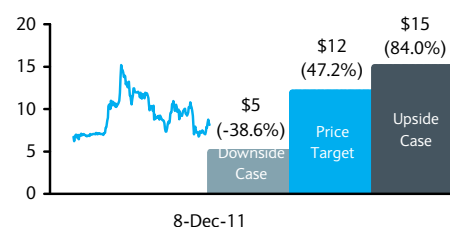
## Upside case \$15.00

We believe PCR could trade to \$15 based on faster than expected adoption of Exparel in its first-year of use which would give investors greater confidence regarding its full commercial potential.

## Downside case \$5.00

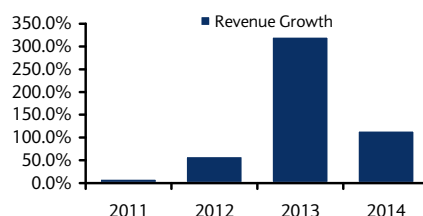
Commercialization of hospital-based products can be challenging and we believe downside would be driven by slower-than-expected uptake or better-than-expected results from potential competitive products.

## Upside/downside scenarios



Source: FactSet

## FY11E-FY14E Y/Y Revenue Growth



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### Primary Stocks (Ticker, Date, Price)

Pacira Pharmaceuticals Inc. (PCRX, 06-Jan-2012, USD 8.50), 1-Overweight/2-Neutral

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**1-Overweight** - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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**2-Neutral** - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

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U.S. Specialty Pharmaceuticals

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Medicis Pharmaceutical Corp. (MRX)

Par Pharmaceutical Cos. (PRX)

Watson Pharmaceuticals Inc. (WPI)

Forest Laboratories Inc. (FRX)

Mylan Inc. (MYL)

Teva Pharmaceutical Industries (TEVA)

Jazz Pharmaceuticals Inc. (JAZZ)

Pacira Pharmaceuticals Inc. (PCRX)

Warner Chilcott plc (WCRX)

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## IMPORTANT DISCLOSURES CONTINUED

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## Pacira Pharmaceuticals Inc. (PCRX)

USD 8.50 (06-Jan-2012)

Stock Rating

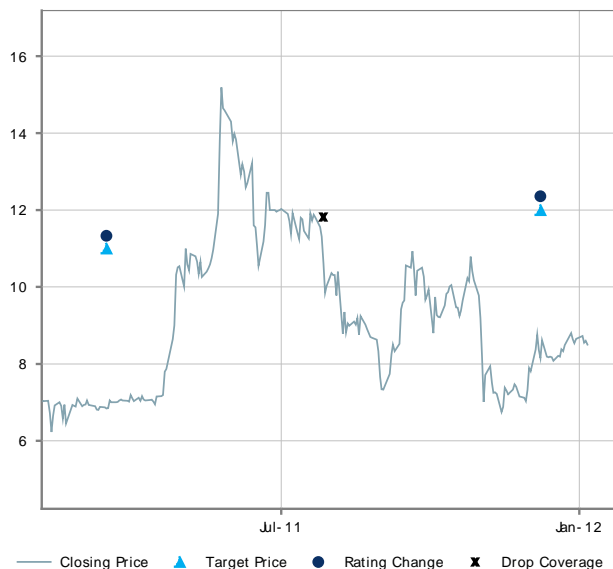
**1-OVERWEIGHT**

Sector View

**2-NEUTRAL**

Rating and Price Target Chart - USD (as of 06-Jan-2012)

Currency=USD


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**Valuation Methodology:** We derive our \$12 price target based on 1.5x estimated sales in 2015 discounted back to the present. We believe this is the most appropriate valuation methodology given the company's status as an emerging specialty pharmaceutical company that will not turn profitable until 2014.

**Risks which May Impede the Achievement of the Price Target:** The key risk around Pacira is that the company's efforts to commercialize Exparel will prove unsuccessful. The hospital market is difficult based on the need to win formulary approval. Additionally, the company is trying to commercialize the product in a broader setting than was used in the company's Phase III trials which could affect adoption rates.

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