

January 6, 2012

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## **Pacira Pharmaceuticals, Inc. (PCRX - OUTPERFORM): We See Reduced Competitive Risk as Potential Competitor, Posidur, Misses Phase 3 Endpoint. Reiterate OUTPERFORM.**

Price: \$8.60

Fair Value Estimate: \$16

- **Durect announced that the pivotal Phase 3 BESST trial for Posidur missed its co-primary endpoints.** BESST was designed to compare Posidur to both placebo and regular bupivacaine as a pain management therapy in various abdominal surgical procedures. When compared to placebo, Posidur showed positive efficacy trends but not statistical significance as the p-value for pain intensity was 0.1466 and the p-value for opioid reduction was 0.5897. When compared to regular bupivacaine, the p-value for pain intensity was 0.0111 while the p-value for opioid reduction was 0.5455. For co-primary endpoints, the level for statistical significance is  $p < 0.05$ , unless one of the endpoints is not met in which case the level is  $p < 0.025$ . In our opinion, there was no safety issues reported in the press release that could be viewed as a class effect of long-acting bupivacaine. Therefore, we do not see any risk to EXPAREL's™ safety profile. Durect will hold a conference call to discuss the results on Friday, January 6<sup>th</sup> at 8:30am ET (5:30am PT) with the webcast available at [www.durect.com](http://www.durect.com).
- **We view this news as an incremental positive for Pacira as it decreases competitive risk for EXPAREL™.** Although Durect still plans to hold a pre-NDA meeting with the FDA after they fully analyze the BESST data, we believe Posidur is unlikely to gain approval based on the lack of statistical significance. Furthermore, even if Posidur is eventually approved, we believe the clinical data suggest that EXPAREL™ is the more efficacious drug. To provide some perspective, EXPAREL™ showed a p-value of  $< 0.0001$  on pain intensity and a p-value of 0.0006 on opioid reduction. However, we note that it's not a direct comparison given the different surgery types – although both are soft tissue procedures.
- **The next major catalyst for Pacira will be commercial launch of EXPAREL™ this month.** 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.

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- 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.

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**POTENTIAL UPCOMING MILESTONES (\*OUR ESTIMATES)**


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<b>January 2012</b>	<b>US launch of EXPAREL™ (infiltration)</b>
<b>February 22, 2012</b>	<b>Potential January sales and prescription data for EXPAREL™ from Wolters Kluwer Health</b>
2012*	Potential partnership for ex-US and/or animal health rights of EXPAREL™
2012*	Potential additional technology partnerships

**Analyst Certification**

I, Richard Lau, Liana Moussatos, Ph.D., certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

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Neutral: 35%	Neutral: 2%
Underperform: 6%	Underperform: 0%

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**Wedbush Equity Research Disclosures as of January 6, 2012**

<b>Company</b>	<b>Disclosure</b>
Pacira Pharmaceuticals, Inc.	1,3,4,5,7

**Research Disclosure Legend**

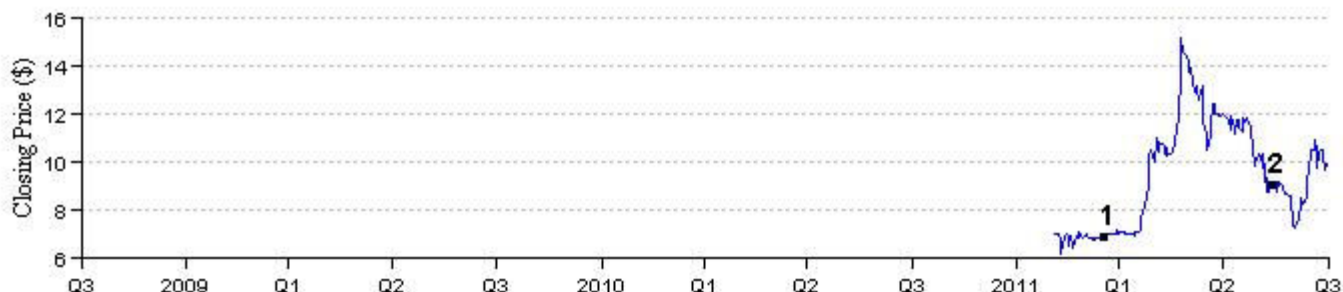
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**PCR**

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



\* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.

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