

December 19, 2011

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## **Pacira Pharmaceuticals, Inc. (PCRX - OUTPERFORM): EXPAREL Pivotal Trial Data Published in Medical Journal Ahead of Anticipated Launch in January 2012. Reiterate OUTPERFORM.**

Price: \$8.52

Fair Value Estimate: \$16

- **The EXPAREL™ pivotal hemorrhoidectomy trial data have been published in the December edition of *Diseases of the Colon & Rectum*, a peer-reviewed medical journal.** To our knowledge, all of the data published today have also been previously disclosed and presented at past medical conferences. The Phase 3 hemorrhoidectomy trial was a placebo-controlled, randomized, double-blind study designed to evaluate the efficacy and safety of EXPAREL™ compared to placebo. Some 95 patients received 300mg EXPAREL™ and 94 patients received placebo both injected locally at the end of hemorrhoidectomy surgery. Morphine rescue medication was available to both groups. The primary endpoint of the trial was statistically significant in favor of EXPAREL™ over placebo with a 30% reduction in pain at 72 hours as measured by the AUC of the NRS-R pain scores ( $p < 0.0001$ ). Furthermore, three secondary endpoints demonstrated reduced opioid consumption with EXPAREL™ versus placebo. 1) 28% of EXPAREL™ patients versus 10% of placebo patients avoided all opioid rescue medication through 72 hours ( $p = 0.0007$ ). 2) The adjusted mean total postsurgical consumption of supplemental opioid pain medication through 72 hours was 45% lower in EXPAREL™ patients versus placebo patients ( $p = 0.0006$ ). 3) The median time to first opioid use was 14.33 hours for EXPAREL™ patients versus 1.17 hours for placebo patients ( $p < 0.0001$ ). In addition to reduced opioid consumption, two secondary endpoints exhibited favorable patient satisfaction with EXPAREL™. 1) A statistically significant greater portion of EXPAREL™ patients were pain free through 24 hours compared to placebo ( $p = 0.0448$ ). 2) A statistically significant greater portion of EXPAREL™ patients were “extremely satisfied” at 24 hours and 72 hours compared to placebo ( $p = 0.0007$ ). The overall safety profile of EXPAREL™ was comparable to placebo.
- **We believe publication of EXPAREL™ data will help increase awareness among the medical community and serve as a marketing tool for the sales force once the drug is launched.** While the data have been previously presented at medical conferences, we believe the publication in a peer-reviewed medical journal will reach a broader physician community who may not be as up-to-date on new therapeutic options.
- **The next major catalyst for Pacira will be commercial launch of EXPAREL™ in January 2012.** 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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2011*	Select clinical candidate from DepoNSAID program
2011/2012*	Potential partnership for ex-US and/or animal health rights of EXPAREL™
2011/2012*	Potential additional technology partnerships
<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>

**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.

Disclosure information regarding historical ratings and price targets is available at <http://www.wedbush.com/ResearchDisclosure/DisclosureQ311.pdf>

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**Neutral:** Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

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

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

**Research Disclosure Legend**

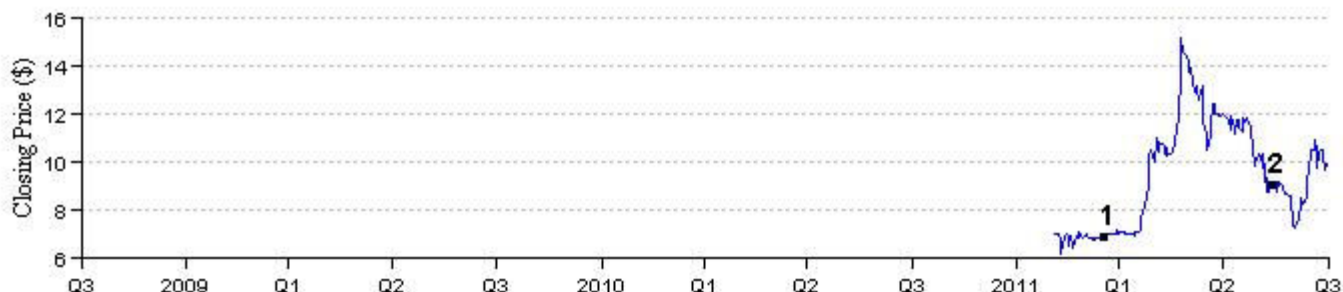
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**PCR**

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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