Pacira Pharmaceuticals (PCRX/NASDAQ)

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BREAN MURRAY CARRET & CO.

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No Durect Competition

Buy

Target Price: $20

Investment Summary

Today, a potential competitor of Pacira's Exparel, Durect, released data from a failed Phase 3 Posidur trial for post operative pain. Posidur delivered bupivacaine using Durect's Saber technology, but was not able to attain a statistically significant result with respect to pain reduction or with respect to a reduction in opioids consumption in comparison to placebo. However, Exparel was able to attain a statistically significant reduction in pain at every time point through 72 hours ($p<0.0001$) compared to placebo, and was able to attain a statistically significant reduction in total opioid consumption through 72 hours ($p=0.0006$). Although the trials are not directly comparable, we believe the differential in outcome is different enough to call Exparel the superior product. Furthermore, we do not believe that Posidur will even eventually be FDA approved.

As general reminder, in May 2009, Pacira began a 189 patient Phase 3 trial to evaluate post-operative analgesia patients undergoing hemorrhoidectomy. The trial was a 1:1 randomized, double-blind, placebo-control trial. The patients in the drug arm were administered 300mg of bupivacaine via injection of 30mL of Exparel to the relevant area. The primary end point was the area under the curve (AUC) of the numeric rating scale at rest (NRS-R) of pain intensity scores through the first 72 hours after surgery. The primary endpoint of the AUC was statistically significant at every time point through 72 hours ($p<0.0001$) compared to placebo. Moreover, the percentage of patients that were opioid free through 72 hours was statistically significant ($p<0.0007$), and the reduction in total opioid consumption was also statistically significant through 72 hours ($p=0.0006$). Additionally, the median time to first opioid use was 1 hour and 10 minutes for placebo patients, but was 14 hours and 20 minutes for Exparel patients ($p<0.0001$). Furthermore, patients experienced a decrease in opioid related side effects, which included nausea, vomiting, constipation, urinary retention, pruritis, somnolence, and respiratory depression. The hospitals experienced a reduction in resource consumption, such as the time from PACU to floor, and the nursing time related to the monitoring of the PCA and opioid related side effects. The patients and the hospitals were satisfied with the faster discharge time, and reduced need for patients to be tethered to an IV pole.

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	$8.60
52-Week High/Low	$15.34 - 6.16
Shares Outstanding (000)	17,231.00
Market Cap. (000)	$148,186.60
Average Daily Volume (000)	169.52

EPS	**FY10A**	**FY11E**	**FY12E**
Mar	-	$(0.47)A	-
Jun	-	$(0.42)A	-
Sep	-	$(0.46)A	-
Dec	-	$(0.52)	-
Prior	-	*$(0.62)*	-
FY	**$(1.58)**	**$(1.88)**	**$(1.62)**
Prior	-	*$(1.97)*	*$(1.74)*
Consensus	-	$(2.48)	$(1.52)
P/E	NM	NM	NM
FY Rev. (mm)	$14.56	$15.47	$47.60

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						-	-	31,675	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**	**38,490**	**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**	**47,603**	**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)**	**(42,769)**	**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)**	**(47,415)**	**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)**	**(47,415)**	**11,128**	**74,887**	**133,639**	**182,431**
EPS basic	(55)	$ (47.29)	$ (0.98)	$ (0.51)	$ (0.55)	$ (0.61)	$ (2.49)	$ (1.85)	$ 0.43	$ 2.81	$ 4.91	$ 6.57
EPS diluted, GAAP	(4)	$ (1.58)	$ (0.47)	$ (0.42)	$ (0.46)	$ (0.52)	$ (1.88)	$ (1.62)	$ 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 1/5/12.

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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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