

FDA Broadly Approves Exparel – Gearing Up For 1Q12 Launch**Investment Summary****Buy**
Target Price: \$20

With Exparel approved with a broad label, and with management poised to hopefully replicate its commercial experience with Angiomax, we are optimistic about Pacira's commercial future. Management has hired all of the sales management, and has put together the necessary tools needed to promote Exparel. This includes the well publicized health economics study, and about 20 people beyond the sales force dedicated to helping the sales force get Exparel onto formulary. Additionally, they have hired Quintiles Commercial US, Inc. (Quintiles), and Integrated Commercialization Services, Inc. (ICS), to help launch Exparel, with agreements to hire these sales reps permanently if needed. As the management is well versed in sales, Pacira has identified the top hospitals and 81% of the surgical market, which it will target with 60 sales reps. Moreover, Pacira is also targeting indications such as abdominal surgeries (tummy tucks), that utilize bupivacaine, where there should be an easy sell for the switch to Exparel. These, surgical indications account for over 1 million surgeries annually. On top of the surgeries, there is a target market of about 1 million uses of elastomeric bags that management will be targeting.

Pacira, also indicated on the call today that Exparel will be priced at over \$250 a use, and with the size of the target market, as well as the value provided by Exparel to all parties, we believe that the launch will be robust. The sales force should be fully hired in December of this year, and prepared for a solid launch in 1Q12.

3Q11 results. Pacira also reported 3Q11 revenue and EPS of \$3.96 million and \$(0.55), respectively, which was in line with consensus of \$3.97 million and \$(0.59). Neither financial metric is nearly as important as the current cash of about \$37.0 million. The 2011 guidance was reiterated with \$14-\$16 million in revenue (excluding any Exparel sales) and \$45 million in cash burn, with \$15 million of that cash burn occurring in 4Q11. R&D expense was \$4.3 million, and SG&A expense was \$4.9 million, which we expect to increase in the 4th quarter due to hiring of commercial personnel and preparation for the Exparel launch.

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	\$10.39
52-Week High/Low	\$15.34 - 6.16
Shares Outstanding (000)	17,231
Market Cap. (000)	\$179,050
Average Daily Volume (000)	90.31

EPS	FY10A	FY11E	FY12E
Mar	-	\$(0.47)A	-
Jun	-	\$(0.42)A	-
Sep	-	\$(0.46)A	-
Dec	-	\$(0.62)	-
Prior		\$(0.71)	
FY	\$(1.58)	\$(1.97)	\$(1.74)
Prior	-	\$(2.22)	\$(1.69)

Consensus	-	\$(2.76)	\$(2.33)
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P/E	NM	NM	NM
FY Rev. (000)	\$14,562	\$15,471	\$47,603



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)	\$ (0.75)	\$ (2.65)	\$ (2.01)	\$ 0.46	\$ 3.05	\$ 5.34	\$ 7.15
EPS diluted, GAAP	(4)	\$ (1.58)	\$ (0.47)	\$ (0.42)	\$ (0.46)	\$ (0.62)	\$ (1.97)	\$ (1.74)	\$ 0.40	\$ 2.65	\$ 4.63	\$ 6.19
Basic shares outstanding	573	574	10,014	17,233	17,231	17,233	15,428	23,578	24,049	24,530	25,021	25,521
Diluted shares outstanding	8,545	17,233	20,791	20,791	20,791	20,791	20,791	27,207	27,751	28,306	28,872	29,450
Source: Company documents and Brean Murray Carret & Co. estimates												

Important Disclosures

Ratings and Target Price History



All prices are intraday on 10/31/2011.

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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	133	64.56%	12	9.02%
HOLD	63	30.58%	2	3.17%
SELL	7	3.4%	0	0%
NOT RATED	3	1.46%	0	0%
TOTAL	206			

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

Valuation Methodology and Risks

Pacira Pharmaceuticals (PCRX): Our target price is derived through a DCF analysis by applying a 40% discount rate to our 2016 EBITDA projections. Risks to investing in Pacira include but are not limited to market adoption risk, business development risk, competition risk, and high stock price volatility.

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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