



Pacira Pharmaceuticals

PCRX-NSDQ

Rating
Market Perform

Price: Sep 19
\$35.70

Target
\$40.00

YTD Rtn
12%

August Exparel Sales Up From July, but Still Tracking Well Below 3Q Consensus

Bottom Line: Symphony sales data for August were released tonight, and Exparel continues to track below expectations. August sales were up 7.7% Y/Y and improved from July, but sales per selling day were actually down 0.4% from prior month. We caveat that these third party data have not always been completely reliable in the past, although the last couple of quarters have been very close to PCRX's reported sales (2Q17 spot on). We maintain our Market Perform.

Key Points

- According to Symphony, Exparel sales for August were \$22.9mm (+7.7% Y/Y), and sales per selling day were \$0.996mm, down 0.4% from July 2017 and at the lowest level since January of this year (see Exhibit 1).
- If Symphony's July/August sales are close to being accurate, then Exparel will have to ramp up significantly to achieve 3Q consensus of \$72.5mm (our estimate is \$72.8mm). We project the Y/Y growth would have to be about 32% for September to achieve our 3Q estimate (see Exhibit 1), which we think is a very unlikely scenario. It could also be very challenging to achieve the full year guidance for Exparel (\$290-310mm) even at the lower end of the range (we're currently at \$292mm and consensus is \$293mm). We are expecting a more meaningful ramp for the rest of the year from the JNJ partnership and typical seasonality in 4Q for procedures, but based on the Symphony data thus far 3Q has been more challenging than expected.
- Again, we caveat that the third party sales data (Symphony and IMS) are not always completely reliable and accurate, but they have generally proven to be good indicators especially in the last quarter (IMS August sales data will be available 9/29). In addition, PCRX has highlighted that a lot of the training that was taking place with the JNJ/DPS team as they began to promote Exparel in the ortho space was substantially completed by the end of August. Thus, we would expect to see more of an inflection in the Exparel trajectory in the third party data beginning next month and progressively get better for the rest of the year and into next year. However, the bar for achieving that type of sales trajectory appears to be getting higher and may be much harder to reach.

Specialty Pharmaceuticals

Gary Nachman

gary.nachman@bmo.com

Analyst
(212) 883-5113

Nicole Gemino, MPH

nico.gemino@bmo.com

(212) 885-4187

Ann-Hunte Van Kirk

ah.vankirk@bmo.com

(212) 883-5176

Legal Entity: BMO Capital Markets Corp.



Company Description

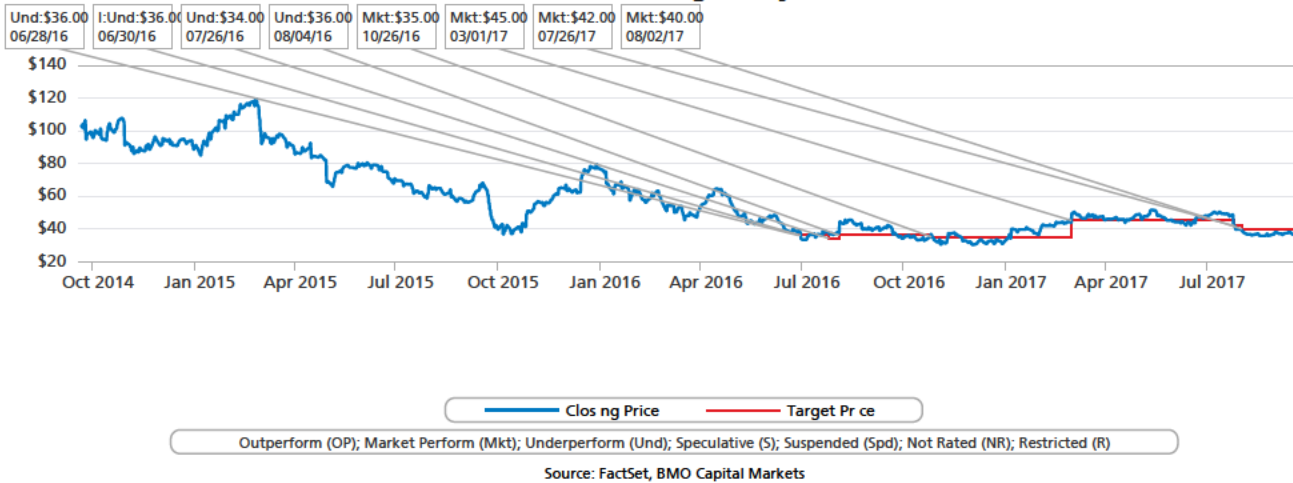
Pacira Pharmaceuticals is a specialty pharmaceutical company with products including DepoFoam delivery technology, which is designed for extended release administration of drugs without the need for the more costly and complex technology to deliver long-acting biologics for the treatment of postsurgical pain.

Exhibit 1: Exparel Symphony and IMS Sales Data

Month	Jan 2017	Feb 2017	Mar 2017	Apr 2017	May 2017	Jun 2017	Jul 2017
Quarter	1Q17			2Q17			
	Actual			Actual			
IMS Reported Sales	20,397,749	22,003,181	26,616,641	22,543,382	21,663,390	27,128,974	20,201,688
YOY Change	4.5%	1.4%	9.0%	5.7%	2.5%	9.2%	-1.7%
IMS Quarter			69,017,571			71,335,746	
PCRX reported / BMO Estimate			\$67,701,000			\$69,773,000	
Adjustment			0.98			0.98	
IMS Q/Q change			-2.8%			3.4%	
Sales per selling day	\$971,321	\$1,158,062	\$1,209,847	\$1,186,494	\$984,700	\$1,233,135	\$1,010,000
M/M Change	-21.2%	19.2%	4.5%	-1.9%	-17.0%	25.2%	-18.1%
IMS Quarterly Sales/Day			\$3,339,231			\$3,404,329	
Q/Q change			-1.0%			1.9%	
Symphony Reported Sales	20,634,179	21,319,797	23,742,913	21,993,864	23,409,531	24,094,671	20,006,065
YOY Change	4.9%	-1.5%	7.4%	2.9%	8.7%	11.2%	-4.6%
Symphony Quarter			65,696,889			69,498,065	
PCRX reported / BMO Estimate			\$67,701,000			\$69,773,000	
Adjustment			1.03			1.00	
Symphony Q/Q change			-4.1%			5.8%	
Sales per selling day	\$982,580	\$1,122,095	\$1,079,223	\$1,157,572	\$1,064,070	\$1,095,212	\$1,000,300
M/M Change	-6.6%	14.2%	-3.8%	7.3%	-8.1%	2.9%	-8.7%
Symphony Quarterly Sales/Day			\$3,183,898			\$3,316,854	
Q/Q change			-2.4%			4.2%	

Source: Symphony Health, IMS, BMO Capital Markets, Company Reports

Pacira Pharmaceuticals Rating History as of 09/18/2017



IMPORTANT DISCLOSURES

Analyst's Certification

I, Gary Nachman, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and the affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Limited are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Methodology and Risks to Target Price/Valuation for Pacira Pharmaceuticals (PCRX-NSDQ)

Methodology: Our price target of \$40 is based on our DCF using a discount rate of 9.5% and exit multiple of 6x 2021E EBITDA.

Risks: 1) Cautious feedback from physicians on increasing use of Exparel, 2) continued pushback from hospital formularies as they face cost pressures and the need to have better leverage in the hospital setting, 3) potential competition to Exparel from other ongoing acting bupivacaine products down the road, 4) expectations that are very high for the Exparel sales trajectory and uncertainty regarding the potential impact from JNJ partnership and nerve block indication, and 5) higher spending versus incurred royalties to JNJ that will impair profitability of Exparel sales don't accelerate quickly enough.

Distribution of Ratings (September 18, 2017)

Rating category	BMO Rating	BMOCM US Unverse*	BMOCM US B Cents**	BMOCM US B Cents***	BMOCM Unverse****	BMOCM B Cents*****	Stat M ne Unverse
Buy	Outperform	45.2%	22.4%	55.9%	48.2%	58.9%	53.9%
Hold	Market Perform	51.2%	15.2%	43.1%	48.6%	39.9%	41.1%
Se	Underperform	3.6%	5.0%	1.0%	3.2%	1.2%	5.0%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for investment banking services as percentage within ratings category.

*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for investment banking services as percentage of investment banking clients.

**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for investment banking services as percentage of investment banking clients.

Ratings Key (as of October 2016)

We use the following rating system definitions:

OP Outperform Forecast to outperform the analyst's coverage universe on a total return basis;
Mkt Market Perform Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;
Und Underperform Forecast to underperform the analyst's coverage universe on a total return basis;
(S) Speculative investment;
Spd Suspended Coverage and rating suspended until coverage is reinstated;
NR No Rated No rating at this time; and
R Restricted Dissemination of research is currently restricted.

BMO Capital Markets seven top 15 stock guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small Cap, Income, CDN Quant, and US Quant have replaced the top Pick rating).

Prior BMO Capital Markets Rating System

(April 2013 - October 2016)

http://researchglobal.bmcapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

(January 2010 - April 2013)

http://researchglobal.bmcapitalmarkets.com/documents/2013/prior_rating_system.pdf

Other Important Disclosures

For Important Disclosures on the stocks discussed in this report, please go to http://researchglobal.bmcapitalmarkets.com/Company_Disclosure_Public.aspx or write to Editor a Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editor a Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

Dissemination of Research

Dissemination of BMO Capital Markets Equity Research is available via our website <https://research.ca.bmcapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>. Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ. Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

~ Research distribution and approval times are provided on the cover of each report. Times are approximations as system and distribution processes are not exact and can vary based on the sender and recipients' services. Unless otherwise noted, times are Eastern Standard and when two times are provided, the approval time precedes the distribution time.

BMO Capital Markets may use proprietary models in the preparation of reports. Material information about such models may be obtained by contacting the research analyst directly. There is no planned frequency of updates to this report.

General Disclaimer

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has ending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained here in and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. Nothing here in constitutes any investment, legal, tax or other advice nor is it to be relied on in any investment or decision. If you are in doubt about any of the contents of this document, the reader should obtain independent professional advice. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed here in, related securities or options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed here in.

Additional Matters

o Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents here in subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Brechmanas, Alexander Pearce, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research and its affiliates own 5% or more of the equity of the

It and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will disclose its and its affiliates' ownership interest in the subject issuer only if such ownership exceeds 5% of the equity of the issuer.

o E.U. Residents: In an E.U. Member State this document is issued and distributed by BMO Capital Markets Limited which is authorized and regulated in the UK and operates in the E.U. on a passported basis. This document is only intended for Professional Clients, as defined in Annex II to "Markets in Financial Instruments Directive" 2004/39/EC ("MIFID").

o U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

o U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorized and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (i) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities falling within Article 49(2)(a) to (d) of the Order (such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to retail clients.

These documents are provided to you on the express understanding that they must be held in complete confidence and not republished, retransmitted, distributed, disclosed, or otherwise made available, in whole or in part, directly or indirectly, in hard or soft copy, through any means, to any person, except with the prior written consent of BMO Capital Markets.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian entities through BMO Bank of Montreal and BMO Nesbitt Burns in the United States, personal and commercial banking clients as serviced by BMO Harris Bank N.A., (Member FDIC) investment and corporate banking services provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A., (Member FDIC), BMO and P.C., and Bank of Montreal (China) Co. Ltd and the institutional brokerage businesses of BMO Capital Markets Corp. (Member SIPC) in the US, BMO Nesbitt Burns (Member Canadian Investor Protection Fund) in Canada, Europe, and Asia, BMO Capital Markets Limited in Europe and Australia and BMO Advisory Private Limited in India.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere

TM Trademark Bank of Montreal

©COPYRIGHT 2017 BMO CAPITAL MARKETS CORP