Jan 08, 2020

Pacira Pharmaceuticals (PCRX)

$42.59 (As of 01/07/20)

Price Target (6-12 Months): **$47.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/06/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: C | Growth: A | Momentum: B	

Summary

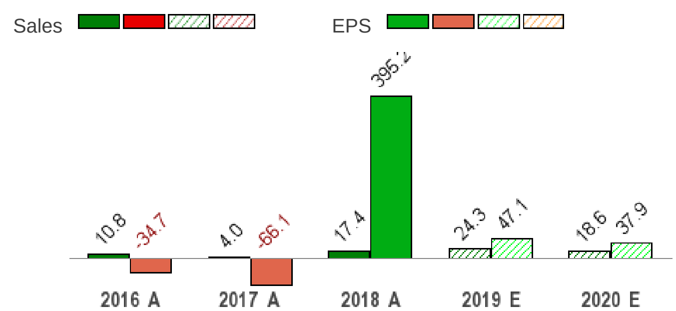
Pacira changed its name to Pacira BioSciences following the acquisition of MyoScience in April 2019 following which, it added the latter's iovera system to its portfolio. Its top line mainly comprises contribution from its marketed drug Exparel, which led to solid revenues since its approval. The drug's label expansion to include administration via nerve block for prolonged regional analgesia is a positive for the company as it will further boost sales. Pacira's agreement with Nuance for the development and commercialization of Exparel in China is also an upside. Shares of the company have outperformed the industry in the past year. The company also remains heavily dependent on Exparel for growth. Therefore, any setback for the drug will severely hurt the stock.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$49.50 - $34.64**
20 Day Average Volume (sh)	**422,745**
Market Cap	**$1.8 B**
YTD Price Change	**-6.0%**
Beta	**1.16**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Medical - Drugs**
Zacks Industry Rank	**Top 31% (80 out of 254)**
Last EPS Surprise	**41.2%**
Last Sales Surprise	**-0.3%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**02/27/2020**
Earnings ESP	**0.0%**
P/E TTM	**27.0**
P/E F1	**20.2**
PEG F1	**0.9**
P/S TTM	**4.5**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates **(millions of $)**

	Q1	Q2	Q3	Q4	Annual*
2020	116 E	128 E	134 E	142 E	497 E
2019	91 A	103 A	105 A	120 E	419 E
2018	75 A	84 A	83 A	95 A	337 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$0.36 E	$0.56 E	$0.69 E	$0.76 E	$2.11 E
2019	$0.22 A	$0.41 A	$0.48 A	$0.42 E	$1.53 E
2018	$0.02 A	$0.24 A	$0.31 A	$0.47 A	$1.04 A

*Quarterly figures may not add up to annual.

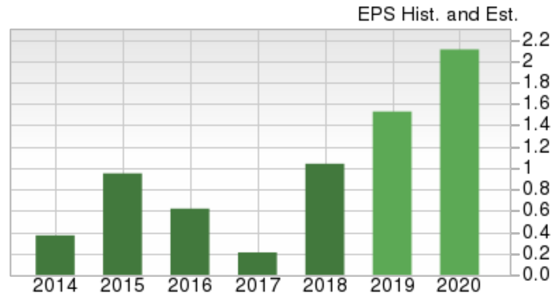
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/07/2020. The reports text is as of 01/08/2020.

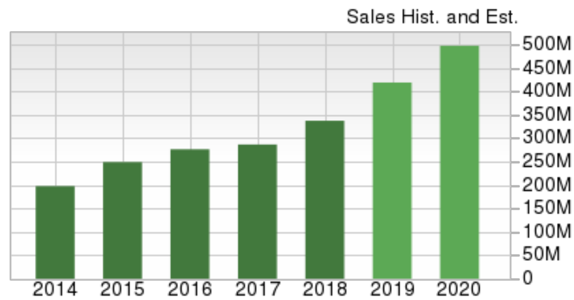
Overview

Parsippany, NJ-based Pacira BioSciences, Inc. is a specialty pharmaceutical company focused on the development, commercialization and manufacture of proprietary pharmaceutical products primarily for use in hospitals and ambulatory surgery centers. These products are developed using the company's proprietary DepoFoam drug delivery technology. Pacira changed its name to Pacira BioSciences following the acquisition of MyoScience in April 2019.

The company's flagship product, Exparel, was launched in 2012. Exparel is a liposome injection of bupivacaine, which is indicated for single-dose administration into the surgical site to produce postsurgical analgesia. In 2012, the company signed a licensing agreement with Aratana for the development and commercialization of Exparel for animal health indications. In 2017, Pacira signed an agreement with DePuy Synthes Sales Inc. (a subsidiary of J&J) to market and promote the use of Exparel for orthopedic procedures in the United States' market. The collaboration is expected to significantly expand use of Exparel across a broad range of surgical procedures. Exparel generated sales of $331.1 million in 2018.

In June 2017, the company's board of directors approved a decision to discontinue all future production of DepoCyt(e) indicated for intrathecal treatment of lymphomatous meningitis. The company made the decision due to persistent technical issues specific to the DepoCyt(e) manufacturing process.





In 2018, Pacira generated total revenues of $337.3 million, up 18% year over year.

Reasons To Buy:

> Exparel has been performing well since its launch in Apr 2012. Pacira is looking to expand Exparel's label in the animal health market as well.

- **Share Price Outperformance:** The stock has rallied 11.3% in the past year compared with the industry's increase of 0.2%.

- **Exparel, the Growth Driver:** Demand for Exparel has been strong since its launch in April 2012, driven by growth within existing accounts along with increasing acceptance by major hospitals and orthopedic centers as it continues to be used in orthopedic procedures. Exparel revenues grew 23% year-over-year in the third quarter of 2019. Continued adoption of Exparel for transversus abdominis plane (TAP), infiltration procedures for abdominal and genitourinary surgeries should boost sales. The company is currently looking for partners to expand its geographical footprint for Exparel. In June 2019, the European Medicines Agency accepted the marketing authorization application for Exparel as a medicine to treat postsurgical analgesia. An opinion from the Committee for Medicinal Products for Human Use is expected in the second half of 2020.

- **Label Expansion of Exparel:** The company is working to expand Exparel's label, which should boost demand. In September 2019, Pacira completed enrollment in the phase III study on Exparel for treating pediatric patients aged from six to less than 17 years. The subjects are undergoing spinal or cardiac surgeries. Results from this study will support a supplemental new drug application for Exparel in the United States regarding its label expansion to include children aged six years and above. There are currently no approved alternatives to opioids for managing severe post-surgical pain in pediatric patients.

  Notably, Pacira is advancing Exparel in phase IV studies to expand its utilization in areas like cesarean section, spine and hip fracture.

  In January 2019, Pacira announced that its phase IV study on Exparel, which evaluated patients undergoing Cesarean section (C-section), met the primary endpoint with a statistically significant decrease in total postsurgical opioid consumption all through 72 hours. Patient recruitment is also underway in a second C-section study (known as CHOICE). The study is designed to evaluate a completely opioid-free arm with Exparel including opioid-free spinal anesthesia. Moreover, the company is currently activating sites for a phase IV RESTORE study to address hip fracture procedures and enrolling patients in another phase IV FUSION study for spine surgeries.

- **Strategic Collaborations and Educational initiatives:** The company's partnership with Johnson & Johnson (J&J) is a positive as J&J regularly opens doors for to new hospital systems for Pacira where the latter previously did not have any access. The company is collaborating closely with J&J on its overall strategy for Exparel. Its collaboration with the Cancer Treatment Centers of America, the Illinois Surgical Quality Improvement Collaborative, WellStar Health Systems and the University of Tennessee Medical Center are raising awareness around opioid alternatives and minimizing opioid use through a variety of joint initiatives.

  In 2018, Pacira inked a deal with China-based Nuance for the development and commercialization of Exparel in China.

  In April 2019, Pacira acquired the privately held MyoScience, Inc. following which, it added the latter's iovera system to its portfolio, which is highly complementary to Exparel as a non-opioid therapy.

- **Expansion Into Animal Health Market:** Pacira is looking to expand Exparel's label in the animal health market as well. In 2012, the company signed a licensing agreement with Aratana for the development and commercialization of Exparel for animal health indications. Expansion into the animal health market will diversify Exparel's franchise and boost its commercial potential. There has been a steady rise in sales year over year from the bupivacaine liposome injectable suspension to Aratana for use in animals.

- **DepoFoam Platform for New Clinical Candidates:** DepoFoam drug delivery technology consists of microscopic spherical particles composed of numerous internal aqueous chambers containing an active drug ingredient. With the safety profile of DepoFoam platform, Pacira is advancing a development plan for intrathecal or subarachnoid delivery of a non-opioid analgesic for acute, sub-acute and chronic pain. The company also has several DepoFoam-based products in clinical development.

Risks

- **Heavily Dependent on Exparel:** Pacira's top line mainly comprises contribution from its marketed product. The company is heavily dependent on Exparel for growth, which accounts for a significant chunk of its revenues. Exparel contributed 98.2% to total revenues in 2018. Hence, a decline in Exparel sales will adversely impact the company's top line.
- **Pipeline Setbacks:** Pacira is not new to pipeline setbacks. The company suffered a major blow in March 2015 when it received a Complete Response Letter (CRL) from the FDA for its supplemental New Drug Application (sNDA) for Exparel. Pacira was seeking to expand the use of Exparel in nerve block to provide postsurgical analgesia. However, following a meeting with the FDA, the company initiated additional phase III studies and resubmitted a sNDA in October 2017. In February 2018, the FDA's Anesthetic and Analgesic Drug Products Advisory Committee's (AADPAC) reviewed the company's sNDA, and voted six to four against approval of the expanded indication. Any similar setbacks will adversely impact the company's shares. We are also concerned about the lack of other candidates in the company's pipeline.

Last Earnings Report

Pacira's Q3 Earnings Top Estimates, Revenues Rise Y/Y

Quarter Ending	09/2019
Report Date	**Nov 07, 2019**
Sales Surprise	**-0.33%**
EPS Surprise	**41.18%**
Quarterly EPS	**0.48**
Annual EPS (TTM)	**1.58**

Pacira reported third-quarter 2019 earnings of 48 cents per share, surpassing the Zacks Consensus Estimate of 34 cents and also the year-ago bottom line of 31 cents.

Total revenues also increased 25% year over year to $104.7 million from the year-earlier number of $83.4 million. Meanwhile, revenues were almost in line with the Zacks Consensus Estimate of $105 million.

Quarter in Detail

Pacira's top line mainly comprises product revenues, other product sales and royalty revenues.

Expare/bupivacaine liposome injectable suspension sales came in at $101.7, rising 23% year over year. Also, the same inched up 1.9% sequentially. Exparel is a liposome injection of bupivacaine, which is indicated for single-dose administration into the surgical site to produce postsurgical analgesia.

Newly-added product iovera system generated sales of $2.6 million in the reported quarter, reflecting an increase of 30% sequentially.

Royalty revenues came in at $0.33 million in the reported quarter, down 55% year over year.

Research and development (R&D) expenses (excluding stock-based compensation) surged 36.9% to $18.9 million.

Selling, general and administrative (SG&A) expenses (excluding stock-based compensation) increased 13.3% to $43.4 million in the reported quarter.

2019 Outlook

Pacira provided its guidance for Exparel sales in 2019 and expects the same in the $400-$410 million range. This is intact with the last reported quarter's estimate.

iovera net product sales are expected in the range of $8- $10 million, unchanged from the previous quarter's projection.

Recent News

Exparel Meets Key Goals in C-Section Study – Jan 7

Pacira announced that the phase IV CHOICE study on Exparel in patients undergoing Cesarean section (C-section) achieved its primary endpoint with a statistically significant reduction in total postsurgical opioid consumption through 72 hours (P?0.001).

The study also achieved the key secondary endpoint with Exparel demonstrating statistical significance for reduction in the incidence and severity of itching through 72 hours following surgery.

Phase III Study on Exparel Label Expansion Positive – Dec 17

Pacira announced positive results from its phase III PLAY study of Exparel administered as a single-dose infiltration in pediatric patients undergoing spinal or cardiac surgeries. The study enrolled 98 patients to evaluate the pharmacokinetics and safety of the drug in two patient groups — aged 12 years to less than 17 years and 6 years to less than 12 years.

The results will provide the foundation for the company's supplemental new drug application (sNDA) in the first half of 2020 seeking expansion of the Exparel label to include children aged six years or above.

Valuation

Pacira's shares are up 11.3% over the trailing 12-month period. Over the past year, the Zacks sub-industry is up 0.2% and the sector is up 4.5%.

The S&P 500 index is up 24.3% in the past year.

The stock is currently trading at 3.57X forward 12-month sales per share, which compares to 2.67X for the Zacks sub-industry, 2.80X for the Zacks sector and 3.47X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12.10X and as low as 3.19X, with a 5-year median of 4.80X. Our Outperform recommendation indicates that the stock will perform better than the market. Our $47.00 price target reflects 3.93X forward 12-month sales per share.

The table below shows summary valuation data for PCRX

Valuation Multiples - PCRX

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	3.57	2.67	2.8	3.47
	5-Year High	12.1	3.69	3.8	3.47
	5-Year Low	3.19	2.29	2.42	2.54
	5-Year Median	4.8	2.78	2.93	3
P/B TTM	Current	5.13	1.54	4.47	4.42
	5-Year High	25.13	12.89	5.01	4.45
	5-Year Low	4.02	0.95	3.42	2.85
	5-Year Median	6.38	2.49	4.27	3.6

As of 01/07/2020

Industry Analysis **Zacks Industry Rank:** Top 31% (80 out of 254)

Top Peers

Eli Lilly and Company **(LLY)**	Outperform
Pfizer Inc. **(PFE)**	Outperform
Alkermes plc **(ALKS)**	Neutral
Heron Therapeutics, Inc. **(HRTX)**	Neutral
Merck & Co., Inc. **(MRK)**	Neutral
MyoKardia, Inc. **(MYOK)**	Neutral
Novartis AG **(NVS)**	Neutral
Teva Pharmaceutical Industries Ltd. **(TEVA)**	Neutral

Industry Comparison Industry: Medical - Drugs

Industry Peers

	PCRX Outperform	X Industry	S&P 500	ALKS Neutral	LLY Outperform	NVS Neutral
VGM Score	A	-	-	B	C	C
Market Cap	1.78 B	119.53 M	23.82 B	3.01 B	127.23 B	216.53 B
# of Analysts	7	2	13	8	5	5
Dividend Yield	0.00%	0.00%	1.8%	0.00%	1.95%	1.95%
Value Score	C	-	-	C	C	B
Cash/Price	0.14	0.28	0.04	0.19	0.01	0.04
EV/EBITDA	37.75	-1.86	13.92	-343.01	25.85	10.60
PEG Ratio	0.87	1.32	2.00	1.60	1.74	1.95
Price/Book (P/B)	5.12	3.25	3.32	2.82	36.75	4.12
Price/Cash Flow (P/CF)	44.56	10.11	13.58	30.90	19.09	11.60
P/E (F1)	19.95	14.53	18.86	33.16	19.63	16.66
Price/Sales (P/S)	4.51	5.85	2.63	2.80	5.62	4.48
Earnings Yield	4.95%	-14.64%	5.30%	3.03%	5.09%	6.00%
Debt/Equity	0.98	0.03	0.72	0.26	4.09	0.42
Cash Flow ($/share)	0.96	-0.56	6.94	0.62	6.94	8.15
Growth Score	A	-	-	B	D	C
Hist. EPS Growth (3-5 yrs)	NA%	8.54%	10.56%	NA	16.65%	0.15%
Proj. EPS Growth (F1/F0)	38.03%	19.67%	7.49%	9.32%	16.30%	8.45%
Curr. Cash Flow Growth	1,474.52%	13.56%	14.83%	126.78%	20.58%	6.18%
Hist. Cash Flow Growth (3-5 yrs)	23.28%	8.32%	9.00%	-9.18%	4.33%	2.20%
Current Ratio	3.95	3.65	1.23	2.69	1.17	0.95
Debt/Capital	49.62%	8.10%	42.92%	20.46%	80.34%	29.33%
Net Margin	0.55%	-118.66%	11.08%	-18.71%	35.10%	24.43%
Return on Equity	10.19%	-67.23%	17.16%	-6.08%	107.99%	20.86%
Sales/Assets	0.52	0.29	0.55	0.61	0.57	0.37
Proj. Sales Growth (F1/F0)	18.74%	10.87%	4.15%	-8.47%	7.37%	2.86%
Momentum Score	B	-	-	A	A	D
Daily Price Chg	-2.92%	0.00%	-0.22%	-1.70%	0.19%	-1.00%
1 Week Price Chg	0.22%	0.00%	-0.30%	-5.73%	0.19%	-0.61%
4 Week Price Chg	-7.77%	3.31%	2.11%	-11.36%	9.83%	1.81%
12 Week Price Chg	11.78%	4.55%	5.70%	3.88%	20.79%	8.97%
52 Week Price Chg	8.04%	-18.99%	22.84%	-38.78%	13.90%	8.95%
20 Day Average Volume	422,745	211,064	1,570,747	1,043,837	3,036,618	1,238,568
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	2.88%	-0.07%
(F1) EPS Est 12 week change	-4.58%	0.44%	-0.53%	88.89%	2.59%	-1.77%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	NA	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	B
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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