

Date: March 4th, 2022

Sector: Healthcare

Company: Pacira Biosciences (PCRX)

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Ticker: PCRX

Price (as of 03/03/2022): \$71.63

Target Price: \$91.65

Upside: 28%

BUY: PCRX

Current Stock Weight: 8.07%

Investment Thesis:

Pacira Biosciences (NASDAQ: PCRX) is the leading provider of non-opioid pain management options to advance and improve outcomes for health practitioners and their patients. We believe with the renewed push to the end of opioid use and large fines effecting the big pharmaceutical companies will strengthen PCRX's number one seller, Exparel. The recent acquisition of Flexion Therapeutics will also expand PCRX's sport management and non-opioid offerings, which is the number one user of opioid medications. By having more alternatives, this will allow patients to be prescribed non-opioids. PCRX has also in the past year reported higher than expected margins and is forecasted to see an increase in demand of their products due to outpatient and elective surgeries rising in numbers from the decrease in Covid-19 regulations. The company's growth internationally, prominence in the non-opioid market, and only public company to have such success are all reasons why we believe more allocation is due for this company.

Catalysts:

- **The Opioid Crisis and FDA Action:** The increase in drug overdoses has accelerated throughout the COVID-19 pandemic as the CDC reported that deaths by overdose rose by 29% to more than 100,000 in the U.S. in the past year alone. Legislators across the States are filing lawsuits against Big Pharma companies that are being pushed to pay hefty fines. Physicians are encouraged to provide alternatives to opioids and are given incentives as well. This guidance increases demand for non-opioid drug companies like Pacira as their non-opioid medication has already established a dominant footing in the space. Pacira's drug Exparel is the only non-opioid, long-acting analgesic within the market so as future legislation is passed restricting the manufacturing and distribution of opioids, demand will reallocate to industry leaders like Pacira.
- **Acquisition of Flexion Therapeutics:** Pacira Biosciences has recently acquired Flexion Therapeutics, a pioneer non-opioid company, allowing Pacira to further expand their pain management portfolio. Flexion specializes in the treatment of patients with musculoskeletal conditions, specifically osteoarthritis. Their main drug, Zilretta, uses microscopic technology to provide extended pain relief to inflammatory areas surrounding recent knee surgeries. This new drug exposes Pacira to a market of millions of people battling with knee pain worldwide and specifically paves the road for them to enter the rapidly expanding sports medication market. Sports medication is a \$5.5 billion dollar market, expected to grow to 7.2 billion with a CAGR of 5.7% by 2025. Pacira's new drug will be able to treat the large market of athletes that deal with knee pain as their drug is the first and only drug product to be approved by the FDA in the OA space.
- **Company Growth:** The elective surgery market has seen a large downturn throughout the pandemic due to labor headwinds and government restrictions. However, the industry has signaled a recovery through key indicators, as predicted volumes for elective procedures have risen from 40% below normal to 6% below normal. This has put Pacira at the forefront of the market, revitalizing its primary drug's, Exparel, customer base. Pacira is also positioned to grow their customer base for Exparel by almost five million surgeries per year with it currently undergoing phase three studies for use in lower extremity and shoulder osteoarthritis surgeries. Effectively, these expansions of the

pipeline and only pure-player will allow it to dominate the non-opioid space in pain management. Pacira is also distancing from geographic bounds in the U.S. as it has focused on expanding to Latin America and Europe. The company successfully launched Exparel in the EU in Q4 2021 and intends to do the same with iovera in Q1 2022. It has also signed a distribution agreement with Eurofarma allowing it to be distributed in nineteen Latin American countries.

Risks & Mitigations:

- Pacira was recently involved in a defamation lawsuit against the American Association of Anesthesiologists that resulted in a dismissal. The ASA's journal presented an article providing a scientific opinion that Exparel compared to substitutes is not statistically significant. Because it was opinion-based, the lawsuit was dismissed. Despite the results of the case, Exparel experienced an increase in sales since the ending of the lawsuit and it has already been priced into the stock.
- Ongoing Exparel patent infringement lawsuit against eVenus can negatively impact Pacira if eVenus wins the lawsuit. This is not a major risk due to Pacira receiving approval for the Exparel patent to expire in 2041 (formerly 2036). Furthermore, historically, these lawsuits go against the defendant.

Recent Quarterly Results (Q4):

- Revenue: \$159.19M
- EBIT: \$4.21M
- EBITDA: \$69.3M
- Net Income: \$44.4M
- EPS: \$0.97

Valuation:

- Price Target: \$92
- Potential Upside: 28%
- EV/EBITDA: 13.71x
- EV/Revenue: 5.07x
- Weighting:
 - DCF GG - 50%
 - DCF MM - 25%
 - Comps - 25%