

Alimera Sciences (ALIM - \$4.26)

Healthcare / Biotechnology

Iluvien demonstrates robust growth in the US in 2Q15

ALIM reports 2Q15 EPS last night after the close, with \$3.8M in US sales of Iluvien. While this was a bit below our \$4.8M estimate it still represents 55% Q-Q growth in the second Q of launch and a strong start in our opinion. Importantly ALIM saw an ~38% re-order rate from existing Iluvien users – up from ~14% in 1Q15 – suggesting that that concerns over prescribers “pausing” to await reimbursement (typically up to 180 days) before re-prescribing the drug may be overblown. In the EU ALIM notes that the UK remains a strong area with additional reps being brought onboard, and German sales are up ~80% Q-Q (albeit from a low base). We continue to like ALIM here, and we reiterate our Buy rating, \$12 price target based on a sum-of-the-parts analysis, with US Iluvien sales valued at \$10/share, EU Iluvien sales valued at \$1.5/share, and cash and tech valued at \$0.5/share.

Ticker: ALIM
Rating: **Buy**
Price Target: **\$12.00**

Trading Data:

Last Price (08/10/2015)	\$4.26
52-Week High (09/03/2014)	\$6.54
52-Week Low (05/26/2015)	\$3.98
Market Cap. (MM)	\$205.6
Shares Out. (MM)	44.35

- **Reimbursement concerns may already be easing.** Management anticipated that in 2H15 there could be a resurgence of orders from their current highest prescribing practices as their backlog of reimbursement payments start to roll in. The typical reimbursement timeline can be as long as 120 days, and an ophthalmic practice may be leery of extending a \$50K-\$60K account receivable much further. But with a ~38% re-order rate from ~161 active accounts as of June 2015 this may already be occurring.
- **Small-scale DTC campaign a possibility in 2H15.** ALIM is exploring the possibility of a limited direct-to-consumer (DTC) campaign in 2H15-1H16. We believe that a targeted campaign utilizing social media and other non-traditional channels could reap significant rewards for the Iluvien launch.
- **Reiterate Buy rating and \$12 PT.** We anticipate ALIM will turn EPS positive in 1H16 driven by US Iluvien sales approaching \$20M/Q. Our \$12 price target based on a sum-of-the-parts analysis, with US Iluvien sales valued at \$10/share, EU Iluvien sales valued at \$1.5/share, and cash and tech valued at \$0.5/share.

Earnings Estimates: (per share)

(Sep)	1Q	2Q	3Q	4Q	FY	P/E
FY16E	\$0.01	\$0.06	\$0.08	\$0.14	\$0.30	20.9x
FY15E	(\$0.27)A	(\$0.24)A	(\$0.19)	(\$0.11)	(\$0.80)	NA
FY14	(\$0.21)	(\$0.16)	(\$0.22)	(\$0.25)	(\$0.84)	NA
FY13	(\$0.27)	(\$0.30)	(\$0.25)	(\$0.24)	(\$1.11)	NA

Analyst

Jim Molloy Specialty Pharma &
Biotechnology
(617) 283-5521
jmolloy@laidlawltd.com

Source: Laidlaw & Company estimates

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Reimbursement appears to be easing already. Management had previously noted that with the out of pocket Iluvien cost per injection of ~\$8,800, and a reimbursement turnaround of ~120 days, a physician's practice which has done 5-6 procedures can be sitting on a \$50K accounts receivable, which can delay additional procedures until the reimbursements start coming in from payers. ALIM has extended payment terms to allow practices to delay until reimbursements are received, but ALIM has already heard of reimbursements coming through, and has seen an ~38% re-order rate from it's existing customer base suggesting that the reimbursement "backlog" may already be clearing for doctors.

Figure 1. Variance analysis

Alimera Sciences					
Quarterly variance analysis					
(000's except per share)	2Q14A	2Q15A	2Q15E	Variance	% Y/Y
Iluvien - US	\$0	\$3,776	\$4,771	(\$995)	NM
Iluvien - ex US	2,190	2,000	2,685	(\$685)	-8.7%
Total Revenue	\$2,190	\$5,776	\$7,456	(\$1,680)	163.7%
COGS	376	376	1,790	(\$1,414)	0.0%
Gross Profit	1,814	5,400	5,667	(\$267)	197.7%
R&D Expense	1,809	3,815	3,500	\$315	110.9%
G&A Expense	2,827	4,460	4,250	\$210	57.8%
Sales & Marketing Exp	3,136	6,925	6,000	\$925	120.8%
Operating Inc (loss)	(5,958)	(9,800)	(8,083)	(\$1,717)	64.5%
Int. inc. (expense), net	(325)	(1,151)	(150)	(\$1,001)	254.2%
Pretax Income	1,185	(8,592)	(8,233)	(\$359)	-825.1%
Income Tax exp (benefit)	69	4	0	\$4	-94.2%
Net income (loss)	\$1,116	(\$8,596)	(\$8,233)	(\$363)	-870.3%
1x items & non-cash exp	7,468	2,175	0	\$2,175	-70.9%
Adj NI ex-1x/non cash	(\$6,352)	(\$10,771)	\$0	(\$10,771)	69.6%
Weighted avg. shares (000)	40,276	44,397	45,348	(951)	10.2%
Fully diluted shares (000)	60,906	74,397	65,348	9,049	22.1%
EPS as reported	\$0.02	(\$0.19)	(\$0.18)	(\$0.01)	-1156.7%
Adj EPS ex-1x & non-cash	(\$0.16)	(\$0.24)	\$0.00	(\$0.24)	53.8%

Source: Company Reports: Laidlaw & Company estimates

Figure 2. Valuation

Sum-of-the-parts value: ALIM		
Segment	Valuation (000's)	Per share value
Iluvien - US	\$772,549	\$10
Iluvien - EU	\$115,964	\$1.5
Net cash '16 & tech value	\$63,289	\$0.5
SUM	\$951,801	\$12
Shares out '16E (000)		75,508

Source: Company Reports: Laidlaw & Company estimates

Figure 3. Iluvien Revenue Projections

Alimera Sciences						
Iluvien US sales model						
<i>(values in 000's)</i>	2015E	2016E	2017E	2018E	2019E	2020E
US diabetic population	21,420	21,848	22,285	22,731	23,186	23,649
% Diabetic Macular Edema (DME)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
# US DME patients (000)	643	655	669	682	696	709
% unresponsive to anti-VEGF	30%	30%	30%	30%	30%	30%
# US unresponsive to anti-VEGF	193	197	201	205	209	213
Iluvien capture % of anti-VEGF failures	1.1%	3.0%	8.5%	16.5%	20.0%	23.5%
Iluvien capture # of anti-VEGF failures	2.0	5.8	17.0	33.8	41.7	50.0
Annual cost of therapy	\$8,250	\$8,250	\$8,588	\$8,694	\$9,128	\$9,767
Iluvien US sales (\$000)	\$16,898	\$47,856	\$147,192	\$293,789	\$380,969	\$488,552
growth Y-Y		183%	208%	100%	30%	28%

Source: Company Reports; Laidlaw & Company estimates

Figure 4. Quarterly Income Statement

Alimera Sciences										
Quarterly income statement										
(\$000 except per share)	2014A				2014A Year	2015E				2015E Year
	1QA	2QA	3QA	4QA		1QA	2QA	3QE	4QE	
Revenues										
Iluvien - US						\$2,438	\$3,776	\$6,759	\$10,099	\$23,220
Iluvien ex-US	\$2,084	\$2,190	\$2,408	\$1,741	\$8,423	1,500	2,000	3,580	4,475	13,202
Total Revenue	\$2,084	\$2,190	\$2,408	\$1,741	\$8,423	\$3,938	\$5,776	\$10,340	\$14,575	\$34,628
Expenses:										
Cost of Revenue (COGS)	564	376	372	130	1,442	283	376	403	446	1,508
Gross Margin	1,520	1,814	2,036	1,611	6,981	3,655	5,400	9,936	14,129	33,120
Research and development	2,626	1,809	3,941	2,987	11,363	3,329	3,815	3,750	4,500	15,394
General & administration	2,927	2,827	3,040	4,236	13,030	4,191	4,460	4,500	4,500	17,651
Sales & marketing	3,411	3,136	3,680	5,308	15,535	7,129	6,925	7,750	7,750	29,554
Total operating expenses	8,964	7,772	10,661	12,531	39,928	14,649	15,200	16,000	16,750	62,599
Income (loss) from Operations	(7,444)	(5,958)	(8,625)	(10,920)	(32,947)	(10,994)	(9,800)	(6,064)	(2,621)	(29,479)
Int inc (expense), other net	(129)	(325)	(408)	(1,228)	(2,090)	(1,122)	(1,151)	(150)	(150)	(2,573)
Income (loss) before taxes	(20,759)	1,185	(6,964)	(9,198)	(35,736)	(9,724)	(8,592)	(6,214)	(2,771)	(27,301)
Income tax exp (benefit)		69	45	60	174	69	4	-	-	73
Net Income (Loss)	(20,759)	1,116	(7,009)	(9,258)	(35,910)	(9,793)	(8,596)	(6,214)	(2,771)	(27,374)
Pref stock conversion exp				(750)	(750)					
Net Income (Loss) to common				(10,008)	(36,660)					
1x items & non-cash exp	(13,186)	7,468	1,885	2,016	(1,817)	2,208	2,175	2,250	2,250	8,883
Adj NI less non cash & 1x items	(7,573)	(6,352)	(8,894)	(11,274)	(34,093)	(12,001)	(10,771)	(8,464)	(5,021)	(36,257)
EPS as reported	(\$0.58)	\$0.02	(\$0.17)	(\$0.23)	(\$0.91)	(\$0.22)	(\$0.19)	(\$0.14)	(\$0.06)	(\$0.61)
Adj EPS ex-1x & non-cash items	(\$0.21)	(\$0.16)	(\$0.22)	(\$0.25)	(\$0.84)	(\$0.27)	(\$0.24)	(\$0.19)	(\$0.11)	(\$0.80)
Weighted avg. shares (000)	35,853	40,276	41,063	44,296	40,397	44,348	44,397	45,397	46,397	45,134
Margin & Expense Analysis										
COGS as % of Revenues	27%	17%	15%	7%	17%	7%	7%	4%	3%	4%
R&D	126%	83%	164%	172%	135%	85%	66%	36%	31%	44%
SG&A	164%	143%	153%	305%	184%	181%	120%	75%	53%	85%
Gross Profit	73%	83%	85%	93%	83%	93%	93%	96%	97%	96%
Operating margin	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Taxes	0%	6%	0%	0%	0%	0%	0%	0%	0%	0%
Adjusted net margin	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-year change										
Net revenue	NA	1123%	218%	86%	350%	89%	164%	329%	737%	311%
R&D	30%	-17%	121%	22%	35%	27%	111%	-5%	51%	35%
SG&A	-4%	-36%	-19%	57%	-5%	109%	121%	111%	46%	90%
Operating income	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Adjusted net margin	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: Company reports and Laidlaw estimates

Specialty Pharmaceuticals
Jim Molloy (857) 317-5061 jmolloy@laidlawltd.com

Figure 5. Annual Income Statement

Alimera Sciences						
Annual income statement						
(\$000 except per share)	2014A	2015E	2016E	2017E	2018E	Comments
Revenues						
Iluvien - US	-	23,220	75,232	162,122	293,789	US launch 1Q15
Iluvian ex-US	8,423	13,202	29,671	57,037	77,174	EU roll-out through 2016
Total Revenue	\$8,423	\$34,628	\$104,902	\$219,158	\$370,963	
Expenses:						
Cost of Revenue (COGS)	1,442	1,508	19,931	50,406	85,322	pSivida payments here
Gross Margin	6,981	33,120	84,971	168,752	285,642	
R&D	11,363	15,394	13,500	14,500	17,500	
General & administration	13,030	17,651	18,250	19,250	20,500	
Sales & marketing	15,535	29,554	32,500	37,500	39,000	50 reps for US launch
Total op exp	39,928	62,599	64,250	71,250	77,000	
Inc/(loss) from Ops	(32,947)	(29,479)	20,721	97,502	208,642	
Int income (exp), net	(2,090)	(2,573)	(600)	(600)	(600)	
Other expenses, net	-	-	-	-	-	
Inc/(loss) before taxes	(35,736)	(27,301)	20,121	96,902	208,042	
Income tax exp (benefit)	174	73	-	12,190	49,911	Substantial tax loss carryforwards
Net Income (Loss)	(\$35,910)	(\$27,374)	\$20,121	\$84,712	\$158,131	
1x items & non-cash exp	(1,817)	8,883	0	0	0	
Adj NI less non cash & 1x items	(\$34,093)	(\$36,257)	\$0	\$0	\$0	
Earning per Share	(\$0.91)	(\$0.61)	\$0.30	\$1.25	\$2.25	
Adj EPS ex-1x & non-cash items	(\$0.84)	(\$0.80)				
Weighted avg. shares (000)	40,397	45,134	47,647	49,647	52,647	
Fully diluted shares (000)	63,028	75,508	67,647	67,647	70,147	
Cash balance	\$76,697	\$49,118	\$80,439	\$178,601	\$351,082	\$50MM Deerfield Series B shares 4Q14
Margin & Expense Analysis						
COGS as % of Revenues	17%	4%	19%	23%	23%	
R&D	135%	44%	13%	7%	5%	
SG&A	184%	85%	31%	17%	11%	
Gross Profit	83%	96%	81%	77%	77%	
Op. margin cont. ops	NA	NA	20%	44%	56%	
Taxes	0%	0%	0%	13%	24%	
Net margin	NA	NA	19%	39%	43%	
Year-over-year change	0%	0%	0%	0%	0%	
Net revenue	350%	311%	203%	109%	69%	
R&D	35%	35%	-12%	7%	21%	
SG&A	-5%	90%	10%	15%	4%	
Operating income	NA	NA	NA	371%	114%	
Net income	NA	NA	NA	321%	87%	

Source: Company reports and Laidlaw estimates

Specialty Pharmaceuticals
Jim Molloy (857) 317-5061 jmolloy@laidlawltd.com

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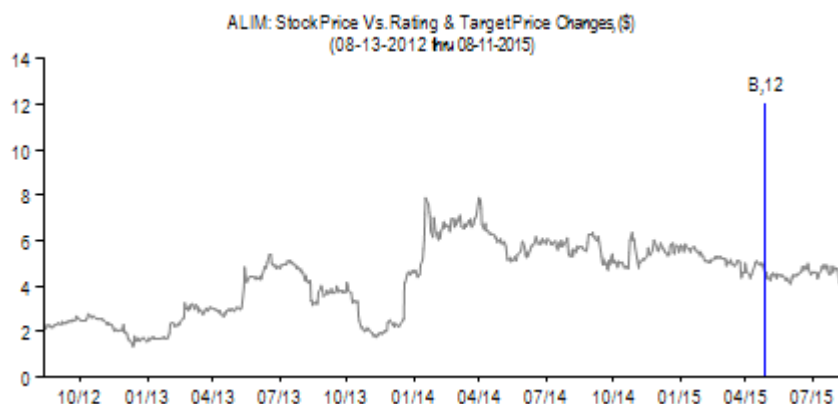
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Date	Rating	Closing Price (\$)
04/28/2015	Buy (B)	4.61

Date	Target Price (\$)	Closing Price, (\$)
04/28/2015	12.00	4.61

Source: Laidlaw & Company

Created by: Blue-Compass.net

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			Investment Banking	Brokerage
Strong Buy (SB)	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
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Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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