

## Alimera Sciences (ALIM - \$3.24)

### 3Q15 Prints Roughly In-line, J-code Should Help 2016

ALIM recently reported 3Q15 roughly in-line with our revenue & EPS estimates. ALIM's main drug Iluvien reported \$5.0M in US sales, but EU sales came in well below our expectations (\$1.9M vs. Laidlaw \$2.9M) due to weakness in the UK and FOREX headwinds. Management noted that reimbursement remains a key hurdle for doctor adoption, but that an Iluvien-specific J-code going into effect in January 2016 should help doctors get comfortable with up-fronting the ~\$8,000 cost of the treatment. Positively ALIM is seeing a strong re-order rate with 55% of doctors re-ordering Iluvien (vs 38% in 2Q) showing good pull-through despite J-Code headwinds. We continue to like ALIM here, and we reiterate our Buy rating and \$12 price target.

- **Strong US sales offset pullback in EU.** 3Q revenues were roughly in-line with our estimates driven by strong US sales Q for Iluvien (+33% Q-Q growth). Although international revenues decreased by 21% vs 3Q14, primarily due to lagging sales in the UK, sales have improved in Germany due to increased use of key opinion leaders to promote Iluvien; and an improved reimbursement picture.
- **J-Code available in January 2016.** The specific J-Code for Iluvien has been posted and will be available for use on January 1, 2016. An Iluvien specific J-Code should help drive additional use and market acceptance as many doctors have hesitated to use Iluvien without a specific J-Code.
- **A strong re-order rate amidst reimbursement concerns.** Management highlighted a positive ~55% re-order rate in 3Q15 as compared to the 2Q15 ~38% re-order rate. Positively ALIM is seeing a high level of re-ordering amongst their higher volume early Iluvien adopters.
- **Reiterate Buy rating and \$12 PT.** We continue to anticipate that ALIM should turn EPS positive in 4Q16 driven by US Iluvien 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 \$0.50/share.

*Healthcare / Biotechnology*

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

#### Trading Data:

Last Price (11/06/2015)	\$3.24
52-Week High (11/18/2014)	\$6.18
52-Week Low (09/29/2015)	\$1.94
Market Cap. (MM)	\$143.9
Shares Out. (MM)	44.41

#### Earnings Estimates: (per share)

(Sep)	1Q	2Q	3Q	4Q	FY	P/E
<b>FY16E</b>	(\$0.17)	(\$0.09)	(\$0.05)	\$0.01	(\$0.30)	20.9x
<b>FY15E</b>	(\$0.27)A	(\$0.24)A	(\$0.21)A	(\$0.27)	(\$1.00)	NA
<b>FY14</b>	(\$0.21)	(\$0.16)	(\$0.22)	(\$0.25)	(\$0.84)	NA
<b>FY13</b>	(\$0.27)	(\$0.30)	(\$0.25)	(\$0.24)	(\$1.11)	NA

#### Analyst

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Source: Laidlaw & Company estimates

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- **Weaker 4Q15 expected due to seasonality.** Management highlighted their expectations for a weaker 4Q15, and FY16 top line sales guidance of ~\$20M due to concerns about lower procedure volume during the holiday season. We have adjusted our 4Q revenue numbers from \$5.9M US and \$3.8M EU to \$4.8M US and \$2.2M EU to account for the expected 4Q weakness.

Figure 1: Variance analysis

<b>Alimera Sciences</b>					
<b>Quarterly variance analysis</b>					
(000's except per share)	3Q14A	3Q15A	3Q15E	Variance	% Y/Y
Illuvien - US	\$0	\$5,032	\$4,771	\$261	NM
Illuvien - ex US	2,408	1,869	2,909	(1,040)	-22.4%
<b>Total Revenue</b>	<b>\$2,408</b>	<b>\$6,901</b>	<b>\$7,680</b>	<b>(\$779)</b>	<b>186.6%</b>
COGS	372	634	377	257	70.4%
<b>Gross Profit</b>	<b>2,036</b>	<b>6,267</b>	<b>7,303</b>	<b>(1,036)</b>	<b>207.8%</b>
R&D Expense	3,941	4,078	3,750	328	3.5%
G&A Expense	3,040	3,031	4,500	(1,469)	-0.3%
Sales & Marketing Exp	3,680	6,949	7,250	(301)	88.8%
<b>Operating Inc (loss)</b>	<b>(8,625)</b>	<b>(7,791)</b>	<b>(8,197)</b>	<b>406</b>	<b>-9.7%</b>
Int. inc. (expense), net	(408)	(1,317)	(150)	(1,167)	222.8%
<b>Pretax Income</b>	<b>(6,964)</b>	<b>(1,461)</b>	<b>(8,347)</b>	<b>6,886</b>	<b>-79.0%</b>
Income Tax exp (benefit)	45	82	0	82	82.2%
<b>Net income (loss)</b>	<b>(7,009)</b>	<b>(1,543)</b>	<b>(8,347)</b>	<b>6,804</b>	<b>-78.0%</b>
1x items & non-cash exp	1,885	8,047	2,250	5,797	326.9%
<b>Adj NI ex-1x/non cash</b>	<b>(8,894)</b>	<b>(9,590)</b>	<b>(10,597)</b>	<b>1,007</b>	<b>7.8%</b>
Weighted avg. shares (000)	41,063	44,436	45,397	(960)	8.2%
Fully diluted shares (000)	62,542	79,436	75,397	4,040	27.0%
<b>EPS as reported</b>	<b>(\$0.17)</b>	<b>(\$0.03)</b>	<b>(\$0.18)</b>	<b>\$0.15</b>	<b>-79.7%</b>
<b>Adj EPS ex-1x &amp; non-cash</b>	<b>(\$0.22)</b>	<b>(\$0.21)</b>	<b>(\$0.23)</b>	<b>\$0.02</b>	<b>-0.8%</b>

Source: Company Reports: Laidlaw &amp; Company estimates

Figure 2: Valuation

<b>Sum-of-the-parts value: ALIM</b>		
Segment	Valuation (000's)	Per share value
Illuvien - US	\$749,450	\$10
Illuvien - EU	\$115,964	\$1.5
Net cash '16 & tech value	\$35,787	\$0.5
<b>SUM</b>	<b>\$901,201</b>	<b>\$12</b>
Shares out '16E (000)		77,692

Source: Company Reports: Laidlaw &amp; Company estimates

Figure 3: Iluvien Revenue Projections

Alimera Sciences Iluvien US sales model						
(values in 000's)	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	1.0%	2.2%	6.8%	16.0%	20.0%	23.5%
Iluvien capture # of anti-VEGF failures	1.9	4.4	13.5	32.7	41.7	50.0
Annual cost of therapy	\$8,250	\$8,250	\$8,588	\$8,694	\$9,128	\$9,767
<b>Iluvien US sales (\$000)</b>	<b>\$15,964</b>	<b>\$36,095</b>	<b>\$116,881</b>	<b>\$285,005</b>	<b>\$380,969</b>	<b>\$488,552</b>
growth Y-Y		126%	224%	144%	34%	28%

Source: Company Reports; Laidlaw &amp; 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	3QA	4QE	
<b>Revenues</b>										
Iluvien - US						\$2,438	\$3,776	\$5,032	\$4,771	\$15,964
Iluvien ex-US	\$2,084	\$2,190	\$2,408	\$1,741	\$8,423	1,500	2,000	1,869	2,238	7,697
<b>Total Revenue</b>	<b>\$2,084</b>	<b>\$2,190</b>	<b>\$2,408</b>	<b>\$1,741</b>	<b>\$8,423</b>	<b>\$3,938</b>	<b>\$5,776</b>	<b>\$6,901</b>	<b>\$7,009</b>	<b>\$23,624</b>
<b>Expenses:</b>										
Cost of Revenue (COGS)	564	376	372	130	1,442	283	376	634	370	1,663
<b>Gross Margin</b>	<b>1,520</b>	<b>1,814</b>	<b>2,036</b>	<b>1,611</b>	<b>6,981</b>	<b>3,655</b>	<b>5,400</b>	<b>6,267</b>	<b>6,639</b>	<b>21,961</b>
Research and development	2,626	1,809	3,941	2,987	11,363	3,329	3,815	4,078	4,000	15,222
General & administration	2,927	2,827	3,040	4,236	13,030	4,191	4,460	3,031	4,000	15,682
Sales & marketing	3,411	3,136	3,680	5,308	15,535	7,129	6,925	6,949	7,000	28,003
Total operating expenses	8,964	7,772	10,661	12,531	39,928	14,649	15,200	14,058	15,000	58,907
<b>Income (loss) from Operations</b>	<b>(7,444)</b>	<b>(5,958)</b>	<b>(8,625)</b>	<b>(10,920)</b>	<b>(32,947)</b>	<b>(10,994)</b>	<b>(9,800)</b>	<b>(7,791)</b>	<b>(8,361)</b>	<b>(36,946)</b>
Int inc (expense), other net	(129)	(325)	(408)	(1,228)	(2,090)	(1,122)	(1,151)	(1,317)	(1,250)	(4,840)
<b>Income (loss) before taxes</b>	<b>(20,759)</b>	<b>1,185</b>	<b>(6,964)</b>	<b>(9,198)</b>	<b>(35,736)</b>	<b>(9,724)</b>	<b>(8,592)</b>	<b>(1,461)</b>	<b>(9,611)</b>	<b>(29,388)</b>
Income tax exp (benefit)		69	45	60	174	69	4	82	-	155
<b>NI (Loss) as reported</b>	<b>(20,759)</b>	<b>1,116</b>	<b>(7,009)</b>	<b>(9,258)</b>	<b>(35,910)</b>	<b>(9,793)</b>	<b>(8,596)</b>	<b>(1,543)</b>	<b>(9,611)</b>	<b>(29,543)</b>
Pref stock conversion exp				(750)	(750)					
<b>Net Income (Loss) to common</b>				<b>(10,008)</b>	<b>(36,660)</b>					
1x items & non-cash exp	(13,186)	7,468	1,885	2,016	(1,817)	2,208	2,175	8,047	2,250	14,680
<b>Adj NI less non cash &amp; 1x items</b>	<b>(7,573)</b>	<b>(6,352)</b>	<b>(8,894)</b>	<b>(11,274)</b>	<b>(34,093)</b>	<b>(12,001)</b>	<b>(10,771)</b>	<b>(9,590)</b>	<b>(11,861)</b>	<b>(44,223)</b>
<b>EPS as reported</b>	<b>(\$0.58)</b>	<b>\$0.02</b>	<b>(\$0.17)</b>	<b>(\$0.23)</b>	<b>(\$0.91)</b>	<b>(\$0.22)</b>	<b>(\$0.19)</b>	<b>(\$0.03)</b>	<b>(\$0.22)</b>	<b>(\$0.67)</b>
<b>Adj EPS ex-1x &amp; non-cash items</b>	<b>(\$0.21)</b>	<b>(\$0.16)</b>	<b>(\$0.22)</b>	<b>(\$0.25)</b>	<b>(\$0.84)</b>	<b>(\$0.27)</b>	<b>(\$0.24)</b>	<b>(\$0.21)</b>	<b>(\$0.27)</b>	<b>(\$1.00)</b>
Weighted avg. shares (000)	35,853	40,276	41,063	44,296	40,397	44,348	44,397	44,436	44,486	44,417

Source: Company reports and Laidlaw estimates

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Figure 5: Annual Income Statement

Alimera Sciences						
Annual income statement						
(\$000 except per share)	2014A	2015E	2016E	2017E	2018E	Comments
<b>Revenues</b>						
Iluvien - US	-	15,964	36,095	116,881	285,005	US launch 1Q15
Iluvian ex-US	8,423	7,697	19,628	44,931	77,174	EU roll-out through 2016
<b>Total Revenue</b>	<b>\$8,423</b>	<b>\$23,624</b>	<b>\$55,723</b>	<b>\$161,812</b>	<b>\$362,179</b>	
<b>Expenses:</b>						
Cost of Revenue (COGS)	1,442	1,663	9,011	37,217	83,301	pSivida payments here
<b>Gross Margin</b>	<b>6,981</b>	<b>21,961</b>	<b>46,713</b>	<b>124,595</b>	<b>278,878</b>	
R&D	11,363	15,222	14,500	14,500	20,000	
General & administration	13,030	15,682	16,000	18,750	20,500	
Sales & marketing	15,535	28,003	28,500	30,000	39,000	50 reps for US launch
Total op exp	39,928	58,907	59,000	63,250	79,500	
<b>Inc/(loss) from Ops</b>	<b>(32,947)</b>	<b>(36,946)</b>	<b>(12,287)</b>	<b>61,345</b>	<b>199,378</b>	
Int income (exp), net	(2,090)	(4,840)	(1,000)	(1,200)	(600)	
Other expenses, net	-	-	-	-	-	
<b>Inc/(loss) before taxes</b>	<b>(35,736)</b>	<b>(29,388)</b>	<b>(13,287)</b>	<b>60,145</b>	<b>198,778</b>	
Income tax exp (benefit)	174	155	-	8,302	47,983	Substantial tax loss carryforwards
<b>Net Income (Loss)</b>	<b>(\$35,910)</b>	<b>(\$29,543)</b>	<b>(\$13,287)</b>	<b>\$51,844</b>	<b>\$150,795</b>	
1x items & non-cash exp	(1,817)	14,680	0	0	0	
<b>Adj NI less non cash &amp; 1x items</b>	<b>(\$34,093)</b>	<b>(\$44,223)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	
<b>Earning per Share</b>	<b>(\$0.91)</b>	<b>(\$0.67)</b>	<b>(\$0.30)</b>	<b>\$0.80</b>	<b>\$2.35</b>	
<b>Adj EPS ex-1x &amp; non-cash items</b>	<b>(\$0.84)</b>	<b>(\$1.00)</b>				
Weighted avg. shares (000)	40,397	44,417	44,736	45,511	46,636	
Fully diluted shares (000)	63,028	77,692	64,736	64,511	64,136	
Cash balance	\$76,697	\$46,949	\$44,861	\$110,155	\$275,300	\$50MM Deerfield Series B shares 4Q14
<b>Margin &amp; Expense Analysis</b>						
COGS as % of Revenues	17%	7%	16%	23%	23%	
R&D	135%	64%	26%	9%	6%	
SG&A	184%	119%	51%	19%	11%	
Gross Profit	83%	93%	84%	77%	77%	
Op. margin cont. ops	NA	NA	-22%	38%	55%	
Taxes	0%	-1%	0%	14%	24%	
Net margin	NA	NA	-24%	32%	42%	
<b>Year-over-year change</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	
Net revenue	350%	180%	136%	190%	124%	
R&D	35%	34%	-5%	0%	38%	
SG&A	-5%	80%	2%	5%	30%	
Operating income	NA	NA	NA	-599%	225%	
Net income	NA	NA	NA	-490%	191%	

Source: Company reports and Laidlaw estimates

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## Major Risks

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Exogenous events could impact our outlook. We believe pharmaceutical companies have the least control over competitive, political, and regulatory risks. Although we have incorporated competitive assumptions into our forecasts, there may be other risks beyond the scope of our analysis. Changes in the drug reimbursement system, as well as any political or regulatory amendments, may significantly influence the earnings power of these companies.

Actual clinical results and the FDA's conclusions may deviate from expectations. Many of our assumptions are based on a review of incomplete clinical trial data available in the public domain. Often, our conclusions are drawn from early stage data, which may not be reflected by pivotal studies. Furthermore, the FDA's conclusions may not coincide with our own, materially changing our revenue and earnings assumptions.

Compliance issues, product recalls, and other mandates by regulatory authorities could materially change our expectations. Regulatory compliance issues, ranging from accounting irregularities to defective manufacturing practices, could materially change our assumptions and earnings outlook. Unanticipated product recalls and labeling changes could also have adverse consequences on our earnings assumptions.

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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

Laidlaw & Company Rating System*		% of Companies Under Coverage With This Rating	% of Companies for which Laidlaw & Company has performed services for in the last 12 months	
			Investment Banking	Brokerage
<b>Strong Buy (SB)</b>	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
<b>Buy (B)</b>	Expected to outperform the sector average over 12 months.	71.88%	25.00%	6.25%
<b>Hold (H)</b>	Expected returns to be in line with the sector average over 12 months.	3.13%	0.00%	0.00%
<b>Sell (S)</b>	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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