

## Alimera Sciences (ALIM - \$1.80)

### Iluvien sales continue their slow & steady growth

ALIM reported 1Q16 roughly in-line with our estimates due to a combination of an uptick in US sales in March after anemic top line growth in the first two months, and lower than expected operating expenses in the quarter. Management indicated that continued sales progression like that seen in March and April could lead to EBITDA cash flow breakeven by the end of 2016. With twice as many benefit investigations (BI's) in 1Q16 vs. 4Q15, we still believe this can be seen as a positive precursor to sales as management noted that for the time being, 85-90% of BI's translate into sales. As ALIM keeps ramping up their sales, the key remains counter-detailing Iluvien vs. Ozurdex on the concerns of intra-ocular pressure (IOP) in Iluvien patients. We reiterate our Buy rating and \$10 price target.

- **US Iluvien sales pick up after expected slow start to 1Q16.** Although worldwide Iluvien sales in 1Q16 missed our estimates by ~\$1.1M, an uptick record month in March and lower than anticipated operating expenses led to a bottom line hit of (\$0.21). With an active J-Code as of January and twice as many BI's in 1Q16 vs. 4Q15, we believe this should translate into a steady uptrend of Iluvien adoption in physicians' offices.
- **New sales reps in the U.S. facilitating the Ozurdex to Iluvien transition.** Continued education of doctors remains a key goal at ALIM as the 3-month reversibility of Ozurdex (vs. 3 years for Iluvien) remains key issue for doctors concerned with IOP. With >50% sales reps making monthly target, management believes continued sales inflection could lead to positive EBITDA cash flow by YE16.
- **Lackluster early 1Q16 sales, Hercules debt facility complications.** January and February lower than expected sales prevented achievement of compliance with the revenue covenants of its debt facility with Hercules. As of March, ALIM and Hercules entered into an amendment to the debt facility to waive violations; and ALIM is pursuing alternative or more debt financing to be completed in 2Q16. With \$23.9M in cash and our estimated ~26M burn in cash from operation in 2016, we still believe ALIM could return to capital markets in 2H16, likely following continued progress in Iluvien sales.
- **Reiterate Buy rating and \$10 PT.** Our \$10 price target is based on a sum-of-the-parts analysis, with US Iluvien sales valued at \$8/share, EU Iluvien sales valued at \$2/share, and cash and technology valued at \$0/share.

Healthcare / Biotechnology

Ticker: ALIM  
Rating: Buy  
Price Target: ↓ \$10.00

#### Trading Data:

Last Price (05/05/2016)	\$1.80
52-Week High (04/21/2015)	\$5.15
52-Week Low (03/28/2016)	\$1.49
Market Cap. (MM)	\$80.8
Shares Out. (MM)	45.01

#### Earnings Estimates: (per share)

(Sep)	1Q	2Q	3Q	4Q	FY	P/E
<b>FY17E</b>	(\$0.09)	(\$0.06)	(\$0.03)	\$0.02	(\$0.15)	NA
<b>FY16E</b>	(\$0.21)A	(\$0.20)	(\$0.17)	\$(0.14)	(\$0.72)	NA
<b>FY15</b>	(\$0.22)	(\$0.23)	(\$0.20)	(\$0.22)	(\$0.92)	NA
<b>FY14</b>	(\$0.21)	(\$0.16)	(\$0.22)	(\$0.25)	(\$0.83)	NA

#### Analyst

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Source: Laidlaw & Company estimates

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Figure 1: Variance analysis

Alimera Sciences Variance analysis					
(000's except per share)	1Q15A	1Q16A	1Q16E	Variance	% Y/Y
Illuvien - US	\$2,438	\$4,119	\$4,867	(\$748)	68.9%
Illuvien - ex US	1,500	1,682	2,054	(372)	12.1%
<b>Total Revenue</b>	<b>\$3,938</b>	<b>\$5,801</b>	<b>\$6,921</b>	<b>(\$1,120)</b>	<b>47.3%</b>
COGS	280	328	1,107	(779)	17.1%
<b>Gross Profit</b>	<b>3,658</b>	<b>5,473</b>	<b>5,814</b>	<b>(341)</b>	<b>49.6%</b>
R&D Expense	3,329	3,020	4,000	(980)	-9.3%
G&A Expense	3,619	3,395	4,000	(605)	-6.2%
Sales & Marketing Exp	7,129	7,109	6,750	359	-0.3%
<b>Operating Inc (loss)</b>	<b>(10,419)</b>	<b>(8,051)</b>	<b>(8,936)</b>	<b>885</b>	<b>-22.7%</b>
Int. inc. (expense), net	(1,122)	(1,335)	(250)	(1,085)	19.0%
<b>Pretax Income</b>	<b>(11,541)</b>	<b>(9,386)</b>	<b>(9,186)</b>	<b>(200)</b>	<b>-18.7%</b>
Income Tax exp (benefit)	69	9	0	9	-87.0%
<b>Adj NI ex-1x &amp; noncash</b>	<b>(11,610)</b>	<b>(9,395)</b>	<b>(9,186)</b>	<b>(209)</b>	<b>-19.1%</b>
1x items & non-cash exp	1,817	(1,750)			-196.3%
<b>EPS as reported</b>	<b>(9,793)</b>	<b>(11,145)</b>			<b>13.8%</b>
Weighted avg. shares (000)	44,348	45,006	44,717	289	1.5%
Fully diluted shares (000)	75,841	77,006	76,717	289	1.5%
<b>Adj EPS ex-1x &amp; noncash</b>	<b>(\$0.26)</b>	<b>(\$0.21)</b>	<b>(\$0.21)</b>	<b>(\$0.00)</b>	<b>-20.3%</b>
<b>EPS as reported</b>	<b>(\$0.22)</b>	<b>(\$0.25)</b>			<b>12.1%</b>

Source: Company Reports: Laidlaw &amp; Company estimates

Figure 2: Valuation

Sum-of-the-parts value: ALIM		
Segment	Valuation (000's)	Per share value
Illuvien - US	\$560,046	\$7.5
Illuvien - EU	\$170,909	\$2.0
Net cash '16 & tech value	\$34,414	\$0.5
<b>SUM</b>	<b>\$765,369</b>	<b>\$10</b>
Shares out '16E (000)		76,615

Source: Company Reports: Laidlaw &amp; Company estimates

Figure 3: Current Iluvien US Revenue Projections

Alimera Sciences Iluvian US sales model						
(values in 000's)	2015A	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%	1.3%	2.4%	5.9%	10.0%	12.5%
Iluvien capture # of anti-VEGF failures	1.8	2.6	4.9	12.0	20.9	26.6
Annual cost of therapy	\$8,250	\$8,250	\$8,588	\$8,694	\$9,128	\$9,767
<b>Iluvien US sales (\$000)</b>	<b>\$15,167</b>	<b>\$21,356</b>	<b>\$42,082</b>	<b>\$104,953</b>	<b>\$190,484</b>	<b>\$259,868</b>
growth Y-Y		41%	97%	149%	81%	36%

Source: Company Reports: Laidlaw &amp; Company estimates

## Quarterly Income Statement

Alimera Sciences Quarterly income statement										
(\$000 except per share)	2015A				2015A Year	2016E				2016E Year
	1QA	2QA	3QA	4QA		1QA	2QE	3QE	4QE	
<b>Revenues</b>										
Iluvien - US	\$2,438	\$3,776	\$5,032	\$3,923	\$15,169	\$4,119	\$4,461	\$5,678	\$7,097	\$21,355
Iluvian ex-US	1,500	2,000	1,869	1,900	7,269	1,682	2,054	2,191	2,282	8,210
<b>Total Revenue</b>	<b>\$3,938</b>	<b>\$5,776</b>	<b>\$6,901</b>	<b>\$5,823</b>	<b>\$22,438</b>	<b>\$5,801</b>	<b>\$6,515</b>	<b>\$7,869</b>	<b>\$9,380</b>	<b>\$29,565</b>
<b>Expenses:</b>										
Cost of Revenue (COGS)	280	320	381	336	1,317	328	945	1,141	1,360	3,774
<b>Gross Margin</b>	<b>3,658</b>	<b>5,456</b>	<b>6,520</b>	<b>5,487</b>	<b>21,121</b>	<b>5,473</b>	<b>5,571</b>	<b>6,728</b>	<b>8,020</b>	<b>25,791</b>
Research and development	3,329	3,815	4,078	3,618	14,840	3,020	3,000	3,100	3,150	12,270
General & administration	3,619	3,821	3,031	3,719	14,190	3,395	3,250	3,500	3,500	13,645
Sales & marketing	7,129	6,925	6,949	7,087	28,090	7,109	7,250	7,250	7,300	28,909
Total operating expenses	14,077	14,561	14,058	14,424	57,120	13,524	13,500	13,850	13,950	54,824
<b>Income (loss) from Operations</b>	<b>(10,419)</b>	<b>(9,105)</b>	<b>(7,538)</b>	<b>(8,937)</b>	<b>(35,999)</b>	<b>(8,051)</b>	<b>(7,929)</b>	<b>(7,122)</b>	<b>(5,930)</b>	<b>(29,033)</b>
Int inc (expense), other net	(1,122)	(1,151)	(1,317)	(1,103)	(4,693)	(1,335)	(1,250)	(1,250)	(1,250)	(5,085)
<b>Income (loss) before taxes</b>	<b>(11,541)</b>	<b>(10,256)</b>	<b>(8,855)</b>	<b>(10,040)</b>	<b>(40,692)</b>	<b>(9,386)</b>	<b>(9,179)</b>	<b>(8,372)</b>	<b>(7,180)</b>	<b>(34,118)</b>
Income tax exp (benefit)	69	4	82	(25)	130	9	-	-	-	9
<b>Adjusted NI ex-1x &amp; noncash</b>	<b>(11,610)</b>	<b>(10,260)</b>	<b>(8,937)</b>	<b>(10,015)</b>	<b>(40,822)</b>	<b>(9,395)</b>	<b>(9,179)</b>	<b>(8,372)</b>	<b>(7,180)</b>	<b>(34,127)</b>
1x items & non-cash exp	1,817	1,664	7,394	(698)	10,177	(1,750)				(1,750)
<b>EPS as reported</b>	<b>(9,793)</b>	<b>(8,596)</b>	<b>(1,543)</b>	<b>(10,713)</b>	<b>(30,645)</b>	<b>(11,145)</b>				<b>(35,877)</b>
<b>Adjusted EPS ex-1x &amp; noncash</b>	<b>(\$0.26)</b>	<b>(\$0.23)</b>	<b>(\$0.20)</b>	<b>(\$0.22)</b>	<b>(\$0.92)</b>	<b>(\$0.21)</b>	<b>(\$0.20)</b>	<b>(\$0.17)</b>	<b>(\$0.14)</b>	<b>(\$0.72)</b>
<b>EPS as reported</b>	<b>(\$0.22)</b>	<b>(\$0.19)</b>	<b>(\$0.03)</b>	<b>(\$0.24)</b>	<b>(\$0.69)</b>	<b>(\$0.25)</b>				<b>(\$0.75)</b>
Weighted avg. shares (000)	44,348	44,397	44,436	44,617	44,450	45,006	45,106	48,456	51,806	47,593
Fully diluted shares (000)	75,841	76,003	75,844	78,772	76,615	77,006	77,106	80,456	83,806	79,593

Source: Company Reports: Laidlaw &amp; Company estimates

Figure 5: Annual Income Statement

Alimera Sciences						
Annual income statement						
(\$'000 except per share)	2014A	2015A	2016E	2017E	2018E	Comments
<b>Revenues</b>						
Iluvien - US	-	15,169	21,355	42,082	104,953	US launch 1Q15
Iluvian ex-US	8,423	7,269	8,210	20,952	45,355	EU roll-out through 2016
<b>Total Revenue</b>	<b>\$8,423</b>	<b>\$22,438</b>	<b>\$29,565</b>	<b>\$63,034</b>	<b>\$150,307</b>	
<b>Expenses:</b>						
Cost of Revenue (COGS)	610	1,317	3,774	9,140	21,795	pSivida payments here
<b>Gross Margin</b>	<b>7,813</b>	<b>21,121</b>	<b>25,791</b>	<b>53,894</b>	<b>128,513</b>	
R&D	11,363	14,840	12,270	13,000	14,000	
General & administration	12,371	14,190	13,645	14,500	15,750	
Sales & marketing	15,535	28,090	28,909	29,250	30,150	50 reps for US launch
Total op exp	39,269	57,120	54,824	56,750	59,900	
<b>Inc/(loss) from Ops</b>	<b>(31,456)</b>	<b>(35,999)</b>	<b>(29,033)</b>	<b>(2,856)</b>	<b>68,613</b>	
Int income (exp), net	(2,090)	(4,693)	(5,085)	(5,000)	(5,000)	
Other expenses, net	(542)	(106)	-	-	-	
<b>Inc/(loss) before taxes</b>	<b>(33,546)</b>	<b>(40,692)</b>	<b>(34,118)</b>	<b>(7,856)</b>	<b>63,613</b>	
Income tax exp (benefit)	174	130	9	-	3,674	Substantial tax loss carryforwards
<b>Adjusted NI ex-1x &amp; noncash</b>	<b>(\$33,720)</b>	<b>(\$40,822)</b>	<b>(\$34,127)</b>	<b>(\$7,856)</b>	<b>\$59,939</b>	
1x items & non-cash exp	(2,940)	10,177	(1,750)	0	0	
<b>EPS as reported</b>	<b>(\$36,660)</b>	<b>(\$30,645)</b>	<b>(\$35,877)</b>	<b>\$0</b>	<b>\$0</b>	
<b>Earning per Share</b>	<b>(\$0.83)</b>	<b>(\$0.92)</b>	<b>(\$0.72)</b>	<b>(\$0.15)</b>	<b>\$0.70</b>	
<b>Adj EPS ex-1x &amp; non-cash items</b>	<b>(\$0.91)</b>	<b>(\$0.69)</b>				
Weighted avg. shares (000)	40,397	44,450	47,593	52,431	53,556	
Fully diluted shares (000)	70,392	76,615	79,593	84,431	86,056	
Cash balance	\$76,697	\$31,075	\$11,446	\$8,640	\$72,228	3.25M share offering 2H16

Source: Company Reports: Laidlaw &amp; Company estimates

## 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.

Legal risks could lead to additional liabilities and revenue loss. In addition to the expenses incurred by patent challenges, product liability and other legal suits could occur and lead to additional liabilities and revenue loss, which could substantially change our financial assumptions.

## DISCLOSURES:

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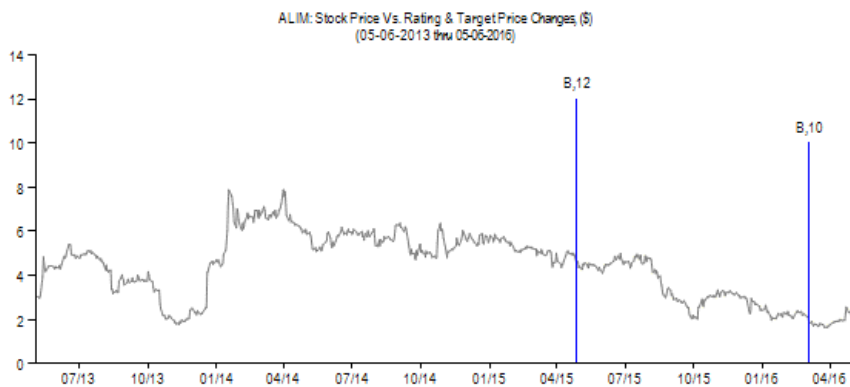
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*Additional information available upon request.*

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#### Rating and Price Target Change History



#### 3 Year Rating Change History

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

#### 3 Year Price Change History

Date	Target Price (\$)	Closing Price (\$)
04/28/2015	12.00	4.61
03/04/2016	10.00	1.85

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.	66.67%	27.78%	2.78%
<b>Hold (H)</b>	Expected returns to be in line with the sector average over 12 months.	0.00%	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%

### ADDITIONAL COMPANIES MENTIONED

Allergan plc (AGN – Not Rated)

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