

Alimera Sciences (ALIM - \$1.76)

US Iluvien Sales Heating Up on Solid Re-order Growth

ALIM reported their 2Q16 with strong top-line growth that they had pre-announced with strong global Iluvien sales (66% yoy growth) and even better US Iluvien topline (90% yoy growth). We see the continuation of the uptick in sales noted from last March as a good sign of things to come as management confirmed that significant increase in volume led to these record revenues. Management continues to project cash flow breakeven in 4Q16, which would be well ahead of our 3Q17 estimate, and do-able should this remarkable ramp in Iluvien continue in 2H16. ALIM stated on their call that they are in discussions with the FDA for future potential indications of Iluvien such as retinal vein occlusion or non-proliferative diabetic retinopathy (more details 1H17), estimating that a trial to expand the label could likely come in for \$10M-\$15M over three years. We continue to like ALIM here, and are encouraged by the recent uptick in Iluvien sales. We are reiterating our Buy rating and our \$10 price target.

- **US Iluvien sales picking up some serious steam.** Both ex-US (\$2.35M) and US (\$7.21M) Iluvien sales beat our prior to 2Q16 pre-announcement estimates (\$2.05M) and (\$4.46M) respectively. This 90% yoy growth in US-Iluvien comes from significant increases in volume. With reimbursement an issue of the past, we believe continued education of doctors remains a key goal and the many upcoming retina meetings should help with the effort.
- **Broadening indications for Iluvien, retinal vein occlusion or non-proliferative diabetic retinopathy?** Having recently discussed this with the FDA, ALIM believes they could potentially broaden the indications of Iluvien with a single Phase 3 for the indication of choice. ALIM could be giving label expansion trial details as early as 1H17.
- **Hercules complications update, details still to come.** After ALIM and Hercules entered into an amendment to the debt facility to waive violations this past March, management is still in discussions with Hercules. We believe that with \$16.6M in cash and our estimated ~\$26M burn in cash from operations in 2016, ALIM could return to capital markets in 2H16.
- **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 \$7.5/share, EU Iluvien sales valued at \$2/share, and cash and technology valued at \$0.50/share.

Earnings Estimates: (per share)

(Sep)	1Q	2Q	3Q	4Q	FY	P/E
FY17E	(\$0.06)	(\$0.03)	\$0.00	\$0.02	(\$0.05)	NA
FY16E	(\$0.21)A	(\$0.15)A	(\$0.15)	\$(0.15)	(\$0.60)	NA
FY15	(\$0.22)	(\$0.23)	(\$0.20)	(\$0.22)	(\$0.92)	NA
FY14	(\$0.21)	(\$0.16)	(\$0.22)	(\$0.25)	(\$0.83)	NA

Source: Laidlaw & Company estimates

Healthcare / Biotechnology

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

Trading Data:

Last Price (08/04/2016)	\$1.76
52-Week High (04/21/2015)	\$5.15
52-Week Low (07/22/2016)	\$1.02
Market Cap. (MM)	\$79.4
Shares Out. (MM)	45.09

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Figure 1: Variance analysis

Alimera Sciences					
Variance analysis					
(000's except per share)	2Q15A	2Q16A	2Q16E	Variance	% Y/Y
Illuvien - US	\$3,776	\$7,208	\$7,100	\$108	90.9%
Illuvien - ex US	2,000	2,349	2,300	49	17.5%
Total Revenue	\$5,776	\$9,557	\$9,400	\$157	65.5%
COGS	320	556	1,363	(807)	73.8%
Gross Profit	5,456	9,001	8,037	964	65.0%
R&D Expense	3,815	3,205	3,000	205	-16.0%
G&A Expense	3,821	4,039	3,250	789	5.7%
Sales & Marketing Exp	6,925	7,510	7,250	260	8.4%
Operating Inc (loss)	(9,105)	(5,753)	(5,463)	(290)	-36.8%
Int. inc. (expense), net	(1,151)	(1,177)	(1,250)	73	2.3%
Pretax Income	(10,256)	(6,930)	(6,713)	(217)	-32.4%
Income Tax exp (benefit)	4	42	0	42	950.0%
Adj NI ex-1x & noncash	(10,260)	(6,972)	(6,713)	(259)	-32.0%
1x items & non-cash exp	1,664	114			-93.1%
EPS as reported	(8,596)	(6,858)			-20.2%
Weighted avg. shares (000)	44,397	45,088	45,106	(18)	1.6%
Fully diluted shares (000)	76,003	78,588	77,106	1,482	3.4%
Adj EPS ex-1x & noncash	(\$0.23)	(\$0.15)	(\$0.15)	(\$0.01)	-33.1%
EPS as reported	(\$0.19)	(\$0.15)			-21.4%

Source: Company Reports: Laidlaw & Company estimates

Figure 2: Valuation

Sum-of-the-parts value		
Segment	Valuation (000's)	Per share value
Illuvien - US	\$635,653	\$7.5
Illuvien - EU	\$170,909	\$2.0
Net cash '17 & tech value	\$25,979	\$0.5
SUM	\$832,540	\$10
Shares out '17E (000)		87,663

Source: Company Reports: Laidlaw & Company estimates

Figure 4: Quarterly Income Statement

Alimera Sciences										
Quarterly income statement										
(\$000 except per share)	2015A				2015A Year	2016E				2016E Year
	1QA	2QA	3QA	4QA		1QA	2QA	3QE	4QE	
Revenues										
Iluvien - US	\$2,438	\$3,776	\$5,032	\$3,923	\$15,169	\$4,119	\$7,208	\$7,300	\$8,111	\$26,738
Iluvian ex-US	1,500	2,000	1,869	1,900	7,269	1,682	2,349	2,282	2,967	9,280
Total Revenue	\$3,938	\$5,776	\$6,901	\$5,823	\$22,438	\$5,801	\$9,557	\$9,582	\$11,078	\$36,019
Expenses:										
Cost of Revenue (COGS)	280	320	381	336	1,317	328	556	548	555	1,987
Gross Margin	3,658	5,456	6,520	5,487	21,121	5,473	9,001	9,035	10,523	34,031
Research and development	3,329	3,815	4,078	3,618	14,840	3,020	3,205	3,200	3,200	12,625
General & administration	3,619	3,821	3,031	3,719	14,190	3,395	4,039	3,500	3,500	14,434
Sales & marketing	7,129	6,925	6,949	7,087	28,090	7,109	7,510	8,250	7,750	30,619
Total operating expenses	14,077	14,561	14,058	14,424	57,120	13,524	14,754	14,950	14,450	57,678
Income (loss) from Operations	(10,419)	(9,105)	(7,538)	(8,937)	(35,999)	(8,051)	(5,753)	(5,915)	(3,927)	(23,647)
Int inc (expense), other net	(1,122)	(1,151)	(1,317)	(1,103)	(4,693)	(1,335)	(1,177)	(1,250)	(1,250)	(5,012)
Income (loss) before taxes	(11,541)	(10,256)	(8,855)	(10,040)	(40,692)	(9,386)	(6,930)	(7,165)	(5,177)	(28,659)
Income tax exp (benefit)	69	4	82	(25)	130	9	42	-	-	51
Adjusted NI ex-1x & noncash	(11,610)	(10,260)	(8,937)	(10,015)	(40,822)	(9,395)	(6,972)	(7,165)	(5,177)	(28,710)
1x items & non-cash exp	1,817	1,664	7,394	(698)	10,177	(1,750)	114			(1,636)
EPS as reported	(9,793)	(8,596)	(1,543)	(10,713)	(30,645)	(11,145)	(6,858)			(30,346)
Adjusted EPS ex-1x & noncash	(\$0.26)	(\$0.23)	(\$0.20)	(\$0.22)	(\$0.92)	(\$0.21)	(\$0.15)	(\$0.15)	(\$0.10)	(\$0.60)
EPS as reported	(\$0.22)	(\$0.19)	(\$0.03)	(\$0.24)	(\$0.69)	(\$0.25)	(\$0.15)			(\$0.63)
Weighted avg. shares (000)	44,348	44,397	44,436	44,617	44,450	45,006	45,088	49,188	53,288	48,143
Fully diluted shares (000)	75,841	76,003	75,844	78,772	76,615	78,522	78,588	82,688	86,788	81,647
Margin & Expense Analysis										
COGS as % of Revenues	7%	6%	6%	6%	6%	6%	6%	6%	5%	6%
R&D	85%	66%	59%	62%	66%	52%	34%	33%	29%	35%
SG&A	181%	120%	101%	122%	125%	123%	79%	86%	70%	85%
Gross Profit	93%	94%	94%	94%	94%	94%	94%	94%	95%	94%
Operating margin	NA	NA	NA	NA	NA	-139%	-60%	-62%	-35%	-66%
Taxes	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Adjusted net margin	NA	NA	NA	NA	NA	-162%	-73%	-75%	-47%	-80%
Year-over-year change										
Net revenue	89%	164%	187%	234%	166%	47%	65%	39%	90%	61%
R&D	21%	96%	-2%	21%	31%	-9%	-16%	-22%	-12%	-15%
SG&A	117%	131%	100%	34%	81%	0%	8%	19%	9%	9%
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: Laidlaw & Company estimates

Figure 5: Annual Income Statement

Alimera Sciences						
Annual income statement						
(\$000 except per share)	2014A	2015A	2016E	2017E	2018E	Comments
Revenues						
Iluvien - US	-	15,169	26,738	42,495	104,953	US launch 1Q15
Iluvian ex-US	8,423	7,269	9,280	20,952	45,355	EU roll-out through 2016
Total Revenue	\$8,423	\$22,438	\$36,019	\$63,448	\$150,307	
Expenses:						
Cost of Revenue (COGS)	610	1,317	1,987	4,627	21,795	pSivida payments here
Gross Margin	7,813	21,121	34,031	58,820	128,513	
R&D	11,363	14,840	12,625	13,000	14,000	
General & administration	12,371	14,190	14,434	14,500	17,500	
Sales & marketing	15,535	28,090	30,619	29,250	30,150	50 reps for US launch
Total op exp	39,269	57,120	57,678	56,750	61,650	
Inc/(loss) from Ops	(31,456)	(35,999)	(23,647)	2,070	66,863	
Int income (exp), net	(2,090)	(4,693)	(5,012)	(5,000)	(5,000)	
Other expenses, net	(542)	(106)	-	-	-	
Inc/(loss) before taxes	(33,546)	(40,692)	(28,659)	(2,930)	61,863	
Income tax exp (benefit)	174	130	51	-	3,584	Substantial tax loss carryforwards
Adjusted NI ex-1x & noncash	(\$33,720)	(\$40,822)	(\$28,710)	(\$2,930)	\$58,279	
1x items & non-cash exp	(2,940)	10,177	(1,636)	0	0	
EPS as reported	(\$36,660)	(\$30,645)	(\$30,346)	\$0	\$0	
Earning per Share	(\$0.83)	(\$0.92)	(\$0.60)	(\$0.05)	\$0.65	
Adj EPS ex-1x & non-cash items	(\$0.91)	(\$0.69)				
Weighted avg. shares (000)	40,397	44,450	48,143	53,913	55,038	
Fully diluted shares (000)	70,392	76,615	81,647	87,663	89,038	
Cash balance	\$76,697	\$31,075	\$8,858	\$10,979	\$72,908	proj. 3.25M share offering 2H16
Margin & Expense Analysis						
COGS as % of Revenues	7%	6%	6%	7%	15%	
R&D	135%	66%	35%	20%	9%	
SG&A	184%	125%	85%	46%	20%	
Gross Profit	93%	94%	94%	93%	86%	
Op. margin cont. ops	NA	NA	-66%	3%	44%	
Taxes	-1%	0%	0%	0%	6%	
Net margin	NA	NA	-80%	-5%	39%	
Year-over-year change						
Net revenue	350%	166%	61%	76%	137%	
R&D	35%	31%	-15%	3%	8%	
SG&A	-5%	81%	9%	-4%	3%	
Operating income	NA	NA	NA	NA	NA	
Net income	NA	NA	NA	NA	NA	

Source: Company Reports: Laidlaw & Company estimates

Major Risks

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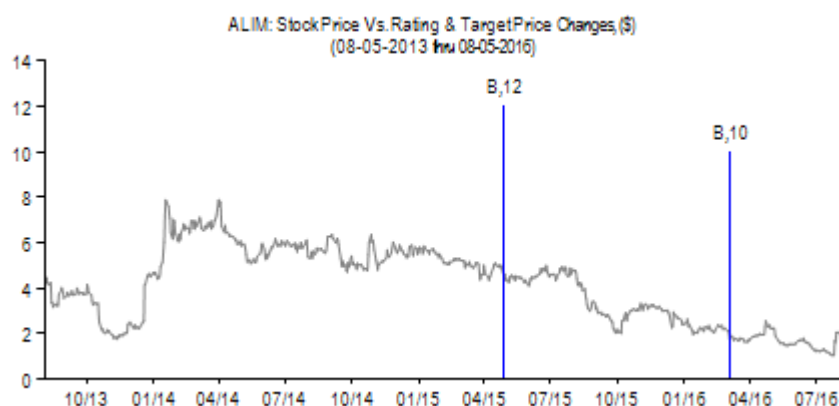
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Date	Rating	Closing Price (\$)
04/28/2015	Buy (B)	4.61

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

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%
Buy (B)	Expected to outperform the sector average over 12 months.	62.16%	27.03%	2.70%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	2.70%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	2.70%	0.00%	0.00%

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Hercules Capital (HTGC – Not Rated)

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