

Alimera Sciences (ALIM - \$1.56)

Healthcare / Biotechnology

Solid Iluvien ground game continues to drive growth

We recently spent time with ALIM senior management and we continue to see the potential for the continued growth of the Iluvien launch through our forecast period. While ALIM is unlikely to duplicate the remarkable 75% Y-Y growth that they saw in the 2Q16, we still expect robust Y-Y growth to continue in 2H16. One of the challenges facing ALIM in selling Iluvien is that they have to “start fresh” each month, since Iluvien is a 3-year product there is no automatic monthly pull through once a patient is on drug like one sees with a typical drug sale. Thus ALIM has to work harder to get multiple ophthalmologists in each practice on board so the Rx’s don’t stop once that particular doctor injects their initial cases. That said, ALIM appears to have continued to increase the number of accounts using Iluvien from the 413 accounts reported in 2Q16 to the ~460 range, and is experimenting with a consignment model in active accounts to alleviate the ~\$9K cost to the doc (~\$400 to ALIM) for stocking Iluvien inventory. ALIM is also considering additional indications to expand the Iluvien label, we believe non-proliferative diabetic retinopathy makes sense and would be a relatively straightforward trial. We are reiterating our Buy rating and our \$10 price target.

- **Active accounts continue to grow.** A key to getting “smoother” sales trajectories is signing up multi-doc practices, where treating the potential intra-ocular pressure (IOP) by glaucoma specialists is more routine (as opposed to retinal specialists). Also the more docs in a practice using Iluvien means it’s less likely Rx’s stop cold when a writing doc takes a vacation.
- **Choppy 3Q16 but still strong Y-Y growth.** Management notes that summer typically is choppier as docs take vacations and Iluvien writing slows. We still anticipate expect 30%-40% Y-Y growth from 3Q16, which is nice.
- **Real world data continues to beat the trials.** ALIM is seeing an incidence of IOP in Iluvien patients in the 18%-20% range, well below the 38% seen in their clinical trials (in 2009!). This is a rare instance where real world safety data is significantly better than that seen in a controlled trial.
- **Reimbursement dramatically improved.** Since receiving their J-code in January 2016 ALIM states that they haven’t had any benefit claims denied, which is key to doctors for stocking an ~\$9K treatment.
- **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 net cash and tech valued at \$0.50/share.

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

Trading Data:

Last Price (09/27/2016)	\$1.56
52-Week High (04/21/2015)	\$5.15
52-Week Low (07/22/2016)	\$1.02
Market Cap. (MM)	\$99.0
Shares Out. (MM)	63.4

Earnings Estimates: (per share)

(Sep)	1Q	2Q	3Q	4Q	FY	P/E
FY17E	(\$0.04)	(\$0.02)	\$0.00	\$0.01	(\$0.05)	NA
FY16E	(\$0.21)A	(\$0.15)A	(\$0.11)	\$(0.07)	(\$0.50)	NA
FY15	(\$0.26)	(\$0.23)	(\$0.20)	(\$0.22)	(\$0.92)	NA
FY14	(\$0.21)	(\$0.16)	(\$0.22)	(\$0.25)	(\$0.83)	NA

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Source: Laidlaw & Company estimates

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Figure 1: Valuation

Sum-of-the-parts value		
Segment	Valuation (000's)	Per share value
Iluvien - US	\$898,203	\$7.5
Iluvien - EU	\$232,573	\$2.0
Net cash '17 & tech value	\$45,550	\$0.5
SUM	\$1,176,325	\$10
Shares out '17E (000)		115,683

Source: Company Reports; Laidlaw & Company estimates

Figure 2: 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	3,750	14,684
Sales & marketing	7,129	6,925	6,949	7,087	28,090	7,109	7,510	8,250	8,250	31,119
Total operating expenses	14,077	14,561	14,058	14,424	57,120	13,524	14,754	14,950	15,200	58,428
Income (loss) from Operations	(10,419)	(9,105)	(7,538)	(8,937)	(35,999)	(8,051)	(5,753)	(5,915)	(4,677)	(24,397)
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)	(5,927)	(29,409)
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)	(5,927)	(29,460)
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)			(31,096)
Adjusted EPS ex-1x & noncash	(\$0.26)	(\$0.23)	(\$0.20)	(\$0.22)	(\$0.92)	(\$0.21)	(\$0.15)	(\$0.11)	(\$0.07)	(\$0.50)
EPS as reported	(\$0.22)	(\$0.19)	(\$0.03)	(\$0.24)	(\$0.69)	(\$0.25)	(\$0.15)			(\$0.52)
Weighted avg. shares (000)	44,348	44,397	44,436	44,617	44,450	45,006	45,088	64,088	83,088	59,318
Fully diluted shares (000)	75,841	76,003	75,844	78,772	76,615	78,522	78,627	97,588	116,588	92,831

Source: Company Reports; Laidlaw & Company estimates

Figure 3: 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	14,684	14,500	16,750	
Sales & marketing	15,535	28,090	31,119	30,250	30,150	50 reps for US launch
Total op exp	39,269	57,120	58,428	57,750	60,900	
Inc/(loss) from Ops	(31,456)	(35,999)	(24,397)	1,070	67,613	
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)	(29,409)	(3,930)	62,613	
Income tax exp (benefit)	174	130	51	-	3,621	Substantial tax loss carryforwards
Adjusted NI ex-1x & noncash	(33,720)	(40,822)	(29,460)	(3,930)	\$58,991	
1x items & non-cash exp	(2,940)	10,177	(1,636)	0	0	
EPS as reported	(36,660)	(30,645)	(31,096)	\$0	\$0	
Earning per Share	(\$0.83)	(\$0.92)	(\$0.50)	(\$0.05)	\$0.50	
Adj EPS ex-1x & non-cash items	(\$0.91)	(\$0.69)				
Weighted avg. shares (000)	40,397	44,450	59,318	83,713	84,838	
Fully diluted shares (000)	70,392	76,615	92,831	117,463	118,838	
Cash balance	\$76,697	\$31,075	\$19,429	\$20,550	\$83,191	18M share offering 3Q16
Margin & Expense Analysis						
COGS as % of Revenues	7%	6%	6%	7%	15%	
R&D	135%	66%	35%	20%	9%	
SG&A	184%	125%	86%	48%	20%	
Gross Profit	93%	94%	94%	93%	86%	
Op. margin cont. ops	NA	NA	-68%	2%	45%	
Taxes	-1%	0%	0%	0%	6%	
Net margin	NA	NA	-82%	-6%	39%	
Year-over-year change						
Net revenue	350%	166%	61%	76%	137%	
R&D	35%	31%	-15%	3%	8%	
SG&A	-5%	81%	11%	-3%	0%	
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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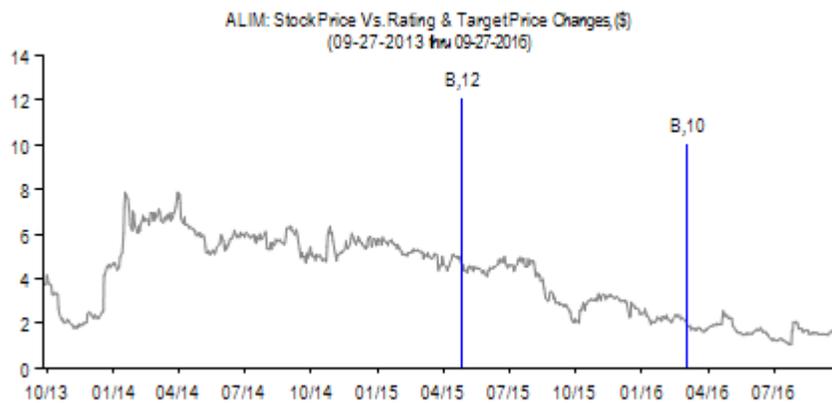
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Rating and Price Target Change History



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

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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.	60.53%	28.95%	2.63%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	5.26%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	2.63%	0.00%	0.00%

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