

## Alimera Sciences (ALIM - \$1.42)

Healthcare / Biotechnology

### Label Expansion and Conversion of Existing Profit Sharing to Royalty Agreement, Upside for Near Term Profitability

Ticker: **ALIM**  
Rating: **Buy**  
Price Target: **\$5.00**

Recently, ALIM announced that it had secured the rights to expand indications to posterior uveitis for Iluvien in the EU, Middle East and Africa. While ALIM used to hold the WW license from PSDV to sell Iluvien for the treatment of all ocular diseases other than uveitis, they are now able to pursue posterior uveitis. We see the terms of the agreement as favorable because ALIM's current obligation to share 20% of its net profits from Iluvien with pSivida Corp. (PSDV) will be converted to 2% royalty on net revenues and other related consideration to PSDV as of 3Q17 increasing to 6% at earliest of either: 1/1/19, receipt by ALIM of first marketing approval, or 1 year from ALIM's filing. ALIM will also pay a 2% royalty on global net revenues and other related consideration >\$75M/year and forgive ~\$10M of PSDV share of previous losses related to Iluvien as well as an additional \$5M of PSDV's outstanding share of previous losses upon approval in any EU country or 1/1/20 (whichever comes first). As PSDV successfully reached its primary endpoint in two Phase 3 studies, we are bullish Iluvien's potential label expansion chances. While we didn't expect label expansion efforts this early, we are pleasantly surprised as key profitability by YE17 goal will only be more achievable. As anti-VEGFs weren't approved for uveitis, we also believe the usage of Iluvien in these patients could help physicians get accustomed to steroid usage and IOP management, which could ultimately lead to greater Iluvien sales for DME. We reiterate our Buy rating and \$5 price target.

#### Trading Data:

|                           |        |
|---------------------------|--------|
| Last Price (07/11/2017)   | \$1.42 |
| 52-Week High (08/04/2016) | \$2.40 |
| 52-Week Low (07/22/2016)  | \$1.02 |
| Market Cap. (MM)          | \$92.2 |
| Shares Out. (MM)          | 64.9   |

- **Label expansion and profitability around the corner, a pleasant surprise.** While we didn't expect label expansion to be in the cards for the time being, we are encouraged that this new agreement has increased our gross margins in 4Q17 from 85.5% to 97.5% subsequently increasing our adjusted net income to \$2.16M from \$0.15M.
- **Favorable deal terms, Iluvien for DME could be the real winner.** With ALIM's focus on profitability by YE17, we see no required upfront cash payment as a real positive and believe label expansion could indirectly benefit DME sales as physicians gain familiarity with steroid usage.
- **Maintain our Buy rating and our \$5 PT.** Our \$5 price target is based on a sotp analysis, with US Iluvien sales at \$3/share, EU Iluvien sales at \$1.5/share, and cash and technology at \$0.50/share.

#### Earnings Estimates: (per share)

|              | 1Q        | 2Q       | 3Q       | 4Q       | FY       | P/E |
|--------------|-----------|----------|----------|----------|----------|-----|
| <b>FY17E</b> | (\$0.10)A | (\$0.05) | (\$0.02) | \$0.02   | (\$0.13) | NA  |
| <b>FY16</b>  | (\$0.21)  | (\$0.15) | (\$0.14) | (\$0.09) | (\$0.57) | NA  |
| <b>FY15</b>  | (\$0.26)  | (\$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: Valuation

| Sum-of-the-parts value    |                      |                    |
|---------------------------|----------------------|--------------------|
| Segment                   | Valuation<br>(000's) | Per share<br>value |
| Iluvien - US              | \$297,392            | \$3.0              |
| Iluvien - EU              | \$141,803            | \$1.5              |
| Net cash '17 & tech value | \$59,059             | \$0.5              |
| <b>SUM</b>                | <b>\$498,254</b>     | <b>\$5</b>         |
| Shares out '18E (000)     |                      | 100,363            |

Source: Company Reports: Laidlaw &amp; Company estimates

Figure 2: Quarterly Income Statement

| Alimera Sciences                        |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Quarterly income statement              |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| (\$000 except per share)                | 2016A           |                 |                 |                 | 2016A<br>Year   | 2017E           |                 |                 |                 | 2017E<br>Year   |
|   | 1QA             | 2QA             | 3QA             | 4QA             |                 | 1QA             | 2QE             | 3QE             | 4QE             |                 |
| <b>Revenues</b>                         |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Iluvien - US                            | \$4,119         | \$7,208         | \$6,200         | \$8,300         | \$25,827        | \$4,400         | \$7,634         | \$8,725         | \$10,906        | \$31,665        |
| Iluvian ex-US                           | 1,682           | 2,349           | 2,098           | 2,377           | 8,506           | 2,200           | 3,492           | 4,656           | 5,820           | 16,168          |
| <b>Total Revenue</b>                    | <b>\$5,801</b>  | <b>\$9,557</b>  | <b>\$8,298</b>  | <b>\$10,677</b> | <b>\$34,333</b> | <b>\$6,618</b>  | <b>\$11,126</b> | <b>\$13,381</b> | <b>\$16,726</b> | <b>\$47,851</b> |
| <b>Expenses:</b>                        |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Cost of Revenue (COGS)                  | 328             | 556             | 486             | 924             | 2,344           | 587             | 556             | 335             | 418             | 1,895           |
| <b>Gross Margin</b>                     | <b>5,473</b>    | <b>9,001</b>    | <b>7,812</b>    | <b>9,753</b>    | <b>31,989</b>   | <b>6,031</b>    | <b>10,571</b>   | <b>13,046</b>   | <b>16,308</b>   | <b>45,956</b>   |
| Research and development                | 3,020           | 3,205           | 3,261           | 2,889           | 12,375          | 2,110           | 2,150           | 2,150           | 2,150           | 8,560           |
| General & administration                | 3,395           | 4,039           | 3,645           | 4,184           | 15,263          | 3,264           | 3,250           | 3,250           | 3,250           | 13,014          |
| Sales & marketing                       | 7,109           | 7,510           | 7,452           | 7,360           | 29,431          | 5,502           | 7,250           | 7,500           | 7,500           | 27,752          |
| Total operating expenses                | 13,524          | 14,754          | 14,358          | 14,433          | 57,069          | 10,876          | 12,650          | 12,900          | 12,900          | 49,326          |
| <b>Income (loss) from Operations</b>    | <b>(8,051)</b>  | <b>(5,753)</b>  | <b>(6,546)</b>  | <b>(4,680)</b>  | <b>(25,030)</b> | <b>(4,845)</b>  | <b>(2,079)</b>  | <b>146</b>      | <b>3,408</b>    | <b>(3,370)</b>  |
| Int inc (expense), other net            | (1,335)         | (1,177)         | (1,330)         | (1,336)         | (5,178)         | (1,337)         | (1,250)         | (1,250)         | (1,250)         | (5,087)         |
| <b>Income (loss) before taxes</b>       | <b>(9,386)</b>  | <b>(6,930)</b>  | <b>(7,876)</b>  | <b>(6,016)</b>  | <b>(30,208)</b> | <b>(6,182)</b>  | <b>(3,329)</b>  | <b>(1,104)</b>  | <b>2,158</b>    | <b>(8,457)</b>  |
| Income tax exp (benefit)                | 9               | 42              | 33              | (88)            | (172)           | 26              | -               | -               | -               | 26              |
| <b>Adjusted NI ex-1x &amp; noncash</b>  | <b>(9,395)</b>  | <b>(6,972)</b>  | <b>(7,909)</b>  | <b>(5,928)</b>  | <b>(30,204)</b> | <b>(6,208)</b>  | <b>(3,329)</b>  | <b>(1,104)</b>  | <b>2,158</b>    | <b>(8,483)</b>  |
| 1x items & non-cash exp                 | (1,750)         | 114             | (1,336)         | 178             | (2,970)         | (527)           |                 |                 |                 |                 |
| <b>EPS as reported</b>                  | <b>(11,145)</b> | <b>(6,858)</b>  | <b>(9,245)</b>  | <b>(5,750)</b>  | <b>(33,174)</b> | <b>(6,735)</b>  |                 |                 |                 |                 |
| <b>Adjusted EPS ex-1x &amp; noncash</b> | <b>(\$0.21)</b> | <b>(\$0.15)</b> | <b>(\$0.14)</b> | <b>(\$0.09)</b> | <b>(\$0.57)</b> | <b>(\$0.10)</b> | <b>(\$0.05)</b> | <b>(\$0.02)</b> | <b>\$0.02</b>   | <b>(\$0.13)</b> |
| <b>EPS as reported</b>                  | <b>(\$0.25)</b> | <b>(\$0.15)</b> | <b>(\$0.16)</b> | <b>(\$0.09)</b> | <b>(\$0.63)</b> | <b>(\$0.10)</b> |                 |                 |                 |                 |
| Weighted avg. shares (000)              | 45,006          | 45,088          | 56,104          | 64,840          | 52,802          | 64,863          | 65,113          | 65,363          | 65,613          | 65,238          |
| Fully diluted shares (000)              | 78,522          | 78,627          | 90,622          | 99,090          | 86,715          | 98,613          | 98,863          | 99,113          | 99,363          | 98,988          |

Source: Company Reports: Laidlaw &amp; Company estimates

Figure 3: Annual Income Statement

| Alimera Sciences                          |                   |                   |                  |                 |                  |                  |                                    |
|---|-------------------|-------------------|------------------|-----------------|------------------|------------------|------------------------------------|
| Annual income statement                   |                   |                   |                  |                 |                  |                  |                                    |
| (\$000 except per share)                  | 2015A             | 2016A             | 2017E            | 2018E           | 2019E            | 2020E            | Comments                           |
| <b>Revenues</b>                           |                   |                   |                  |                 |                  |                  |                                    |
| Iluvien - US                              | 15,169            | 25,827            | 31,665           | 42,542          | 82,415           | 124,350          | US launch 1Q15                     |
| Iluvian ex-US                             | 7,269             | 8,506             | 16,168           | 28,495          | 46,019           | 59,292           | EU roll-out through 2016           |
| <b>Total Revenue</b>                      | <b>\$22,438</b>   | <b>\$34,333</b>   | <b>\$47,851</b>  | <b>\$71,037</b> | <b>\$128,435</b> | <b>\$183,642</b> |                                    |
| <b>Expenses:</b>                          |                   |                   |                  |                 |                  |                  |                                    |
| Cost of Revenue (COGS)                    | 1,317             | 2,344             | 1,895            | 1,776           | 8,571            | 12,610           | pSivida payments here              |
| <b>Gross Margin</b>                       | <b>21,121</b>     | <b>31,989</b>     | <b>45,956</b>    | <b>69,261</b>   | <b>119,863</b>   | <b>171,032</b>   |                                    |
| R&D                                       | 14,840            | 12,375            | 8,560            | 10,500          | 14,000           | 20,000           |                                    |
| General & administration                  | 14,190            | 15,263            | 13,014           | 19,500          | 26,500           | 29,500           |                                    |
| Sales & marketing                         | 28,090            | 29,431            | 27,752           | 30,150          | 42,000           | 60,000           | 50 reps for US launch              |
| Total op exp                              | 57,120            | 57,069            | 49,326           | 60,150          | 82,500           | 109,500          |                                    |
| <b>Inc/(loss) from Ops</b>                | <b>(35,999)</b>   | <b>(25,030)</b>   | <b>(3,370)</b>   | <b>9,111</b>    | <b>37,363</b>    | <b>61,532</b>    |                                    |
| Int income (exp), net                     | (4,693)           | (5,178)           | (5,087)          | (5,000)         | (5,000)          | (5,000)          |                                    |
| Other expenses, net                       | (106)             | (40)              | -                | -               | -                | -                |                                    |
| <b>Inc/(loss) before taxes</b>            | <b>(40,692)</b>   | <b>(30,208)</b>   | <b>(8,457)</b>   | <b>4,111</b>    | <b>32,363</b>    | <b>56,532</b>    |                                    |
| Income tax exp (benefit)                  | 130               | (172)             | 26               | 515             | 8,247            | 16,960           | Substantial tax loss carryforwards |
| <b>Adjusted NI ex-1x &amp; noncash</b>    | <b>(\$40,822)</b> | <b>(\$30,204)</b> | <b>(\$8,483)</b> | <b>\$3,596</b>  | <b>\$24,116</b>  | <b>\$39,573</b>  |                                    |
| 1x items & non-cash exp                   | 10,177            | (2,970)           | 0                | 0               | 0                | 0                |                                    |
| <b>EPS as reported</b>                    | <b>(\$30,645)</b> | <b>(\$33,174)</b> | <b>\$0</b>       | <b>\$0</b>      | <b>\$0</b>       | <b>\$0</b>       |                                    |
| <b>Adj EPS ex-1x &amp; non-cash items</b> | <b>(\$0.92)</b>   | <b>(\$0.57)</b>   | <b>(\$0.13)</b>  | <b>\$0.04</b>   | <b>\$0.24</b>    | <b>\$0.38</b>    |                                    |
| <b>EPS as reported</b>                    | <b>(\$0.69)</b>   | <b>(\$0.63)</b>   |                  |                 |                  |                  |                                    |
| Weighted avg. shares (000)                | 44,450            | 52,802            | 65,238           | 66,363          | 67,813           | 69,663           |                                    |
| Fully diluted shares (000)                | 76,615            | 86,715            | 98,988           | 100,363         | 101,813          | 103,663          |                                    |

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.

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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                |
| 05/10/2017 | 5.00              | 1.58                |

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.                         | 64.44%   | 31.11%  | 2.22%     |
| <b>Hold (H)</b>                  | Expected returns to be in line with the sector average over 12 months.            | 2.22%  | 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

pSivida Corp. (PSDV – Not Rated)

### ADDITIONAL DISCLOSURES

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