

Alimera Sciences (ALIM - \$1.07)

Healthcare / Biotechnology

Impressive Ex-US Sales Help ALIM Exceed Topline Expectations

ALIM recently announced their 4Q18 with topline of \$15.1M, which beat our expectations by \$1.9M. We are especially encouraged by this beat as ALIM had pre-announced that their FY18 net revenues were going to be >\$45M (4Q18: topline > \$13M). We want to point out to investors however that ALIM believes ~\$2.5M of ex-US sales resulted from a shortage of AGN's Ozurdex in certain EU countries (138% yoy ex-US topline increase). Although we do expect Ozurdex's re-integration to the market to negatively impact Iluvien sales, we also see physicians' additional exposure to Iluvien as a long-term positive. Although ALIM continues to deal with the lack of quarterly pull through (Iluvien represents a three-year treatment), we are encouraged that 4Q18 was their highest quarter in both revenue and US end user demand (units purchased by physicians and pharmacies from ALIM's distributors). ALIM's 1,019 units purchased by physicians and pharmacies in 4Q18 represent 14% growth vs their 896 units in 4Q17. As ALIM remains laser focused on Iluvien growth, we believe their commercial expertise (sales, reimbursement, and medical support) in the retina space could make them an interesting acquirer in the next 6-18 months in the pharmaceuticals, diagnostics, genetic testing, or even device side, as many retina specialists are also doing surgery. As ALIM continues on their growth trajectory and repeat usage patients could improve topline, we are reiterating our Buy rating and \$2.25 price target.

- **Top and Bottom line beat, ex-US significantly exceeds expectations.** Even though ALIM had pre-announced FY18 topline >\$45M and 4Q18 > \$13M, we were encouraged by their 4Q18 sales coming in at \$15.1M, which was \$1.9M greater than our expectations. We do however want to remind investors that ~\$2.5M of ex-US sales resulted from shortage of AGN's Ozurdex in certain EU countries.
- **With a differentiated ex-US commercial expertise, M&A remains an interesting option at ALIM.** With end user demand consistent growth, ALIM's main focus remains WW Iluvien. We are however encouraged by their appetite in M&A given their ex-US commercial expertise.
- **Maintain our Buy rating and \$2.25 PT.** Our \$2.25 PT is based on US Iluvien at \$1.50/share and EU Iluvien at \$0.75/share.

Ticker: **ALIM**
Rating: **Buy**
Price Target: **\$2.25**

Trading Data:

Last Price (02/19/2019)	\$1.07
52-Week High (02/28/2018)	\$1.34
52-Week Low (01/02/2019)	\$0.72
Market Cap. (MM)	\$75.0
Shares Out. (MM)	70.0

Earnings Estimates: (per share)

	1Q	2Q	3Q	4Q	FY	P/E
FY18	(\$0.08)	(\$0.05)	(\$0.04)	(\$0.01)	(\$0.17)	NA
FY17	(\$0.10)	(\$0.03)	(\$0.07)	(\$0.09)	(\$0.29)	NA
FY16	(\$0.21)	(\$0.15)	(\$0.14)	(\$0.09)	(\$0.57)	NA
FY15	(\$0.26)	(\$0.23)	(\$0.20)	(\$0.22)	(\$0.92)	NA

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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)	4Q17A	4Q18A	4Q18E	Variance	% Y/Y	FY17A	FY18A	FY18E	Variance	% Y/Y
Illuvien - US	\$6,546	\$8,900	\$10,127	(\$1,227)	36.0%	\$26,146	\$32,399	\$33,626	(\$1,227)	23.9%
Illuvien - ex US	2,666	6,200	3,087	3,113	132.6%	9,766	14,518	11,405	3,113	48.7%
Total Revenue	\$9,142	\$15,114	\$13,214	\$1,900	65.3%	\$35,912	\$46,970	\$45,070	\$1,900	30.8%
COGS	1,043	1,325	1,321	4	27.0%	3,438	4,679	4,675	4	36.1%
Gross Profit	8,099	13,789	11,892	1,897	70.3%	32,474	42,291	40,394	1,897	30.2%
R&D Expense	3,076	2,876	3,000	(124)	-6.5%	9,944	11,274	11,398	(124)	13.4%
G&A Expense	3,443	3,995	4,000	(5)	16.0%	13,039	14,525	14,530	(5)	11.4%
Sales & Marketing Exp	6,646	6,142	6,500	(358)	-7.6%	23,210	23,517	23,875	(358)	1.3%
Operating Inc (loss)	(5,066)	776	(1,608)	2,384	-115.3%	(13,719)	(7,025)	(9,409)	2,384	-48.8%
Int. inc. (expense), net	(1,427)	(1,236)	(1,000)	(236)	-13.4%	(5,579)	(4,776)	(4,540)	(236)	-14.4%
Pretax Income	(6,493)	(460)	(2,608)	2,148	-92.9%	(19,298)	(11,801)	(13,949)	2,148	-38.8%
Adj NI ex-1x & noncash	(6,563)	(462)	(2,399)	1,937	-93.0%	(19,461)	(11,907)	(13,844)	1,937	-38.8%
1x items & non-cash exp	(661)	(787)	0		19.1%	(2,540)	33,854	0		-1432.8%
EPS as reported	(7,224)	(1,249)	0		-82.7%	(22,001)	21,947	0		-199.8%
Weighted avg. shares (000)	69,133	70,066	70,338	(273)	1.3%	66,994	70,738	70,070	668	5.6%
Fully diluted shares (000)	102,883	104,066	104,338	(273)	1.1%	100,728	88,738	100,182	(11,443)	-11.9%
Adj EPS ex-1x & noncash	(\$0.09)	(\$0.01)	(\$0.03)	\$0.03	-93.1%	(\$0.29)	(\$0.17)	(\$0.20)	\$0.03	-42.1%
EPS as reported	(\$0.10)	(\$0.02)	\$0.00		-82.9%	(\$0.33)	\$0.25	\$0.00		-175.3%

Source: Company Reports: Laidlaw & Company estimates

Figure 2: Valuation

Sum-of-the-parts value		
Segment	Valuation (000's)	Per share value
Illuvien - US	\$180,076	\$1.50
Illuvien - EU	\$80,292	\$0.75
Net cash '19 & tech value	(\$13,651)	\$0.00
SUM	\$246,717	\$2.25
Shares out '19E (000)		112,516

Source: Company Reports: Laidlaw & Company estimates

Figure 3: Quarterly Income Statement

Alimera Sciences										
Quarterly income statement										
(\$'000 except per share)	2017A				2017A Year	2018A				2018A Year
	1QA	2QA	3QA	4QA		1QA	2QA	3QA	4QA	
Revenues										
Iluvien - US	\$4,400	\$8,100	\$7,100	\$6,546	\$26,146	\$7,000	\$7,999	\$8,500	\$8,900	\$32,399
Iluvien ex-US	2,200	2,300	2,600	\$2,666	9,766	2,800	2,918	2,600	6,200	14,518
Total Revenue	\$6,618	\$10,368	\$9,784	\$9,142	\$35,912	\$9,802	\$10,917	\$11,137	\$15,114	\$46,970
Expenses:										
Cost of Revenue (COGS)	587	769	1,039	1,043	3,438	1,276	1,113	965	1,325	4,679
Gross Margin	6,031	9,599	8,745	8,099	32,474	8,526	9,804	10,172	13,789	42,291
Research and development	2,110	2,238	2,520	3,076	9,944	2,822	2,777	2,799	2,876	11,274
General & administration	3,264	3,012	3,320	3,443	13,039	3,855	3,229	3,446	3,995	14,525
Sales & marketing	5,502	5,060	6,002	6,646	23,210	5,969	5,926	5,480	6,142	23,517
Total operating expenses	10,876	10,310	11,842	13,165	46,193	12,646	11,932	11,725	13,013	49,316
Income (loss) from Operations	(4,845)	(711)	(3,097)	(5,066)	(13,719)	(4,120)	(2,128)	(1,553)	776	(7,025)
Int inc (expense), other net	(1,337)	(1,384)	(1,431)	(1,427)	(5,579)	(1,151)	(1,178)	(1,211)	(1,236)	(4,776)
Income (loss) before taxes	(6,182)	(2,095)	(4,528)	(6,493)	(19,298)	(5,271)	(3,306)	(2,764)	(460)	(11,801)
Income tax exp (benefit)	26	44	23	70	163	-	76.00	28	2	106
Adjusted NI ex-1x & noncash	(6,208)	(2,139)	(4,551)	(6,563)	(19,461)	(5,271)	(3,382)	(2,792)	(462)	(11,907)
1x items & non-cash exp	(527)	(618)	(734)	(661)	(2,540)	(2,413)	(618)	37,672	(787)	33,854
EPS as reported	(6,735)	(2,757)	(5,285)	(7,224)	(22,001)	(7,684)	(4,000)	34,880	(1,249)	21,947
Adjusted EPS ex-1x & noncash	(\$0.10)	(\$0.03)	(\$0.07)	(\$0.09)	(\$0.29)	(\$0.08)	(\$0.05)	(\$0.04)	(\$0.01)	(\$0.17)
EPS as reported	(\$0.10)	(\$0.04)	(\$0.08)	(\$0.10)	(\$0.33)	(\$0.11)	(\$0.06)	\$0.39	(\$0.02)	\$0.25
Weighted avg. shares (000)	64,863	65,485	68,431	69,133	66,994	69,883	70,022	70,038	70,066	70,738
Fully diluted shares (000)	98,613	99,235	102,181	102,883	100,728	103,883	104,022	88,484	104,066	88,738

Source: Company Reports: Laidlaw & Company estimates

Figure 4: Annual Income Statement

Alimera Sciences						
Annual income statement						
(\$000 except per share)	2015A	2016A	2017A	2018A	2019E	2020E
Revenues						
Iluvien - US	15,169	25,827	26,146	32,399	40,537	49,521
Iluvian ex-US	7,269	8,506	9,766	14,518	16,470	27,176
Total Revenue	\$22,438	\$34,333	\$35,912	\$46,970	\$57,007	\$76,697
Expenses:						
Cost of Revenue (COGS)	1,317	2,344	3,438	4,679	5,911	5,053
Gross Margin	21,121	31,989	32,474	42,291	51,096	71,644
R&D	14,840	12,375	9,944	11,274	12,000	16,000
General & administration	14,190	15,263	13,039	14,525	21,000	25,000
Sales & marketing	28,090	29,431	23,210	23,517	35,000	44,000
Total op exp	57,120	57,069	46,193	49,316	68,000	85,000
Inc/(loss) from Ops	(35,999)	(25,030)	(13,719)	(7,025)	(16,904)	(13,356)
Int income (exp), net	(4,693)	(5,178)	(5,579)	(4,776)	(4,000)	(4,000)
Other expenses, net	(106)	(40)	5	(65)	-	-
Inc/(loss) before taxes	(40,692)	(30,208)	(19,298)	(11,801)	(20,904)	(17,356)
Income tax exp (benefit)	130	(172)	163	106	(4,168)	(5,207)
Adjusted NI ex-1x & noncash	(\$40,822)	(\$30,204)	(\$19,461)	(\$11,907)	(\$16,737)	(\$12,150)
1x items & non-cash exp	10,177	(2,970)	(2,540)	33,854	0	0
EPS as reported	(\$30,645)	(\$33,174)	(\$22,001)	\$21,947	\$0	\$0
Adj EPS ex-1x & non-cash items	(\$0.92)	(\$0.57)	(\$0.29)	(\$0.17)	(\$0.21)	(\$0.14)
EPS as reported	(\$0.69)	(\$0.63)				
Weighted avg. shares (000)	44,450	52,802	66,994	70,738	78,516	84,841
Fully diluted shares (000)	76,615	86,715	100,728	88,738	112,516	118,841

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.

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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Rating and Price Target Change History



3 Year Rating Change History

Date	Rating	Closing Price (\$)
03/04/2016	Buy (B)	1.85

3 Year Price Change History

Date	Target Price (\$)	Closing Price, (\$)
03/04/2016	10.00	1.85
05/10/2017	5.00	1.58
03/02/2018	3.00	1.21
06/01/2018	2.25	0.78

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
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.	63.93%	24.59%	3.28%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	4.92%	1.64%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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Allergan plc (AGN – Not Rated)

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