November 16, 2010

HEALTHCARE/BIOTECHNOLOGY

Alimera Sciences

Ophthalmologist Survey on Iluvien's Potential: The Ayes Have It

Stock Rating:

OUTPERFORM

12-18 mo. Price Target	$16.00
ALIM - NASDAQ	$10.40
3-5 Yr. EPS Gr. Rate	NA
52-Wk Range	$11.49-$6.30
Shares Outstanding	31.2M
Float	25.8M
Market Capitalization	$324.3M
Avg. Daily Trading Volume	51,032
Dividend/Div Yield	NA/NM
Fiscal Year Ends	Dec
Book Value	NM
2010E ROE	NA
LT Debt	$15.0M
Preferred	NA
Common Equity	NA
Convertible Available	No

52 WEEK LOW ($): Range since 4/22/10 IPO

EPS Diluted	Q1	Q2	Q3	Q4	Year	Mult.
2009A	--	--	--	--	(0.86)	NM
2010E	(0.21)A	(0.20)A	(0.20)A	(0.22)	(0.82)	NM
2011E	--	--	--	--	2.30	4.5x
2012E	--	--	--	--	2.73	3.8x

SUMMARY

Ahead of a Dec.30 PDUFA date for ALIM's Iluvien in diabetic macular edema (DME), we surveyed 26 high-prescribing ophthalmologists regarding their attitudes toward the drug. While US physicians are generally biased to expect FDA approvals, very encouragingly, 85% of our respondents believe the ph.III FAME results support Iluvien's approval. Importantly, 81% of respondents expect to use the drug over traditional steroid injections. Additionally, 88% of respondents expect off-label use of Iluvien for retinopathies beyond DME. We continue to see a high likelihood of FDA approval of Iluvien, and, based on the survey results, believe our current expectations for the drug's commercial potential could prove somewhat conservative. We would be near-term buyers of ALIM.

KEY POINTS

- **Physician awareness of Iluvien is already very high.** 19/26 (73%) of our respondents were aware that Iluvien is under review at the FDA. We view this as an extremely high level of awareness for an unapproved drug. Based on this, and the lack of approved DME therapies, we expect relatively strong adoption of Iluvien.
- **Physicians appear to recognize Iluvien's advantages vs. intravitreal steroid injections.** Encouragingly, 21/26 (86%) of respondents said they would use Iluvien as an alternative to traditional steroids. Iluvien's far less frequent dosing was identified as the drug's most important advantage.
- **A late '13/1H14 US approval of Lucentis for DME should have a limited impact on Iluvien sales.** 92% of respondents do not see use of Iluvien and Lucentis (or, more importantly, Avastin) as mutually exclusive, and many physicians expect Iluvien/anti-VEGF combination use. Additionally, we believe entry of Roche/Novartis could grow the DME market, longer term.
- **Results from the survey suggest our ~$560M peak US Iluvien sales estimate could be relatively conservative.** In addition to a positive stance on Iluvien for DME, 88% of respondents would consider use in other retinopathies (including RVO, AMD, and uveitis). Notably, we do not include Iluvien indications beyond DME in our current ALIM valuation.

Stock Price Performance

Company Description

Alimera Sciences is a biopharmaceutical company focused on the research, development, and commercialization of ophthalmic pharmaceuticals. Product candidates include Iluvien, an intravitreal insert for treatment of diabetic macular edema, as well as other ophthalmic diseases, such as the wet form of age-related macular degeneration (AMD), the dry form of AMD, and retinal vein occlusion.

Bret Holley, Ph.D
212-667-7289
Bret.Holley@opco.com

Job Taylor, Ph.D
212 667-6586
Job.Taylor@opco.com

Eric Chang
212-667-6557
eric.chang@opco.com

Investment Thesis

We see a high likelihood of FDA approval of Iluvien for DME by late December/early January. We believe Alimera's current valuation reflects relatively muted expectations for U.S. approval, and, based on this and relatively low investor focus on the company, we see the potential for significant near-term appreciation in Alimera shares. Responses to our proprietary survey reinforce our views on the stock. Our survey results indicate that the majority of physicians expect FDA approval, are already aware of Iluvien, see the insert as having meaningful clinical benefits over current treatments, and anticipate using it as an alternative to standard steroid injections following an approval.

FDA Decision on Iluvien for Diabetic Macular Edema (DME)

We believe there is a high probability that the FDA will approve Iluvien for DME based on the results of the two ph.III FAME trials. The PDUFA date for the Iluvien NDA is Dec 30, 2010, but we would note there is the potential for a slight delay due to the holiday season. We believe that the overall results of the phase III FAME trials clearly established Iluvien's efficacy and favorable safety profile. The prospectively defined primary endpoint of the trials was best corrected visual acuity (BCVA) of ≥15 letters over baseline vs. placebo, using a modified all randomized and treated (mART) analysis that excluded patients that received off-protocol treatments. Somewhat controversially, under this statistical plan, one of the two trials narrowly missed statistical significance (p=0.057) for low dose Iluvien at 24 months. Importantly, however, prospectively defined mART analysis of pooled results from the FAME trials did show statistically significant improvements, and Iluvien showed statistically significant improvements in BCVA of ≥15 letters in both phase III trials using a more conservative intent-to-treat (ITT) analysis. We believe the ITT analysis more closely represents real world use of Iluvien, as it does not exclude patients that received off-label anti-VEGF and intravitreal steroid therapies. We have consulted experts who have experience with the FDA's division of anti-infective and ophthalmology products. These consultants believe the FDA will primarily focus on the more conservative ITT analysis of the phase III results for Iluvien. Based on this, the lack of approved pharmacologic therapies for DME, and the FDA's decision to review the NDA on an expedited basis, acknowledging unmet medical need, we see a high probability of Iluvien's approval.

Survey Results

To assess physician opinion on Iluvien's approvability and likely use, we surveyed 26 ophthalmologists. The survey was primarily focused on how Iluvien might be incorporated into practice if approved. However, we did solicit input on Iluvien's approvability, with the knowledge that physicians are often biased positively on drug approvals, as they generally seek additional treatment options.

Potential for Approval

Survey Question: Based on the phase III results (1), do you think Iluvien should be approved by the FDA?	
Yes	22 (85%)
No	4 (15%)
(1) Respondents were provided with both the safety and efficacy data from the FAME program	

We view this very strong support of approval as an indication that Iluvien provides meaningful clinical benefit. While we acknowledge the physicians may not be as attuned to the statistical arguments of ITT vs. mART as FDA reviewers are likely to be, we

view the responses to this question as a strong indication that the phase III results demonstrate a robust clinical benefit for Iluvien, with an acceptable safety profile.

Physicians and Practice Size

Survey Question: How many DME patients do you treat annually?	
Average	781
Range	125-2500

The physicians surveyed had an average of ~16 years experience. The range was from 8 to 32 years. There was a relatively broad geographic distribution among respondents, with the doctors practicing in 15 states.

Current Pharmacological Treatment of DME

Survey Question: What % of DME patients have severe enough retinopathy to be candidates for intravitreal pharmacological treatment?	
Average	51%
Range	15%-80%

The 51% average of patients receiving pharmacological treatment is generally in-line with our previous expectations. This is based on the assumption that not all DME patients will be classified as having clinically significant DME (CSDME), and that of those patients with severe enough disease to merit intervention, approximately 1/3 will be adequately treated with laser photocoagulation.

Survey Question: What % of your DME patients receive intravitreal steroids?	
Average	18%
Range	5%-50%

We believe the drawbacks of current steroid treatments likely limit their adoption. Intravitreal steroids are not an FDA approved therapy for DME, and we believe that frequent injections, risk of increased intraocular pressure (IOP), and cataract formation/surgery somewhat limit steroid use. Additionally, we would expect some physicians to be biased toward using the anti-VEGF treatments, Avastin and Lucentis, which we addressed in the survey.

Survey Question: What % of your patients do you treat with an anti-VEGF?	
Average	41%
Range	0%-90%

Survey Question: How does this break down: Avastin vs. Lucentis?	
Average	82% Avastin
Range	10%-100% Avastin

This answer is consistent our view that ophthalmologists are generally very willing to use off-label treatments. We believe the aggressive use of pharmacy compounded Avastin by 12 of 26 respondents confirms that retina specialists are results oriented, and will use whatever agent they believe produces results, somewhat independently of FDA approval.

Pre-Approval Iluvien Awareness

Survey Question: Were you aware Iluvien has been tested in Phase III and is under consideration at the FDA?	
Yes	19 (73%)
No	7 (27%)

We believe this level of awareness for an unapproved treatment is unusually high. In our view, this is likely the result of the complete lack of approved therapies for DME. As a majority of retina specialists appear to have knowledge of the product, we believe there is likely some level of pent up demand for Iluvien. Additionally, we expect Alimera will be able to drive significant penetration of Iluvien into the DME market with relatively limited marketing efforts.

Iluvien's Market Potential

Survey Question: Based on your knowledge of the product / the data provided, would you consider Iluvien as an alternative to standard steroid injections?	
Yes	21 (81%)
No	5 (19%)

Survey Question: If you would use the Iluvien insert, what do you see as the most important advantages of Iluvien vs. current steroid treatments?

We are very encouraged by 81% of doctors already noting they would use Iluvien in place of other steroid injections. Particularily encouraging is this level of interest prior to approval, and any subsequent messaging from Alimera. When doctors were allowed to specify what they thought to be Iluvien's advantages, the most common response was the duration of therapy, and reduced injection burden, which was noted by 14/26 respondents. Additional advantages listed were the improvements in BCVA, consistent drug levels, reduced steroid-related glaucoma, and reduced risk of injection related complications

For the five doctors that would not consider Iluvien, we believe some of the concerns are addressable with time. Two specific concerns were cost, and long-term safety. In our view, there is likely a compelling cost/benefit proposition for Iluvien, when the cost of multiple injections of alternative therapies is considered. We also believe that long-term safety will become somewhat less of a concern as doctors gain experience with the insert. A third doctor does not use steroid treatment, and a fourth questioned the efficacy. The fifth physician did not provide any information on why Iluvien would not be considered.

Survey Question: Do you believe Iluvien could be combined with anti-VEGF, or do you see these treatments as mutually exclusive?	
Would combine the two	24 (92%)
See them as mutually exclusive	2 (8%)

This response suggests Iluvien could be a core component of combination therapies. We believe Iluvien's long duration of action makes the insert an appropriate foundation for steroid/anti-VEGF combinations, as a patient could get a single Iluvien treatment and augmentation over time with Avastin or Lucentis.

Survey Question: If, post approval, Iluvien produces satisfactory results in DME as a replacement for standard steroid injections, would you consider using it in other retinopathies?	
Yes	23 (88%)
No	3 (12%)

Off-label Iluvien use represents potential upside to our estimates. The physicians noted that retinal vein occlusion (RVO), and age-related macular degeneration (AMD) are areas in which they would likely use Iluvien off label. RVO was cited by 14 of the doctors surveyed, while AMD was cited by 9 (please note, respondents were permitted to give multiple conditions). Other conditions cited included inflammation/uveitis (6 responses), cystoid macular edema (CME) (7 responses), choroidal neovascularisation (CNV) (1 response), macular telangiectasia (1 response), and pattern dystrophy of the retina (PDR) (1 response). However, we would expect doctors to require some experience using Iluvien to gain enough comfort with the insert prior to beginning off-label use

Other companies mentioned: Roche (RHHBY, $36.23, not rated), Novartis (NVS, $56.35, not rated)

Exhibit 1. Iluvien Revenues

	2009	2010	2011	2012	2013	2014	2015	2016	2017
U.S.									
Diabetic Macular Edema (DME)									
Prevalence of Diabetes (DM)	18,623,160	18,995,623	19,375,536	19,763,046	20,158,307	20,561,473	20,972,703	21,392,157	21,820,000
Incidence of DME (% of diabetes pts)	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
DME incidence Population	344,528	351,419	358,447	365,616	372,929	380,387	387,995	395,755	403,670
% of DME pts with clinically significant macular edema (CSME)	60%	60%	60%	60%	60%	60%	60%	60%	60%
Patients with CSME	206,717	210,851	215,068	219,370	223,757	228,232	232,797	237,453	242,202
% Treated satisfactorily with laser photocoagulation only	33%	33%	33%	33%	33%	33%	33%	33%	33%
% Candidates for pharmacological agents	67%	67%	67%	67%	67%	67%	67%	67%	67%
Annual number of candidates for phamacological treatment	138,500	141,270	144,096	146,978	149,917	152,916	155,974	159,093	162,275
Eligible for Iluvien (incidence within 3 years, receiving pharmacological treatment)	407,407	415,556	423,867	413,694	396,692	373,380	363,688	354,871	346,680
Penetration (Initial treatment)	0%	0.0%	4%	6%	8%	10%	12%	14%	16%
Patients receiving initial treatment with Iluvien	-	-	18,650	25,649	32,132	37,338	43,643	49,682	55,469
Patients Eligible for re-treatment (after 3 years)	-	-	-	-	-	18,650	25,649	32,132	37,338
Penetration (retreatment)	0%	0%	0%	0%	0%	15%	18%	22%	25%
Patients receiving retreatment with Iluvien	0	0	0	0	0	2,798	4,617	7,069	9,334
Total Iluvien patients	0	0	18,650	25,649	32,132	40,135	48,259	56,751	64,803
Price per patient		$7,500	$7,500	$7,688	$7,880	$8,077	$8,279	$8,486	$8,698
U.S. Iluvien Sales		**$0**	**$139,876,027**	**$197,176,878**	**$253,190,404**	**$324,161,410**	**$399,519,961**	**$481,563,515**	**$563,640,178**
E.U.									
Diabetic Macular Edema (DME)									
Prevalence of Diabetes (DM)	28,324,890	28,891,388	29,469,216	30,058,600	30,659,772	31,272,967	31,898,427	32,536,395	33,187,123
Incidence of DME (% of diabetes pts)	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
DME incidence Population	524,010	534,491	545,180	556,084	567,206	578,550	590,121	601,923	613,962
% of DME pts with clinically significant macular edema (CSME)	60%	60%	60%	60%	60%	60%	60%	60%	60%
Patients with CSME	314,406	320,694	327,108	333,650	340,323	347,130	354,073	361,154	368,377
% Treated with laser photocoagulation only	33%	33%	33%	33%	33%	33%	33%	33%	33%
% Candidates for pharmacological agents	67%	67%	67%	67%	67%	67%	67%	67%	67%
Annual number of candidates for phamacological treatment	210,652	214,865	219,163	223,546	228,017	232,577	237,229	241,973	246,813
Eligible for Iluvien (incidence within 3 years, receiving pharmacological treatment)	619,646	632,039	644,680	657,574	657,574	638,109	607,125	579,591	562,950
Penetration (Initial treatment)	0%	0%	0%	2%	5%	7%	9%	11%	13%
Patients receiving initial treatment with Iluvien	-	-	-	13,151	32,879	44,668	54,641	63,755	73,184
Patients Eligible for re-treatment (after 3 years)	-	-	-	-	-	-	13,151	32,879	44,668
Penetration (retreatmet)	0%	0%	0%	0%	0%	0%	15%	18%	20%
Patients receiving retreatment with Iluvien	-	-	-	-	-	-	1,973	5,918	8,934
Total Iluvien patients	-	-	-	13,151	32,879	44,668	56,614	69,673	82,117
Price per patient			$4,950	$4,950	$4,950	$4,950	$4,950	$4,950	$4,950
E.U. Iluvien Sales			$0	$65,099,788	$162,749,470	$221,104,919	$280,238,963	$344,882,354	$406,479,626
Royalty Rate			20%	20%	20%	20%	20%	20%	20%
E.U. Revenues to Alimera			**$0**	**$13,019,958**	**$32,549,894**	**$44,220,984**	**$56,047,793**	**$68,976,471**	**$81,295,925**
Total WW Sales			**$139,876,027**	**$262,276,666**	**$415,939,873**	**$545,266,330**	**$679,758,924**	**$826,445,869**	**$970,119,803**
Total Revenues to Alimera			**$139,876,027**	**$210,196,835**	**$285,740,298**	**$368,382,394**	**$455,567,754**	**$550,539,986**	**$644,936,103**

Source: Oppenheimer & Co. Research

Alimera Sciences Statement of Operations 2009A-2017E

Amounts in thousands, except per-share figures

	2009A	2010					2011E	2012E	2013E	2014E	2015E	2016E	2017E
		1QA	2QA	3QA	4QE	2010E							
Revenues:													
Iluvien U.S. sales	-	-	-	-	-	-	139,876	197,177	253,190	324,161	399,520	481,564	563,640
Iluvien Ex-U.S. revenues	-	-	-	-	-	-	-	13,020	32,550	44,221	56,048	68,976	81,296
Total operating revenue	**-**	**-**	**-**	**-**	**-**	**-**	**139,876**	**210,197**	**285,740**	**368,382**	**455,568**	**550,540**	**644,936**
Operating expenses:													
Cost of goods	-	-	-	-	-	-	6,994	9,859	12,660	16,208	19,976	24,078	28,182
Payment to pSivida for Iluvien	-	-	-	-	-	-	18,184	31,530	48,576	66,309	82,002	99,097	116,088
Research & development	15,057	3,065	4,140	3,276	3,000	13,481	8,000	10,000	13,000	13,650	14,333	15,049	15,802
Selling, general & administrative	4,159	1,151	1,553	2,843	4,500	10,047	22,606	36,169	45,212	56,514	70,643	74,175	77,884
Total operating expenses	**19,216**	**4,216**	**5,693**	**6,119**	**7,500**	**23,528**	**55,783**	**87,558**	**119,447**	**152,681**	**186,954**	**212,400**	**237,956**
Income (Loss) from operations	**(19,216)**	**(4,216)**	**(5,693)**	**(6,119)**	**(7,500)**	**(23,528)**	**84,093**	**122,639**	**166,293**	**215,701**	**268,614**	**338,140**	**406,980**
Other income (expense)	(1,860)	(472)	872	37	96	533	988	2,936	5,486	9,132	15,872	21,508	28,465
Pretax income (loss)	**(21,076)**	**(4,688)**	**(4,821)**	**(6,082)**	**(7,404)**	**(22,995)**	**85,080**	**125,575**	**171,780**	**224,833**	**284,486**	**359,649**	**435,445**
Income tax provision (benefit)	-	-	-	-	-	-	-	18,836	42,945	67,450	85,346	107,895	130,634
Net income (loss)(2)	**(21,076)**	**(4,688)**	**(4,821)**	**(6,082)**	**(7,404)**	**(22,995)**	**85,080**	**106,739**	**128,835**	**157,383**	**199,140**	**251,754**	**304,812**
Basic & diluted net loss per share	**($0.86)**	**($0.21)**	**($0.20)**	**($0.20)**	**($0.22)**	**($0.82)**	**$2.30**	**$2.73**	**$3.13**	**$3.64**	**$4.40**	**$5.32**	**$6.18**
Basic common shares outstanding (1)	22,496	22,496	24,293	31,146	33,646	27,895	36,146	38,146	40,146	42,146	44,146	46,146	48,146
Diluted common shares outstanding	22,496	22,496	24,293	31,146	33,646	27,895	37,046	39,096	41,146	43,196	45,246	47,296	49,346

(1) Pre-IPO share count for 2009 and 1Q 2010 are based on the pro-forma share count provided in ALIM's form S-1A

(2) Excludes one-time items

Ratios and Margins													
Gross Margin	NM	NM	NM	NM	NM	NM	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%
R&D as percent of revenue	NM	NM	NM	NM	NM	NM	5.7%	4.8%	4.5%	3.7%	3.1%	2.7%	2.5%
SG&A as percent of revenue	NM	NM	NM	NM	NM	NM	16.2%	17.2%	15.8%	15.3%	15.5%	13.5%	12.1%
Operating margin	NM	NM	NM	NM	NM	NM	60.1%	58.3%	58.2%	58.6%	59.0%	61.4%	63.1%
Pretax margin	NM	NM	NM	NM	NM	NM	60.8%	59.7%	60.1%	61.0%	62.4%	65.3%	67.5%
Profit margin	NM	NM	NM	NM	NM	NM	60.8%	50.8%	45.1%	42.7%	43.7%	45.7%	47.3%
Tax rate	NM	NM	NM	NM	NM	NM	0.0%	15.0%	25.0%	30.0%	30.0%	30.0%	30.0%

Source: Company documents and Oppenheimer & Co. Inc.

Investment Thesis

Based on Iluvien's significant commercial potential, we believe ALIM shares are substantially undervalued. We believe Iluvien, Alimera's treatment for diabetic macular edema (DME), will likely be approved by the FDA and the EMA in late 2010 and 2011, respectively. Following approval, Iluvien should become an important treatment for DME, a serious complication of diabetes that can lead to blindness. We currently estimate peak worldwide Iluvien sales of more than $900 million.

Price Target Calculation

Our 12-18 month price target of $16 is based on 12x our probability adjusted 2012E EPS of $1.61, discounted 1.25 years at 15%. We believe this multiple is appropriate compared to specialty pharma peer companies.

Key Risks to Price Target

Key risks to our price target include, but are not limited to, failure to gain FDA or EMA approval of Iluvien in diabetic macular edema, difficulty commercializing Iluvien in the US following potential approval, an inability to find a partner to commercialize Iluvien in Europe, and an inability to raise additional funding if required. We also view potential competition in the DME market as an important risk to our price target.

Important Disclosures and Certifications

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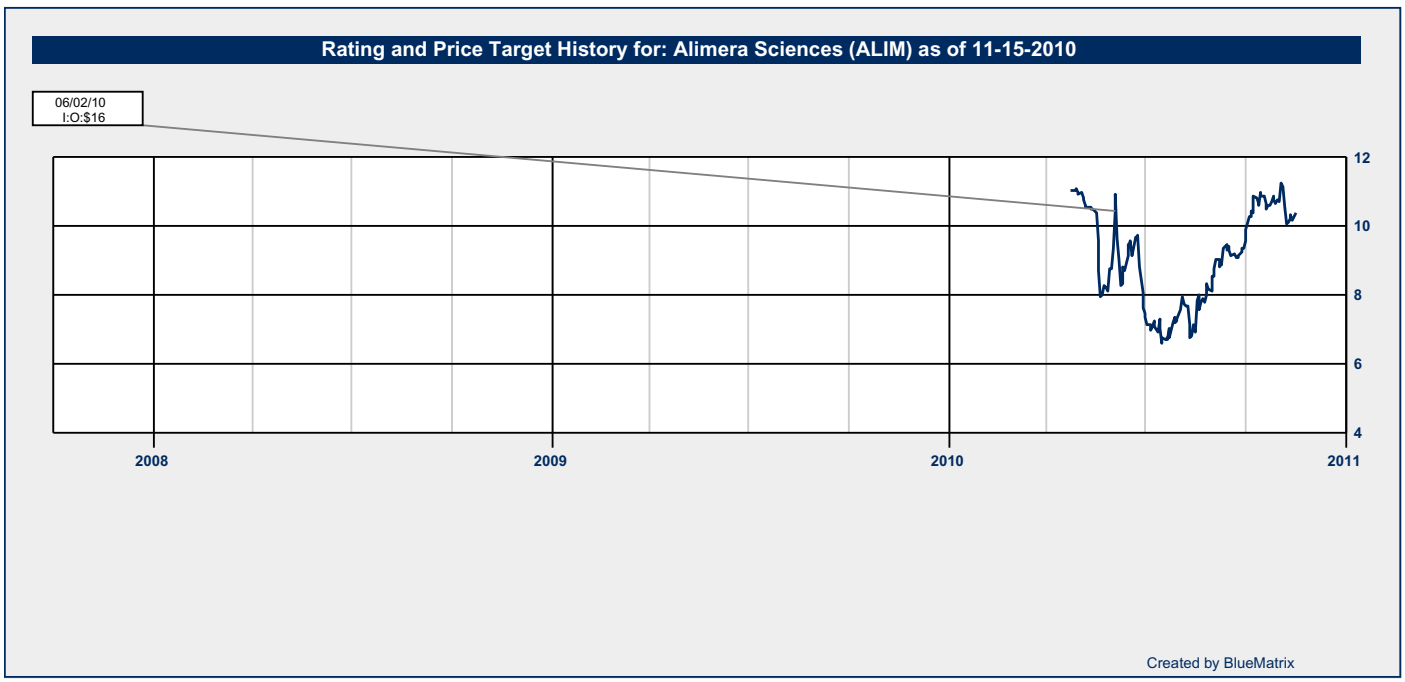

All price targets displayed in the chart above are for a 12- to- 18-month period. Prior to March 30, 2004, Oppenheimer & Co. Inc. used 6-, 12-, 12- to 18-, and 12- to 24-month price targets and ranges. For more information about target price histories, please write to Oppenheimer & Co. Inc., 300 Madison Avenue, New York, NY 10017, Attention: Equity Research Department, Business Manager.

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Outperform(O) - Stock expected to outperform the S&P 500 within the next 12-18 months.

Perform (P) - Stock expected to perform in line with the S&P 500 within the next 12-18 months.

Underperform (U) - Stock expected to underperform the S&P 500 within the next 12-18 months.

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Neutral - anticipates that the shares will trade at or near their current price and generally in line with the leading market averages due to a perceived absence of strong dynamics that would cause volatility either to the upside or downside, and/or will perform less well than higher rated companies within its peer group. Our readers should be aware that when a rating change occurs to Neutral from Buy, aggressive trading accounts might decide to liquidate their positions to employ the funds elsewhere.

Sell - anticipates that the shares will depreciate 10% or more in price within the next 12 months, due to fundamental weakness perceived in the company or for valuation reasons, or are expected to perform significantly worse than equities within the peer group.

Distribution of Ratings/IB Services Firmwide

			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent
OUTPERFORM [O]	329	50.30	137	41.64
PERFORM [P]	307	46.90	83	27.04
UNDERPERFORM [U]	18	2.80	4	22.22

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In the past 12 months Oppenheimer & Co. Inc. has received compensation for investment banking services from ALIM.

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Additional Information Available

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