

February 11, 2011

### Stock Rating:

**OUTPERFORM**

12-18 mo. Price Target \$14.00  
ALIM - NASDAQ \$8.51

3-5 Yr. EPS Gr. Rate NA  
52-Wk Range \$12.70-\$6.30  
Shares Outstanding 31.2M  
Float 25.8M  
Market Capitalization \$265.4M  
Avg. Daily Trading Volume 104,600  
Dividend/Div Yield NA/NM  
Fiscal Year Ends Dec  
Book Value NM  
2011E 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        |
| 2010A       | (0.21) | (0.18) | (0.20) | (0.20) | (0.97) | NM        |
| Prior (E)   | --     | (0.20) | A      | --     | (0.22) | (0.82) NM |
| 2011E       | (0.21) | (0.23) | (0.24) | (0.10) | (0.77) | NM        |
| Prior (E)   | --     | --     | --     | --     | (0.69) | NM        |
| 2012E       | --     | --     | --     | --     | 1.79   | 4.8x      |
| Prior (E)   | --     | --     | --     | --     | 1.86   | 4.6x      |

### HEALTHCARE/BIOTECHNOLOGY

## Alimera Sciences

### Reports 4Q; Continue to Expect 2H11 Iluvien Approval Following 1Q CRL Response

#### SUMMARY

On 2/10, ALIM reported 4Q results. Importantly, ALIM stated that the FDA recently confirmed that the lack of statistically significant vision benefit at 36 months in the ph.III FAME trials of Iluvien for DME does not preclude the drug's approval. Notably, ALIM also now expects the FDA to convene an AdCom meeting prior to approval. Given the FDA delayed the initial decision based on a need for long-term data, we do not view the panel meeting as surprising. Based on our KOL discussion and our recent ophthalmologist survey, we believe the panel is likely to recommend approval. We see significant near-term upside in ALIM, as we continue to expect 2H11 approval of Iluvien.

#### KEY POINTS

- **4Q10 EPS of (\$0.20) was above our (\$0.22) estimate driven by lower opex.** ALIM has \$54.8M in cash, which we believe should last into late 2011, assuming a \$25M milestone to pSivida for Iluvien's approval. ALIM is working with borrowers to draw down some additional debt, which would allow a more stable transition into commercial launch.
- **We expect full 36-month FAME data will confirm Iluvien's overall positive safety/efficacy profile.** Full data will be presented tomorrow (2/12). We believe BCVA improvements peaking at ~30 months are consistent with the effective lifetime of the insert. Additionally, based on 24- and 30-month data, we expect unsurprising and manageable side effects.
- **FDA AdCom not surprising.** The FDA has historically convened panels for novel ophthalmology drugs. We believe Iluvien fits this profile, as it would be the first approved DME therapy and it is also long-acting. Importantly, ALIM expects the panel will meet early in the 6-month review period, lowering the risk of additional FDA delays.
- **CMC issues identified in the CRL are unlikely to affect the timing of Iluvien's approval.** ALIM reported that Iluvien's contract manufacturer has responded to the two FDA 483 letters, which cited deficiencies that were not specific to Iluvien. Based on this, we expect the manufacturing problems to be resolved.

#### 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.

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## Changes to Our Model

Following 4Q10 results, we have made adjustments to our estimates. Our new 2011- 2017 EPS estimates, are (\$0.77), \$1.79, \$2.45, \$2.95, \$3.75, \$4.80 and \$5.70, respectively, compared to our prior estimates of (\$0.69), \$1.86, \$2.55, \$3.08, \$3.96, \$5.06 and \$5.99, respectively. We are introducing our new 1Q-4Q 2011 EPS estimates of (\$0.21), (\$0.23), (\$0.24) and (\$0.10), respectively.

## Alimera Sciences Statement of Operations 2009A-2017E

Amounts in thousands, except per-share figures

|                                     | 2010     |          |          |          |          | Prior<br>4QE | 2011     |                |          |          |          |          |          |          | Prior<br>2011E | 2012E   | 2013E   | 2014E   | 2015E   | 2016E   | 2017E |
|-------------------------------------|----------|----------|----------|----------|----------|--------------|----------|----------------|----------|----------|----------|----------|----------|----------|----------------|---------|---------|---------|---------|---------|-------|
|                                     | 2009A    | 1QA      | 2QA      | 3QA      | 4QA      |              | 2010A    | Prior<br>2010E | 1QE      | 2QE      | 3QE      | 4QE      | 2011E    |          |                |         |         |         |         |         |       |
| Revenues:                           |          |          |          |          |          |              |          |                |          |          |          |          |          |          |                |         |         |         |         |         |       |
| Iluvien U.S. sales                  | -        | -        | -        | -        | -        | -            | -        | -              | -        | -        | 6,358    | 6,358    | 6,358    | 149,271  | 215,487        | 283,640 | 369,173 | 465,565 | 554,242 |         |       |
| Iluvien Ex-U.S. revenues            | -        | -        | -        | -        | -        | -            | -        | -              | -        | -        | -        | -        | -        | 13,020   | 32,550         | 44,221  | 56,048  | 68,976  | 81,296  |         |       |
| Total operating revenue             | -        | -        | -        | -        | -        | -            | -        | -              | -        | -        | 6,358    | 6,358    | 6,358    | 162,291  | 248,037        | 327,861 | 425,221 | 534,542 | 635,538 |         |       |
| Operating expenses:                 |          |          |          |          |          |              |          |                |          |          |          |          |          |          |                |         |         |         |         |         |       |
| Cost of goods                       | -        | -        | -        | -        | -        | -            | -        | -              | -        | -        | 318      | 318      | 318      | 7,464    | 10,774         | 14,182  | 18,459  | 23,278  | 27,712  |         |       |
| Payment to pSivida for Iluvien      | -        | -        | -        | -        | -        | -            | -        | -              | -        | -        | 827      | 827      | 827      | 24,344   | 42,166         | 59,015  | 76,540  | 96,217  | 114,397 |         |       |
| Research & development              | 15,057   | 3,065    | 4,140    | 3,276    | 2,100    | 3,000        | 12,581   | 13,481         | 2,050    | 2,000    | 1,950    | 1,950    | 7,950    | 8,000    | 9,977          | 12,970  | 13,619  | 14,300  | 15,766  |         |       |
| Selling, general & administrative   | 4,159    | 1,151    | 1,553    | 2,843    | 3,943    | 4,500        | 9,490    | 10,047         | 4,500    | 5,400    | 6,200    | 6,700    | 22,800   | 22,606   | 36,480         | 45,600  | 57,000  | 71,250  | 74,813  | 78,553  |       |
| Total operating expenses            | 19,216   | 4,216    | 5,693    | 6,119    | 6,043    | 7,500        | 22,071   | 23,528         | 6,550    | 7,400    | 8,150    | 9,794    | 31,894   | 31,750   | 78,264         | 111,511 | 143,816 | 180,548 | 209,323 | 236,428 |       |
| Income (Loss) from operations       | (19,216) | (4,216)  | (5,693)  | (6,119)  | (6,043)  | (7,500)      | (22,071) | (23,528)       | (6,550)  | (7,400)  | (8,150)  | (3,436)  | (25,536) | (25,392) | 84,026         | 136,526 | 184,045 | 244,673 | 325,218 | 399,110 |       |
| Other income (expense)              | (1,860)  | (472)    | 1,213    | 37       | (210)    | 96           | 568      | 533            | (179)    | (181)    | (185)    | (186)    | (730)    | 327      | 478            | 1,152   | 2,317   | 3,688   | 6,641   | 11,550  |       |
| Pretax income (loss)                | (21,076) | (4,688)  | (4,480)  | (6,082)  | (6,253)  | (7,404)      | (21,503) | (22,995)       | (6,729)  | (7,581)  | (8,335)  | (3,622)  | (26,267) | (25,065) | 84,505         | 137,678 | 186,362 | 248,361 | 331,860 | 410,660 |       |
| Income tax provision (benefit)      | -        | -        | -        | -        | -        | -            | -        | -              | -        | -        | -        | -        | -        | -        | 12,676         | 34,420  | 55,909  | 74,508  | 99,558  | 123,198 |       |
| Net income (loss)(2)                | (21,076) | (4,688)  | (4,480)  | (6,082)  | (6,253)  | (7,404)      | (21,503) | (22,995)       | (6,729)  | (7,581)  | (8,335)  | (3,622)  | (26,267) | (25,065) | 71,829         | 103,259 | 130,453 | 173,853 | 232,302 | 287,462 |       |
| Basic & diluted net loss per share  | (\$0.86) | (\$0.21) | (\$0.18) | (\$0.20) | (\$0.20) | (\$0.22)     | (\$0.97) | (\$0.82)       | (\$0.21) | (\$0.23) | (\$0.24) | (\$0.10) | (\$0.77) | (\$0.69) | \$1.79         | \$2.45  | \$2.95  | \$3.75  | \$4.80  | \$5.70  |       |
| Basic common shares outstanding (1) | 22,496   | 22,496   | 24,293   | 31,146   | 31,210   | 33,646       | 22,168   | 27,895         | 32,210   | 33,210   | 34,210   | 37,710   | 34,335   | 36,146   | 39,210         | 41,210  | 43,210  | 45,210  | 47,210  | 49,210  |       |
| Diluted common shares outstanding   | 22,496   | 22,496   | 24,293   | 31,146   | 31,210   | 33,646       | 22,168   | 27,895         | 33,110   | 34,110   | 35,110   | 38,610   | 35,235   | 37,046   | 40,160         | 42,210  | 44,260  | 46,310  | 48,360  | 50,410  |       |

(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 | NM | NM | NM | NM | NM | 95.0% | 95.0% | 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 | NM | NM | NM | NM | NM | 30.7% | NM    | NM    | 6.1%  | 5.2%  | 4.2%  | 3.4%  | 2.8%  | 2.5%  |
| SG&A as percent of revenue | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM    | NM    | NM    | 22.5% | 18.4% | 17.4% | 16.8% | 14.0% | 12.4% |
| Operating margin           | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM    | NM    | NM    | 51.8% | 55.0% | 56.1% | 57.5% | 60.8% | 62.8% |
| Pretax margin              | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM    | NM    | NM    | 52.1% | 55.5% | 56.8% | 58.4% | 62.1% | 64.6% |
| Profit margin              | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM    | NM    | NM    | 44.3% | 41.6% | 39.8% | 40.9% | 43.5% | 45.2% |
| Tax rate                   | NM | NM | NM | NM | NM | NM | NM | 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 &amp; 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 2011. 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 \$14 is based on 12x our probability-adjusted 2014E EPS of \$1.75, discounted 3 years at 15%. We believe this multiple is appropriate compared to specialty pharma peer companies.

## Key Risks to Price Target

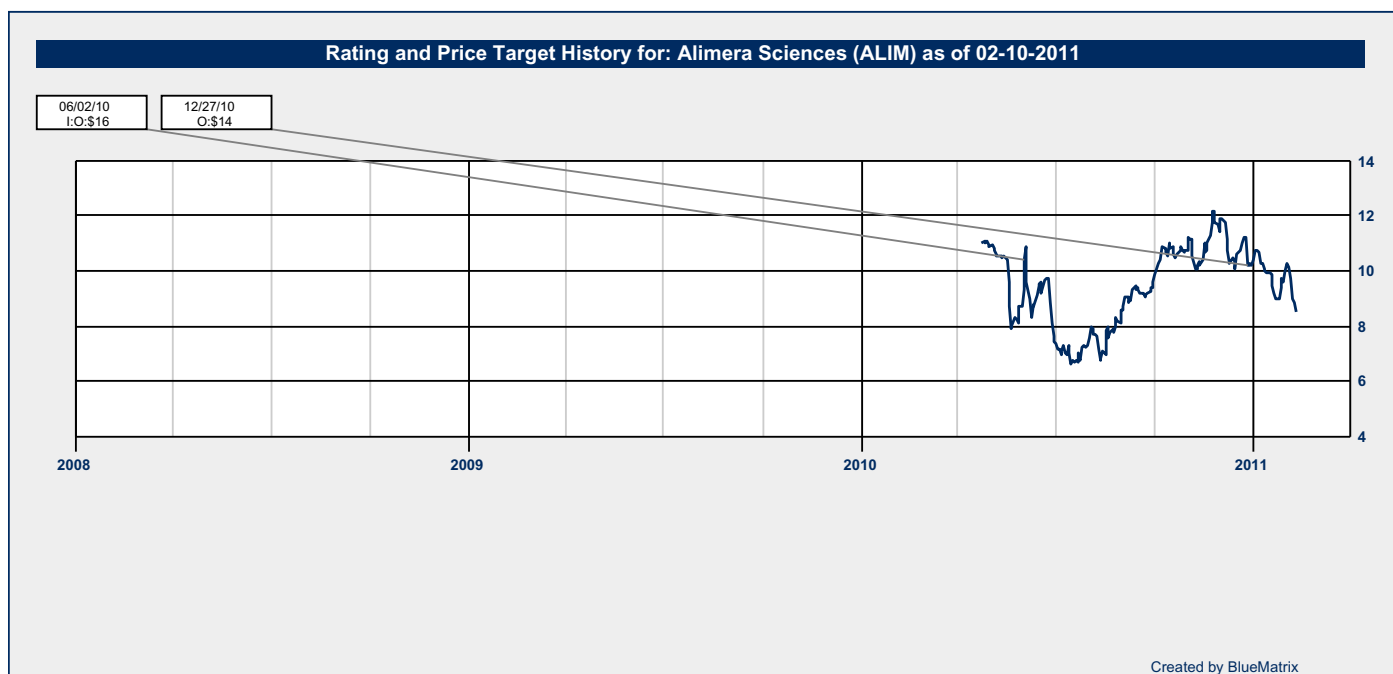
Key risks to our price target include, but are not limited to, failure to gain FDA or EMA approval of Iluvien in diabetic macular edema, difficulty commercializing Iluvien in the US following potential approval, an inability to find a partner to commercialize Iluvien in Europe, and an inability to raise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

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| Rating           | Count | IB Serv/Past 12 Mos. |       |
|------------------|-------|----------------------|-------|
|                  |       | Percent              | Count |
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| PERFORM [P]      | 249   | 45.00                | 76    |
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