

January 13, 2011

Market Outperform / Aggressive Risk

Discussions with Management & Our Impressions...

MARKET DATA Intraday - 1/13/2011

Price	\$10.00
Exchange	NASDAQ
Target Price	\$13.00
52 Wk Hi - Low	\$12.70 - \$6.30
Market Cap(MM)	\$311.8
EV(MM)	\$257.2
Shares Out (MM)	31.2
Public Mkt Float (MM)	7.1
Avg. Daily Vol	99,877.0
Short Interest	1,133,488.00

BALANCE SHEET METRICS

Cash (MM)	\$4.9
Debt/Capital	NA
Cash/Share	NA
Book Value(MM)	NA
Book Value/Share	\$1.62

EARNINGS DATA (\$)

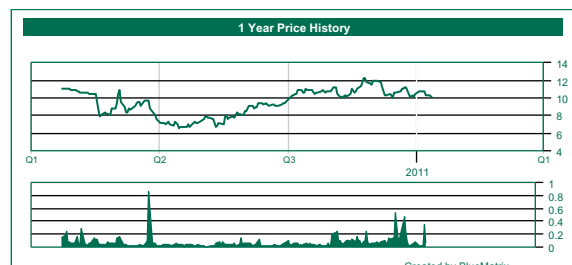
FY - Dec	2011E	2012E	2013E
Q1 (Mar)	--	(0.06)	0.04
Q2 (Jun)	(0.11)	(0.04)	0.13
Q3 (Sep)	(0.10)	(0.01)	0.19
Q4 (Dec)	(0.14)	(0.02)	0.28
Full Year EPS	(0.56)	(0.09)	0.64
Revenue (MM)	16.4	47.8	81.0

VALUATION METRICS

Price/Earnings	NM	NM	15.6x
EV/Revenue	15.7x	5.4x	3.2x

INDICES

DJIA	11,742.2
SP-500	1,284.9
NASDAQ	2,302.5
NBI	997.2



Discussions with Management

Post the CRL received on Illuvien, we did not put a note out especially since we did not have a holistic picture of what going on. We wanted to meet management, formulate our thoughts and then put a note out. We recently met management, peppered them with questions and hence this note. Management seemed optimistic about the spate of events and considered the CRL more of a delay than a denial.

Our Analysis

- The bottom line is that...it will be a 50:50 toss-up in terms of Illuvien approval. While management is confident of approval given that there is no requirement for a new trial, we believe it is prudent to adopt a position of a toss-up.
- It has been explained to us that the key thing that the FDA could be looking at is the "trajectory" of adverse events especially high IOP's in the 36-month data is. As far as we know, the 36-month data for Illuvien has not been released. We are guesstimating that ALIM will be releasing it some time, however, not knowing what the data looks like (in terms of p-values, visual acuity improvements, stripping effect of off-label treatments, adverse event rates, etc) makes us somewhat cautious. We were incrementally positive on the fact that the FDA is not looking at off-label treatments muddying up the data.
- While the 30-month data is available (at least on a patient subset), we do not expect efficacy to improve "substantially more" till 36-months. Moreover, if the amount of corticosteroid is much lower, then one can hypothesize that IOP elevations driven by continued presence of a corticosteroid should either stabilize or go down.
- We confess that we came back relatively convinced that "if" Illuvien gets FDA approval, the slope of the ramp curve will be higher than 45°. Initial "indications of interest" seem high. However, first things first...Illuvien needs regulatory approval.
- We have tweaked our models to account for the delay.

Valuation

We maintain our Market OutPerform rating and \$13 PT. Our PT is based on our DCF analysis given peak Illuvien sales of \$250 million in 2015, a long-term growth rate of 4% and a discount rate of 14%. Unlike others, we are factoring in a ramp curve for Illuvien as a medical device and not a drug. Maybe we will be proven to be wrong, and the market dynamics work out in favor of Illuvien as a drug. However, we believe it is prudent to factor in a device ramp.

Risks

Regulatory Risk. Market Risk. Competitive Risk.

ALIMERA

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Quarterly Income Statement

Fiscal year ends Dec 31

Numbers in \$000, except per share

	PROJECTED																				
	Q2-11E	Q3-11E	Q4-11E	FY11E	Q1-12E	Q2-12E	Q3-12E	Q4-12E	FY12E	Q1-13E	Q2-13E	Q3-13E	Q4-13E	FY13E	Q1-14E	Q2-14E	Q3-14E	Q4-14E	FY14E	FY15E	FY16E
Total Revenue	\$0	\$0	\$0	\$0	\$5,625	\$11,700	\$12,177	\$12,628	\$42,129	\$13,419	\$19,719	\$20,309	\$27,560	\$81,007	\$31,215	\$32,070	\$33,319	\$34,185	\$130,789	\$159,375	\$245,683
COGS	\$0	\$0	\$0	\$0	\$900	\$1,872	\$1,948	\$2,020	\$6,741	\$2,281	\$3,352	\$3,453	\$4,685	\$13,771	\$5,307	\$5,452	\$5,664	\$5,811	\$22,234	\$27,094	\$41,766
Gross Profit	\$0	\$0	\$0	\$0	\$4,725	\$9,828	\$10,228	\$10,607	\$35,388	\$11,138	\$16,367	\$16,857	\$22,875	\$67,236	\$25,908	\$26,618	\$27,655	\$28,374	\$108,555	\$132,281	\$203,917
Operating Expenses:																					
R&D	\$2,450	\$2,562	\$4,010	\$11,172	\$1,969	\$4,095	\$3,653	\$3,157	\$12,874	\$2,684	\$2,958	\$2,031	\$2,756	\$10,429	\$3,122	\$3,207	\$3,332	\$3,419	\$13,079	\$15,938	\$24,568
S&M	\$3,341	\$3,260	\$3,500	\$13,101	\$2,531	\$4,680	\$4,262	\$4,167	\$15,640	\$4,428	\$5,521	\$4,671	\$6,063	\$20,684	\$5,619	\$5,773	\$5,997	\$6,153	\$23,542	\$28,688	\$41,766
G&A	\$1,300	\$1,315	\$1,350	\$5,215	\$1,375	\$1,400	\$1,425	\$1,445	\$5,645	\$1,475	\$1,500	\$1,515	\$1,525	\$6,015	\$1,551	\$1,560	\$1,575	\$1,595	\$6,281	\$6,350	\$6,500
Royalties to PSDV	\$0	\$0	\$0	\$0	\$439	\$1,030	\$1,193	\$1,288	\$3,950	\$1,342	\$2,169	\$2,437	\$3,362	\$9,310	\$4,058	\$4,169	\$4,331	\$4,444	\$17,003	\$20,719	\$32,430
Total OpEX	\$7,091	\$7,137	\$8,860	\$29,488	\$6,314	\$11,205	\$10,533	\$10,057	\$38,108	\$9,929	\$12,148	\$10,654	\$13,707	\$46,438	\$14,349	\$14,709	\$15,236	\$15,611	\$59,904	\$71,694	\$105,264
Operating Income	(\$7,091)	(\$7,137)	(\$8,860)	(\$29,488)	(\$1,589)	(\$1,377)	(\$305)	\$550	(\$2,720)	\$1,209	\$4,218	\$6,203	\$9,168	\$20,798	\$11,559	\$11,909	\$12,419	\$12,763	\$48,650	\$60,588	\$98,652
Other Inc (Exp):																					
Investment Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Other Inc	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Pretax Income	(\$7,091)	(\$7,137)	(\$8,860)	(\$29,488)	(\$1,589)	(\$1,377)	(\$305)	\$550	(\$2,720)	\$1,209	\$4,218	\$6,203	\$9,168	\$20,798	\$11,559	\$11,909	\$12,419	\$12,763	\$48,650	\$60,588	\$98,652
Provision for Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$3,468	\$3,573	\$3,726	\$3,829	\$14,595	\$24,235	\$39,461
Milestone Pmt - PSDV	\$0	\$0	\$0	(\$25,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Income	(\$7,091)	(\$7,137)	(\$8,860)	(\$29,488)	(\$1,589)	(\$1,377)	(\$305)	\$550	(\$2,720)	\$1,209	\$4,218	\$6,203	\$9,168	\$20,798	\$8,092	\$8,337	\$8,693	\$8,934	\$34,055	\$36,353	\$59,191
Basic / Diluted Sh	30,800	30,950	31,000	30,875	31,200	31,450	31,500	31,700	31,463	32,150	32,250	32,750	32,800	32,488	33,000	33,025	33,121	33,450	33,149	33,500	34,000
Fully Diluted EPS	(\$0.23)	(\$0.23)	(\$0.29)	(\$0.96)	(\$0.05)	(\$0.04)	(\$0.01)	\$0.02	(\$0.09)	\$0.04	\$0.13	\$0.19	\$0.28	\$0.64	\$0.25	\$0.25	\$0.26	\$0.27	\$1.03	\$1.09	\$1.74

Margins	Q2-11E	Q3-11E	Q4-11E	FY11E	Q1-12E	Q2-12E	Q3-12E	Q4-12E	FY12E	Q1-13E	Q2-13E	Q3-13E	Q4-13E	FY13E	Q1-14E	Q2-14E	Q3-14E	Q4-14E	FY14E	FY15E	FY16E
Gross Margin	85.00%	85.00%	85.00%	#DIV/0!	84.00%	84.00%	84.00%	84.00%	84.00%	83.00%	83.00%	83.00%	83.00%	83.00%	83.00%	83.00%	83.00%	83.00%	83.00%	83.00%	83.00%
Operating Margin	NM	NM	NM	NM	NM	NM	NM	4.36%	NM	9.01%	21.39%	30.54%	33.27%	25.67%	37.03%	37.14%	37.27%	37.33%	37.20%	38.02%	40.15%
Pretax Margins	NM	NM	NM	NM	NM	NM	NM	0.00%	NM	0.00%	0.00%	0.00%	0.00%	0.00%	11.11%	11.14%	11.18%	11.20%	11.16%	15.21%	16.06%
Net Margin	NM	NM	NM	NM	NM	NM	NM	4.36%	NM	9.01%	21.39%	30.54%	33.27%	25.67%	25.92%	25.99%	26.09%	26.13%	26.04%	22.81%	24.09%

Assumptions	Q2-11E	Q3-11E	Q4-11E	FY11E	Q1-12E	Q2-12E	Q3-12E	Q4-12E	FY12E	Q1-13E	Q2-13E	Q3-13E	Q4-13E	FY13E	Q1-14E	Q2-14E	Q3-14E	Q4-14E	FY14E	FY15E	FY16E
Revenue Growth	-	-	-	-	-	-	-	-	-	138.56%	68.54%	66.79%	118.25%	92.28%	132.62%	62.64%	64.06%	24.04%	61.45%	21.86%	54.15%
R&D as % of Rev	-	-	-	-	35.00%	35.00%	30.00%	25.00%	30.56%	20.00%	15.00%	10.00%	10.00%	12.87%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
S&M as % of Rev	-	-	-	-	45.00%	40.00%	35.00%	33.00%	37.12%	33.00%	28.00%	23.00%	22.00%	25.53%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	17.00%
Tax Rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	30.00%	30.00%	30.00%	30.00%	30.00%	40.00%	40.00%

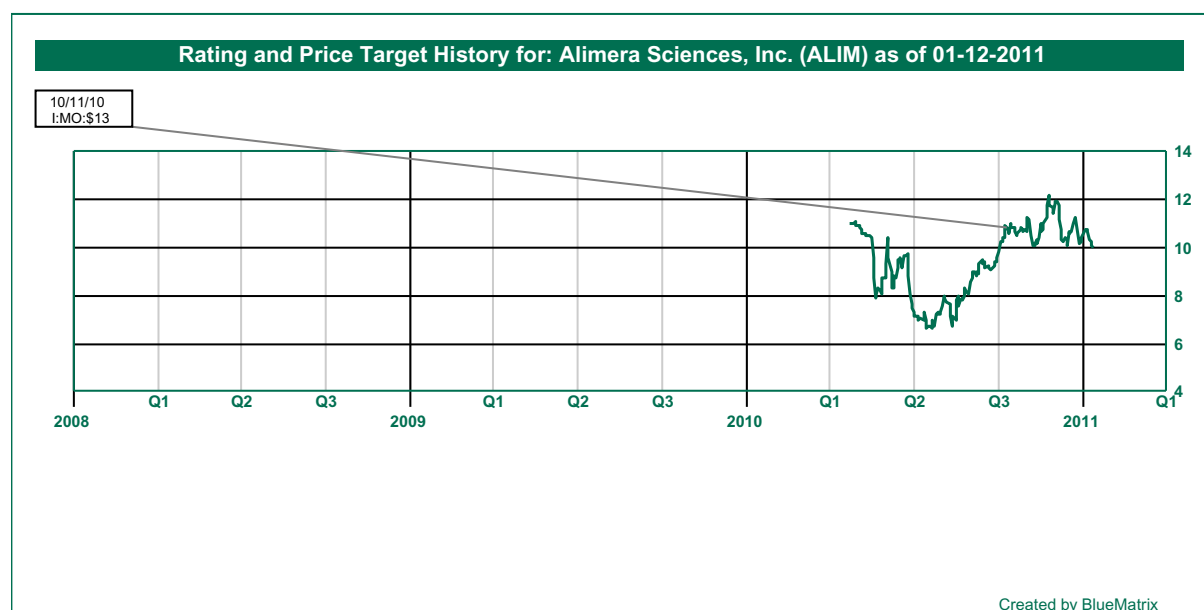
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- **Market Outperform (Buy):** The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
- **Market Perform (Hold):** The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
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- **Speculative -** The common stock risk level is significantly greater than market risk. The stock price of these equities is exceptionally volatile.
- **Aggressive -** The common stock risk level is materially higher than market level risk. The stock price is typically more volatile than the general market.
- **Moderate -** The common stock is moderately risky, or equivalent to stock market risk. The stock price volatility is typically in-line with movements in the general market.



RATING SUMMARY

Distribution of Ratings Table				
Rating	Count	Percent	IB Serv./Past 12 Mos	
			Count	Percent
Market Outperform(MO)	184	76.30%	47	25.54%
Market Perform(MP)	44	18.30%	3	6.82%
Market Underperform(MU)	9	3.70%	0	0.00%
Under Review(UR)	4	1.70%	0	0.00%
Total	241	100%	50	100%

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