August 12, 2010

HEALTHCARE/BIOTECHNOLOGY

Alimera Sciences

Reports 2Q; FDA Decision on Iluvien for DME Approaching Quickly

Stock Rating:

OUTPERFORM

12-18 mo. Price Target	$16.00
ALIM - NASDAQ	$6.80
3-5 Yr. EPS Gr. Rate	NA
52-Wk Range	$11.30-$6.30
Shares Outstanding	31.1M
Float	25.8M
Market Capitalization	$211.2M
Avg. Daily Trading Volume	59,302
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	(0.28)	(0.30)	(1.00)	NM
Prior (E)	--	*(0.30)*	*(0.24)*	*(0.26)*	*(1.02)*	*NM*
2011E	--	--	--	--	1.96	3.5x
Prior (E)	--	--	--	--	*1.86*	*3.7x*
2012E	--	--	--	--	2.74	2.5x
Prior (E)	--	--	--	--	*2.63*	*2.6x*

SUMMARY

On 8/12, ALIM reported 2Q results. The company has made substantial progress with Iluvien for diabetic macular edema (DME), with US/EU regulatory filings in June/July, respectively. We believe results of the two ph.III FAME trials of Iluvien in this indication support both US and EU approval, based on the drug's impressive visual acuity improvements and good safety profile. Notably, we see a reasonable probability the FDA will grant Iluvien a 6-month review, likely leading to approval by YE10. We believe first-mover status will lead to rapid uptake of Iluvien in DME, and est >$500M US peak sales. With near-term approval decisions for Iluvien serving as major catalysts, we believe ALIM is substantially undervalued at current levels.

KEY POINTS

- **ALIM reported 2Q10 EPS of ($0.20) vs. our ($0.30).** The difference is primarily attributable to lower than expected expenses and a one-time gain of $1.34M based on the recognition of interest previously accrued on retired debt. We expect expenses to be higher in 2H10, as ALIM prepares for the U.S. launch of Iluvien.
- **We see a good probability of Iluvien's approval in 4Q10/1Q11.** Although one of the ph.III trials narrowly missed the primary endpoint using a modified statistical analysis, both trials showed significant visual acuity improvements under an intent-to-treat analysis. We believe the FDA will focus on the intent-to-treat results, which better define likely real-world use of Iluvien.
- **Accelerated FDA review a near-term catalyst.** Given prior FDA action for retinal drugs, we now see priority review for Iluvien as likely, which should be announced late August. Additionally, we believe an AdCom is unlikely as Iluvien's drug component has a well-established safety profile and the FDA has not required an AdCom for other intravitreal inserts.
- **We expect Iluvien to become an important chronic DME treatment.** Current corticosteroid treatments have drawbacks, such as frequent injections and cataract/IOP development. Based on Iluvien's efficacy and relative safety for ~3 years following a single, convenient intravitreal insertion, at a reasonably low cost (~$7,500/insertion), we believe the drug has substantial commercial potential.

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

Matthew Lowe, Ph.D
212-667-6557
Matthew.Lowe@opco.com

Brian Abrahams, M.D.
212-667-6795
Brian.Abrahams@opco.com

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

Changes to Our model

Based on 2Q10 results, we have adjusted our financial model. For 3Q10/4Q10 our EPS estimates are now ($0.28) and ($0.30), respectively, vs. our prior estimates of ($0.24) and ($0.26), respectively. Our full-year 2010 EPS estimate is now ($1.00). For 2011-2017 our new EPS estimates are $1.96, $2.74, $3.35, $3.95, $4.76, $5.77, and $6.70, respectively.

Alimera Sciences Statement of Operations 2009A-2017E

Amounts in thousands, except per-share figures

		2010																
	2009A	1QA	2QA	Prior 2QE	3QE	Prior 3QE	4QE	Prior 4QE	2010E	Prior 2010E	2011E	Prior 2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues:																		
Iluvien U.S. sales	-	-	-	-	-	-	-	-	-	-	127,160	127,160	191,598	251,591	324,227	399,100	481,019	563,761
Iluvien Ex-U.S. revenues	-	-	-	-	-	-	-	-	-	-	-	-	13,020	32,550	44,221	56,048	68,976	81,296
Total operating revenue	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**127,160**	**127,160**	**204,618**	**284,141**	**368,448**	**455,148**	**549,995**	**645,057**
Operating expenses:																		
Cost of goods	-	-	-	-	-	-	-	-	-	-	6,358	6,358	9,580	12,580	16,211	19,955	24,051	28,188
Payment to pSivida for Iluvien	-	-	-	-	-	-	-	-	-	-	16,531	16,531	30,693	48,304	66,321	81,927	98,999	116,110
Research & development	15,057	3,065	4,140	3,500	3,500	4,000	3,650	4,500	14,355	15,065	19,379	21,091	19,961	20,559	21,176	21,812	22,466	23,140
Selling, general & administrative	4,159	1,151	1,553	3,500	3,950	3,500	5,000	3,500	11,654	11,651	22,725	22,137	36,360	45,451	56,813	71,017	74,567	78,296
Total operating expenses	**19,216**	**4,216**	**5,693**	**7,000**	**7,450**	**7,500**	**8,650**	**8,000**	**26,009**	**26,716**	**64,993**	**66,117**	**96,594**	**126,894**	**160,521**	**194,710**	**220,083**	**245,734**
Income (Loss) from operations	**(19,216)**	**(4,216)**	**(5,693)**	**(7,000)**	**(7,450)**	**(7,500)**	**(8,650)**	**(8,000)**	**(26,009)**	**(26,716)**	**62,167**	**61,043**	**108,025**	**157,247**	**207,926**	**260,438**	**329,912**	**399,323**
Other income (expense)	(1,860)	(472)	872	(2,270)	141	155	122	136	663	(2,450)	971	1,040	2,467	4,763	8,171	14,510	19,977	26,767
Pretax income (loss)	**(21,076)**	**(4,688)**	**(4,821)**	**(9,270)**	**(7,309)**	**(7,345)**	**(8,528)**	**(7,864)**	**(25,346)**	**(29,166)**	**63,138**	**62,084**	**110,491**	**162,010**	**216,097**	**274,949**	**349,890**	**426,091**
Income tax provision (benefit)	-	-	-	-	-	-	-	-	-	-	-	-	16,574	40,502	64,829	82,485	104,967	127,827
Net income (loss)(2)	**(21,076)**	**(4,688)**	**(4,821)**	**(9,270)**	**(7,309)**	**(7,345)**	**(8,528)**	**(7,864)**	**(25,346)**	**(29,166)**	**63,138**	**62,084**	**93,917**	**121,507**	**151,268**	**192,464**	**244,923**	**298,263**
Basic & diluted net loss per share	**($0.86)**	**($0.21)**	**($0.20)**	**($0.30)**	**($0.28)**	**($0.24)**	**($0.30)**	**($0.26)**	**($1.00)**	**($1.02)**	**$1.96**	**$1.86**	**$2.74**	**$3.35**	**$3.95**	**$4.76**	**$5.77**	**$6.70**
Basic common shares outstanding (1)	22,496	22,496	24,293	30,501	26,293	30,501	28,793	30,501	25,469	28,500	31,293	32,501	33,293	35,293	37,293	39,293	41,293	43,293
Diluted common shares outstanding	22,496	22,496	24,293	30,501	26,293	30,501	28,793	30,501	25,469	28,500	32,193	33,401	34,243	36,293	38,343	40,393	42,443	44,493

(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	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	15.2%	16.6%	9.8%	7.2%	5.7%	4.8%	4.1%	3.6%
SG&A as percent of revenue	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	17.9%	17.4%	17.8%	16.0%	15.4%	15.6%	13.6%	12.1%
Operating margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	48.9%	48.0%	52.8%	55.3%	56.4%	57.2%	60.0%	61.9%
Pretax margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	49.7%	48.8%	54.0%	57.0%	58.7%	60.4%	63.6%	66.1%
Profit margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	49.7%	48.8%	45.9%	42.8%	41.1%	42.3%	44.5%	46.2%
Tax rate	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	0.0%	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 EMEA 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 11x our probability adjusted 2012E EPS of $1.76, discounted 1.5 years at 15%. We have chosen to use a 11x multiple based on the average multiple for specialty pharma peer companies, which is 11.4x for 2012. We chose 2012 as the year upon which to value Alimera, as it should be the first full year of US Iluvien sales. We view this as a conservative choice, as 2012 includes limited EU revenues for Iluvien, assuming a launch in 1Q12.

Key Risks to Price Target

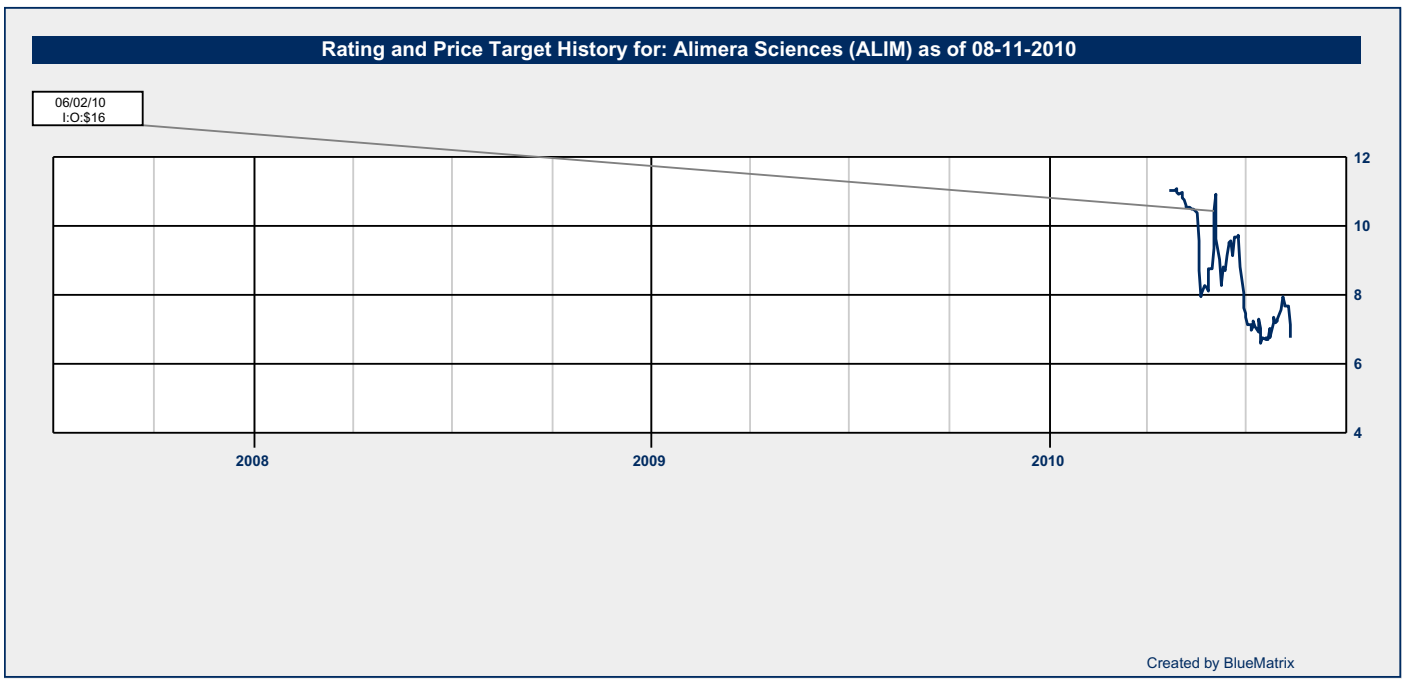
Key risks to our price target include, but are not limited to, failure to gain FDA or EMEA approval of Iluvien in diabetic macular edema, difficulty commercializing Iluvien in the U.S. following potential approval, an inability to find a partner to commercialize Iluvien in Europe, and an inability to 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

Analyst Certification - The author certifies that this research report accurately states his/her personal views about the subject securities, which are reflected in the ratings as well as in the substance of this report.The author certifies that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Potential Conflicts of Interest:

Equity research analysts employed by Oppenheimer & Co. Inc. are compensated from revenues generated by the firm including the Oppenheimer & Co. Inc. Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. Oppenheimer & Co. Inc. generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, Oppenheimer & Co. Inc. generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers. In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, Oppenheimer & Co. Inc. may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.



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.

Oppenheimer & Co. Inc. Rating System as of January 14th, 2008:

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.

Not Rated (NR) - Oppenheimer & Co. Inc. does not maintain coverage of the stock or is restricted from doing so due to a potential conflict of interest.

Oppenheimer & Co. Inc. Rating System prior to January 14th, 2008:

Buy - anticipates appreciation of 10% or more within the next 12 months, and/or a total return of 10% including dividend payments, and/or the ability of the shares to perform better than the leading stock market averages or stocks within its particular industry sector.

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]	322	49.80	130	40.37
PERFORM [P]	306	47.40	81	26.47
UNDERPERFORM [U]	18	2.80	3	16.67

Although the investment recommendations within the three-tiered, relative stock rating system utilized by Oppenheimer & Co. Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with FINRA rules, Oppenheimer & Co. Inc. has assigned buy ratings to securities rated Outperform, hold ratings to securities rated Perform, and sell ratings to securities rated Underperform.

Company Specific Disclosures

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

Oppenheimer & Co. Inc. expects to receive or intends to seek compensation for investment banking services in the next 3 months from ALIM.

In the past 12 months Oppenheimer & Co. Inc. has managed or co-managed a public offering of securities for ALIM.

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

Oppenheimer & Co. Inc. makes a market in the securities of ALIM.

Additional Information Available

Please log on to http://www.opco.com or write to Oppenheimer & Co. Inc., 300 Madison Avenue, New York, NY 10017, Attention: Equity Research Department, Business Manager.

Other Disclosures

This report is issued and approved for distribution by Oppenheimer & Co. Inc., a member of all Principal Exchanges and SIPC. This report is provided, for informational purposes only, to institutional and retail investor clients of Oppenheimer & Co. Inc. and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of Oppenheimer & Co. Inc. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances.

We recommend that investors independently evaluate particular investments and strategies, and encourage investors to seek the advice of a financial advisor.Oppenheimer & Co. Inc. will not treat non-client recipients as its clients solely by virtue of their receiving this report.Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. Oppenheimer & Co. Inc. accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to Oppenheimer & Co. Inc.All information, opinions and statistical data contained in this report were obtained or derived from public sources believed to be reliable, but Oppenheimer & Co. Inc. does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by Oppenheimer & Co. Inc. or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice.Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.This report may provide addresses of, or contain hyperlinks to, Internet web sites. Oppenheimer & Co. Inc. has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.