

November 5, 2010

Stock Rating:

OUTPERFORM

12-18 mo. Price Target \$16.00
ALIM - NASDAQ \$11.15

3-5 Yr. EPS Gr. Rate NA
52-Wk Range \$11.49-\$6.30
Shares Outstanding 31.1M
Float 25.8M
Market Capitalization \$347.2M
Avg. Daily Trading Volume 38,826
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
Prior (E)	--	--	(0.28)	(0.30)	(1.00)	NM
2011E	--	--	--	--	2.30	4.8x
Prior (E)	--	--	--	--	2.28	4.9x
2012E	--	--	--	--	2.73	4.1x
Prior (E)	--	--	--	--	2.86	3.9x

HEALTHCARE/BIO TECHNOLOGY

Alimera Sciences

Reports 3Q; Attractive Ahead of 12/30 Iluvien PDUFA Date

SUMMARY

On 11/4, ALIM reported 3Q results. We continue to see a good probability of FDA approval of Iluvien for diabetic macular edema (DME) next month, based on the drug's impressive visual acuity improvements/favorable safety profile in the ph.III FAME studies. With a 12/30/2010 PDUFA date, ALIM reported very active commercial preparation ahead of potential 1Q11 US launch. Iluvien would be the first pharmacologic therapy approved for DME, and, based on this, we expect rapid penetration and estimate >\$500M US peak sales. We believe ALIM's current valuation reflects modest expectations for Iluvien's approval and, more importantly, low investor focus on the stock. However, we believe these headwinds will likely reverse in December and recommend buying ALIM, near term.

KEY POINTS

- **3Q10 EPS of (\$0.20) was above our (\$0.28) due to lower than expected opex.** We expect SG&A to increase going into launch of Iluvien and R&D to decrease as the FAME studies near completion. ALIM's ~\$55M cash should be sufficient to pay pSivida a \$25M milestone on US Iluvien approval and fund operations into launch.
- **We see a good probability of Iluvien's approval.** Although one of the FAME trials barely missed significant visual acuity improvements under a modified analysis, we believe the FDA will focus on the intent-to-treat (ITT) FAME results. The ITT data were positive in both trials, and, importantly, we believe these results better approximate real-world use.
- **ALIM continues to make progress toward a US Iluvien launch in 1Q11.** Management believes current production capacity (>100K units/year) is sufficient for 2011. ALIM is currently recruiting sales reps and has MSLs calling on KOLs/managed care organizations. The company reports no major surprises in FDA pre-approval discussions, to date.
- **We expect rapid uptake of Iluvien, based on key advantages over current DME treatments.** Relative to current corticosteroid treatments, we believe Iluvien's efficacy, safety, infrequent (1x/~3yrs) insertion, and projected cost (\$7,500/insert) make the drug's overall profile compelling. Additionally, we expect 36-month FAME data in 1Q11 to further strengthen the drug's commercial profile.

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 3Q10 earnings, we are adjusting our model. For 2010-2017 our new EPS estimates are (\$0.82), \$2.30, \$2.73, \$3.13, \$3.64, \$4.40, \$5.32, and \$6.18, respectively, vs. our prior estimates of (\$1.00), \$2.28, \$2.86, \$3.38, \$3.95, \$4.78, \$5.78, and \$6.71, respectively.

Alimera Sciences Statement of Operations 2009A-2017E

Amounts in thousands, except per-share figures

	2010				Prior				Prior				Prior				Prior			
	2009A	1QA	2QA	3QA	3QE	4QE	4QE	2010E	2010E	2011E	2011E	2012E	2013E	2014E	2015E	2016E	2017E			
Revenues:																				
Iluvien U.S. sales	-	-	-	-	-	-	-	-	-	139,876	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	139,876	210,197	285,740	368,382	455,568	550,540	644,936			
Operating expenses:																				
Cost of goods	-	-	-	-	-	-	-	-	-	6,994	6,994	9,859	12,660	16,208	19,976	24,078	28,182			
Payment to pSivida for Iluvien	-	-	-	-	-	-	-	-	-	18,184	18,184	31,530	48,576	66,309	82,002	99,097	116,088			
Research & development	15,057	3,065	4,140	3,276	3,500	3,000	3,650	13,481	14,355	8,000	19,379	10,000	13,000	13,650	14,333	15,049	15,802			
Selling, general & administrative	4,159	1,151	1,553	2,843	3,950	4,500	5,000	10,047	11,654	22,606	22,725	36,169	45,212	56,514	70,643	74,175	77,884			
Total operating expenses	19,216	4,216	5,693	6,119	7,450	7,500	8,650	23,528	26,009	55,783	67,282	87,558	119,447	152,681	186,954	212,400	237,956			
Income (Loss) from operations	(19,216)	(4,216)	(5,693)	(6,119)	(7,450)	(7,500)	(8,650)	(23,528)	(26,009)	84,093	72,594	122,639	166,293	215,701	268,614	338,140	406,980			
Other income (expense)	(1,860)	(472)	872	37	141	96	90	533	632	988	883	2,936	5,486	9,132	15,872	21,508	28,465			
Pretax income (loss)	(21,076)	(4,688)	(4,821)	(6,082)	(7,309)	(7,404)	(8,560)	(22,995)	(25,377)	85,080	73,476	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)	(7,309)	(7,404)	(8,560)	(22,995)	(25,377)	85,080	73,476	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)	(\$0.28)	(\$0.22)	(\$0.30)	(\$0.82)	(\$1.00)	\$2.30	\$2.28	\$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	26,293	33,646	28,793	27,895	25,469	36,146	31,293	38,146	40,146	42,146	44,146	46,146	48,146			
Diluted common shares outstanding	22,496	22,496	24,293	31,146	26,293	33,646	28,793	27,895	25,469	37,046	32,193	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	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	5.7%	13.9%	4.8%	4.5%	3.7%	3.1%	2.7%	2.5%			
SG&A as percent of revenue	NM	NM	NM	NM	NM	NM	NM	NM	NM	16.2%	16.2%	17.2%	15.8%	15.3%	15.5%	13.5%	12.1%			
Operating margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	60.1%	51.9%	58.3%	58.2%	58.6%	59.0%	61.4%	63.1%			
Pretax margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	60.8%	52.5%	59.7%	60.1%	61.0%	62.4%	65.3%	67.5%			
Profit margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	60.8%	52.5%	50.8%	45.1%	42.7%	43.7%	45.7%	47.3%			
Tax rate	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 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

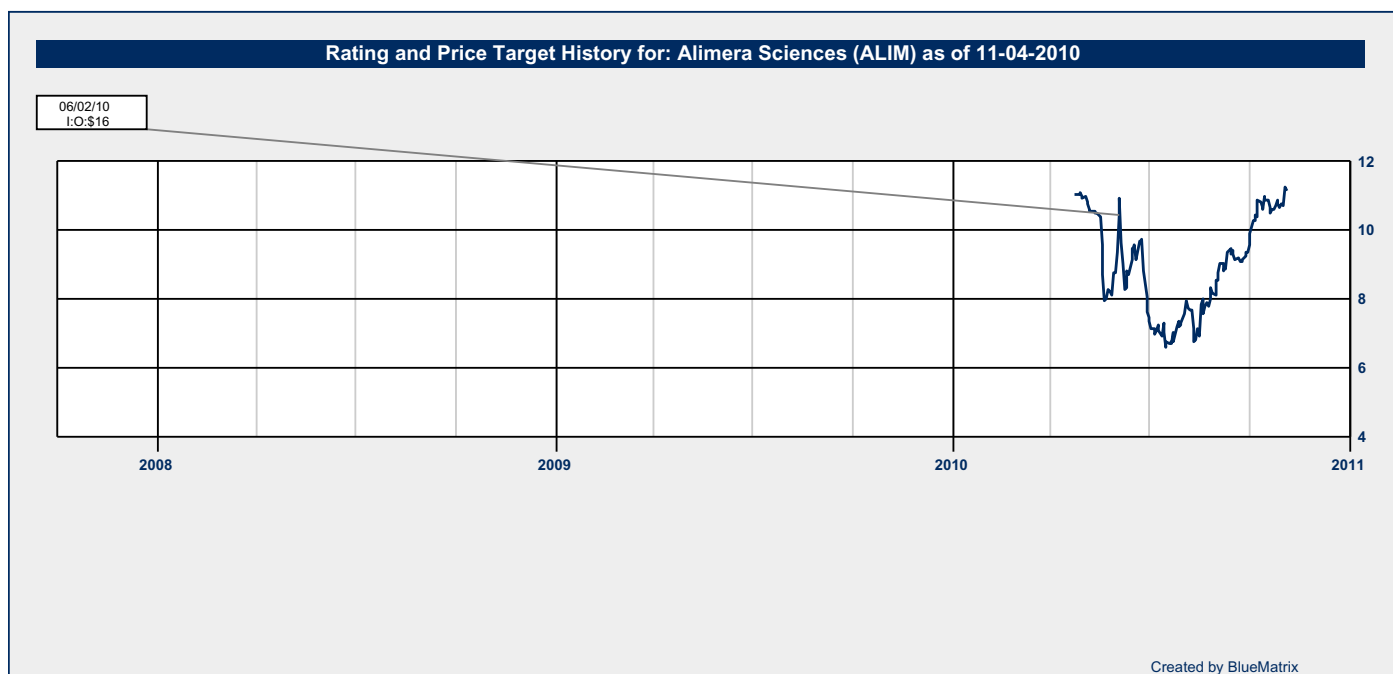
Key risks to our price target include, but are not limited to, failure to gain FDA or EMEA approval of Iluvien in diabetic macular edema, difficulty commercializing Iluvien in the US following potential approval, an inability to find a partner to commercialize Iluvien in Europe, and an inability to raise 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
OUTPERFORM [O]	333	50.80	140
PERFORM [P]	304	46.30	81
UNDERPERFORM [U]	19	2.90	4

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