

August 31, 2010

Stock Rating:
OUTPERFORM

12-18 mo. Price Target \$16.00
ALIM - NASDAQ \$8.10

3-5 Yr. EPS Gr. Rate NA
52-Wk Range \$11.30-\$6.30
Shares Outstanding 31.1M
Float 25.8M
Market Capitalization \$252.2M
Avg. Daily Trading Volume 54,412
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
2011E	--	--	--	--	2.28	3.6x
Prior (E)	--	--	--	--	1.96	4.1x
2012E	--	--	--	--	2.86	2.8x
Prior (E)	--	--	--	--	2.74	3.0x

HEALTHCARE/BIOTECHNOLOGY
Alimera Sciences
FDA Grants Iluvien NDA Priority Review, Expecting Approval by Year End
SUMMARY

On 8/30, the FDA granted priority review of ALIM's NDA for Iluvien for diabetic macular edema (DME). On a six-month timeline, we expect an FDA decision in December. Based on the results of the ph.III FAME studies, we see a good probability of Iluvien's approval. In addition to the accelerated review, we view the FDA's decision positively, as it appears to acknowledge there is substantial unmet medical need for new DME treatments. We believe ALIM is significantly undervalued based on Iluvien's potential. We would be buyers of the stock ahead of a likely 4Q Iluvien approval, which should be a major positive catalyst.

KEY POINTS

- **We see a good probability of Iluvien's approval in 4Q10.** 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 results were clearly positive in both trials and these results better approximate real-world use.
- **We project an early 1Q11 Iluvien launch.** ALIM filed an NDA with the FDA at the end of June. We expect a late-December PDUFA date, and expect ALIM will be able to launch the drug immediately after the new year. Based on this, we have increased our 2011 Iluvien estimates to \$140M vs. \$127M, prior.
- **We believe Iluvien has key advantages over other DME treatments, and will see significant adoption.** Current corticosteroid treatments require frequent injections and cause cataract/IOP development. We believe Iluvien's efficacy, relative safety, infrequent (1x/~3yrs) injections, and projected cost (\$7500/insert) make the drug's overall profile compelling.

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

Based on a priority review of the Iluvien NDA, we have adjusted our financial model. Our 2010 estimates remain unchanged, as we continue to expect launch of the drug in early 2011. However, we have slightly increased our expectations for the trajectory of the Iluvien launch. For 2011-2017 our new EPS estimates are \$2.28, \$2.86, \$3.38, \$3.95, \$4.78, \$5.78, and \$6.71, respectively, vs. our prior estimates of \$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				Prior		Prior		Prior		Prior		Prior		Prior		Prior	
	2009A	1QA	2QA	3QE	2010	2010	2010	2010	2010	2010	2010	2010	2010	2010	2010	2010	2010	2010
Revenues:																		
Iluvien U.S. sales	-	-	-	-	-	-	-	-	-	-	139,876	127,160	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	127,160	210,197	285,740	368,382	455,568	550,540	644,936
Operating expenses:																		
Cost of goods	-	-	-	-	-	-	-	-	-	-	6,994	6,358	9,859	12,660	16,208	19,976	24,078	28,182
Payment to pSivida for Iluvien	-	-	-	-	-	-	-	-	-	-	18,184	16,531	31,530	48,576	66,309	82,002	99,097	116,088
Research & development	15,057	3,065	4,140	3,500	3,500	3,650	3,650	14,355	14,355	19,379	19,379	19,961	20,559	21,176	21,812	22,466	23,140	23,140
Selling, general & administrative	4,159	1,151	1,553	3,950	3,950	5,000	5,000	11,654	11,654	22,725	22,725	36,360	45,451	56,813	71,017	74,567	78,296	78,296
Total operating expenses	19,216	4,216	5,693	7,450	7,450	8,650	8,650	26,009	26,009	67,282	64,993	97,709	127,245	160,506	194,806	220,209	245,706	245,706
Income (Loss) from operations	(19,216)	(4,216)	(5,693)	(7,450)	(7,450)	(8,650)	(8,650)	(26,009)	(26,009)	72,594	62,167	112,487	158,495	207,876	260,761	330,331	399,230	399,230
Other income (expense)	(1,860)	(472)	872	141	141	90	122	632	663	883	971	2,651	5,022	8,480	14,906	20,386	27,186	27,186
Pretax income (loss)	(21,076)	(4,688)	(4,821)	(7,309)	(7,309)	(8,560)	(8,528)	(25,377)	(25,346)	73,476	63,138	115,138	163,517	216,356	275,667	350,718	426,416	426,416
Income tax provision (benefit)	-	-	-	-	-	-	-	-	-	-	-	17,271	40,879	64,907	82,700	105,215	127,925	127,925
Net income (loss)(2)	(21,076)	(4,688)	(4,821)	(7,309)	(7,309)	(8,560)	(8,528)	(25,377)	(25,346)	73,476	63,138	97,867	122,638	151,449	192,967	245,502	298,491	298,491
Basic & diluted net loss per share	(\$0.86)	(\$0.21)	(\$0.20)	(\$0.28)	(\$0.28)	(\$0.30)	(\$0.30)	(\$1.00)	(\$1.00)	\$2.28	\$1.96	\$2.86	\$3.38	\$3.95	\$4.78	\$5.78	\$6.71	\$6.71
Basic common shares outstanding (1)	22,496	22,496	24,293	26,293	26,293	28,793	28,793	25,469	25,469	31,293	31,293	33,293	35,293	37,293	39,293	41,293	43,293	43,293
Diluted common shares outstanding	22,496	22,496	24,293	26,293	26,293	28,793	28,793	25,469	25,469	32,193	32,193	34,243	36,293	38,343	40,393	42,443	44,493	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	13.9%	15.2%	9.5%	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	16.2%	17.9%	17.3%	15.9%	15.4%	15.6%	13.5%	12.1%
Operating margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	51.9%	48.9%	53.5%	55.5%	56.4%	57.2%	60.0%	61.9%
Pretax margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	52.5%	49.7%	54.8%	57.2%	58.7%	60.5%	63.7%	66.1%
Profit margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	52.5%	49.7%	46.6%	42.9%	41.1%	42.4%	44.6%	46.3%
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 \$1.84, 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 11.5x for 2012. 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

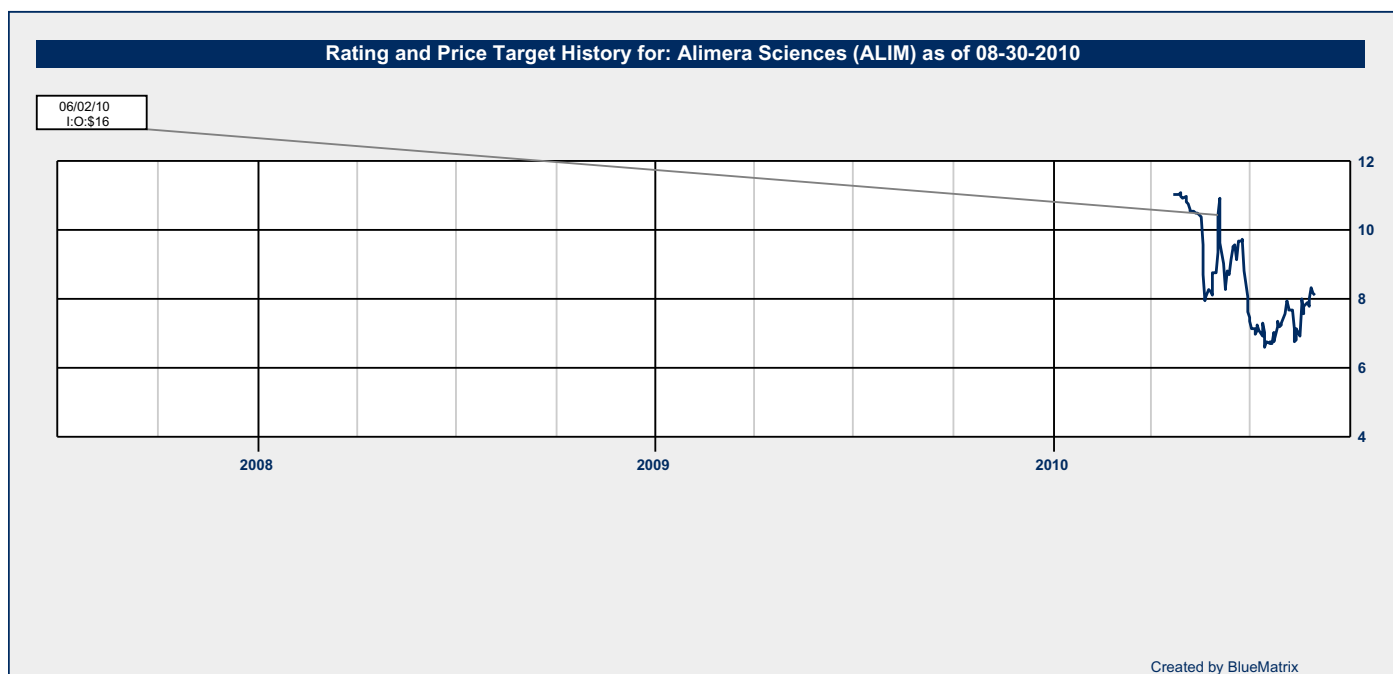
Key risks to our price target include, but are not limited to, failure to gain FDA or EMEA approval of Iluvien in diabetic macular edema, difficulty commercializing Iluvien in the US following potential approval, an inability to find a partner to commercialize Iluvien in Europe, and an inability to raise 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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Distribution of Ratings/IB Services Firmwide

Rating	Count	IB Serv/Past 12 Mos.		Count	Percent
		Percent	Count		
OUTPERFORM [O]	333	50.60	138	41.44	
PERFORM [P]	308	46.80	88	28.57	
UNDERPERFORM [U]	17	2.60	3	17.65	

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