

January 27, 2011

Market Outperform / Aggressive Risk

Illuvien 36-month readout results next week...

#### MARKET DATA Intraday - 1/27/2011

Price	\$9.46
Exchange	NASDAQ
Target Price	\$13.00
52 Wk Hi - Low	\$12.70 - \$6.30
Market Cap(MM)	\$295.0
EV(MM)	\$240.3
Shares Out (MM)	31.2
Public Mkt Float (MM)	7.1
Avg. Daily Vol	103,104.0
Short Interest	991,889.00

#### BALANCE SHEET METRICS

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

#### EARNINGS DATA (\$)

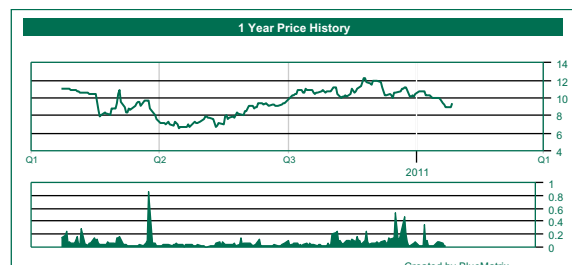
FY - Dec	2011E	2012E	2013E
Q1 (Mar)	--	(0.05)	0.04
Q2 (Jun)	(0.23)	(0.04)	0.13
Q3 (Sep)	(0.23)	(0.01)	0.19
Q4 (Dec)	(0.29)	(0.02)	0.28
Full Year EPS	(0.96)	(0.09)	0.64
Revenue (MM)	0.0	42.1	81.0

#### VALUATION METRICS

Price/Earnings	NM	NM	14.8x
EV/Revenue		5.7x	3.0x

#### INDICES

DJIA	11,999.6
SP-500	1,298.6
NASDAQ	2,328.9
NBI	1,001.1



#### Illuvien 36-month readout data conference call

Alimera announced this morning that it would be holding a conference call on Feb 3<sup>rd</sup> to discuss the 36-month readout on Illuvien for DME patients as final follow-up of the FAME study. Remember, the FDA recently sent a CRL asking for the complete 36-month data packet, and our understanding is that the key area of interest was the high IOP and adverse event trajectory line between 24 & 36-months. As we have stated in the past, we view the probability of the NDA getting approved as a 50:50 toss-up.

#### Key Things to look for in the conf call

- While we are under no illusions that all the data will not be released during this call, our goal will be to determine if there are any obvious confounders that can trip Illuvien's NDA at the FDA. Primarily we want to see if the p-values still hold or did the data set get more confounded.
- How do the modified-art and the full-data set compare?
- What is the improvement in visual acuity scores from 24 to 26-months in paired analysis? As we have stated before, the reduced amount of corticosteroid potentially should translate into lower marginal improvement in visual acuity from 24 to 36-months. What is not known is how the phakic and pseudo-phakic patients fared respectively.
- What was the extent of off-label treatments continued up to 36-months? How does the data look when the effect of off-label treatments is stripped out?
- What is the level of high intraocular pressure (IOP) and cataract formation? Is there a reasonable explanation for a sudden change in trajectory, if any? How do you explain this trajectory especially given reduced levels of corticosteroids between 24 & 36-months?
- We confess that given what has recently happened with MannKind's NDA for Afrezza (MNKD – Not Rated), we believe we don't have a choice but to remain conservative in our outlook. If the 36-month data set is clean, we would consider it equivalent to a binary event and the stock should behave quite positively. However, if there are any confounders, there could be serious negative reactions....

#### 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%. We are factoring in a ramp curve for Illuvien as a medical device and not a drug.

#### Risks

Regulatory Risk. Market Risk. Competitive Risk.

## ALIMERA

Suraj Kalia, CFA

## Quarterly Income Statement

Fiscal year ends Dec 31

Numbers in \$000, except per share

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212-430-1747

	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
<b>Total Revenue</b>	\$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
<b>COGS</b>	\$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
<b>Gross Profit</b>	\$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
<b>Total OpEX</b>	\$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
<b>Operating Income</b>	(\$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
<b>Net Income</b>	(\$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
<b>Basic / Diluted Sh</b>	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
<b>Fully Diluted EPS</b>	(\$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
<b>Margins</b>	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
<b>Gross Margin</b>	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%
<b>Operating Margin</b>	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%
<b>Pretax Margins</b>	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%
<b>Net Margin</b>	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%
<b>Assumptions</b>	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
<b>Revenue Growth</b>	-	-	-	-	-	-	-	-	-	138.56%	68.54%	66.79%	118.25%	92.28%	132.62%	62.64%	64.06%	24.04%	61.45%	21.86%	54.15%
<b>R&amp;D as % of Rev</b>	-	-	-	-	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%
<b>S&amp;M as % of Rev</b>	-	-	-	-	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%
<b>Tax Rate</b>	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%

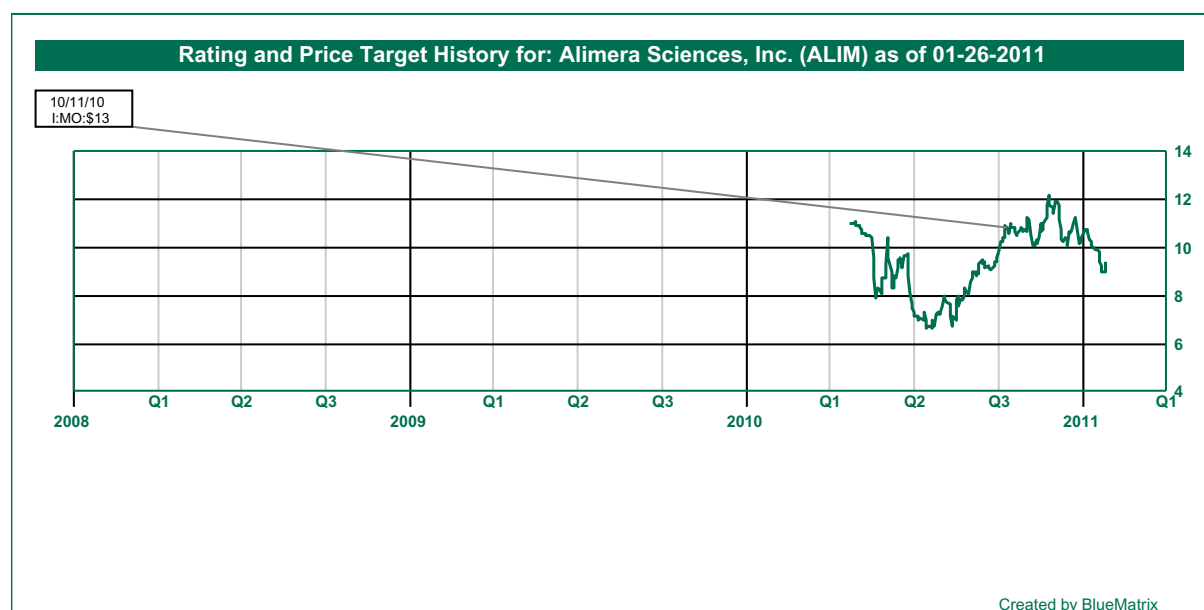
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- **Market Outperform (Buy):** The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
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- **Market Underperform (Sell):** The common stock of the company is expected to underperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.

## RISK ASSESSMENT

- **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)	187	77.30%	46	24.60%
Market Perform(MP)	43	17.80%	4	9.30%
Market Underperform(MU)	9	3.70%	0	0.00%
Under Review(UR)	3	1.20%	0	0.00%
Total	242	100%	50	100%

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