

# Zacks Small-Cap Research

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June 15, 2021  
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## Avivagen, Inc.

(OTCQB: VIVXF)

**VIVXF: Secures Record 64.5 Tonne, 18-Month Order for OxC-Beta Livestock in Mexico...**

Using an EV/EBITDA multiple of 16 applied to 2025 revenues and a discount rate of 15% (derived from CAPM), VIVXF is valued at \$3.50/share. This model is highly dependent upon commercial success of OxC-beta™ Livestock and will be adjusted accordingly based on future commercial results.

Current Price (06/15/21) \$0.35  
Valuation **\$3.50**

## OUTLOOK

On June 2, 2021, Avivagen, Inc. (VIVXF) announced financial results for the second quarter of fiscal year 2021 that ended April 30, 2021 and provided a business update. During the quarter the company secured the largest recurring order to date for OxC-beta Livestock, an 18-month contract with a minimum of 4,000 kg to be delivered per month. Subsequent to the end of the quarter the company secured a new customer in Western Mexico, initiated discussions with potential partners to ramp up sales efforts in the U.S. following termination of its previous exclusive distribution agreement, recorded the first order from Brazil, and secured the first order with a major swine and poultry producer in Thailand.

## SUMMARY DATA

52-Week High **\$0.60**  
52-Week Low **\$0.24**  
One-Year Return (%) **-1.73**  
beta **0.46**  
Average Daily Volume (sh) **5,335**

Shares Outstanding (mil) **57**  
Market Capitalization (\$mil) **\$20**  
Short Interest Ratio (days) **1**  
Institutional Ownership (%) **0**  
Insider Ownership (%) **N/A**

Annual Cash Dividend **\$0.00**  
Dividend Yield (%) **0.00**

5-Yr. Historical Growth Rates  
Sales (%) **N/A**  
Earnings Per Share (%) **N/A**  
Dividend (%) **N/A**

P/E using TTM EPS **N/A**  
P/E using 2019 Estimate **N/A**  
P/E using 2020 Estimate **N/A**

Risk Level **Above Avg.**  
Type of Stock **Small-Growth**  
Industry **Med Products**

## ZACKS ESTIMATES

### Revenue

(in millions of CAD\$)

	Q1	Q2	Q3	Q4	Year
	(Jan)	(Apr)	(Jul)	(Oct)	(Oct)
2020	0.2 A	0.0 A	0.6 A	0.4 A	1.2 A
2021	0.3 A	0.2 A	0.9 E	1.4 E	2.7 E
2022					10.0 E
2023					17.0 E

### Earnings per Share

(in CAD\$)

	Q1	Q2	Q3	Q4	Year
	(Jan)	(Apr)	(Jul)	(Oct)	(Oct)
2020	-\$0.04 A	-\$0.03 A	-\$0.02 A	-\$0.03 A	-\$0.12 A
2021	-\$0.03 A	-\$0.04 A	-\$0.02 E	-\$0.02 E	-\$0.11 E
2022					-\$0.04 E
2023					-\$0.00 E

## WHAT'S NEW

### Business Update

#### *Continued Strong Order Growth for OxC-beta Livestock*

Avivagen, Inc. (VIVXF) is continuing to see increased customer demand for OxC-beta Livestock, the company's lead product designed to be a safe, effective alternative to the use of antibiotics in animal feed that is based on the OxC-beta technology. Recently, the company has seen the following order flow for OxC-beta Livestock:

- On May 6, 2021, Avivagen [announced](#) an introductory order of OxC-beta Livestock through Meyenberg International Group, Avivagen's consultant in Mexico, with an entrepreneur based in Western Mexico who has plans to distribute the product to dairy farms in the region. The introductory order of 200 kg is similar in size to introductory orders for other customers, with many of them going on to become repeat customers at larger quantities.
- On May 3, 2021, Avivagen, [announced](#) that Meyenberg International Group entered into a contract for the largest order to-date for OxC-beta Livestock. The 18-month contract calls for a minimum of 4,000 kg monthly commencing in July 2021 and ending October 2022. The contract included an order of 500 kg that was delivered April 30, 2021.
- On April 26, 2021, Avivagen [announced](#) the first purchase order from a large, integrated livestock producer in Thailand. While the order is modest in size, it could lead to increased order sizes and frequency in the future similar to the company's experience with UNAHCO.
- On April 23, 2021, Avivagen [announced](#) the largest single shipment purchase order of OxC-beta Livestock, 4,400 kg, from UNAHCO. This order represents a 10% increase in size over the previous record single shipment order.

The company continues to have discussions with potential new customers and while it is difficult to accurately predict the timing of any new deals, we do anticipate additional purchase orders from new customers to be announced during calendar 2021.

#### *Multiple Publications on OxC-beta Trials*

Avivagen has had two publications describing trials performed with OxC-beta published in leading, peer-reviewed scientific journals:

- In February 2021, the company [announced](#) that the paper "Evaluation of fully oxidized  $\beta$ -carotene as a feed ingredient to reduce bacterial infection and somatic cell counts in cows with subclinical mastitis" had been accepted for publication in the *New Zealand Veterinary Journal*. A pre-print of the paper can be found [here](#). Results of the trial, which Avivagen had previously announced in February 2020, show that adding 300 mg/cow/day of OxC-beta resulted in a higher bacteriological cure rate, a lower prevalence of intramammary infection, and a lower incidence of clinical mastitis compared to untreated controls.
- On March 4, 2021, the company [announced](#) the paper "Effect of Oxidized  $\beta$ -Carotene (OxBC) on the Growth and Feed Efficiency of Broilers" has been accepted for publication in the peer-reviewed journal *Poultry Science*. The paper describes the results of two dietary supplement trials in which OxC-beta was administered to broiler poultry. Both trials showed that OxC-beta supplementation resulted in significantly improved growth performance measures, including average weight gain and feed utilization efficiency, when compared to birds in control groups. One of the studies was conducted in Ontario, Canada while the other study was conducted in Scotland.

Publishing research in peer-reviewed journals is an important means of increasing industry awareness of OxC-beta and helps to validate the company's technology.

### **Financial Update**

On June 2, 2021, Avivagen announced financial results for the second quarter of fiscal year 2021 that ended April 30, 2021. The company reported revenues of CAD\$159,614 for the second quarter of fiscal year 2021, compared to CAD\$29,625 for the second quarter of fiscal year 2020. The increase was primarily due to sales of OxC-beta Livestock in Mexico.

Operating expenses for the three months ending April 30, 2021 were CAD\$1,237,047 compared to CAD\$1,117,959 for the three months ending April 30, 2020. The increase was mainly due to increased salaries and investor relations expenses along with a decrease in government grants. Net loss for the second quarter of fiscal year 2021 was CAD\$2,197,649 compared to a net loss of CAD\$1,393,497 for the second quarter of fiscal year 2020. The increase was mainly due to increased sales of OxC-beta offset by increased finance cost due to adjustments to the ACOA loans.

As of April 30, 2021, Avivagen had approximately CAD\$4.2 million, which was due in part to a CAD\$7.5 million bought offering that consisted of 15 million units sold at a price of CAD\$0.50 per unit. Each unit consisted of one share of common stock and one-half of one common share purchase warrant. Each warrant has an exercise price of CAD\$0.75 per share. Net proceeds to the company were approximately CAD\$6.7 million.

As of April 30, 2021, Avivagen had approximately 57.0 million shares outstanding and, when factoring in stock options and warrants, a fully diluted share count of approximately 75.7 million shares.

### **Conclusion**

We are very encouraged how Avivagen continues to expand its customer base and increase the size and frequency of orders for OxC-beta Livestock and we expect revenues to begin to ramp up in the second half of fiscal year 2021. The next fiscal quarter's revenue could include both the 4,400 kg order from UNAHCO, which was delivered in May 2021, as well as the first 4,000 kg order from the 18-month contract, which is due to be shipped by the end of July 2021 (although unforeseen circumstances could push that out to the fourth quarter of fiscal 2021). If this were to occur, next quarter's revenue numbers would be the highest ever for the company and would likely lead to increased investor awareness of the company and its potential. With that in mind, it's always best to be ahead of the curve, and we believe now is the time for investors to establish a position ahead of a potential inflection point later in 2021 as revenues begin to ramp up. With no changes to our model our valuation remains at \$3.50.

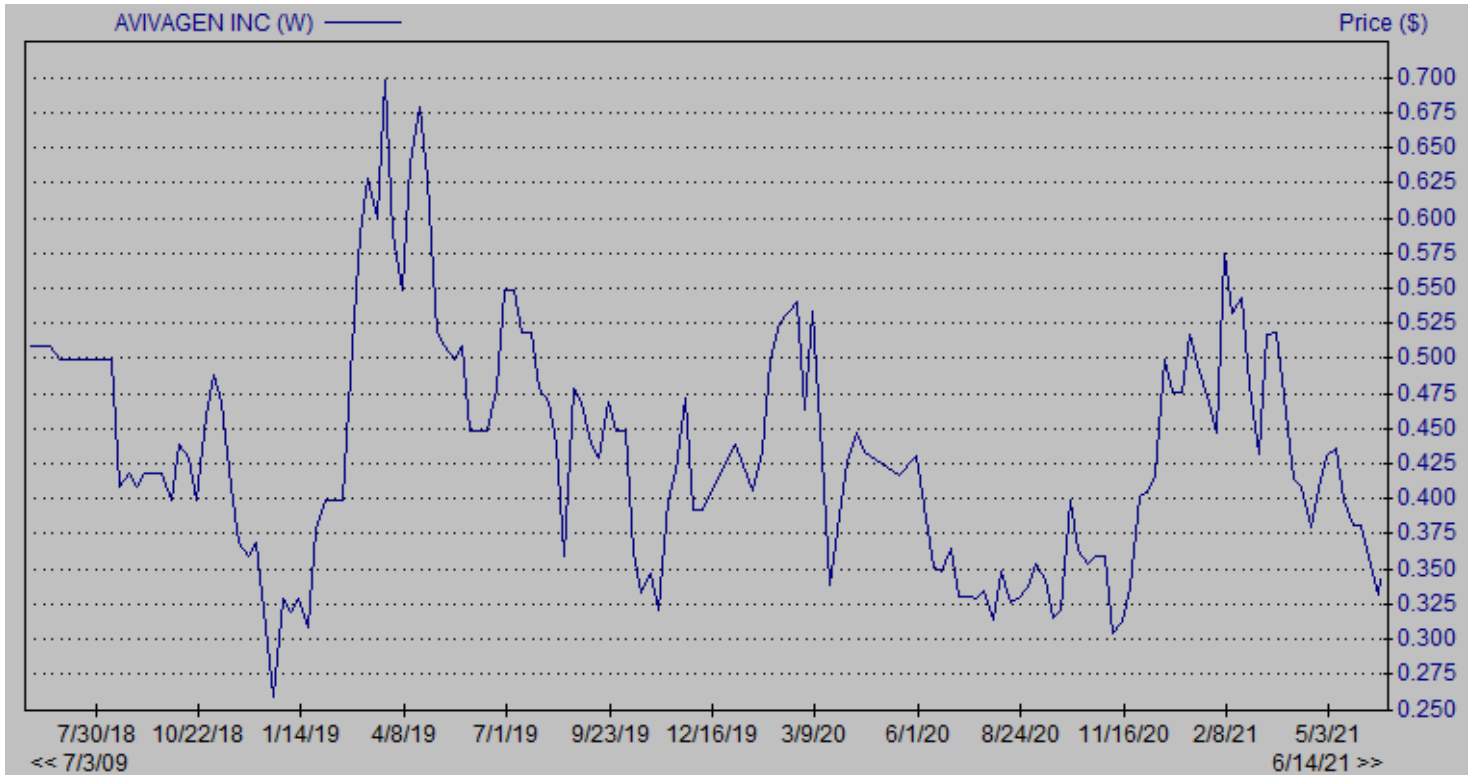
## PROJECTED FINANCIALS

Avivagen, Inc. (in Canadian Dollars)	FY2020 A	1QFY21 A	2QFY21 A	3QFY21 E	4QFY21 E	FY2021 E	FY2022 E	FY2023 E
OxC-beta™ Livestock	\$1.2	\$0.3	\$0.2	\$0.9	\$1.4	\$2.7	\$10.0	\$17.0
Other Income	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>Total Revenues</b>	<b>\$1.2</b>	<b>\$0.3</b>	<b>\$0.2</b>	<b>\$0.9</b>	<b>\$1.4</b>	<b>\$2.7</b>	<b>\$10.0</b>	<b>\$17.0</b>
Cost of Sales	\$0.7	\$0.2	\$0.1	\$0.6	\$0.8	\$1.6	\$6.0	\$10.0
<i>Product Gross Margin</i>	40%	39%	38%	39%	41%	40%	40%	41%
Salaries, board fees, and benefits	\$1.5	\$0.4	\$0.4	\$0.4	\$0.4	\$1.6	\$1.8	\$2.0
Professional fees and other	\$2.5	\$0.5	\$0.7	\$0.7	\$0.7	\$2.6	\$3.0	\$3.2
Share-based payments	\$0.3	\$0.0	\$0.1	\$0.1	\$0.1	\$0.3	\$0.3	\$0.3
Joint Venture Termination	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Government grants	(\$0.6)	(\$0.0)	(\$0.0)	\$0.0	\$0.0	(\$0.0)	\$0.0	\$0.0
Depreciation of equipment	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1	\$0.1	\$0.1
Investment Loss in Associate	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other (Income) Expense	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Operating Income	(\$3.4)	(\$0.9)	(\$1.2)	(\$0.9)	(\$0.6)	(\$3.6)	(\$1.2)	\$1.4
<i>Operating Margin</i>	-	-	-	-	-	-	-	-
Finance cost, net	\$1.3	\$0.4	\$1.0	\$0.4	\$0.4	\$2.2	\$1.5	\$1.5
Pre-Tax Income	(\$4.8)	(\$1.3)	(\$2.2)	(\$1.3)	(\$1.0)	(\$5.8)	(\$2.7)	(\$0.1)
Income Taxes	\$0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<i>Tax Rate</i>	0%	0%	0%	0%	0%	0%	0%	0%
<b>Net Income</b>	<b>(\$4.8)</b>	<b>(\$1.3)</b>	<b>(\$2.2)</b>	<b>(\$1.3)</b>	<b>(\$1.0)</b>	<b>(\$5.8)</b>	<b>(\$2.7)</b>	<b>(\$0.1)</b>
<i>Net Margin</i>	-	-	-	-	-	-	-	-
<b>Reported EPS</b>	<b>(\$0.12)</b>	<b>(\$0.03)</b>	<b>(\$0.04)</b>	<b>(\$0.02)</b>	<b>(\$0.02)</b>	<b>(\$0.11)</b>	<b>(\$0.04)</b>	<b>(\$0.00)</b>
<i>YOY Growth</i>	-	-	-	-	-	-	-	-
Basic Shares Outstanding	40.3	41.8	54.1	57.0	57.0	52.5	61.0	65.0

Source: Zacks Investment Research, Inc.

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## HISTORICAL STOCK PRICE



Source: Zacks SCR

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