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Toll-Free: 866-928-0928 ♦ www.DawsonJames.com ♦ 101 North Federal Highway - Suite 600 ♦ Boca Raton, FL 33432

## Zomedica Corp. (ZOM-NYSE-American)

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Jason Kolbert

Managing Director & Senior Analyst

jkolbert@dawsonjames.com

### Buy Rated: Beats Our Estimates Handily

*Zomedica pre-released preliminary 4<sup>th</sup> Quarter numbers. Revenues were \$6.0-\$6.2M versus our estimate of just \$4.8M, sharply higher versus the prior quarter at \$4.8M. Gross margins were also high at 72% for the year. Revenues were driven by an increase in PulseVet and the recently acquired Assisi product line. The company closed the period with \$156M in cash & equivalents.*

### Investment Highlights:

**Management Commented:** “Our revenue growth accelerated throughout 2022. We expect to continue to grow revenue as we launch new products in 2023, including the VetGuardian wireless vital signs monitor launched in early January, the TRUIVIEW digital microscopy platform we plan to launch in Q2, and several new TRUFORMA assays planned for launch later in the year.”

**Pulse Vet** – Reducing Inflammation & Pain: The PulseVet platform treats musculoskeletal issues in horses and small animals. Today this represents most of the company’s revenues. We estimate that the company has close to 1200 installed units, with a potential to see that expand to 5,000. The focus is on the U.S., but there are opportunities outside the country (Europe, Japan, and Australia).

**Assisi** - We view the Assisi product as complementary to PulseVet as an at-home option to treat Pain & Inflammation and help separation anxiety dubbed “Calmer Canines.” We envision Assisi as a promotionally sensitive product line that has the potential to be significant. We believe the company is right to continue its focus on establishing the clinical utility behind PulseVet.

**TRUFORMA Diagnostic Platform** – The TRUFORMA platform is a razor/razor blade model. It comprises point-of-care diagnostic products for disease states in dogs and cats. TRUFORMA is a unique Diagnostics Platform. Five Assays (four of which are unique) today, with more coming; we anticipate another five next year. The platform is focused on the development and commercialization of diagnostic instruments that can run developed assays for use at the point of care that provide reference lab accuracy, enabling practitioners to diagnose/treat diseases sooner.

**Revo** – TrueView Digital Microscopy - Liquid lens technology, 3D views. Automated slide preparation and processing with an AI option for reading results. Expected to launch 1H-2023.

**Vet Guardian: 24-hour patient monitoring** - This is a system using doppler radar technology in a touchless platform to ensure pets are safe and supervised at the clinic, from intake to discharge.

**Valuation:** Our valuation for Zomedica is based on revenue projections out to 2030. We anticipate a reverse stock split in our model. We know the market itself is quite large. We assume the company does not need to raise additional capital. We assume rising SG&A as the company commercializes its products. We assume an improving cost of goods sold (COGS) over time. Our valuation models: Free Cash Flow to the Firm (FCFF), discounted EPS (dEPS), and Sum-of-the-Parts (SOP), use a 15% discount rate. The result of these three models is then equal-weighted, averaged, and rounded to the nearest whole number to provide a 12-month target price.

**Risks to our thesis include:** 1. Commercial Execution; 2. Competition 3. Adoption Rates 4. Intellectual Property 5. Dilution.

Current Price	\$0.27
Price Target	\$6.00



Source: Zomedica

#### Stock Data

52-Week Range	\$0.15	-	\$0.50
Shares Outstanding (mil.)	979.9		
Market Capitalization (mil.)	\$263		
Enterprise Value (mil.)	\$143		
Debt to Capital	0%		
Book Value/Share	\$0.05		
Price/Book	1.1		
Average Three Months Trading Volume (K)	7,239		
Insider Ownership	1.4%		
Institutional Ownership	9.4%		
Short interest (mil.)	9.2%		
Dividend / Yield	\$0.00/0.0%		



Please find Important Disclosures beginning on Page 3.

**Exhibit 1. Income Statement**

ZoMedica: Income Statement (\$000)																	
.. YE December 31	1Q22A	2Q22A	3Q22A	4Q22E	2022E	1Q23E	2Q23E	3Q23E	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>Product sales</b>																	
TruForma - 5 assays & expending - PoC Diagnostics - \$1.2B Market Opportunity	50	94	100	150	394	200	250	275	300	1,025	2,500	6,000	7,500	9,500	10,925	14,000	15,400
PulseVet - Musculoskeletal Treatment - \$150M Market	3,001	3,403	3,721	4,750	14,875	5,280	5,390	5,610	5,720	22,000	27,060	32,472	38,966	46,760	56,112	67,334	80,801
VetGuardian - Remote Pet Monitoring \$40M Market						125	250	500	125	1,000	1,500	5,500	6,600	7,920	9,108	10,019	11,021
Revo/TRUVIEW - Veterinary Imaging \$1.3B Market Opportunity						125	250	500	125	1,000	6,000	13,000	19,500	24,375	28,031	30,834	53,000
Assisi - "LOOP" & Calmer Canine - Devices \$150M Market Opportunity	750	849	955	1,300	3,855	900	1,200	1,400	1,500	5,000	6,000	7,000	8,000	9,000	10,350	11,385	12,524
<b>Total Product Sales</b>	<b>3,751</b>	<b>4,246</b>	<b>4,776</b>	<b>6,200</b>	<b>18,973</b>	<b>6,630</b>	<b>7,340</b>	<b>8,285</b>	<b>7,770</b>	<b>30,025</b>	<b>43,060</b>	<b>63,972</b>	<b>80,566</b>	<b>97,555</b>	<b>114,526</b>	<b>133,572</b>	<b>172,745</b>
<b>Expenses</b>																	
COGS	990	1,210	1,215	1,000	4,415	2,321	2,569	2,900	2,720	10,509	14,210	19,192	22,559	24,389	27,486	30,722	38,004
COGS %	26%	28%	25%	16%	23%	35%	35%	35%	35%	35%	33%	30%	28%	25%	24%	23%	22%
Selling, General & Administrative	6,724	8,597	9,022	9,000	33,343	8,402	8,052	9,103	9,453	35,010	25,000	27,500	30,250	33,275	36,603	37,335	38,081
Research and Development	351	319	1,131	1,000	2,801	739	709	801	832	3,081	3,143	2,100	2,400	2,500	2,500	2,550	2,601
<b>Total expenses</b>	<b>8,065</b>	<b>10,126</b>	<b>11,368</b>	<b>11,000</b>	<b>40,559</b>	<b>9,142</b>	<b>8,761</b>	<b>9,904</b>	<b>10,285</b>	<b>38,091</b>	<b>42,353</b>	<b>48,792</b>	<b>55,209</b>	<b>60,164</b>	<b>66,589</b>	<b>70,606</b>	<b>78,686</b>
Operating Income (Loss)	(4,314)	(5,880)	(6,592)	(4,800)	(21,586)	(2,512)	(1,421)	(1,619)	(2,515)	(8,066)	707	15,180	25,358	37,391	47,937	62,966	94,059
Finance income	(107)	(277)	1,012		628												
Other Expense (& Fx)	8	52	(907)		(847)												
<b>Total other income</b>	<b>(99)</b>	<b>(225)</b>	<b>105</b>	<b>-</b>	<b>(219)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Pretax Income</b>	<b>(4,215)</b>	<b>(5,655)</b>	<b>(6,487)</b>	<b>(4,800)</b>	<b>(21,805)</b>	<b>(2,512)</b>	<b>(1,421)</b>	<b>(1,619)</b>	<b>(2,515)</b>	<b>(8,066)</b>	<b>707</b>	<b>15,180</b>	<b>25,358</b>	<b>37,391</b>	<b>47,937</b>	<b>62,966</b>	<b>94,059</b>
change in fair value of cash flow hedge					8												
Income Tax Benefit (Provision) & Other	(227)	(422)	657	-	8	-	-	-	-	-	-	-	1,268	2,991	4,794	9,445	23,515
<b>Tax Rate</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>5%</b>	<b>8%</b>	<b>10%</b>	<b>15%</b>	<b>25%</b>
<b>GAAP Net Income (loss)</b>	<b>(3,886)</b>	<b>(5,313)</b>	<b>(5,830)</b>	<b>(4,800)</b>	<b>(21,813)</b>	<b>(2,512)</b>	<b>(1,421)</b>	<b>(1,619)</b>	<b>(2,515)</b>	<b>(8,066)</b>	<b>707</b>	<b>15,180</b>	<b>24,090</b>	<b>34,400</b>	<b>43,143</b>	<b>53,521</b>	<b>70,544</b>
<b>GAAP-EPS</b>	<b>(0.00)</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>(0.00)</b>	<b>(0.02)</b>	<b>(0.00)</b>	<b>(0.00)</b>	<b>(0.06)</b>	<b>(0.10)</b>	<b>(0.17)</b>	<b>0.03</b>	<b>0.60</b>	<b>0.95</b>	<b>1.35</b>	<b>1.69</b>	<b>2.09</b>	<b>2.75</b>
GAAP EPS (dil)	(0.00)	(0.01)	(0.01)	(0.00)	(0.02)	(0.00)	(0.00)	(0.05)	(0.07)	(0.02)	0.02	0.40	0.61	0.84	1.02	1.21	1.53
Wgtd Avg Shrs (Bas) - '000s	979,900	979,900	979,946	980,926	980,168	981,907	982,889	25,000	25,025	503,705	25,088	25,188	25,289	25,390	25,492	25,594	25,697
Wgtd Avg Shrs (Dil) - '000s	979,900	979,900	979,946	980,926	980,168	990,735	1,000,643	35,000	35,350	515,432	36,243	37,714	39,246	40,839	42,497	44,223	46,019

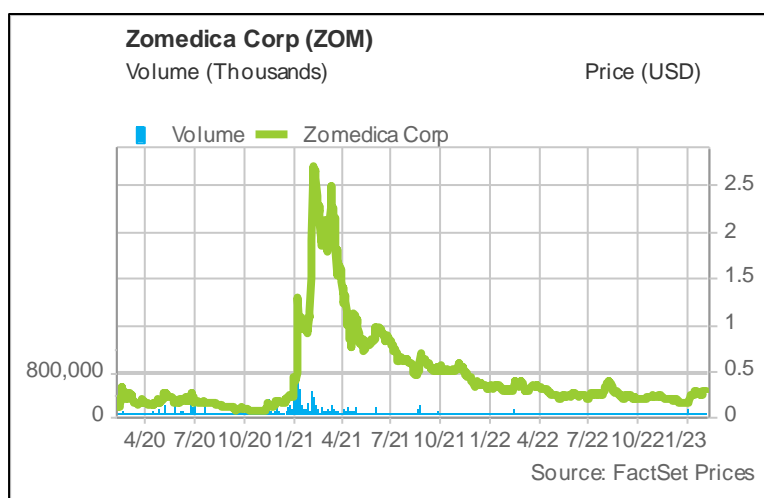
Source: Dawson James Securities estimates, company reports

**Risks to our thesis include:** 1. Commercial Execution; 2. Competition 3. Adoption Rates 4. Intellectual Property 5. Dilution

- **Commercial execution.** The company has ambitious goals. There can be no assurance that the requirements to achieve market penetration will be met. The company needs to continue to build its salesforce and product offerings, demonstrating advantages to the fragmented veterinary care provider-networks.
- **The Competitive Landscape, Adoption Rates & IP.** The company does have intellectual property and knows how to protect the utility of its devices and software; however, we expect that the technology cycle will be competitive, and the company may face competition from well-financed competitors who are already in position in the target markets.
- **Dilution:** The company, while well-capitalized today, may at some point need to return to the markets for additional capital. Our model assumes a reverse stock split; however, we do not assume the need for additional capital. We could be proven wrong. Should the need arise for capital, there can be no assurances that the company can successfully raise the capital required to execute its business strategy.

**Important Disclosures:**

**Price Chart**



Price target and rating changes over the past three years:

- Initiated – Buy – January 6, 2023 – Price Target \$6.0
- Update Report – Buy – January 17, 2023 – Price Target \$6.0
- Update Report – Buy – February 9, 2023 – Price Target \$6.0

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1. Buy: The analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months.
2. Neutral: The analyst believes the price of the stock is fairly valued for the next 12-18 months.
3. Sell: The analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

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Current as of 30-Jan-23

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	23	70%	1	4%
Market Perform (Neutral)	9	27%	2	22%
Market Underperform (Sell)	1	3%	0	0%
<b>Total</b>	<b>33</b>	<b>100%</b>	<b>3</b>	<b>9%</b>

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