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Zomedica Corp. (ZOM-NYSE-American)

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Lowering from Buy to Neutral – Reverse Stock Split Likely

Zomedica announced third-quarter results. Revenues were \$6.3M well below our forecast of \$8.2M. Management positioned the numbers as reflective of a cyclic dynamic in the veterinary marketplace which we do not see. In fact, we see a shortage of veterinarians which is translating into a golden period for the industry. Expenses were in-line with our expectations at \$10M all of which translated into an operational loss of \$5.9M. As a result, we are pushing our estimates for the company to reach cash flow positive out two years. Management also noted pressure from NYSE-American Exchange that the company is out of compliance with listing requirements and now anticipates a reverse stock split is likely. Given our reduced revenue expectations and the prospects for a reverse split we believe its prudent to lower our rating to Neutral and re-evaluate revenue growth over the next few quarters.

Investment Highlights:

Management reported third-quarter results. Revenue for 3Q23 was \$6.3M, up modestly from the prior period of \$6.0M but well below our forecast of \$8.2M. Management highlighted “organic growth” in the Assisi, PulseVet, and TRUFORMA product lines and the inclusion of TRUIVIEW and VetGuardian products. A detailed breakdown of revenues was not provided. Cost of revenue was \$2.0M and margins were good at 69%. Operating expenses were \$10.3M, down sequentially from \$12.7M. The company closed the period with ample cash at \$118M.

A Reverse Split is now likely. Management, which had previously been adamant about avoiding a reverse split, changed direction and is now saying one is “likely”. This has been an ongoing concern. The alternative to a reverse split would be the stock trading in the Over the Counter (OTC) marketplace. Management believes a split is the best option versus OTC, which admittedly places some restrictions on trading dynamics.

Our experience with reverse splits has been negative. Stocks tend to get punished for a reverse split and as such we believe this, combined with slower-than-expected growth, warrants us lowering our rating from Buy to Neutral.

We Hope to See...Growth with a strategic acquisition. This might be in the diagnostics space, device space and even therapeutics. We are aware of multiple companies that are “cash-starved” but with viable products that could in a strategic combination enhance the growth prospects for the company.

Valuation: Our valuation for Zomedica is based on revenue projections out to 2030. Based on slower-than-anticipated growth we are pushing our revenue growth assumptions out by approximately two years to reach close to cash flow positive. The company mentioned the likelihood of a reverse split. 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 and averaged.

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

Current Price **\$0.18**
Price Target **NA**



Advancing animal health and veterinarian success | ZOM LISTED | ZOM red net

Source: Zomedica

Stock Data

52-Week Range	\$0.15	-	\$0.34
Shares Outstanding (mil.)	979.9		
Market Capitalization (mil.)	\$176		
Enterprise Value (mil.)	\$70		
Debt to Capital	0%		
Book Value/Share	\$0.05		
Price/Book	0.6		
Average Three Months Trading Volume (K)	5,455		
Insider Ownership	1.5%		
Institutional Ownership	8.7%		
Short interest (mil.)	6.4%		
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	2022A	1Q23A*	2Q23A*	3Q23A*	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Product sales																	
TruForma - 5 assays & expending - PoC Diagnostics - \$1.2B Market Opportunity	394	200	150	150	200	700	600	613	638	650	2,500	3,500	7,500	9,500	10,925	14,000	15,400
PulseVet - Musculoskeletal Treatment - \$150M Market	14,875	3,882	4,600	4,927	5,500	22,000	5,544	5,660	5,891	6,006	23,100	24,486	26,935	29,628	32,591	34,546	36,274
VetGuardian - Remote Pet Monitoring \$40M Market		125	35	35	50	245	360	368	383	390	1,500	2,200	2,640	3,168	3,643	4,008	4,408
Revo/TRUVIEW - Veterinary Imaging \$1.3B Market Opportunity		125	35	35	50	245	480	490	510	520	2,000	3,000	4,500	5,625	6,469	7,116	53,000
Assisi - "LOOP" & Calmer Canine - Devices \$150M Market Opportunity	3,661	1,150	1,200	1,200	1,200	4,750	1,200	1,225	1,275	1,300	5,000	6,000	8,000	9,000	10,350	11,385	12,524
Total Product Sales	18,930	5,482	6,020	6,347	7,000	24,849	8,184	8,355	8,696	8,866	34,100	39,186	49,575	56,921	63,978	71,054	121,605
Expenses																	
COGS	5,278	1,647	1,972	1,985	2,240	7,844	2,701	2,757	2,870	2,926	11,253	11,756	13,881	14,230	15,355	16,343	26,753
COGS %	28%	30%	33%	31%	32%	32%	33%	33%	33%	33%	33%	30%	28%	25%	24%	23%	22%
Selling, General & Administrative	32,997	10,429	9,931	9,443	9,355	34,647	6,000	5,750	6,500	6,750	25,000	27,500	30,250	33,275	36,603	37,335	38,081
Research and Development	2,578	918	859	867	766	2,836	694	665	752	781	2,893	2,100	2,400	2,500	2,500	2,550	2,601
Total expenses	40,853	12,994	12,762	10,310	10,120	37,483	9,395	9,172	10,122	10,457	39,146	41,356	46,531	50,005	54,457	56,227	67,435
Operating Income (Loss)	(21,923)	(7,512)	(6,742)	(5,948)	(3,120)	(12,634)	(1,211)	(818)	(1,426)	(1,591)	(5,046)	(2,170)	3,044	6,916	9,521	14,827	54,170
Finance income	2,701	1,412	1,460	1,437													
Other Expense (& Fx)	(159)	(77)	(99)	2,100													
Total other income	2,542	1,335	1,361	3,537	-	-	-	-	-	-	-	-	-	-	-	-	-
Pretax Income	(19,381)	(6,177)	(5,304)	(2,411)	(3,120)	(12,634)	(1,211)	(818)	(1,426)	(1,591)	(5,046)	(2,170)	3,044	6,916	9,521	14,827	54,170
change in fair value of cash flow hedge	(845)	286		225													
Income Tax Benefit (Provision) & Other	2,366	208	-	(1,920)	-	(1,712)	-	-	-	-	-	-	152	553	952	2,224	13,542
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	5%	8%	10%	15%	25%
GAAP Net Income (loss)	(17,860)	(6,099)	(5,304)	(266)	(3,120)	(10,922)	(1,211)	(818)	(1,426)	(1,591)	(5,046)	(2,170)	2,892	6,363	8,569	12,603	40,627
GAAP-EPS	(0.02)	(0.01)	(0.01)	(0.00)	(0.00)	(0.02)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	0.00	0.01	0.01	0.01	0.05
GAAP EPS (dil)	(0.02)	(0.01)	(0.01)	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	0.00	0.01	0.01	0.01	0.05
Wgtd Avg Shrs (Bas) - '000s	979,924	979,950	979,950	979,950	980,930	980,195	981,911	982,892	983,875	984,859	983,384	987,324	964,330	926,332	889,831	854,768	821,087
Wgtd Avg Shrs (Dil) - '000s	979,924	979,950	979,950	979,950	980,930	980,195	981,911	982,892	982,892	984,859	983,139	987,077	966,753	928,659	892,066	856,915	821,087

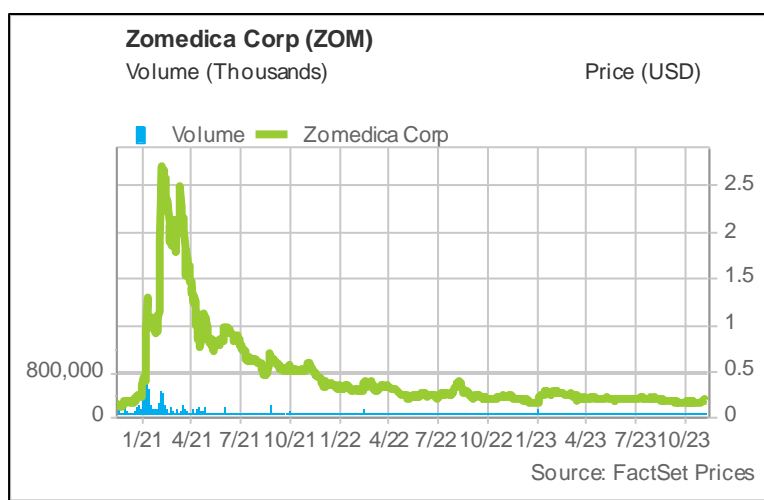
Source: Company reports and Dawson James * revenues breakdown is estimated

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
- Update Report – Buy – March 16, 2023 – Price Target \$6.0
- Price Target Change – Buy Rated, March 21, 2023 – Price Target \$0.44
- Update Report – Buy – May 8, 2023 – Price Target \$0.44
- Update Report – Buy – May 15, 2023 – Price Target \$0.44
- Update Report – Buy – June 12, 2023 – Price Target \$0.44
- Update Report – Buy – August 4, 2023 – Price Target \$0.44
- Update Report – Buy – August 11, 2023 – Price Target \$0.44
- Update Report – Buy – September 6, 2023 – Price Target \$0.44
- Update Report – Buy – October 6, 2023 – Price Target \$0.44
- Rating Change - Buy to Neutral October 14, 2023 – Price Target NA

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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.

The following chart reflects the range of current research report ratings for all companies, followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

Current as of 14-Nov-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	21	61.76%	3	8.80%
Market Perform (Neutral)	13	38.24%	2	5.90%
Market Underperform (Sell)	0	0%	0	0.00%
Total	34	100%	5	14.70%

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