Zacks Small-Cap Research
Sponsored – Impartial - Comprehensive

December 23, 2020
David Bautz, PhD
312-265-9471
dbautz@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Avivagen, Inc.

(OTCQB: VIVXF)

VIVXF: Looking to Build Upon Recent Successes in 2021…

Using an EV/EBITDA multiple of 16 applied to 2024 revenues and a discount rate of 20% (derived from CAPM), VIVXF is valued at $3.00/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 (12/23/20)	$0.48
Valuation	**$3.00**

OUTLOOK

On December 16, 2020, Avivagen, Inc. (VIVXF) announced financial results for fiscal year 2020 that ended October 31, 2020 and provided a business update. The company achieved a number of important milestones in 2020, including approval of OxC-beta™ in Brazil and Malaysia, a record four-ton order from UNAHCO, the company's distribution partner in the Philippines, and a ten-ton order from Industrias Melder in Mexico. FY2020 revenues were CAD$1.2 million, and for FY2021 we are currently forecasting sales of CAD$3.0 million based on increased order sizes from current customers and expansion of the customer base.

SUMMARY DATA

52-Week High	**$0.56**
52-Week Low	**$0.24**
One-Year Return (%)	**13.45**
beta	**0.41**
Average Daily Volume (sh)	**1,954**
Shares Outstanding (mil)	**42**
Market Capitalization ($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	**High**
Type of Stock	**Small-Growth**
Industry	**Med Products**

ZACKS ESTIMATES

Revenue
(in millions of CAD$)

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2020	0.2 A	0.0 A	0.6 A	0.4 A	1.2 A
2021	0.5 E	0.7 E	0.8 E	1.0 E	3.0 E
2022					5.0 E
2023					10.0 E

Earnings per Share
(in CAD$)

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2020	-$0.04 A	-$0.03 A	-$0.02 A	-$0.03 A	-$0.12 A
2021	-$0.03 E	-$0.03 E	-$0.03 E	-$0.02 E	-$0.10 E
2022					-$0.08 E
2023					-$0.04 E

© Copyright 2020, Zacks Investment Research. All Rights Reserved.

WHAT'S NEW

Business Update

Update on Activities in Mexico

On October 6, 2020, Avivagen announced that is joined Asociación Nacional de Fabricantes de Alimentos Para Consumo Animal SC (ANFACA) and Asociación Mexicana de Productores de Alimentos, AC (AMEPA) in Mexico that follows a strategic plan developed by Meyenberg International Group, a consulting group with offices in Guadalajara and Mexico City that assists companies in global expansion. ANFACA is an association consisting of member-companies in the Jalisco region of Mexico, which is the country's leading agricultural production state. AMEPA is a feed millers association representing multiple large dairy operators in Northern Mexico. Joining ANFACA and AMEPA is important as each organization will offer OxC-beta Livestock to its members along with conducting additional trials in the region.

Following an initial two ton purchase in May, Industrias Melder recently delivered a purchase order for ten tons of OxC-beta Livestock, which consists of two tons every two months commencing in December 2020. The initial purchase by Industrias Melder in May was increased based on results from two dairy animal tests by one of Industrias Melder's key customers.

- The first test was conducted on a group of the farm's best producing cows. Results showed a 54% reduction in the farm's bulk tank milk somatic cell count (SCC, a main indicator of milk quality). There was also a reduced SCC from milk sampled from individual cows. These low SCCs led to three separate financial awards to the farm from a global dairy processor based on improvements in milk yield, quality, and reduced bacterial levels.

- The second test was conducted at the same farm with a different group of cows that had chronic health issues, including low milk productivity and quality. The results showed increased milk quality as a result of an overall improvement in the cow's health. In addition, the bulk tank SCC was reduced by 67% and there was an 8% increase in the number of cows deemed "healthy" by the attending veterinarian, which is a very encouraging result given the chronic health issues in that group of animals.

Avivagen secured introductory 50 kg orders from two new customers in Mexico: Forrajes Tesistan, a member of ANFACA that owns multiple swine farms and a commercial feeed mill; and Prolea, a member of AMEPA and owner of numerous dairy, poultry, and swine farms in Northern Mexico. Prolea also owns a commercial feed mill. This is very encouraging and could lead to expanded orders later in 2021.

Increased Orders from UNAHCO

In October 2020, Avivagen announced a four ton order from UNAHCO, the company's long-time partner in the Philippines. The four-ton order is the largest to date from UNAHCO, which has now ordered more than five tons since its first order. Avivagen's relationship with UNAHCO has proven to be a successful model for adoption of OxC-beta Livestock as initial small orders were followed up with larger orders as demand grows more consistent. The company is utilizing this same model in other areas where OxC-beta is approved, including Malaysia, Mexico, Thailand, Taiwan, Brazil, and Mexico.

Preparing for OxC-beta™ Approval in China

In Dec. 2019, Avivagen announced it has entered into an agreement with COFCO Biotechnology Co. Ltd. in which COFCO will assist Avivagen in securing regulatory approval for OxC-beta™ Livestock in China. COFCO is a leading supplier of agriculture products in China, and with 12,000 employees and sales of more than $17.5 billion in 2018 we believe they are a great partner to assist Avivagen in determining what trials of

OxC-beta™ Livestock will be necessary to secure approval for use in chicken feed along with advising on other aspects of the Chinese regulatory pathway.

Commercial Launch of OxC-beta Technology for Human Use Imminent

In March 2020, Avivagen announced plans to accelerate its plans for commercial launch of OxC-beta as a supplement for human use as a response to the COVID-19 pandemic. Multiple studies show that the OxC-beta product supports and primes the innate immune system while decreasing exaggerated inflammatory responses. We anticipate that the company will launch the product in the U.S. in the coming weeks.

Financial Update

FY2020 Results

On December 16, 2020, Avivagen, Inc. (VIVXF) announced financial results for fiscal year (FY) 2020 that ended October 31, 2020. Revenues for FY2020 totaled CAD$1.2 million compared to CAD$1.0 million for FY2019. The increase in sales was primarily due to sales of OxC-Beta in Mexico and the Philippines. Operating expenses for FY2020 were CAD$3.9 million compared to CAD$4.5 million in FY2019. The decrease was primarily due to the recognition of COVID-related government grants.

As of October 31, 2020, Avivagen had approximately CAD$0.6 million in cash and cash equivalents. The company has recently announced two non-dilutive financings; the first in October 2020 in which an additional CAD$0.5 million in debt financing was obtained through an unsecured promissory note and the second in November 2020 in which an additional CAD$350,000 was secured through an unsecured promissory note from the same lender. Even with the two non-dilutive financings, we anticipate the company will raise additional capital in the near term.

As of October 31, 2020, Aviviagen had approximately 41.8 million shares outstanding and, when factoring in stock options and warrants, a fully diluted share count of 52.8 million.

Valuation

We value Avivagen using an EV/EBITDA multiple based on projected revenues of OxC-beta Livestock. We believe Avivagen is laying the groundwork for a very steep growth rate in revenues in the coming years through a combination of new market opportunities and market expansion. For example, the company is making steady progress on sales in the Philippines and has secured a large order in Mexico, which along with joining both ANFACA and AMEPA we believe will lead to increased sales throughout the country.

Due to the fact that Avivagen has a limited commercial history, the financial forecasts we have prepared are educated guesses and are heavily reliant on the company continuing to execute on its business plan to get OxC-beta Livestock approved in as many jurisdictions as possible, signing distribution agreements in each of those jurisdictions, and continuing market expansion through adoption of OxC-beta Livestock by major animal producers.

Our model estimates sales of OxC-beta Livestock of CAD$60 million in 2025, as we believe the company will hit an inflection point following the adoption of OxC-beta Livestock by multiple major animal producers over the next couple of years. Using an EV/EBITDA ratio of 16 (which is derived from the average for pharmaceutical companies found here) and an EBITDA of CAD$23 million leads to an EV of CAD$368 million. Using a discount rate of 20% (derived from CAPM) we arrive at a present day EV of approximately CAD$177 million. The company has approximately CAD$4.5 million in debt, approximately CAD$0.7 million in cash, and CAD$7.6 million in potential financing from warrant exercises. Accounting for that leads to an NPV of CAD$174 million. Dividing this by the fully diluted share count of 52.8 million leads to a valuation of approximately CAD$3.90 per share. Using the current exchange ratio of $1 CAD = $0.78 USD leads to a valuation for VIVXF of approximately $3.00.

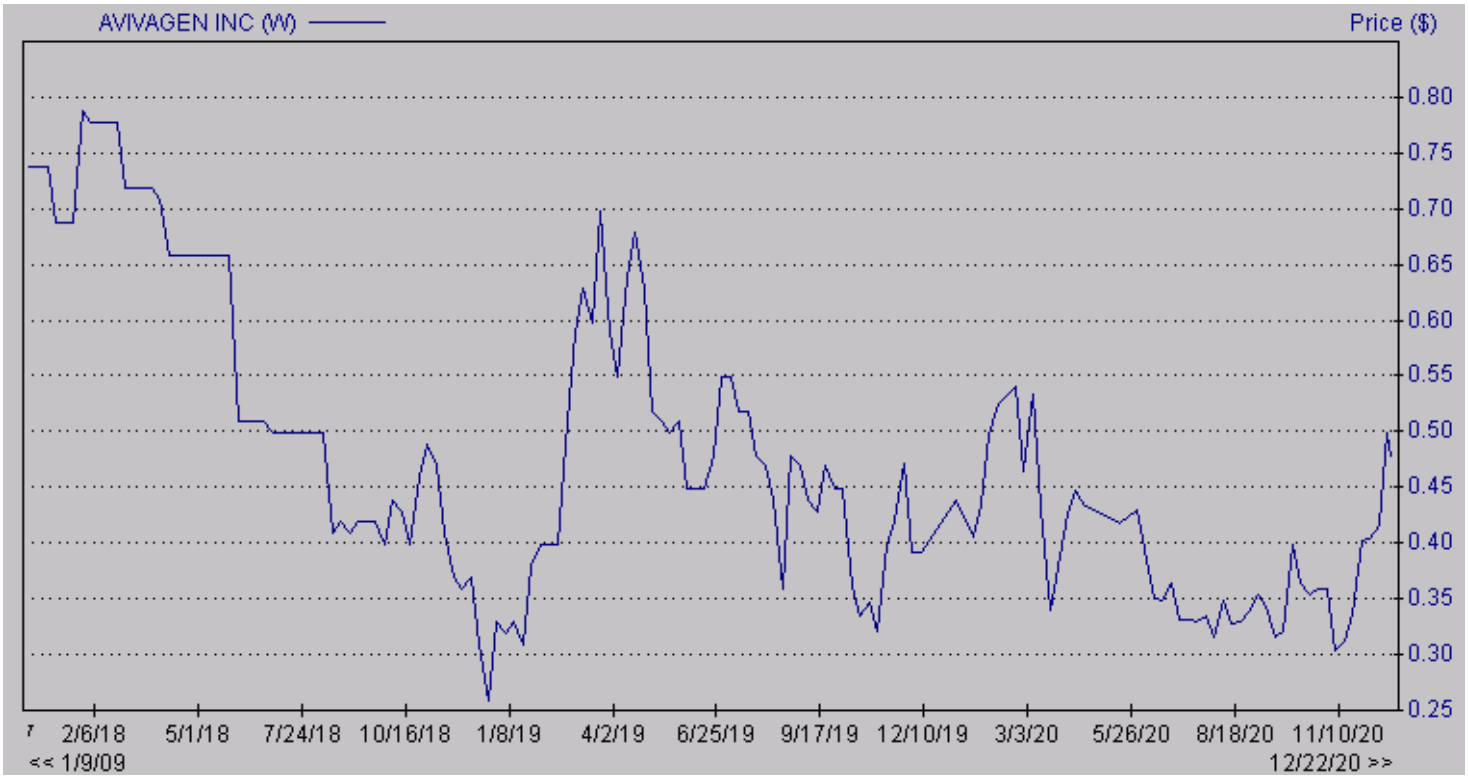
PROJECTED FINANCIALS

Avivagen, Inc. (in Canadian Dollars)	FY2020 A	1QFY20 E	2QFY20 E	3QFY20 E	4QFY20 E	FY2021 E	FY2022 E	FY2023 E
OxC-beta™ Livestock	$1.2	$0.5	$0.7	$0.8	$1.0	$3.0	$5.0	$10.0
Other Income	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total Revenues	**$1.2**	**$0.5**	**$0.7**	**$0.8**	**$1.0**	**$3.0**	**$5.0**	**$10.0**
Cost of Sales	$0.7	$0.3	$0.4	$0.4	$0.5	$1.5	$2.5	$5.0
Product Gross Margin	*40%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*
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	$0.7	$0.7	$0.7	$0.7	$2.8	$3.0	$3.2
Share-based payments	$0.3	$0.1	$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)	($1.0)	($0.9)	($0.8)	($0.7)	($3.3)	($2.7)	($0.6)
Operating Margin	-	-	-	-	-	-	-	-
Finance cost, net	$1.3	$0.3	$0.4	$0.4	$0.4	$1.5	$1.5	$1.5
Pre-Tax Income	($4.8)	($1.3)	($1.3)	($1.2)	($1.1)	($4.8)	($4.2)	($2.1)
Income Taxes	$0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	**($4.8)**	**($1.3)**	**($1.3)**	**($1.2)**	**($1.1)**	**($4.8)**	**($4.2)**	**($2.1)**
Net Margin	-	-	-	-	-	-	-	-
Reported EPS	**($0.12)**	**($0.03)**	**($0.03)**	**($0.03)**	**($0.02)**	**($0.10)**	**($0.08)**	**($0.04)**
YOY Growth	-	-	-	-	-	-	-	-
Basic Shares Outstanding	40.3	42.0	45.0	48.0	50.0	46.3	55.0	60.0

Source: Zacks Investment Research, Inc. *David Bautz, PhD*

© Copyright 2020, Zacks Investment Research. All Rights Reserved.

HISTORICAL STOCK PRICE



Source: Zacks SCR

© Copyright 2020, Zacks Investment Research. All Rights Reserved.

DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, David Bautz, PhD, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly, from an investment manager, or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

CANADIAN COVERAGE

This research report is a product of Zacks SCR and prepared by a research analyst who is employed by or is a consultant to Zacks SCR. The research analyst preparing the research report is resident outside of Canada, and is not an associated person of any Canadian registered adviser and/or dealer. Therefore, the analyst is not subject to supervision by a Canadian registered adviser and/or dealer, and is not required to satisfy the regulatory licensing requirements of any Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and is not required to otherwise comply with Canadian rules or regulations.