

# Zacks Small-Cap Research

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## Avivagen, Inc.

(OTCQB: VIVXF)

### VIVXF: Landmark Deal with AB Vista...

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 (10/11/21) \$0.36  
Valuation **\$3.50**

### OUTLOOK

On October 1, 2021, Avivagen, Inc. (VIVXF) announced a landmark, eight-year deal with AB Vista, who will become the exclusive distribution partner for OxC-beta™ for poultry, swine, ruminants, and aquaculture in the U.S., Brazil, and Thailand. We anticipate the agreement will lead to enhanced uptake and adoption of OxC-beta in some of the largest feed production markets in the world. The deal also enhances the visibility of Avivagen and OxC-beta, as AB Vista is a global animal nutrition technology company with operations in 47 countries and over 118,000 employees worldwide.

### SUMMARY DATA

52-Week High **\$0.60**  
52-Week Low **\$0.24**  
One-Year Return (%) **-1.21**  
beta **0.27**  
Average Daily Volume (sh) **1,615**

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 **High**  
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	0.5 A	1.4 E	2.7 E
2022					6.0 E
2023					10.0 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	-\$0.03 A	-\$0.02 E	-\$0.11 E
2022					-\$0.11 E
2023					-\$0.11 E

## WHAT'S NEW

### **Business Update**

#### *Landmark Deal with AB Vista*

On October 1, 2021, Avivagen, Inc. (VIVXF) [announced](#) a landmark eight-year deal with AB Vista, a diversified international food ingredients and retail group, in which they will become the exclusive distributor of OxC-beta™ for use with poultry, swine, ruminants (dairy and beef), and aquaculture in the U.S., Brazil, and Thailand. The deal includes minimum sales guarantees that are “modest” in the first year but then ramp up in subsequent years.

During the conference call to discuss the deal, management indicated that they were talking to five different interested parties in their search for a new distribution partner in the U.S. A few of the things that differentiated AB Vista from the rest of the interested parties was their penetration into the poultry and swine markets in areas that Avivagen was interested in, the company's focus on enzymes put them in the same sales process as Avivagen, and they were willing to limit the deal to certain geographies while other interested parties only wanted a global deal.

One of the most important aspects of the deal is that it puts Avivagen into a position where there is a major global distributor backing them, which provides a great deal of credibility and visibility for the OxC-beta technology. In addition, AB Vista has a number of direct relationships among the largest customers in the geographies covered by the deal, thus they are an excellent partner to increase market share in those areas.

A question during the Q&A of the conference call concerned whether the deal with AB Vista could be expanded to include China. Avivagen's CEO indicated that AB Agri has a large presence in China, not AB Vista. However, Avivagen is certainly open to the idea of a deal with AB Vista if it makes sense to both parties. In the meantime, discussions are going on with some end customers and distributors in China.

Another question during the Q&A concerned Europe and what Avivagen's plans for that region are. Avivagen's CEO commented that the problem with Europe is, although it is antibiotic-free, the process for attaining regulatory approval is expensive and time-consuming. COVID has made the process even more arduous. Avivagen plans to enter the European market at some point in the future, however when that occurs will depend upon the regulatory process, which will take both time and expense. Avivagen believes a partnership covering Europe will occur, but most likely not until potential partners are comfortable with how sales are occurring in other jurisdictions first.

### **Financial Update**

On September 29, 2021, Avivagen announced financial results for the third quarter of fiscal year 2021 that ended July 31, 2021. The company reported revenues of CAD\$505,886 for the third quarter of fiscal year 2021, compared to CAD\$612,530 for the third quarter of fiscal year 2020. The decrease was primarily due to sales of OxC-Beta in the Philippines.

Operating expenses for the third quarter of fiscal year 2021 were CAD\$1,296,003 compared to CAD\$720,249 for the third quarter of fiscal year 2020. The increase was primarily due to a decrease in government grants and a bonus payment issued to the CEO along with expected credit loss impairment of trade receivables. Net loss for the third quarter of fiscal year 2021 was CAD\$1,503,665 compared to a net loss of CAD\$787,424 for the third quarter of fiscal year 2020. The increase is mainly due to the above-mentioned expenses along with an increase in finance costs due to the adjustment to the ACOA loans.

As of July 31, 2021, Avivagen had approximately CAD\$2.9 million in cash and cash equivalents along with approximately 57.0 million shares outstanding and a fully diluted share count of approximately 75.7 million shares.

## **Conclusion**

The landmark deal announced with AB Vista could be a “game changer” for the company as Avivagen now has a global partner that gives immediate credibility to the OxC-beta technology. We believe management made the right move by limiting the deal with AB Vista to only a select few jurisdictions instead of going for a global deal. Once sales begin to ramp up, we believe it will be just a matter of time before interest in acquiring the company outright begins to increase, and by that time we are confident that the share price will more accurately reflect the company’s true value. Our valuation remains at \$3.50.

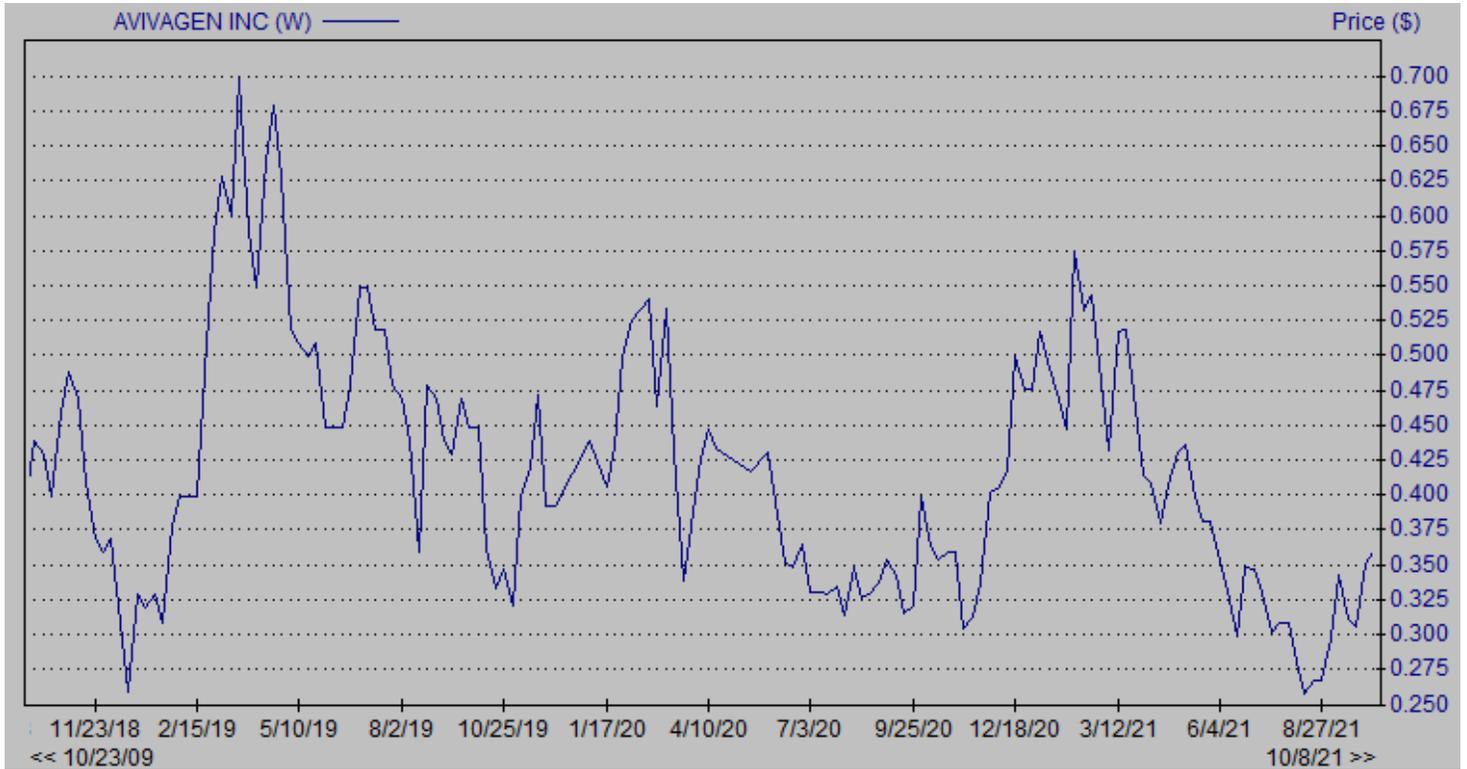
## PROJECTED FINANCIALS

Avivagen, Inc. (in Canadian Dollars)	FY2020 A	1QFY21 A	2QFY21 A	3QFY21 A	4QFY21 E	FY2021 E	FY2022 E	FY2023 E
OxC-beta™ Livestock	\$1.2	\$0.3	\$0.2	\$0.5	\$1.4	\$2.3	\$6.0	\$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>\$0.5</b>	<b>\$1.4</b>	<b>\$2.3</b>	<b>\$6.0</b>	<b>\$17.0</b>
Cost of Sales	\$0.7	\$0.2	\$0.1	\$0.3	\$0.8	\$1.4	\$6.0	\$10.0
<i>Product Gross Margin</i>	40%	39%	38%	42%	41%	41%	0%	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	\$0.9	\$0.7	\$2.8	\$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)	(\$0.1)	\$0.0	(\$0.2)	\$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
<b>Operating Income</b>	<b>(\$3.4)</b>	<b>(\$0.9)</b>	<b>(\$1.2)</b>	<b>(\$1.1)</b>	<b>(\$0.6)</b>	<b>(\$3.8)</b>	<b>(\$5.2)</b>	<b>\$1.4</b>
<i>Operating Margin</i>	-	-	-	-	-	-	-	-
Finance cost, net	\$1.3	\$0.4	\$1.0	\$0.4	\$0.4	\$2.2	\$1.5	\$1.5
<b>Pre-Tax Income</b>	<b>(\$4.8)</b>	<b>(\$1.3)</b>	<b>(\$2.2)</b>	<b>(\$1.5)</b>	<b>(\$1.0)</b>	<b>(\$6.0)</b>	<b>(\$6.7)</b>	<b>(\$0.1)</b>
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>(\$1.5)</b>	<b>(\$1.0)</b>	<b>(\$6.0)</b>	<b>(\$6.7)</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>(\$0.03)</b>	<b>(\$0.02)</b>	<b>(\$0.11)</b>	<b>(\$0.11)</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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