

ZOMEDICA PHARMACEUTICALS CORP.
(NYSE AMERICAN: ZOM, TSXV: ZOM.V)
TARGET PRICE: USD \$1.85, CAD \$2.50

We see fair value of Zomedica Pharmaceuticals Corp. (NYSE American: ZOM, TSXV: ZOM, "Zomedica") at USD \$1.85/CAD \$2.50.

Based in Ann Arbor, MI, Zomedica is a near commercialization company developing diagnostic and pharmaceutical solutions for the veterinary healthcare market, specifically for companion animals (dogs, cats, and horses). The company's business model relies on developing novel applications of proven diagnostic and therapeutic solutions that individually target large markets north of \$50-100MM thereby considerably lowering regulatory, R&D and 'go to market' risk. Further the company's solutions allow veterinarians the opportunity to lower costs, reduce time to care and grow revenue while better serving the animals in their care. Revenues are expected to begin in 2020 and could rise to nearly \$75 MM by 2024 (5-year CAGR of~75%).

INVESTMENT HIGHLIGHTS

Multiple Products To Be Commercialized in 2020

The company has 3 diagnostic platforms and 4 therapeutic solutions in development. The diagnostic platforms do not require regulatory approval and all 3 are expected to be launched in 2020. 3 of the 4 therapeutic products are expected to begin pivotal studies (equivalent to Phase 3 in human trials) in H2 2019. Revenues could rise from 0 in 2019 to \$4mm in 2020 and touch \$75MM by 2024 and rising at~75% 5-year CAGR.

Products Target Large Addressable Markets

The diagnostic platforms target common companion animal disorders such as thyroid disorders, cancer and pathogen detection. The therapeutic products target digestive and thyroid disorders, as well as behavior health. Each product has the potential to reach \$50-100MM in revenues, thus allowing the company to target addressable revenues in the range of \$350-700MM.

Lower Go to Market Risk vs Typical Healthcare Company

The diagnostic products have been developed with large well capitalized strategic partners and ZOM has exclusive worldwide rights to these products. No FDA approval is necessary before commercialization. The therapeutic products in development are species specific reformulations of existing/approved human drugs that are already widely used (off label or compounded) in veterinary settings. Development costs for these drugs are likely to be in the \$5MM range as opposed to >\$1B for human clinical development. Further, the company expects to use a lean sales channel relying on marketing through academic/social media influencers and existing industry leasing/distribution networks. Lastly, commercialization will use established contract manufacturing companies to keep capital costs low.

Recurring and Growing Diagnostic Revenues to Reduce Cash Needs

The company's diagnostic products use a razor/razorblade model whereby the company sells diagnostic boxes and consumables that are discarded after each test. This should provide a recurring and high margin revenue stream. Gross margins should be above 50% at launch and grow from there. Importantly, all the products should enable veterinary clinics to insource diagnostic/test revenue, which are currently outsourced to reference labs. This should help with vet practice profits but also with quality and time of care.

Strong Management Team, Owns >50% of Share

ZOM is led by Chairman and CEO Gerald Solensky, who is supported by executives with senior-level experience in the animal healthcare space, including IDEXX Laboratories. Management owns 58% of the company and are heavily invested in its success. In Mar 2019, the CEO invested \$600K to convert equity options into shares at \$1.52/share when ZOM shares were trading in the \$0.35-0.84 range.

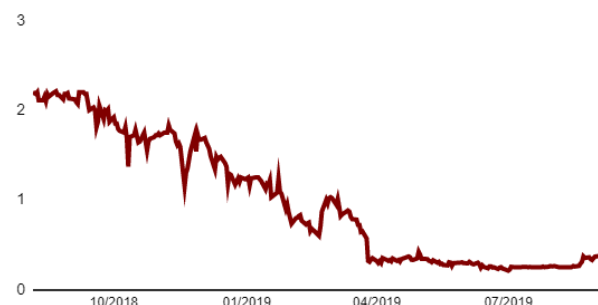
Stock Details (09/09/2019)

| | |
|----------------------|---------------------------------|
| NYSE American, TSXV: | ZOM, ZOM.V |
| Sector / Industry | Healthcare / Biopharmaceuticals |
| Price Target | USD \$1.85, CAD \$2.50 |
| Recent Share Price | USD \$0.43, CAD \$0.57 |
| Basic Shares o/s | 110MM |
| Mkt Cap (in USD) | \$47MM |
| 52-week High/Low | USD \$2.25 / \$0.20 |

Key Financials (\$ USD MM unless specified)

| KEY FINANCIALS | FY18A | FY19E | FY20E | FY21E |
|----------------|--------|--------|--------|--------|
| Revenues | 0.0 | 0.0 | 4.5 | 14.9 |
| EBITDA | (16.4) | (23.3) | (15.1) | (10.8) |
| EPS (\$) | (0.18) | (0.21) | (0.13) | (0.10) |

ZOM Share Price in USD



Source: Yahoo Finance

SUMMARY TABLE

| SHARE DATA | | BALANCE SHEET DATA (6/30/19) | | | KEY PERSONNEL |
|------------------------|--------------------|---------------------------------|-------|--------------------------|----------------------------|
| Recent price (USD): | \$0.43 | Total cash (USD): | 5.8MM | Chairman & CEO | Gerald Solensky Jr. |
| Price target (USD): | \$1.85 | Total debt (USD): | 0.0MM | COO | Stephanie Morley, DVM |
| 52-week range (USD): | \$0.20 – 2.25 | Equity (USD): | 7.7MM | CFO, Director | Shameze Rampertab, CPA, CA |
| Average daily volume:* | 373,090 | | | Chief Commercial Officer | Bruk Herbst |
| Market cap (USD): | \$47MM | | | | |
| Risk profile: | High / Speculative | | | | |

Source: Yahoo Finance, Company Financials, priced as of 9/9/2019

FINANCIAL SUMMARY

Figure 1. Income Statement

| FIGURES IN \$MM UNLESS SPECIFIED | FY18A | FY19E | FY20E | FY21E | FY22E | FY23E |
|----------------------------------|----------|----------|----------|----------|----------|--------|
| Revenue | 0 | 0 | 4,470 | 14,900 | 20,250 | 43,500 |
| YoY growth | | NM | NM | 233.3% | 35.9% | 114.8% |
| Cost of sales | 0 | 0 | 2,235 | 7,450 | 10,125 | 19,575 |
| Gross Profit | 0 | 0 | 2,235 | 7,450 | 10,125 | 23,925 |
| Margin | NM | NM | 50.0% | 50.0% | 50.0% | 55.0% |
| Operating expenses | 16,579 | 23,557 | 17,617 | 18,617 | 21,000 | 22,500 |
| EBIT | (16,579) | (23,557) | (15,382) | (11,167) | (10,875) | 1,425 |
| Margin | NM | NM | (344.1%) | (74.9%) | (53.7%) | 3.3% |
| EBITDA | (16,373) | (23,267) | (15,071) | (10,799) | (10,458) | 1,898 |
| Margin | NM | NM | (337.2%) | (72.5%) | (51.6%) | 4.4% |
| Other income/ (expense) | (69) | (69) | (70) | (71) | (71) | (72) |
| Profit before tax | (16,648) | (23,626) | (15,452) | (11,238) | (10,946) | 1,353 |
| Tax | 0 | 0 | 0 | 0 | (909) | 149 |
| Net income | (16,648) | (23,626) | (15,452) | (11,238) | (10,038) | 1,204 |
| Margin | NM | NM | (345.7%) | (75.4%) | (49.6%) | 2.8% |
| EPS (\$ per share) | (0.18) | (0.21) | (0.13) | (0.10) | (0.09) | 0.01 |

Source: Company Filings and PCG Estimates

Figure 2. Balance Sheet

| FIGURES IN \$MM, UNLESS SPECIFIED | FY18A | FY19E | FY20E | FY21E | FY22E | FY23E |
|--|--------------|--------------|--------------|--------------|---------------|---------------|
| Cash | 1,940 | 864 | 1,914 | 1,496 | 1,363 | 3,226 |
| Other assets | 4,093 | 4,167 | 5,172 | 7,516 | 8,830 | 13,744 |
| Total assets | 6,034 | 5,031 | 7,086 | 9,012 | 10,193 | 16,970 |
| Current liabilities | 2,377 | 2,000 | 1,447 | 1,490 | 2,025 | 4,350 |
| Other liabilities | 0 | 0 | 0 | 0 | 0 | 0 |
| Shareholders' equity | 3,657 | 3,031 | 5,639 | 7,522 | 8,168 | 12,620 |
| Total liab and shareholder equity | 6,034 | 5,031 | 7,086 | 9,012 | 10,193 | 16,970 |

Source: Company Filings and PCG Estimates

Figure 3. Cash Flow Statement

| FIGURES IN \$MM, UNLESS SPECIFIED | FY18A | FY19E | FY20E | FY21E | FY22E | FY23E |
|------------------------------------|----------------|----------------|--------------|--------------|--------------|--------------|
| Cash from operating activities | (11,148) | (20,776) | (13,650) | (9,918) | (7,103) | 2,463 |
| Cash from investing activities | (619) | (300) | (300) | (500) | (530) | (600) |
| Cash from financing activities | 10,259 | 20,000 | 15,000 | 10,000 | 7,500 | 0 |
| Net inc/(dec) in cash | (1,508) | (1,076) | 1,050 | (418) | (133) | 1,863 |
| Cash at beginning of the year | 3,448 | 1,940 | 864 | 1,914 | 1,496 | 1,363 |
| Cash at the end of the year | 1,940 | 864 | 1,914 | 1,496 | 1,363 | 3,226 |

Source: Company Filings and PCG Estimates

INVESTMENT THESIS

We see fair value of Zomedica Pharmaceuticals Corp. (TSXV: ZOM, NYSE American: ZOM, “Zomedica”) at USD \$1.85 / CAD \$2.50. Based in Ann Arbor, MI, Zomedica is a veterinary healthcare solutions company developing pharmaceutical and diagnostic solutions for companion animals (dogs, cats and horses). Led by Chairman and CEO Gerald Solensky Jr., Zomedica is comprised of clinical veterinary professionals and scientists, as well as business professionals, with a mission of identifying and solving unmet needs for veterinarians. The company’s management team includes executives with impressive senior-level experience from a number of leading companies in the animal healthcare space, including IDEXX Laboratories and Pfizer (full management bios are included at the conclusion of the report). To meet its objectives, Zomedica is developing a pipeline of diagnostics, instruments, therapeutics, and drug delivery methods targeting the \$10 billion companion animal market.

Zomedica is currently focused on investigating strategies for North America and global commercialization of diagnostics for the companion animal market, as well as developing a therapeutic pharmaceutical pipeline. The company expects initial commercialization activities in its diagnostic product lines to begin in 2020E. Its pharmaceutical pipeline and drug delivery methods are in development, and we expect development and the regulatory approval process to run through at least 2020E, with commercialization in 2021E. Zomedica is also positioned to make advancements on the corporate development front in coming quarters. The company is currently listed on the TSX Venture Exchange and on the NYSE American exchange.

Figure 4. Diagnostic & Therapeutic Strategy

Diagnostic & Therapeutic Strategy

Connecting trending technologies to relevant clinical use cases



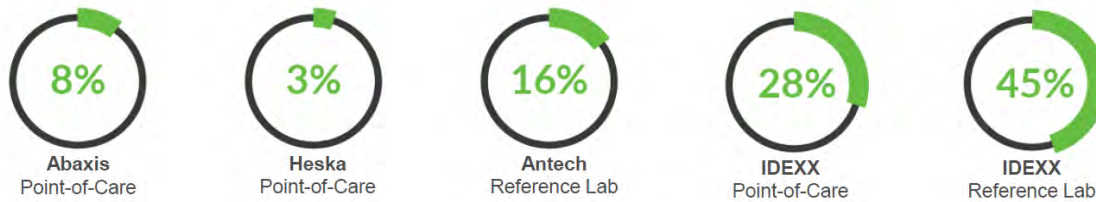
Source: Company Materials

Figure 5. Diagnostic Market Opportunity

Diagnostic Market Opportunity

\$2.7B Companion Animal Health Diagnostic Revenues by Public Companies¹

Note: Global diagnostics market projected CAGR of 9.8% through 2024²



Note: IDEXX's diagnostic revenue is 61% Point-of-Care vs. 39% Reference Lab

Source: Company Materials

Near Commercialization Diagnostic Pipeline Targeting Multiple, Common Disorders

Zomedica is bringing three diagnostic platforms to market in 2020. Each of these platforms have revenue potential of \$50-100MM. These are:

- Truforma, a Bulk Acoustic Wave sensor-based veterinary point-of-care diagnostic platform for performing immunodiagnostic testing, marketing name is Truforma
- Point-of-Care Pathogen Detection Platform, a Raman spectroscopy-based point-of-care diagnostic platform
- Canine Cancer Liquid Biopsy Platform

Figure 6. Diagnostic Platforms

Diagnostic Platforms

All of our diagnostic platforms allow for continuous development of assays based on market need



Source: Company Materials

Truforma - This is a point of care biosensor platform being developed in strategic partnership with Qorvo, a \$8B market cap semiconductor company. This will be a table top instrument that uses disposable assay cartridges to test a range of samples including whole blood, serum, plasma, and urine. The product is expected to test for hypothyroidism in dogs, one of the most common endocrine diseases, hyperthyroidism in cats, a significant cause of morbidity in older cats, Cushing's disease in dogs, another common endocrine disorder and Addison's disease in dogs. The product consists of box and cartridges (razor/razorblade model) and will enable the insourcing of reference lab tests and provide immediate analysis for veterinarians and their patients. The product is expected to be priced similar to existing reference lab tests.

Milestones: ZOM expects to complete assay verifications for Truforma in the fourth quarter of 2019, followed by validations in first quarter of 2020 and commercialization in 2020 as well.

Point-of-Care Pathogen Detection Platform - This product is also a point of care pathogen detection system developed in strategic partnership with Seraph Biosciences. The company believes this product does not require pre-market regulatory approval for use with companion animals in the United States. The platform will use Raman spectral measurements to provide real-time, reagentless and automated identification of pathogens and disease indicators. The platform is comprised of a bench-top instrument and consumables intended to analyze unprocessed biological samples. The product is expected to be priced similar to existing reference lab tests.

Milestones: Assuming ZOM completes development work, commercialization should begin in the first half of 2020.

Canine Cancer Liquid Biopsy Platform - This is a reference lab-based cancer diagnostic developed in partnership with Celsee. Canine cancer represents a large and urgent market opportunity for Zomedica, as cancer is the leading cause of death for dogs over the age of ten. Indeed, according to the Veterinarian Cancer Society, 50% of dogs over the age of ten will develop cancer, and 1 out of 4 dogs will develop cancer at some point in their life. Most current testing available to dog owners is difficult, and it can cost pet owners as much as \$2,000 for an initial diagnosis, with a pathway to diagnosis that can vary depending on the cancer's presentation, the type of cancer, and ongoing test results. Through a research collaboration with Celsee Diagnostics, Inc., Zomedica is adapting Celsee's liquid biopsy technology used for human cancer detection for use in veterinary diagnostics that have the potential to be faster, non-invasive, and able to identify cancer earlier, improving the chance that pet owners can choose the best treatment options. Zomedica's solution is a blood test with the potential to detect CTCs that have shed from a primary tumor into nearby circulating blood. The CTC detection test could indicate a cancer diagnosis without the need for invasive tissue biopsy and expensive imaging. We therefore expect Zomedica's solutions to be priced at a fraction of the current cost of diagnosis, with initial diagnostic focused on identifying the most prevalent forms of canine cancer and a multi-year development goal of becoming a broad-based canine cancer diagnostic test.

Milestones: Assuming successful completion of the clinical validation, marketing is expected during the second half of 2020.

Pharmaceutical Pipeline Offers Significant Upside Potential

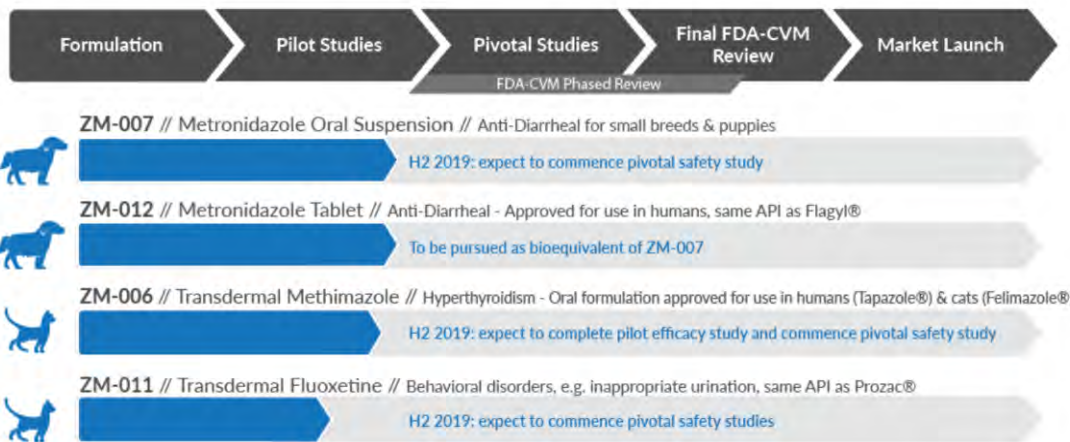
In addition to its diagnostic products pipeline, Zomedica is also developing a portfolio of therapeutics targeting unmet needs of clinical veterinarians. Veterinarians often are forced to rely on human drugs that are used off-label or compounded and not proven safe and effective for pet patients. According to the FDA's Electronic Animal Drug Product Listing, 59% of the products in a veterinarian pharmacy cabinet are unapproved animal drugs, such as off-label human drugs or compounded drugs. Additionally, human drugs are characterized by rising costs, and are typically not formulated in a dosage or administration method that makes them practical for animal use. Zomedica's strategy is to investigate the safety and efficacy of human approved drugs in companion animal species-specific formulations. The company is advancing this pipeline through the U.S. FDA-CVM approval process, which Zomedica management believes should position the company to benefit from 3 - 7 years of exclusivity per product upon market arrival, given the need for drugs proven to be safe and effective for pet patients.

As illustrated in the following graphic, Zomedica is advancing a pipeline of FDA-CVM approved drugs that address the urgent and pervasive needs of clinical veterinarians. The company has already opened Investigational New Animal Drug applications (INADs) with the FDA-CVM for four new therapeutics. Management believes that the drugs it is targeting are in the top 10 off-label drugs prescribed by veterinarians in the United States. In our view, this development strategy appears to reduce risk, as Zomedica has already identified therapeutics that are needed by the market in a formulation, dosage, and administration method designed for the specific needs of companion animals.

Figure 7. Zomedica Therapeutic Pipeline

FDA-CVM Therapeutic Pipeline

Most used or frequently compounded



Source: Company Materials

Zomedica’s drug development pipeline includes ZM-007 and ZM-012, both metronidazole formulations for canine anti-diarrheal therapeutics, as well as ZM-006, a methimazole transdermal gel for hyperthyroidism in cats, and ZM-011, a transdermal gel of fluoxetine (Prozac®) commonly prescribed to treat behavioral disorders in cats, such as inappropriate urination. The company has already filed Investigational New Animal Drug (“INAD”) applications for each of these four candidates, and we believe Zomedica has additional candidates in the early stages of development. Additionally, Zomedica is also exploring a transdermal delivery method with CTX Technology, Inc., a peptide-based skin penetration platform technology with the potential to expand the scope of Zomedica’s alternative drug delivery technologies, and which may make drug delivery much more convenient for pet owners.

While “blockbuster” drugs for companion animals, which are estimated at \$50-100MM in annual sales, offer smaller potential revenues than their human counterparts, they also offer less risk, faster time to market, and the potential for exclusivity upon approval. The average human pharmaceutical can take more than ten years to develop due to discovery, preclinical studies, clinical trials, and FDA review. The comparable process for animal drugs derived from human pharmaceuticals is a 3 to 6-year process including discovery, pilot studies, and 1 to 2-year FDA-CVM phased review process.

COMPETITIVE LANDSCAPE

Zomedica operates in the large and growing market for companion animal healthcare. Recent M&A activity -Elanco acquiring Bayer’s Animal Health Business and last year’s Zoetis acquisition of Abaxis- an animal health diagnostic provider, together with strong share price performance of existing animal health players such as IDXX is attracting investor interest to the sector and ZOM presents an attractive opportunity to invest in this space.

Although less competitive than the human healthcare sector, this is a competitive market marked by an entrenched group of companies and regulatory oversight. The global market for pharmaceuticals, biologicals and parasiticides for companion animals is estimated at \$9.8 billion per year by Brakke Consulting and growing at nearly 5% per year. Zomedica will initially be focused on the US, which accounts for \$4.2 billion of that market, although we do expect the company to seek to expand globally. Additionally, Markets and Markets forecasts that the global veterinary diagnostics market is estimated to reach \$3.6 billion by 2022, growing at a 9.8% CAGR from 2017.

Zomedica is targeting the companion animal health solutions market with a focused pipeline of diagnostics and devices, as well as an emerging therapeutic pipeline that includes the development of drugs optimized for the needs of veterinarians and pet owners. The company faces the most competition in the drug development space, where a number of pharmaceutical companies developing human cancer therapies have also sought to bring products to market for animals. Pharmaceuticals for companion animals are regulated by the FDA-CVM, which has an approval process that is estimated to take 3-6 years, including discovery, studies, and a phased regulatory approval process.

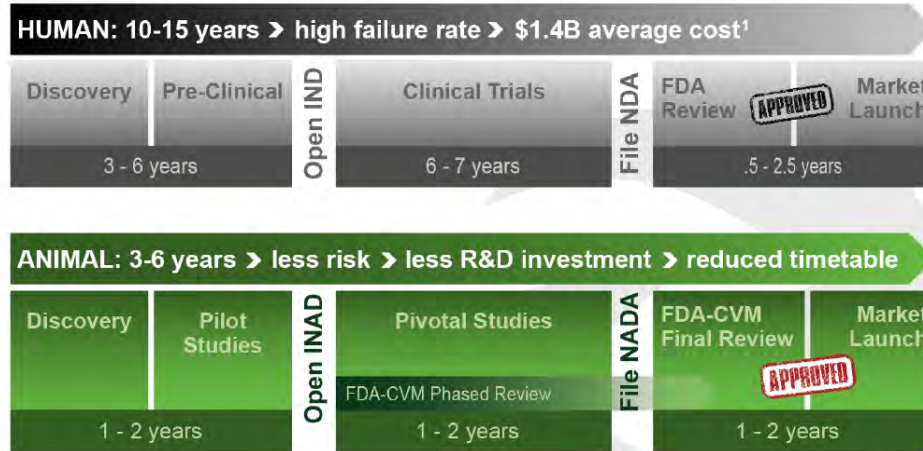
Figure 8. Commercialization Strategy

Commercialization Strategy



Source: Company Materials

Figure 9. Animal Versus Human Timeline



¹ Tufts Center for the Study of Drug Development

While the \$500MM annual market for cancer therapeutics for companion animal cancer has attracted involvement of several noteworthy competitors including Opko, Gilead, NexVet (acquired by Zoetis) and VetDC among others, the market for pet patient cancer diagnostics is still emerging and represents a significant opportunity for Zomedica. Indeed, the Veterinary Cancer Society estimates that 50% of dogs over ten will develop cancer at some stage of their life, and more than 6MM dogs diagnosed with cancer each year. This represents a large opportunity for Zomedica, with comparatively less competition than the pet cancer drug development space.

Zomedica management indicated that its own drug development pipeline is focused on candidates that are large enough to support a market opportunity of up to \$50MM each in annual revenues if successful, but which are small enough to insulate the company from the fierce competition present in the pet cancer therapeutics space. Additionally, Zomedica is targeting its efforts on identifying promising approved human drugs that have been used off-label or compounded (the customized manipulation of an approved drug or drugs by a pharmacist upon the prescription of a veterinarian, to meet the needs of a particular patient), and developing FDA-CVM approved animal drugs, a process which could provide the company with competitive benefits such as 3-7 years of exclusivity, according to management, as well as differentiation resulting from dosage and delivery methods better suited for the companion animal market.

FINANCIALS AND FUTURE OUTLOOK

Recent Results

Zomedica released 2Q19 results on August 8, 2019. As expected for a development stage company, Zomedica did not report revenues.

In its results announcement, Zomedica reported a 2Q19 loss of \$2.4MM, compared to a loss of \$4.1MM last year. The main reason for the decline in losses was a decline in R&D expenses of \$1.5MM y/y. This in turn was driven by \$1.7MM in milestone payments paid the prior year to Seraph. In addition, SG&A expenses declined \$0.4MM y/y driven by non-recurrence of severance costs paid last year and a reduction in consulting/legal fees.

Cash stood at \$5.8MM helped by a \$12MM private offering (gross) of preferred shares.

Key Assumptions Underlying The Forecast

We note that Zomedica is a pre-revenue company which is not beginning commercial activities until 2020, when it is expected to launch its first canine cancer diagnostics products. Although the company is seeding the market and optimizing its product development through its Voice of the Vet™ customer engagement program, and recently brought in a highly experienced Chief Commercial Officer in Bruk Herbst, formerly of market leader IDEXX, it is difficult to forecast sales of an emerging revenue company as there is not a sales history. Moreover, Zomedica operates in a regulated industry with respect to pharmaceutical applications, but not for diagnostics. The growth forecast in this analysis assumes that the company achieves new product development, safety and efficacy studies, and regulatory approval in a timely and cost-efficient manner that is in line with current expectations.

Model Assumes Strong Growth Beginning In 2020

This analysis has assumed Zomedica launches its initial line of diagnostic products in 2020, in line with the company's own plans. We assumed that Zomedica is able to achieve FDA-CVM approval of its first pet pharmaceutical in 2023E. Considering these assumptions, the model calls for overall revenue to grow from \$0MM in 2019E to \$24MM by 2022E. While Zomedica is listed in Canada on the TSXV, our estimates are in USD, the reporting currency of Zomedica.

Figure 10. Growth Expectations

| | 2018A | 2019E | 2020E | 2021E | 2022E |
|------------------------|--------------------|---------------|---------------|---------------|---------|
| Diagnostics (\$MM) | Development | Development | 4.5 | 14.9 | 20.3 |
| Pharmaceuticals (\$MM) | Pilot Study Period | Pivotal Study | Pivotal Study | Pivotal Study | FDA-CVM |
| Total Revenue (\$MM) | 0 | 0 | 4.5 | 14.9 | 20.3 |

Source: Company Filings and PCG Estimates

Margin & Expense Assumptions

Our model assumes approximately 50% target gross profit margins for the diagnostics product line, with blended margins expanding over time as a result of the impact of sales of higher margin pharmaceutical products and increasing as a portion of overall revenues thereafter. While Zomedica has already begun investing in pre-sales activity with the hiring of Chief Commercial Officer Bruk Herbst, and the establishment of its Voice of the Vet™ engagement platform, we have assumed the company will look to invest additional resources in sales and marketing to support a market launch for the diagnostics products in 2020, with growth thereafter to support additional diagnostics and pharmaceutical product launches.

Rising revenues will help ease operating losses, declining from \$24MM in 2019. Operating profits are expected in 2023. R&D is expected to be volatile depending on milestone payments which are expected to be high in 2019 and 2020. We assumed Zomedica gains sales efficiencies with its distribution network over time, estimating SG&A spending of under 20% of revenues by 2025E and declining thereafter.

Balance Sheet & Financial Liquidity

We see the balance sheet and financial liquidity as key areas to watch in the healthcare space. Although the pathway for companion animal drug development is less expensive and time-consuming than the pathway for human drugs, nevertheless, Zomedica will require new capital to advance its pipeline. The company has a relatively clean capital structure with no dilutive warrants.

Zomedica ended 2Q19 with cash on hand of \$5.8MM. During the quarter, Zomedica raised \$12MM issuing series 1 preferred shares. In 1Q19, the company raised \$3MM in a public offering (gross) at a price of \$0.46c per share. We expect the company to raise additional capital to fund its canine cancer development and commercialization plans in coming quarters. Zomedica will require significant new capital to accomplish its goals in the coming year, until its business reaches a scale at which it can be self-funding. This analysis assumes the company has access to at least \$25MM in new capital through 2021.

VALUATION

We valued Zomedica using a discounted cash flow (“DCF”) model to arrive at a 12-month price target of USD \$1.85/ CAD \$2.50. We felt this method was more appropriate than a comparable company valuation given that Zomedica is an emerging company in the market, with initial commercial revenues not expected to begin until 2020.

The following DCF valuation of Zomedica runs through 2027E. Overall, the forecast assumes that Zomedica achieves rapid growth in penetrating the large potential market for cancer diagnostic screening for companion animals beginning with the planned initial product launch in 2020 and growing thereafter. As illustrated in Figure 11 below, we discounted cash flows at a weighted average cost of capital of 13.5%. Finally, we assumed a terminal growth rate of 5% at the end of FY2027E to arrive at USD \$1.85 (CAD \$2.50), as shown below.

Figure 11. Discounted Cash Flow Summary

| \$' 000 | FY FY19E | FY FY20E | FY FY21E | FY FY22E | FY FY23E | FY FY24E | FY FY25E | FY FY26E | FY FY27E |
|--------------------------------------|--------------------|--------------------|--------------------|-----------------|----------------|---------------|---------------|---------------|----------------|
| Diagnostics | Develop | Comm | Comm | Comm | Comm | Comm | Comm | Comm | Comm |
| Pharmaceuticals | Pivotal Studies | Pivotal Studies | Pivotal Studies | FDA- CVM | Comm | Comm | Comm | Comm | Comm |
| EBIT | (23,557) | (15,382) | (11,167) | (10,875) | 1,425 | 18,220 | 35,423 | 56,301 | 72,576 |
| Less: Tax | 0 | 0 | 0 | (909) | 149 | 3,992 | 9,368 | 14,900 | 19,213 |
| NOPLAT | (23,557) | (15,382) | (11,167) | (9,966) | 1,276 | 14,228 | 26,055 | 41,401 | 53,363 |
| Changes in working capital | (441) | (1,569) | (2,170) | (666) | (2,461) | (3,236) | (2,996) | (2,991) | (4,377) |
| Depreciation & Amortization | 291 | 311 | 368 | 417 | 473 | 522 | 638 | 735 | 821 |
| Capex | (300) | (300) | (500) | (530) | (600) | (636) | (905) | (959) | (1,017) |
| FCFF | (24,007) | (16,940) | (13,468) | (10,745) | (1,312) | 10,878 | 22,792 | 38,185 | 48,790 |
| Discount factor | 1.0 | 0.8 | 0.7 | 0.7 | 0.6 | 0.5 | 0.4 | 0.4 | 0.3 |
| PV of FCFE | (22,821) | (14,188) | (9,939) | (6,986) | (752) | 5,490 | 10,135 | 14,960 | 16,841 |
| Sum of PV of FCFE | | | | | | | | | (7,267) |
| Terminal cash flow | | | | | | | | | 602,702 |
| PV of terminal cash flow | | | | | | | | | 208,035 |
| Enterprise value | | | | | | | | | 200,774 |
| Less: Debt | | | | | | | | | 0 |
| Add: Cash | | | | | | | | | 2,300 |
| Equity value | | | | | | | | | 203,074 |
| Outstanding shares (MM) | | | | | | | | | 110.0 |
| Fair value per share (CAD\$) | | | | | | | | | 2.46 |
| Fair value per share (USD \$) | | | | | | | | | 1.85 |

Source: Company Filings and PCG Estimates

Peer Group Analysis

We also evaluated Zomedica by using a relative valuation analysis with companies operating in the animal healthcare sector. We did not use this analysis to determine the price target. Zomedica is a pre-revenue, development stage company targeting a large potential market, and therefore a relative value analysis based on multiples of market capitalization or enterprise value over revenues appear to be less meaningful to determining the price target, in our view.

Rather, we would see the key determining factors for the valuation of Zomedica as the progress made by the company advancing its diagnostics products and therapeutic pipeline. Nevertheless, we have included a table of comparable companies for informative purposes, included below. Our analysis includes industry leader IDEXX Laboratories, as well as Kindred Biosciences, Zoetis Inc., and Dechra Pharmaceuticals, plc, among others

Comparable Valuation

Figure 12. Comparable Valuation

| COMPANY | MKT CAP | EV/REVENUE(X) | | PRICE/REVENUE(X) | |
|----------------------------|---------|---------------|-------------|------------------|-------------|
| | (\$ MM) | TTM | CY | TTM | CY |
| IDEXX Laboratories, Inc. | 24,855 | 11.2x | 10.7x | 10.9x | 10.4x |
| Heska Corporation | 546 | 4.5x | 4.5x | 4.5x | 4.5x |
| Jaguar Animal Health | 32 | 7.9x | 3.1x | 6.1x | 2.4x |
| Aratana Therapeutics, Inc | 212 | 5.0x | 4.8x | 6.0x | 5.8x |
| Kindred Biosciences, Inc. | 195 | 31.6x | 20.1x | 52.6x | 33.4x |
| Zoetis, Inc. | 59,990 | 10.7x | 10.4x | 9.9x | 9.6x |
| Dechra Pharmaceuticals plc | 303 | 1.2x | 1.5x | 0.7x | 0.8x |
| Average | | 10.3x | 7.9x | 12.9x | 9.6x |
| Zomedica Pharmaceuticals | 47 | NM | NM | NM | NM |

* Dechra market cap in GBP

Source: Yahoo! Finance , priced as of close 9/09/2019

RISK CONSIDERATIONS

Financial Liquidity

Zomedica ended 2Q19 with cash on hand of \$5.8MM. In 2Q19, Zomedica raised \$12MM in capital by issuing preferred shares that will require annual payments at 9% of net sales - a unique non-dilutive structure. Unlike many early stage companies, the company does not use dilutive warrants and boasts a relatively clean capital structure.

We expect the company to raise additional funds to advance its development and commercialization plans in coming quarters. Although the cost and time to market is lower in the veterinary market than human therapeutics, Zomedica will require significant new capital to accomplish its goals in coming years, until its business reaches a scale at which it can be self-funding. This analysis assumes the company has access to at least \$25MM in new capital through 2020 and 2021. There is risk to the extent that the company is unable to gain access to the new capital required to drive development and growth, or that the capital is not available on attractive terms, causing excessive dilution.

Sales Execution

Zomedica is targeting large markets with a goal of becoming a growth company supplying diagnostics and FDA-CVM drugs to veterinarians in the US. While the company has assembled an experienced team to identify and target urgent and pervasive veterinary needs, there is nevertheless sales execution risk. If the company fails to grow as quickly as expected, or fails to gain regulatory approval in the projected timeline, then it may be unable to meet the estimates in this analysis, the company's own sales goals, or achieve the long-term profitability and cash flow contemplated by management, which could impact the valuation of the company.

Innovation/Technology Risk

The healthcare market is subject to change and innovation, and Zomedica is exposed to risk that new products and diagnostics are introduced, which may require it to make additional investments in its products and services to remain competitive, or that render its offerings obsolete.

Competition

The veterinary market is competitive and includes a number of large supply companies with established sales distribution, financial resources, and purchasing power.

Regulation

Zomedica operates in a highly regulated industry and is regulated by the FDA-CVM and potentially by the USDA on future products. While the cost and time to commercialize new therapeutic products for the veterinarian market are less than the human market, there is, nevertheless, a notable regulatory burden that must be met to bring new products to market. The company will be required to invest time and resources to develop new products, including, in many cases, conducting studies to demonstrate safety and effectiveness. Moreover, a part of Zomedica's strategy is to translate drugs approved for humans to the companion animal market. This process involves research, studies, and close consideration of dosage and mechanism of action, among other things. Zomedica will be seeking to identify therapeutics in which it can qualify for exclusivity on the veterinarian market, which will require successful navigation of the regulatory process. The regulatory burden for the company's diagnostic products/platforms is considerably less.

MANAGEMENT TEAM

Gerald Solensky Jr., Chairman, President & Chief Executive Officer

As President and CEO of Zomedica, Gerald Solensky is determined to revolutionize the animal health industry by building an unprecedented business model alongside a world-class leadership team. An industry trailblazer known for his goals-driven leadership style, astute business acumen, and leading-edge people strategies, Gerald is committed to helping animals by ensuring the success of the veterinarians who care for them.

With a 20-year track-record building successful operations within start-up, turnaround, and rapid-change environments, Gerald started his career with Yamaha Motors as the youngest executive to command national and international accounts averaging \$50 million in total sales. He subsequently entered the banking industry serving as Regional Vice President of Fifth Third Bank where he managed a \$250 million portfolio. He further expanded his financial and leadership talents as Senior Vice President at IndyMac Bank where he managed the P&L statement and 120 sales professionals in the mortgage-backed security division. Prior to joining Zomedica, Gerald served as Director, President and CEO at Dynamic Fuel Systems (now dynaCERT Inc.), a TSX-V listed fuel system technology firm. Most recently, Gerald authored a consumer financial education program titled “Life 101” and completed over 800 observation hours in pre-veterinary medicine to garner a more complete understanding of Zomedica’s veterinary customer and their associated needs.

Stephanie Morley, DVM, Chief Operations Officer, Vice President of Product Development

As the Chief Operations Officer and Vice President of Product Development, Stephanie L. Morley, DVM, leads Zomedica’s veterinary and innovation strategies, product development activities, research and development, and facilitates new business opportunities to ensure the delivery of affordable, high quality veterinary products by aligning customer needs, translational technologies, and corporate objectives.

Dr. Morley is a trained veterinarian with instinctive business acumen. Over the course of her 15 year career, she has become known as a transformational leader, experienced in building viable business units and overseeing departments with 600 plus staff and annual budgets totalling US\$40 million in operating expenses. After earning a Bachelor of Arts in hospitality business and Doctor of Veterinary Medicine from Michigan State University, Dr. Morley was a practicing veterinarian with Oakwood Animal Hospital in Kalamazoo, MI and Adobe Animal Medical Center in Albuquerque, NM where she quickly learned to juggle the roles of both clinical practitioner and operations management. During her tenure with MPI Research, she was rapidly promoted to increasingly responsible positions, advancing from lower-level supervisory roles to Vice President of Operations by building rapport with divisions and departments to instill a cohesive team atmosphere. As Associate Director of Business Development with the University of Michigan Medical School, Dr. Morley bridged communications between faculty members and external industry, translating science to business and business to science, in efforts to fast track innovations from discovery insight to market impact.

Shameze Rampertab, MBA, CPA, CA, Chief Financial Officer, Director

As Chief Financial Officer and Corporate Secretary of Zomedica’s Canadian-based parent company, Shameze Rampertab, CPA, CA, is focused on strengthening the company’s capital structure via the development and implementation of financial strategies to ensure continued growth and viability in the evolving animal health market. Based in Canada, his ongoing responsibilities include financial reporting and guidance, treasury and foreign exchange management, tax planning, fundraising and investor relations.

A seasoned financial leader in the healthcare sector with 20 years of experience, Shameze is a master of capital markets, strategic planning, and financial analysis. Over the course of his distinctive and accomplished career, he successfully served as chief financial officer for multiple publicly traded healthcare startups, worked as an investment banker, thrived as a sell-side health-equity research analyst, and raised over \$480 million of private and public capital. Before

joining Zomedica, Shameze served as CFO and secretary at Profound Medical Corp. where he spearheaded a Qualifying Transaction with a Capital Pool Corporation resulting in the listing of shares on the TSX Venture Exchange.

Prior to that, he was CFO and Vice President of Finance for Intellipharma International Inc., a NASDAQ and TSX listed pharmaceutical company. He received his chartered professional accountant (CPA) and chartered accountant (CA) designations from the Canadian Institute of Chartered Accountants after earning his MBA from McMaster University and Bachelor of Science in molecular genetics and molecular biology from the University of Toronto.

Bruk Herbst, Chief Commercial Officer

As Zomedica's Chief Commercial Officer, Bruk Herbst is responsible for leading marketing, sales, and customer service and support operations to execute and deliver the company's commercial strategy, including the launch of its diagnostic, point of care, and therapeutic product offerings currently in development.

Known as a highly accomplished and forward-thinking leader, Bruk excels in unifying teams to achieve common goals and deliver best-in-class products and services that positively impact both the customer experience and animal health. With over 20 years of experience and an acute understanding of the animal health market, he has honed his ability to achieve accelerated revenue growth, lasting customer relationships, and industry-leading results. Over the course of his dynamic career, he has successfully launched numerous veterinary products on behalf of global corporations and startup enterprises.

Prior to joining Zomedica, Bruk was Executive Senior Vice President of Sales and Marketing at i4C Innovations. Before that, he served as Executive Senior Director and Head of U.S. Sales at IDEXX Laboratories, where he was responsible for in-clinic and reference lab diagnostics, point of care solutions, information technologies, and digital radiography solutions. He has also held sales leadership roles in patient monitoring, pharmacy and diagnostics with Omnicare Specialty Care Group and Life Systems. Bruk holds a Bachelor of Science in business from the University of Arizona.

Independent Board Members

Johnny D. Powers

Former Executive Vice President, IDEXX Laboratories (Nasdaq: IDXX)

Jeff Rowe

Former Executive Vice President & Board Member, Diplomat Pharmacy, Inc. (NYSE: DPLO) and Licensed Pharmacist

Rodney J. Williams

Former Global Vice President Portfolio and Services, Align Technology, Inc. (Nasdaq: ALGN)

James LeBar

Retired Canadian Entrepreneur & Executive Leader

ABOUT ZOMEDICA PHARMACEUTICALS CORP.

Zomedica is a veterinary diagnostic and pharmaceutical company creating products for companion animals (canine, feline and equine) by focusing on the unmet needs of clinical veterinarians. The product portfolio will include novel diagnostics and innovative therapeutics that emphasize patient health and practice health. For more information, visit www.ZOMEDICA.com.

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Financial Interests

Zomedica Pharmaceuticals, Corp. (NYSE American: ZOM and TSX Venture Exchange: ZOM.V) is a client of PCG Advisory, Inc. ZOM has an agreement in place to pay PCG a monthly cash fee of \$7,500 for PCG investor awareness and investor relations advisory services. Additionally, ZOM paid PCG \$18,000 for this initiation report plus 3 quarterly updates, as well as certain investor awareness services related to these reports.

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