

Covalon Announces Fiscal 2019 Year-End Results and Plans for Fiscal 2020

- Fiscal 2019 revenue growth of 27% to \$34 million of revenue.
- Fiscal 2019 United States revenue of \$24 million, double the Company's fiscal 2018 United States revenue.
- Fiscal 2019 Middle East revenue of \$8.8 million impacted by delayed shipments and regional uncertainty.
- Latin America and Europe to provide some additional revenue upside in fiscal 2020 and beyond.

MISSISSAUGA, Ontario – January 28, 2020 – /Business Wire/ - Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV; OTCQX: CVALF), an advanced medical technologies company, today announces its fiscal 2019 year-end results and plans for fiscal 2020.

Brian Pedlar, Covalon's President and CEO, said, "Fiscal 2019 saw Covalon undergo significant changes as an organization, which have strengthened our business model and provided us with a very strong platform for future growth. Our major achievements during fiscal 2019 included:

- Completing the acquisition of U.S.-based AquaGuard, which provides Covalon with almost 2,000 new hospital and medical institutions as customers in the United States and a talented and experienced sales force selling infection prevention products directly into hospitals;
- Strong growth in our development and consulting services revenue following the signing of the previously announced major contract with one of the world's largest medical device companies that licensed Covalon's proprietary medical coating technologies; and
- Completion of product registration for Covalon's flagship products in most Latin American countries, including Mexico, Argentina and Chile, enabling Covalon to compete for business in these markets in fiscal 2020 and beyond."

Mr. Pedlar continued, "Over the past two years, Covalon has become a significantly stronger and more diverse company:

- We added 35 people to our sales and marketing teams, which means more people selling our products;
- We now have nearly 2,000 new hospital, clinic, group purchasing organizations, and integrated delivery network customers in the United States that provide a new customer base for our existing products;
- We have begun to distribute our products in 16 new countries that will begin to materially contribute to revenue;

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- We now have four product families that each account for 20% or more of our annual revenue, which provides stability and diversification for our business;
- We have four new products that we have yet to launch in our key markets;
- We have exciting new products in our pipeline that we intend to launch this year, including a significantly improved version of our flagship IV Clear product; and
- We engaged in over 60 customer development projects of various sizes with approximately 22 medical product companies this past year in our OEM business, which includes the various projects underway associated with the previously announced major contract with one of the world's largest medical device companies that licensed Covalon's proprietary medical coating technologies.

"We are just at the beginning of our growth as a result of these key changes to Covalon and are at the early stages of introducing our expanded product portfolio to our new hospital customers in the United States. Our Middle East business declined in fiscal 2019 compared to 2018 as a result of significant delays in shipments under the contracts we secured in Saudi Arabia. Though it is still very difficult to predict the volume and timing of business in Saudi Arabia, particularly in light of the current regional uncertainty, our business in the region has continued, and we are working to grow it further. We have made changes to our operations during the second half of fiscal 2019 and first quarter 2020 that I believe will see Covalon reduce its operating expenses by up to \$7 million in fiscal 2020 compared to fiscal 2019. We are also well-positioned for growth in the United States, Latin America, and Europe, and we are optimistic about our potential for significant growth in fiscal 2020 and 2021.

"I am extremely confident in Covalon's present commercialization position and its upside potential. Our unique suite of life-saving products and our dedicated and driven staff have always set us apart from the competition, and we continue to leverage those strengths as we grow our business. Our share price declined this past year due to uncertainty in our Middle East business. Many shareholders, who saw the challenges we experienced in the Middle East as temporary headwinds, took the opportunity to invest more in Covalon either in the public markets or by participating in the private placement we closed in September 2019. I am confident that they will be rewarded when Covalon's underlying value gets reflected in its share price."

Fiscal 2019 Financial Results

Revenue for the year ended September 30, 2019 was \$34 million, 27% or \$7,281,280 more than the prior year. Gross profit was \$21.8 million in fiscal 2019, compared to \$19.7 million in fiscal 2018. Net loss was \$9.1 million or \$0.41 per share (diluted), compared to a net income of \$1.6 million or \$0.07 per share (diluted) in fiscal 2018.

Product revenue for fiscal 2019 increased to \$30 million, compared to \$19.9 million in the previous year. This increase relates to the inclusion of revenue from the acquisition of AquaGuard and the timing of major shipments.

Gross margin was 64% for fiscal 2019, compared to 74% for the prior year. Gross margin is highly influenced by the mix of collagen-based dressings, silicone-based dressings, medical coated devices, passive dressings,



moisture barriers, and related service revenues generated in the periods. Gross margin fluctuates as a result of the mix of products sold in any given quarter, or year, by product type or geography.

Operating expenses increased \$12 million to \$30 million, compared to \$18 million for the prior year. The increase in operating expenses is primarily related to increases in sales and marketing costs and general and administrative expenses as a result of acquiring AquaGuard on October 1, 2018. The Company also increased headcount in operations, sales and marketing, and administration as a result of the Company's efforts to expand its penetration of new markets, including Europe and the United States.

Fiscal 2019 saw the Company end the year with a strengthened and more diversified revenue base. In fiscal 2019, approximately 71% of revenue was from sales in the United States and 26% of revenue was from sales in the Middle East. Last year was 48% in the United States and 49% in the Middle East.

Conference Call Scheduled

A conference call to discuss Covalon's Fiscal 2019 Year-End Financial Results will be held Wednesday, January 29th, 2020 at 9:00am EST. To participate in the call, please dial:

Toll-Free: 833.299.8117
Canada: 647.689.4535
Conference ID Code: 5092807

A recording of the call will be available by calling 855.859.2056 or 404.537.3406 and entering the conference ID code 5092807 from January 29th, 2020, at 12:00pm EST to February 12th, 2020, at 11:59pm EST.

To learn more about Covalon, please contact:

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About Covalon

Covalon Technologies Ltd. researches, develops, and commercializes new healthcare technologies that help save lives around the world. Covalon's patented technologies, products, and services address the advanced healthcare needs of medical device companies, healthcare providers, and individual consumers. Covalon's technologies are used to prevent, detect, and manage medical conditions in specialty areas such as infection control, vascular access, surgical procedures, advanced wound care, and medical device coatings. To learn more about Covalon, visit our website at www.covalon.com

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This news release contains forward-looking statements which reflect the Company's current expectations regarding future events. The forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "estimate", "expect", "intend" and statements that an event or result "may", "will", "should", "could" or "might" occur or be achieved and other similar expressions. These forward-looking statements involve risk and uncertainties, including completion of integration of the AquaGuard acquisition, the difficulty in predicting product approvals, acceptance of and demands for new products, the impact of the products and pricing strategies of competitors, delays in developing and launching new products, the regulatory environment, fluctuations in operating results and other risks, any of which could cause results, performance, or achievements to differ materially from the results discussed or implied in the forward-looking statements. Many risks are inherent in the industry; others are more specific to the Company. Investors should consult the Company's ongoing quarterly filings for additional information on risks and uncertainties relating to these forward-looking statements. Investors should not place undue reliance on any forward-looking statements. The Company assumes no obligation to update or alter any forward-looking statements whether as a result of new information, further events or otherwise.

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