

Covalon Announces Fiscal 2021 Q3 Results

MISSISSAUGA, ON, Aug. 30, 2021 /CNW/ - Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV) (OTCQX: CVALF), an advanced medical technologies company, today announced its fiscal 2021 third quarter results for the period ended June 30, 2021.

Brian Pedlar, Covalon's President and CEO, said, "I am delighted to report a strong quarter with 32% year-over-year revenue growth and over \$1 million in net income and Adjusted EBITDA. With the recently completed sale of our AquaGuard product line, we are debt free with over \$24 million of cash (approximately \$0.93 per share) on our balance sheet. We are positioned extremely well to further accelerate the growth of our biological collagen and antimicrobial products that have been contributing to revenue growth this fiscal year.

"Covalon is a different company than we were a few short months ago – we have a significantly improved balance sheet, we have posted strong earnings year-to-date, and we have many more levers at our disposal to fuel further growth. I'm very proud of our team's efforts over the past 18 months to steer us clear of COVID-19 challenges and their contributions to our successful turnaround.

"Our core business of collagen and antimicrobial silicone adhesive dressings continues to experience growth in the United States and internationally. We are seeing increases in orders placed by our distribution partners and have more visibility into forecasted orders over the next twelve months.

"We were profitable this past quarter with net income of \$1,057,931 or \$0.04 per share for the three months ended June 30, 2021. Operating costs were \$3.9 million for the quarter ended June 30, 2021. Our cost management initiatives will continue, and we will look to improve on the progress we have made following the transition of AquaGuard to TIDI Products LLC. Our efforts have led to a \$5.9 million year-over-year improvement in our net income and a \$3.3 million year-over-year improvement in Adjusted EBITDA⁽¹⁾ so far this fiscal year. COVID-19 continues to impact our supply chain and our distribution channels with longer lead times for certain raw materials, lower consumption of our products by hospitals due to delays in elective procedures, and restricted access to hospital facilities by our own and our distributors' sales teams."

Fiscal 2021 Q3 and Year-to-Date Financial Results

Revenue for the three months ended June 30, 2021 increased 32% to \$8.8 million, compared to \$6.7 million in the prior year, due to increased collagen sales and increased shipments to the Middle East. Revenue in the United States increased by 47% or \$2,201,607 to \$6.9 million predominantly as a result of increased collagen sales. We are continuing to see signs of improvement in product usage by our clinicians in the United States and internationally even though the impacts of COVID-19 continue to adversely affect our customers and restrictions have not completely eased in many of the geographies in which we operate.

Product revenue increased 33% to \$8.5 million, compared to \$6.4 million for the same period in the prior year. Product revenue increased in the United States by 49% or \$2.1 million due to increased collagen sales, and in the Middle East by 4% to \$1,020,825. Development and consulting services revenue for the three-month period ended June 30, 2021 increased by 41% to \$312,102, compared to \$221,943 for the same period of the prior year, due to COVID-19 related delays last year on several projects with our larger customers and the timing of projects undertaken during the quarters.

⁽¹⁾ See "Non-IFRS Measures" below, including for a reconciliation of the non-IFRS measures used in this release to the most comparable IFRS measures. ©2021 Covalon Technologies Ltd.

Gross margin for the three months ended June 30, 2021 increased to 58% compared to 46% in the prior year, due to additional costs incurred in the prior year to repurpose existing inventory to satisfy customer orders. Gross margin is significantly influenced by source of revenue and the relative mix of products sold in any given financial period.

Adjusted gross margin⁽¹⁾, which excludes inventory provisions and depreciation, increased to 60% for Q3 fiscal 2021, compared to 50% for the prior year.

Operational expenses increased 55% to \$3.9 million compared to \$2.5 million for the prior year's comparative period, due to the impact of higher government subsidies in the comparative period. Excluding government subsidies and one-time transaction expenses related to the AquaGuard divestiture, operating expenses decreased approximately 6% or \$0.3 million. The Company recorded \$630,818 (2020 - \$1,825,202) of government subsidies netted out against the related expenses.

Net income was \$1.1 million or \$0.04 per share, compared to a net income of \$314,167 or \$0.01 per share in Q3 fiscal 2020. Adjusted EBITDA⁽¹⁾ for Q3 fiscal 2021 was a profit of \$1.4 million compared to a loss of \$517,380 in the prior year's comparative period.

Revenue for the nine months ended June 30, 2021 increased 8% to \$21.5 million, compared to \$19.9 million the prior year. Gross margin for the period increased to 57% compared to 54% for the same period the prior year. Net income was \$1.1 million or \$0.04 per share, compared to a net loss of \$4.8 million or \$0.18 per share in fiscal 2020.

Conference Call Scheduled

A conference call to discuss Covalon's Fiscal 2021 Q3 Financial Results will be held Monday, August 30th, 2021 at 9:00am EST. To participate in the call, please dial:

North American Toll-Free: 1.888.664.6392

Local (Toronto): 416.764.8659

Confirmation Number: 01860859

A recording of the call will be available by calling 1.888.390.0541 or 416.764.8677 and entering the encore replay enter code 860859# until to September 13, 2021 at 11:59pm EST.

Statement of Operations

The following unaudited table presents Covalon's consolidated statements of operations for the three-month periods ended March 31, 2021 and 2020, and for the six months ended March 31, 2021 and 2020.

<i>(unaudited)</i>	Three months ended, June 30,		Nine months ended June 30,	
	2021	2020	2021	2020
Revenue				
Product	\$8,455,147	\$6,365,839	\$20,217,578	\$18,167,287
Development and consulting services	312,102	221,943	1,168,997	1,554,964
Licensing and royalty fees	48,268	85,612	158,614	158,274
Total revenue	8,815,517	6,673,394	21,545,189	19,880,525
Cost of product sales	3,719,038	3,628,656	9,220,792	9,207,884
Gross profit before operating expenses	5,096,479	3,044,738	12,324,397	10,672,641
Operating expenses				
Operations	223,647	137,156	741,641	1,128,236
Research and development activities	295,716	205,133	840,892	653,784
Sales, marketing and agency fees	1,336,165	919,620	3,999,970	6,155,581
General and administrative	2,059,665	1,263,082	5,274,881	6,847,203
	3,915,193	2,524,991	10,857,384	14,784,804

Financing expenses	123,355	205,580	359,701	657,025
Net income (loss)	\$1,057,931	\$314,167	\$1,107,312	\$(4,769,188)
Other comprehensive income (loss)				
Foreign currency translation adjustment	(242,427)	(838,205)	(1,307,665)	520,905
Other comprehensive income (loss)	\$815,504	\$(524,038)	\$(200,353)	\$(4,284,283)
Basic earnings (loss) per share	\$0.04	\$0.01	\$0.04	\$(0.18)
Diluted earnings (loss) per share	\$0.04	\$0.01	\$0.04	\$(0.18)

Non-IFRS Financial Measures

This press release makes reference to certain non-IFRS measures. These measures are not recognized or defined measures under IFRS, do not have standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional financial information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation or as a substitute for analysis of our financial information reported under IFRS. The non-IFRS financial measures, adjustments, and reasons for adjustments should be carefully evaluated as these measures have limitations as analytical tools and should not be used in substitution for an analysis of the Company's results under IFRS. We use non-IFRS measures including "Adjusted Gross Margin" and "Adjusted EBITDA" to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. We believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. The following non-IFRS financial measures are presented in this news release, and a description of the calculation for each measure is included below:

- Adjusted Gross Margin is defined as gross profit before operating expenses, plus depreciation and amortization included in cost of sales, plus inventory provision amounts.
- Adjusted EBITDA is defined as net loss, plus interest expense, plus depreciation and amortization, plus stock-based compensation, less government subsidies, plus inventory provisions, plus accounts receivable write-off expenses.

You should also be aware that the Company may recognize income or incur expenses in the future that are the same as, or similar to some of the adjustments in these non-IFRS financial measures. Because these non-IFRS financial measures may be defined differently by other companies in our industry, our definitions of these non-IFRS financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

The table below provides a reconciliation of gross profit before operating expenses under IFRS in the consolidated financial statements to Adjusted Gross Margin for the three months, and nine months ended June 30, 2021 and 2020. Management believes that Adjusted Gross Margin is useful in assessing the performance of the Company's ongoing operations and its ability to generate cash flows from period to period. The adjusting items below are considered to be outside of the Company's core operating results, and these items can distort the trends associated with the Company's ongoing performance, even though some of those expenses may recur.

(unaudited)	Three months ended June 30,		Nine months ended June 30,	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Gross profit before operating expenses	5,096,479	3,044,738	12,324,397	10,672,641
Add: Depreciation and amortization	73,043	91,905	233,373	259,890
Add: Inventory provisions	123,598	214,809	129,938	715,343

Adjusted Gross Margin	5,293,120	3,351,452	12,687,708	11,647,874
Adjusted Gross Margin (%)	60%	50%	59%	59%

The table below provides a reconciliation of net loss under IFRS in the consolidated financial statements to Adjusted EBITDA for the three months, and nine months ended June 30, 2021 and 2020. Management believes that these non-IFRS measures are useful in assessing the performance of the Company's ongoing operations and its ability to generate cash flows to funds its cash requirements from period to period. The adjusting items below are considered to be outside of the Company's core operating results, and these items can distort the trends associated with the Company's ongoing performance, even though some of those expenses may recur.

(unaudited)	Three months ended June 30,		Nine months ended June 30,	
	2021	2020	2021	2020
Net income (loss)	1,057,931	314,167	1,107,312	(4,769,188)
Add: Interest expense	123,355	205,580	359,701	657,025
Add: Depreciation and amortization	267,857	346,174	841,360	921,828
Add: Stock based compensation	(3,111)	227,092	201,451	845,968
Less: Government subsidies	(630,818)	(1,825,202)	(1,976,819)	(1,825,202)
Add: Inventory provisions	123,598	214,809	129,938	715,343
Add: AquaGuard transaction costs	451,939	-	632,012	-
Add: Accounts receivable write-off	-	-	-	1,420,002
Adjusted EBITDA	1,390,751	(517,380)	1,294,955	(2,034,224)

About Covalon

Covalon Technologies Ltd. is a researcher, developer, manufacturer, and marketer of patent-protected medical products that improve patient outcomes and save lives in the areas of advanced wound care, infection management and surgical procedures. Covalon leverages its patented medical technology platforms and expertise in two ways: (i) by developing products that are sold under Covalon's name; and (ii) by developing and commercializing medical products for other medical companies under development and license contracts. The Company is listed on the TSX Venture Exchange, having the symbol COV and trades on the OTQX Market under the symbol CVALF. To learn more about Covalon, visit our website at www.covalon.com


Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

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 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, the impact and timing of COVID-19 on operating activities and market conditions, 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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