

Covalon Announces Second Quarter Fiscal 2022 Results

MISSISSAUGA, ON, May 30, 2022 /CNW/ - Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV) (OTCQX: CVALF), an advanced medical technologies company, today announced its second quarter fiscal 2022 results.

Brian Pedlar, Covalon's President and CEO, said, "Revenue from continuing operations for the six months ended March 31, 2022, was \$8.2 million, or 19% growth over the same period last year. Our second quarter revenue was \$3.3 million, due primarily to major delays in product shipments from our warehouse in Shanghai. These delays were a result of Chinese government imposed COVID restrictions and negatively affected Covalon and worldwide supply chains.

"Covalon is in the fortunate position of being able to withstand this temporary supply chain disruption due to the Company's strong balance sheet with \$22 million of cash as of March 31, 2022, no debt, and our loyal customer base.

"During the second quarter we continued to invest in recruiting and building our sales and marketing team and increasing our capacity to manufacture our collagen products in response to increasing market demand.

"As previously announced, two experienced industry veterans joined Covalon: Ron Hebert as Senior Vice President of Marketing and Mark Doolittle as Senior Vice President of Commercial Sales.

"Ron, Mark and I, along with the rest of the management team, are laser-focused on building Covalon into the powerhouse it deserves to be, given its unique life-saving medical technologies.

"Even though our revenue for Q2 was below expectations due to circumstances beyond our control, I'm very encouraged with the growth prospects we are seeing in the second half of fiscal 2022. We are a much stronger company today than a year ago. We strengthened our balance sheet and improved our operations since last year at this time. We also have a stronger, more talented leadership team. These improvements are already positively impacting our growth prospects and Covalon is well positioned to take advantage of growth opportunities in 2022 and 2023," continued Mr. Pedlar.

Covalon's Board of Directors have decided to use our strong cash position to further strengthen the Company by intending to buy back up to 5% of Covalon's shares for cancellation. To this end, the Company has filed its intention to make a normal course issuer bid (the "NCIB") for its common shares with the TSX Venture Exchange, subject to regulatory approval.

Conference Call Scheduled

A conference call and webcast to discuss Covalon's Q2 fiscal 2022 financial results will be held Monday, May 30th, 2022, at 9:00am EST. To view, listen to, and participate in the live webcast, please follow the link below:

https://produceredition.webcasts.com/starthere.jsp?ei=1551026&tp_key=74c818f1fa

To listen and participate via the conference call, please dial:

North American Toll-Free: 1-888-664-6392

Local (Toronto): 416-764-8659

Confirmation Number: 10020730

Participants will be able to ask questions of Company management during the Q&A portion of the conference call either by asking them on the call or by submitting them using the chat function on the webcast.

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 020730# until June 13th, 2022. A recording of the call will also be available on www.covalon.com under

News & Events on the Investors tab.

Q2 Fiscal 2022 Financial Results

Revenue for the three months ended March 31st, 2022 decreased \$1.0 million to \$3.3 million, compared to \$4.3 million in the prior year. This decrease was a result of government restrictions in Shanghai relating to COVID-19 which adversely reduced the Company's ability to ship product to customers, as well as delays in the finalization of shipping schedules in the Middle East. Gross profit was \$1.7 million, compared to \$2.0 million in Q2 fiscal 2021. Net loss for continuing operations was \$2.5 million or \$0.09 per share, compared to net loss from continuing operations of \$0.3 million or \$0.01 per share in Q2 fiscal 2021. Net loss from discontinued operations was \$nil or \$nil per share, compared to net income from discontinued operations of \$0.7 million or \$0.03 per share in Q2 fiscal 2021.

Product revenue for the three months ended March 31st, 2022 decreased 25% to \$3.0 million, compared to \$4.0 million in the previous year. This decrease was due substantially to government restrictions in Shanghai relating to Covid-19, which adversely reduced the Company's ability to ship product to customers.

Revenue in the Middle East was \$0.3 million in Q2 fiscal 2022 compared to \$1.1 million in Q2 fiscal 2021 and revenue in other international markets was \$1.1 million compared to \$1.0 the previous year. Development and consulting services revenue for the three-month period ended March 31st 2022 decreased by 26% to \$0.2 million, compared to \$0.3 million for the same period of the prior year. During the quarter, we engaged in seven customer development projects of various sizes with approximately three medical product companies that included 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. Licensing revenue and royalty fees was \$0.1 million for the quarter ended March 31st 2022, compared to \$0.05 million for the prior year.

Gross margin increased to 52.9% for Q2 fiscal 2022, compared to 47.5% for the prior year. The gross margin is significantly influenced by source of revenue and by the relative mix of products sold in any given financial period.

Adjusted gross margin⁽¹⁾, which excludes inventory provisions and depreciation, was 56% for Q2 fiscal 2022, compared to 54% for the prior year. Gross margin is highly influenced by the mix of products 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 and geography.

Operating expenses increased \$2 million to \$4.2 million, compared to \$2.2 million for the prior year's comparative period. Excluding the impact of government subsidies of \$1.0 million, which were netted against operating expenses in the prior period, operating expenses increased \$0.9 million. Approximately \$0.4 million related to sales, marketing, operations, and administrative staff previously dedicated to the discontinued AquaGuard business that were re-deployed to continuing operations. Further, recruitment fees were \$0.6 million in the quarter, reflecting continued growth predominantly in sales and marketing staff. The remaining increase was due to increased facility and other expenses.

Adjusted EBITDA⁽¹⁾ for Q2 fiscal 2022 was a loss of \$2.2 million, compared to a loss of \$0.7 million in the prior year's comparative period.

Statement of Operations

The following unaudited table presents Covalon's consolidated statements of operations for the three- and six-month periods ended March 31st, 2022 and 2021.

<i>(unaudited)</i>	Three months ended, March 31		Six months ended March 31,	
	2022	2021	2022	2021
Revenue				
Product	\$2,975,792	\$3,951,747	\$7,473,490	\$5,949,106
Development and consulting services	233,324	315,145	621,691	856,895
Licensing and royalty fees	84,718	49,756	134,998	110,346
Total revenue	3,293,834	4,316,648	8,230,179	6,916,347
Cost of product sales	1,551,773	2,268,141	4,195,741	3,532,613
Gross profit before operating expenses	1,742,061	2,048,507	4,034,438	3,383,734
Operating expenses				
Operations	407,919	287,332	886,179	471,358

Research and development	297,981	327,948	557,648	545,176
Sales and marketing	1,566,210	505,420	2,736,387	1,066,352
General and administrative	1,893,947	1,117,437	3,373,500	2,426,468
	4,166,057	2,238,137	7,553,714	4,509,354
Financing expenses	38,018	97,781	50,241	195,707
Net loss from continuing operations	(2,462,014)	(287,411)	(3,569,517)	(1,321,327)
Net income (loss) from discontinued operations	-	709,135	(409,295)	1,370,708
Net income (loss)	(2,462,014)	421,724	(3,978,812)	49,381
Other comprehensive income (loss)				
Foreign currency translation adjustment continued operations	123,032	(138,354)	(363,552)	(715,219)
Foreign currency translation adjustment discontinued operations	-	(76,747)	-	(350,019)
Other comprehensive income (loss)	(\$2,338,982)	\$206,623	(\$4,342,364)	(\$1,015,857)
Income (loss) per common share of continuing operations				
Basic loss per share	(\$0.09)	(\$0.01)	(\$0.14)	(\$0.05)
Diluted loss per share	(\$0.09)	(\$0.01)	(\$0.14)	(\$0.05)
Income (loss) per common share of discontinued operations				
Basic earnings (loss) per share	\$0.00	\$0.03	(\$0.01)	\$0.05
Diluted earnings (loss) per share	\$0.00	\$0.03	(\$0.01)	\$0.05
Income (loss) per common share				
Basic earnings (loss) per share	(\$0.09)	\$0.02	(\$0.15)	\$0.00
Diluted earnings (loss) per share	(\$0.09)	\$0.02	(\$0.15)	\$0.00

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 and six months ended March 31st 2022 and 2021. 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 March 31,		Six months ended March 31,	
	2022	2021	2022	2021
Gross profit before operating expenses	\$1,742,061	\$2,048,507	\$4,034,438	\$3,383,734
Add: Depreciation and amortization	41,530	79,281	95,825	160,330
Add: Inventory provisions	73,278	214,809	792,969	500,534
Adjusted Gross Margin	1,856,869	2,343,137	4,923,232	4,044,598
Adjusted Gross Margin (%)	56%	54%	60%	58%

The table below provides a reconciliation of net loss under IFRS in the consolidated financial statements to Adjusted EBITDA for the three and six months ended March 31st 2022 and 2021. 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 March 31,		Six months ended March 31,	
	2022	2021	2022	2021
Net income (loss)	(\$2,462,014)	(\$287,411)	(\$3,569,517)	(\$1,321,237)
Add: Interest expense	38,018	97,781	50,241	195,706
Add: Depreciation and amortization	92,360	241,495	202,324	490,407
Add: Stock based compensation	18,217	64,325	39,251	163,561
Less: Government subsidies	-	(1,043,547)	-	(1,346,001)
Add: Inventory provisions	73,278	213,809	792,969	500,534
Adjusted EBITDA	(\$2,240,142)	(\$712,548)	(\$2,484,732)	(\$1,317,118)

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.

(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.

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