

Covalon Announces Fourth Quarter and Year End Results for Fiscal 2022 and Highlights Company Transformation Changes

MISSISSAUGA, ON, Jan. 25, 2023 /CNW/ - Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV) (OTCQX: CVALF), an advanced medical technologies company, today announced its fiscal 2022 fourth quarter and year end results for the period ended September 30, 2022.

"Fiscal 2022 was a year of strengthening and transforming our Company," states Brian Pedlar, Covalon President and CEO. "We were excited to start the year following the divestiture of our AquaGuard product line, with a clean balance sheet, no debt, and significant cash reserves. Our team executed on deliberate and well-planned strategic decisions to re-position Covalon to be able to unlock value from our lifesaving, patented products and technology, by investing in our people, our sales and marketing capabilities, and our infrastructure. With our strong product and technology portfolio, Covalon is focused on becoming the leading provider of compassionate care solutions that help patients heal faster and live better. We are on track to grow Covalon into the company we know it can be, and we have already made strong progress in 2023 towards reaching our goals."

As part of Covalon's transformation strategy in fiscal 2022, the Company hired highly experienced leaders to transform its marketing and sales teams to focus on the largest medical products market in the world – the United States. Throughout 2022, Covalon established its key products in more than 70 major United States hospitals, including a dominant position in six of the top 10 children's hospitals in the United States. The Company's portfolio of patented infection prevention products is becoming the standard of care in intensive care units and surgical departments of those hospitals by helping to protect patients of all ages from infection and helping them to heal with innovative, gentler, and more compassionate solutions that support better outcomes.

"We also expanded our digital marketing efforts which have helped us grow our brand presence both in the United States and internationally with physicians and clinicians that are focusing on reducing infections and improving patient outcomes in hospitals and community care settings," continues Pedlar. "We invested heavily in strengthening our sales teams with staff and capabilities to engage our customers whether digitally, virtually, or in person."

As part of the Company's customer focus initiatives, Covalon improved supply chain operations, and invested in upgrading both business systems and infrastructure to allow the Company to better serve customers and drive growth in key markets going forward. Additional investments included expanding Covalon's in-house manufacturing, and medical coating services capabilities. This, along with already implemented cost-saving initiatives, is expected to improve our margins and profitability starting in 2023.

Management anticipates strong revenue growth going forward as the Company works to improve its margins and further align its operating expenses to growth prospects. Strategic priorities for this fiscal year included a focus on strengthening core business areas with respect to people and processes. The Company's United States distributor partners, focusing on the home-healthcare and long-term care markets, are anticipating growth in 2023 through sales of Covalon's collagen products. Covalon intends to increase its United States hospital customer base through its direct sales team and increase product usage in many significant hospitals where the Company's infection prevention products have become standard of care. Internationally, Covalon eliminated its sales efforts in the United Kingdom and several other markets which do not offer the opportunity to create a meaningful market presence. Going forward, the Company will focus on key markets where its products will capture significant and meaningful market share.

"We are in a much stronger position in our key markets compared to last year and look forward to seeing the results of these investments positively impacting us in 2023 and beyond. In 2022, our investments in leadership, sales, marketing and operations, along with our focused approach to our key revenue markets have strengthened Covalon. Every department in the Company embraced significant change in 2022 to processes, resources and people, and I am proud of our team's resilience. To be sure, some uncertainty will continue to affect global supply chains and the economy, but the momentum we have, and the certainty of purpose we have in our products and mission, will allow our Company to succeed. We are excited about our progress in transforming Covalon into a patient-driven medical device company, built on the relentless pursuit to help the most vulnerable patients have a better chance at healing," says Pedlar.

(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.

Fiscal 2022 Q4 and Year-End Financial Results

Revenue for the year ended September 30, 2022 was 7% lower at \$18.1M compared to \$19.6M for the same period of the prior year. International product revenue was \$6.0M, reflecting a \$0.8M decrease compared to the prior year, due primarily to decreased sales in the United Kingdom. Product revenue from the United States decreased approximately \$0.6M or 5% primarily due to the timing of collagen orders related to two major collagen distributors.

Development and consulting services revenue for the year ended September 30, 2022 decreased by 12% to \$1.5M, compared to \$1.7M for the same period of the prior year. During the period the Company engaged in 31 customer development projects of various sizes with approximately 8 medical product companies. This included various projects currently underway as part of the previously announced major contract with one of the world's largest medical device companies that licensed Covalon's proprietary medical coating technologies.

Gross margin for the year ended September 30, 2022 was 41% compared to 50% in the same period for the prior year. Cost of sales included an inventory provision for the year ended September 30, 2022 of \$2.3M (\$0.4M for the year ended September 30, 2021). Adjusted Gross Margin for the year ended September 30, 2022, increased to 55% compared to 53% for the same period of the prior year, excluding inventory provisions and depreciation. Gross margin is significantly influenced by source of revenue, the relative mix of products sold, and any inventory provisions recorded in any given financial period.

Operating expenses for the year ended September 30, 2022 increased \$7.8M to \$16.6M, compared to \$8.9M for the prior year's comparative period. Excluding the impact of government subsidies of \$0.8M which were netted against operating expenses in the prior period, operating expenses increased \$7.0M. The increase is due mostly to sales and marketing costs increasing to \$6.5M in the year ended September 30, 2022 from \$1.9M in the comparable period. The increase was driven by investments made in new leadership and additional staff in sales and marketing, including retaining certain staff from the AquaGuard product line, which in the prior period was classified as a discontinued operation. The increase is also due to investments to enhance and expand the production capability of our collagen products, which will allow the Company to improve its margins going forward.

General and administrative expenses for the three months ended September 30, 2022 increased to \$2.3M from \$1.1M in the comparable period, primarily due to one-time costs, which are not anticipated to re-occur, and additional finance and administrative headcount.

Net loss for continuing operations for the year ended September 30, 2022 was \$9.3M or \$0.36 per share, compared to a net income of \$0.4M or \$0.02 per share for the year ended September 30, 2021. Net loss for discontinued operations for the year ended September 30, 2022 was \$0.4M or \$0.02 per share, compared to net income of \$23.1M or \$0.89 per share for the year ended September 30, 2021. Net loss for the year ended September 30, 2022 was \$9.7M or \$0.38 per share, compared to net income of \$23.5M or \$0.91 per share for the year ended September 30, 2021.

Adjusted EBITDA for the year ended September 30, 2022, was a loss of \$5.6M compared to an Adjusted EBITDA income of \$1.3M for the year ended September 30, 2021.

Conference Call and Webcast Scheduled

A conference call and webcast to discuss Covalon's Fiscal 2022 Year-End Financial Results will be held Thursday, January 26, 2023 at 9:00am EST. To participate in the call, please dial:

To view the webcast accompanying the conference call, please copy and paste the below url into a web browser:

<https://app.webinar.net/L5Gbg9PmNYo>

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 078707# until February 9, 2023 at 11:59pm EST.

Statement of Operations

The following unaudited table presents Covalon's consolidated statements of operations for the quarters and years ended September 30, 2022 and 2021.

	Three months ended September 30,		Year ended September 30,	
	2022	2021	2022	2021
Revenue				
Product	\$4,829,911	6,027,755	\$16,429,051	17,650,865
Development and consulting services	498,017	522,383	1,484,441	1,691,380
Licensing and royalty fees	62,277	60,442	232,898	219,056
Total revenue	5,390,205	6,610,580	18,146,390	19,561,301
Cost of sales	4,078,867	3,545,483	10,652,885	9,864,970
Gross profit before operating expenses	1,311,338	3,065,097	7,493,505	9,696,331
Operating expenses				
Operations	592,558	190,515	2,064,808	995,158
Research and development activities	248,565	299,625	1,095,095	1,140,517
Sales, marketing and agency fees	2,200,727	305,293	6,517,242	1,927,181
General and administrative	2,315,316	1,126,516	6,958,688	4,795,132
	5,357,166	1,921,949	16,635,833	8,857,988
Finance expenses	29,973	117,904	111,590	419,379
Net income (loss) from continuing operations	(4,075,801)	1,025,244	(9,253,918)	418,964
Net income (loss) from discontinued operations	-	21,344,351	(409,295)	23,057,942
Net income (loss)	\$(4,075,801)	\$22,369,595	\$(9,663,213)	\$23,476,906
Income (loss) per common share of continuing operations				
Basic earnings (loss) per share	\$(0.16)	\$0.04	\$(0.36)	\$0.02
Diluted earnings (loss) per share	\$(0.16)	\$0.04	\$(0.36)	\$0.02
Income per common share of discontinued operations				
Basic earnings (loss) per share	\$0.00	\$0.83	\$(0.02)	\$0.89
Diluted earnings (loss) per share	\$0.00	\$0.83	\$(0.02)	\$0.89
Income (loss) per common share				
Basic earnings (loss) per share	\$(0.16)	\$0.87	\$(0.38)	\$0.91
Diluted earnings (loss) per share	\$(0.16)	\$0.86	\$(0.38)	\$0.91

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 year ended September 30, 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.

	Three months ended September 30,		Year ended September 30,	
	2022	2021	2022	2021
Gross profit before operating expenses	1,311,338	3,065,097	7,493,505	9,696,331
Add: Depreciation and amortization	99,882	49,470	251,656	282,843
Add: Inventory provisions	1,255,081	231,618	2,264,853	361,556
Adjusted Gross Margin	2,666,301	3,346,185	10,010,014	10,340,730
Adjusted Gross Margin (%)	49 %	51 %	55 %	53 %

The table below provides a reconciliation of net loss under IFRS in the consolidated financial statements to Adjusted EBITDA for the three months, and year ended September 30, 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 fund 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.

	Three months ended September 30,		Year ended September 30,	
	2022	2021	2022	2021

Net income (loss)	(4,075,801)	1,025,244	(9,253,918)	418,964
Add: Interest expense	29,973	117,904	111,590	419,379
Add: Depreciation and amortization	544,744	359,527	1,032,807	700,466
Add: Share based compensation	84,450	9,698	211,438	163,769
Less: Government subsidies	-	(8,668)	-	(801,821)
Add: Inventory provisions	1,255,081	231,618	2,264,853	361,556
Adjusted EBITDA	(2,161,553)	1,775,323	(5,633,230)	1,262,313

Website: <https://covalon.com/>

Twitter: [@covalon](https://twitter.com/covalon)

About Covalon

Covalon Technologies Ltd. is a patient-driven medical device company, built on the relentless pursuit to help the most vulnerable patients have a better chance at healing. Through a strong portfolio of patented technologies and solutions for advanced wound care, infection prevention and medical device coatings, we offer innovative, gentler and more compassionate options for patients to heal with less infections, less pain and better outcomes. Our solutions are designed for patients and made for care providers. 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 the 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 may contain 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" or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", "will" or "will be taken", "occur" or "be achieved". In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts, but instead represent management's expectations, estimates and projections regarding future events. Forward-looking statements involve risks and uncertainties, including, but not limited to, the factors described in greater detail in the "Risks and Uncertainties" section of our management's discussion and analysis of financial condition and results of operations for the year ended September 30, 2022, which is available on the Company's profile at www.sedar.com, any of which could cause results, performance, or achievements to differ materially from the results discussed or implied in the forward-looking statements. Investors should not place undue reliance on any forward-looking statements. The forward-looking statements contained in this news release are made as of the date of this news release, and the Company assumes no obligation to update or alter any forward-looking statements, whether as a result of new information, further events or otherwise, except as required by law.

View original content to download multimedia:

<https://www.prnewswire.com/news-releases/covalon-announces-fourth-quarter-and-year-end-results-for-fiscal-2022-and-highlights-company-transformation-change>

SOURCE Covalon Technologies Ltd.

View original content to download multimedia: <http://www.newswire.ca/en/releases/archive/January2023/25/c2295.html>

%SEDAR: 00020909E

For further information: To learn more about Covalon, please contact: Brian Pedlar, CEO, Covalon Technologies Ltd., Email: bpedar@covalon.com, Phone: 905.568.8400 x 233, Toll-Free: 1.877.711.6055

CO: Covalon Technologies Ltd.

CNW 21:15e 25-JAN-23