

Covalon Announces Fourth Quarter and Year End Results for Fiscal 2023

- Reports 2023-Q4 revenue of \$6.9 million – an increase of 28%, net loss from continuing operations of \$2.9 million – an improvement of \$1.2 million
- Reports full year 2023 revenue of \$26.6 million – an increase of 47%, net loss from continuing operations of \$4.5 million – an improvement of \$5.2 million

MISSISSAUGA, Ontario – January 26, 2024 – (BUSINESS WIRE) – Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV; OTCQX: CVALF), an advanced medical technologies company, today announced its fiscal 2023 fourth quarter and year end results for the period ended September 30, 2023.

"I am pleased to announce that in the fourth quarter of 2023, the Company achieved a significant increase in revenue and demonstrated a continued commitment to improve profitability. I am very proud of the team's strong efforts in delivering these results," said Brent Ashton, Covalon's Chief Executive Officer.

Revenue for the three months ended September 30, 2023 increased 28% to \$6.9M compared to \$5.4M for the same period of the prior year. Product revenue for the three-month period ended September 30, 2023 increased by \$1.7M, or 35%, to \$6.5M compared to \$4.8M for the same period of the prior year, due substantially to increased customer demand for the Company's collagen dressing product line in the US market.

Revenue for the year ended September 30, 2023 increased 47% to \$26.6M compared to \$18.1M for the same period of the prior year. Product revenue for the year ended September 30, 2023 increased 46% to \$23.9M compared to \$16.4M for the same period of the prior year. Product revenue increased \$7.5M over the prior year due substantially to increased customer demand for collagen dressings in the US market and silicone-based dressings internationally.

Gross margin for the three-month period ended September 30, 2023 increased to 42% compared to 24% in the same period for the prior year. During the three months ended September 30, 2023, the Company booked inventory provision expense of \$0.7M, as compared to \$1.3M during the three months ended September 30, 2022.

Gross margin for the year ended September 30, 2023 increased to 54% compared to 41% in the same period for the prior year. During the year ended September 30, 2023, the Company recorded an inventory provision expense of \$0.3M as a result of changes in obsolescence estimates, as compared to an inventory provision expense of \$2.3M being recorded during the year ended September 30, 2022. The gross margin is significantly influenced by source of revenue and by the relative mix of products sold in any given financial period.

Operating expenses for the three months ended September 30, 2023 increased \$0.4M to \$5.8M, compared to \$5.4M for the prior year's comparative period, substantially due to termination benefits to a former senior management team member.

(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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Operating expenses for the year ended September 30, 2023 increased \$2.3M to \$18.9M, compared to \$16.6M for the prior year's comparative period. Approximately \$1.7M of this increase relates to increased sales and marketing staffing and activities.

Both net loss and net loss from continuing operations for the three months ended September 30, 2023 was \$2.9M or \$0.12 per share, compared to a net loss of \$4.1M or \$0.16 per share for the three months ended September 30, 2022.

Net loss from continuing operations for the year ended September 30, 2023 was \$4.5M or \$0.18 per share, compared to a net loss of \$9.3M or \$0.36 per share for the year ended September 30, 2022. Net loss from discontinued operations for the year ended September 30, 2023 was \$nil, compared to a net loss of \$0.4M or \$0.02 per share for the year ended September 30, 2022. Net loss for the year ended September 30, 2023 was \$4.5M or \$0.18 per share, compared to a net loss of \$9.7M or \$0.38 per share for the year ended September 30, 2022.

Adjusted Gross Margin for the three-month period ended September 30, 2023 was 53% compared to 49% for the same period of the prior year. Adjusted Gross Margin for the year ended September 30, 2023 was 56% compared to 55% for the same period of the prior year. Gross margin is highly influenced by the mix of collagen-based dressings, silicone-based dressings, medical coating services, passive dressings, 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. For further information about Adjusted Gross Margin, see *"Definitions and Reconciliations of Non-IFRS Financial Measures"* below.

Adjusted EBITDA loss for the three months ended September 30, 2023 was \$1.8M, compared to an Adjusted EBITDA loss of \$2.2M for the three months ended September 30, 2022. Adjusted EBITDA loss for the year ended September 30, 2023, was \$2.7M, compared to an Adjusted EBITDA loss of \$5.6M for the year ended September 30, 2022. For further information about Adjusted EBITDA, see *"Definitions and Reconciliations of Non-IFRS Financial Measures"* below.



Statement of Operations

The following audited table presents Covalon's consolidated statements of operations for the quarters and years ended September 30, 2023 and 2022.

	Three months ended September 30,		Year ended September 30,	
	2023	2022	2023	2022
Revenue				
Product	\$6,535,060	\$4,829,911	\$23,920,670	\$16,429,051
Development and consulting services	319,307	498,017	2,451,288	1,484,441
Licensing and royalty fees	40,881	62,277	223,328	232,898
Total revenue	6,895,248	5,390,205	26,595,286	18,146,390
Cost of sales	4,004,706	4,078,868	12,233,447	10,652,885
Gross profit before operating expenses	2,890,542	1,311,337	14,361,839	7,493,505
Operating expenses				
Operations	527,306	592,558	1,904,941	2,064,808
Research and development activities	481,890	385,490	1,413,278	1,365,803
Sales, marketing and agency fees	2,101,152	2,200,727	8,167,894	6,517,242
General and administrative	2,643,411	2,178,390	7,404,226	6,687,980
	5,753,759	5,357,165	18,890,339	16,635,833
Finance expenses (income)	17,112	29,973	(67,502)	111,590
Net loss from continuing operations	(2,880,329)	\$(4,075,801)	(4,460,998)	\$(9,253,918)
Net loss from discontinued operations	-	-	-	(409,295)
Net loss	\$(2,880,329)	\$(4,075,801)	\$(4,460,998)	\$(9,663,213)
Other comprehensive income (loss)				
Amount that may be reclassified to profit or loss				
Foreign currency translation adjustment - continuing operations	437,435	1,275,417	(61,814)	1,906,963
Total comprehensive loss	\$(2,442,894)	\$(2,800,384)	\$(4,522,812)	\$(7,756,250)
Loss per common share of continuing operations				
Basic loss per share	\$(0.12)	\$(0.16)	\$(0.18)	\$(0.36)
Diluted loss per share	\$(0.12)	\$(0.16)	\$(0.18)	\$(0.36)
Loss per common share of discontinued operations				
Basic loss per share	\$0.00	\$0.00	\$(0.00)	\$(0.02)
Diluted loss per share	\$0.00	\$0.00	\$(0.00)	\$(0.02)
Loss per common share				
Basic loss per share	\$(0.12)	\$(0.16)	\$(0.18)	\$(0.38)
Diluted loss per share	\$(0.12)	\$(0.16)	\$(0.18)	\$(0.38)



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, 2023 and 2022. 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,	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Gross profit before operating expenses	2,890,542	1,311,337	14,361,839	7,493,505
Add: Depreciation and amortization	56,484	99,882	225,044	251,656
Add: Inventory provisions	697,470	1,255,081	317,521	2,264,853
Adjusted Gross Margin	3,644,496	2,666,300	14,904,404	10,010,014
Adjusted Gross Margin (%)	53%	49%	56%	55%

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, 2023 and 2022. 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.

	Three months ended September 30,		Year ended September 30,	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Net income (loss)	(2,880,329)	(4,075,801)	(4,460,998)	(9,253,918)
Add: Interest expense	17,112	29,973	(67,502)	111,590
Add: Depreciation and amortization	214,766	544,744	969,370	1,032,807
Add: Share based compensation	121,872	84,450	559,154	211,438
Less: Government subsidies	-	-	-	-
Add: Inventory provisions	697,470	1,255,081	317,521	2,264,853
Add: Accounts receivable write-off	-	-	-	-
Adjusted EBITDA	(1,829,109)	(2,161,553)	(2,682,455)	(5,633,230)

To learn more about Covalon, please contact:

Investor Relations, Covalon Technologies Ltd.

Email: investors@covalon.com

Phone: 1.877.711.6055 x 233

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 OTCQX 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, 2023, which is available on the Company's profile at www.sedarplus.ca, 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.

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