

Covalon Announces Profitable Second Quarter Fiscal 2024 Results

Recent changes and effective execution pave the way for strong Q2 results

- Q2 EBITDA of \$1.7 million, Adjusted EBITDA of \$2.5 million, and EPS of \$0.06
- Q2 year-on-year Revenue growth of 16%, focus area of US Product segment grew 54%
- Q2 Gross Margin increased to 63%, the highest in recent company history
- Achieved strong growth while reducing operating expenses by 22% versus prior year

MISSISSAUGA, Ontario – May 29, 2024 – (BUSINESS WIRE) – Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV; OTCQX: CVALF), an advanced medical technologies company, today announced its fiscal 2024 second quarter results for the period ended March 31, 2024.

Brent Ashton, Covalon's Chief Executive Officer stated, "We delivered a very strong second quarter – a testament to the value that our products bring to our customers and their patients as well as the hard work of our One Covalon team. The combination of high revenue growth, expanded operating margins and smarter, reduced operating expenses propelled us to a return to profitability as a company. We are building momentum and are very optimistic about the remainder of fiscal 2024 and beyond".

Conference Call Scheduled

A conference call and webcast to discuss Covalon's Q2 fiscal 2024 financial results will be held Wednesday, May 29, 2024 at 8:15am ET. To view, listen to, and participate in the live webcast, please follow the link below:

<https://events.q4inc.com/attende/221238520>

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

North American Toll-Free: 1-800-549-8228
Local (Toronto): 289-819-1520
Local (New York): 646-564-2877
Conference ID: 29401

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 also be available on www.covalon.com under Financials on the Investors tab.

(1) See "Non-GAAP Measures" below, including for a reconciliation of the non-GAAP measures used in this release to the most comparable IFRS Accounting Standards measures.



Q2 Financial Overview

Total revenue for the three months ended March 31, 2024 increased 16 % to \$8.4 million compared to \$7.2 million for the same period of the prior year. Total revenue for the six months ended March 31, 2024 decreased 3% to \$13.1 million compared to \$13.4 million for the same period in the prior year.

Global product revenue for the three month period ended March 31, 2024 increased 37% to \$8.4 million compared to \$6.1 million for the same period in the prior year. Product revenue in the US was up 54% due to stronger customer demand for the Company's collagen dressing and expansion of the Company's products within US Hospitals.

Global product revenue for the six months ended March 31, 2024 increased 14% to \$13.0 million compared to \$11.4 million for the same period of the prior year. Product revenue in the US was up 47% due to stronger customer demand for the Company's collagen dressing and expansion of the Company's products within US Hospitals.

Development and consulting services revenue for the three-month period ended March 31, 2024 was nil, compared to \$1.1 million for the same period of the prior year. Development and consulting services revenue for the six months ended March 31, 2024 decreased by 97% to \$0.06 million, compared to \$1.9 million for the same period of the prior year. Revenue from development and consulting services varies based on opportunities and the length of the sales cycle for given projects. The Company continues to anticipate no material revenues associated with our development and consulting services for the current year.

Licensing and royalty fees for the three months ended March 31, 2024 were \$0.03 million, compared to \$0.03 million for the same period of the prior year. Licensing and royalty fees for the six months ended March 31, 2024, were \$0.06 million, compared to \$0.2 million for the six months ended March 31, 2023. The timing of this revenue will vary depending on the length and timing of projects and discussions with customers.

Revenue fluctuates from quarter to quarter depending on the composition of contractual arrangements entered into in each quarter, the timing of product shipments, and completion of services in any period.

Gross margins for the three-month period ended March 31, 2024 increased to 63% compared to 58% in the same period for the prior year. During the three months ended March 31, 2024, the Company recorded inventory provisions of \$0.7 million due to changes in obsolescence estimates. In contrast, during the same period in 2023, a release from inventory provision totaling \$0.2 million was recorded.

Gross margins for the six months ended March 31, 2024, increased to 62% compared to 59% in the same period for the prior year. During the six months ended March 31, 2024, the Company recorded an inventory provision of \$0.5 million as a result of changes in obsolescence estimates, as compared to a release in inventory provision of \$0.2 million being recorded during the six months ended March 31, 2023. Covalon's 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 for the three months ended March 31, 2024, decreased by \$1.1 million to \$3.8 million, compared to \$4.9 million for the prior year's comparative period. Approximately \$0.9 million relates to decreased sales and marketing expenses primarily due to the reduction of sales and marketing staffing levels.

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Operating expenses for the six months ended March 31, 2024 decreased \$0.8 million to \$8.1 million compared to \$8.9 million for the prior year's comparative period. Approximately \$1.3 million relates to the decreased sales and marketing expenses primarily due to the decrease in sales and marketing staffing levels. These decreases were offset by approximately \$0.5 million in increased expenses related to quality, manufacturing, and research and development activities.

The Operations department covers expenses related to Quality Control, Quality Assurance, Production, and Regulatory activities. Operations expenses decreased to \$0.4 million in the current quarter from \$0.5 million in the comparable period, primarily due to a decrease in facility operating expenses with the partial sublease of our US warehouse location and higher manufacturing activity levels, which has resulted in a higher absorption of costs to inventory in the current quarter compared to the prior year.

Operations expenses increased \$0.3 million in the six months ended March 31, 2024 to \$1.1 million from \$0.8 million in the comparable period, primarily due to additional staffing levels for quality and manufacturing. Research and development expenses increased to \$0.5 million in the current quarter from \$0.3 million in the comparable period mainly as a result of increased product development expenses. Research and development expenses increased by \$0.2 million for the six months ended March 31, 2024 from \$0.6 million in the comparable period also as a result of increased product development expenses.

Sales and marketing expenses decreased 43% to \$1.3 million in the current quarter from \$2.2 million in the comparable period, due primarily to reduced sales and marketing staffing levels with corresponding travel expenses. Sales and marketing expenses decreased 31% to \$2.9 million during the six months ended March 31, 2024 from \$4.2 million in the comparable period, due primarily to reduced sales and marketing staffing levels with the corresponding travel expenses

General and administrative expenses decreased to \$1.7 million in the current quarter from \$1.9 million in the comparable period. The decrease in expenses is primarily due to reductions in spending on professional services and staff costs. General and administrative expenses during the six months ended March 31, 2024 were \$3.4 million which was comparable to \$3.4 million in the prior period.

Wages, benefits, and consulting fees (for all departments) include a non-cash expense related to stock-based compensation. During the three months ended March 31, 2024, stock-based compensation was \$81,464 compared to \$173,150 in the prior year. During the six months ended March 31, 2024, stock-based compensation was \$197,393 compared to \$329,457 in the prior year. These expenses are a reflection of the number of options and DSU's outstanding and their respective fair values for accounting purposes.

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Statement of Operations

The following audited table presents Covalon's consolidated statements of operations for the three- and six-month periods ended March 31, 2024 and 2023.

<i>(unaudited)</i>	Three months ended		Six months ended	
	March 31,		March 31,	
	2024	2023	2024	2023
Revenue				
Product	\$8,388,022	\$6,105,694	\$12,963,789	\$11,350,958
Development and consulting services	-	1,108,466	56,358	1,926,812
Licensing and royalty fees	25,588	30,434	56,520	152,229
Total revenue	8,413,610	7,244,594	13,076,667	13,429,999
Cost of sales	3,101,103	3,072,566	4,917,668	5,563,139
Gross profit before operating expenses	5,312,507	4,172,028	8,158,999	7,866,860
Operating expenses				
Operations	423,239	542,755	1,053,952	750,634
Research and development activities	450,510	279,491	761,921	565,466
Sales, marketing and agency fees	1,262,960	2,209,894	2,909,263	4,239,830
General and administrative	1,690,995	1,861,677	3,422,620	3,388,572
	3,827,704	4,893,817	8,147,756	8,944,502
Finance expenses (income)	22,340	(23,708)	12,376	1,260
Gain on finance lease receivable	-	-	(610,008)	-
Net income (loss)	\$1,460,418	\$(698,081)	\$608,875	\$(1,078,902)
Other comprehensive income (loss)				
Amount that may be reclassified to profit or loss				
Foreign currency translation adjustment - continued operations	576,178	(246,523)	188,905	(263,308)
Total comprehensive income (loss)	\$2,036,596	\$(944,604)	\$797,780	\$(1,342,210)
Income (loss) per common share				
Basic income (loss) per share	\$0.06	\$(0.03)	\$0.02	\$(0.04)
Diluted income (loss) per share	\$0.06	\$(0.03)	\$0.02	\$(0.04)

Non-GAAP Financial Measures

This press release makes reference to certain non-GAAP measures. These measures are not recognized or defined measures under IFRS Accounting Standards, do not have standardized meaning prescribed by IFRS

(1) See "Non-GAAP Measures" below, including for a reconciliation of the non-GAAP measures used in this release to the most comparable IFRS Accounting Standards measures.



Accounting Standards 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 Accounting Standards 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 Accounting Standards. The non-GAAP 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 Accounting Standards. We use non-GAAP 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 Accounting Standards measures. We believe that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers. Our management also uses non-GAAP 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-GAAP 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-GAAP financial measures. Because these non-GAAP financial measures may be defined differently by other companies in our industry, our definitions of these non-GAAP 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 Accounting Standards in the consolidated financial statements to Adjusted Gross Margin for the three months, and six months ended March 31, 2024 and 2023. 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.

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<i>(unaudited)</i>	Three months ended March 31,		Six months ended March 31,	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Gross profit before operating expenses	\$5,310,462	\$4,172,028	\$8,158,999	\$7,866,860
Add: Depreciation and amortization	58,322	53,050	110,870	109,083
Add: Inventory provisions (reversals)	674,866	(158,724)	482,095	(158,724)
Adjusted Gross Margin	6,043,650	4,066,354	8,751,964	7,817,219
Adjusted Gross Margin (%)	72%	56%	67%	58%

The table below provides a reconciliation of net loss under IFRS Accounting Standards in the consolidated financial statements to Adjusted EBITDA for the three and six months ended March 31, 2024 and 2023. Management believes that these non-GAAP 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.

<i>(unaudited)</i>	Three months ended March 31,		Six months ended March 31	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Net income (loss)	\$1,460,418	(\$698,081)	\$608,875	(\$1,078,902)
Add: Finance expense (gains)	22,340	(23,708)	12,376	1,260
Add: Depreciation and amortization	247,756	233,324	487,950	483,409
Add: Stock based compensation	81,464	173,150	197,393	329,457
Add: Inventory provisions (reversals)	674,866	(158,724)	482,095	(158,724)
Add: Gain of finance lease receivable	-	-	(610,008)	-
Adjusted EBITDA	\$2,486,844	(\$474,039)	\$1,178,681	(\$423,500)

To learn more about Covalon, please contact:

Investor Relations, Covalon Technologies Ltd.

Email: investors@covalon.com

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

About Covalon

Covalon is a patient-driven medical device company, that provides innovative and cost-effective healthcare solutions for advanced wound care, infection control, and medical device coatings. Through a strong portfolio of patented technologies and solutions, we offer innovative, gentle and more compassionate options to aid patients on their healing journey. 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,

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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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