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# Covalon Announces Strong Third Quarter Fiscal 2024 Results

*Progress on key priorities drives outstanding performance*

- Q3 EBITDA of $1.7 million, adjusted EBITDA of $2.4 million, and EPS of $0.06
- Q3 Revenue of $9.2 million, year-on-year growth of 47%
- Q3 Gross Profit of $5.4 million, year-on-year growth of 51%

MISSISSAUGA, Ontario – August 21, 2024 – (BUSINESS WIRE) – Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV; OTCQX: CVALF), an advanced medical technologies company, today announced its fiscal 2024 third quarter results for the period ended June 30, 2024.

"We delivered a very successful Q3 – solid performance on growth, margins and operating expenses all led to another strong quarter of profitability," said Brent Ashton, Covalon's Chief Executive Officer. "Our results clearly demonstrate the progress that the One Covalon team is making against our key priorities, and that the foundational work to strengthen Covalon is delivering value to our customers, stakeholders, and investors."

**Conference Call Scheduled**

A conference call and webcast to discuss Covalon's third quarter fiscal 2024 financial results will be held on Wednesday, August 21 at 8:30am Eastern Time. To view, listen to, and participate in the live webcast, please follow the link below:

https://events.q4inc.com/attendee/177616087

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: 69066

Participants will be able to ask questions of Company management during the Q&A portion of the conference call.

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.

## Financial Performance

**For the three-month period ended June 30, 2024:**

Total revenue increased 47% to $9,224,307, compared to $6,270,039 for the same period of the prior year. Product revenue increased 53% to $9,206,808 compared to $6,034,652 for the same period in the prior year due to the expansion of the Company's products within US Hospitals and stronger customer demand for the Company's collagen dressing.

Gross margin increased to 59% compared to 57% in the same period for the prior year. During the three months ended June 30, 2024, the Company recorded inventory provisions of $424,606 due to changes in obsolescence estimates. In contrast, during the same period in 2023, a release from inventory provision totaling $221,225 was recorded. 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 decreased to $3,956,311, from $4,192,078 for the same period of the prior year. A significant portion of this decrease is related to the restructuring of the sales and marketing teams, which was completed earlier in the fiscal year.

Operations department expenses, comprising of Quality Control, Quality Assurance, Production, and Regulatory activities, decreased to $608,476 from $627,001 in the same period of the prior year, primarily due to a reduction in facility operating costs with the partial sublease of our US warehouse.

Research and development expenses increased to $378,647 from $365,922 in the same period of the prior year primarily due to higher sustaining engineering costs.

Sales and marketing expenses decreased 24% to $1,387,869 from $1,826,912 in the same period for the prior year, primarily due to the rightsizing of sales and marketing staffing levels, along with corresponding reductions in travel expenses.

General and administrative expenses increased to $1,581,319 from $1,372,243 in the same period of the prior year. The increase is primarily due to higher spending on professional services and staff costs.

Wages, benefits, and consulting fees (for all departments) include a non-cash expense related to stock-based compensation. During the three months ended June 30, 2024, stock-based compensation expense was $150,100 compared to $107,825 in the prior year. This expense is a reflection of the number of options and DSU's outstanding and their respective fair values for accounting purposes.

(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.

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**For the nine-month period ended June 30, 2024:**

Total revenue increased by 13% to $22,300,974, compared to $19,700,038 in the same period of the prior year. Product revenue increased 28% to $22,170,597 compared to $17,385,610 in the same period of the prior year.

Gross Margin increased to 61% compared to 58% in the same period for the prior year. During the nine months ended June 30, 2024, the Company recorded inventory provisions of $906,701 as a result of changes in obsolescence estimates, as compared to a release in inventory provision of $379,949 being recorded during the nine months ended June 30, 2023. 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 decreased to $12,104,067 from $13,136,580 in the same period of the prior year. A significant portion of this decrease is related to the restructuring of the sales and marketing teams, which was completed earlier in the fiscal year.

Operations department expenses, comprising of Quality Control, Quality Assurance, Production, and Regulatory activities, increased to $1,662,428 from $1,377,635 in the same period of the prior year, primarily due to investments in quality and personnel to support expanded in-house manufacturing.

Research and development expenses increased to $1,140,568 from $931,277 in the same period of the prior year, mainly as a result of increased sustaining engineering costs.

Sales and marketing costs decreased to $4,297,132 from $6,066,742 in the same period for the prior year, primarily due to the rightsizing of the sales and marketing staffing levels, along with the corresponding reduction in travel expenses.

General and administrative expenses increased to $5,003,939 from $4,760,815 in the same period of the prior year. The increase is primarily due to higher spending on IT infrastructure to improve security, as well as increased staffing and facility costs to support the expansion of our in-house manufacturing.

During the nine months ended June 30, 2024, stock-based compensation expense was $347,493 compared to $437,282 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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## Q3 Financial Overview

### Statement of Operations

The following audited table presents Covalon's consolidated statements of operations for the three- and nine-month periods ended June 30, 2024 and 2023:

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| **Revenue** | | | | |
| Product | **$9,206,808** | $6,034,652 | **$22,170,597** | $17,385,610 |
| Development and consulting services | **-** | 205,169 | **56,540** | 2,131,981 |
| Licensing and royalty fees | **17,499** | 30,218 | **73,837** | 182,447 |
| **Total revenue** | **9,224,307** | 6,270,039 | **22,300,974** | 19,700,038 |
| **Cost of sales** | **3,792,582** | 2,665,602 | **8,710,250** | 8,228,741 |
| **Gross profit** | **5,431,725** | 3,604,437 | **13,590,724** | 11,471,297 |
| **Operating expenses** | | | | |
| Operations | **608,476** | 627,001 | **1,662,428** | 1,377,635 |
| Research and development activities | **378,647** | 365,922 | **1,140,568** | 931,388 |
| Sales, marketing, and agency fees | **1,387,869** | 1,826,912 | **4,297,132** | 6,066,742 |
| General and administrative | **1,581,319** | 1,372,243 | **5,003,939** | 4,760,815 |
| | **3,956,311** | 4,192,078 | **12,104,067** | 13,136,580 |
| **Finance expenses (income)** | **27,364** | (85,874) | **39,740** | (84,614) |
| **Gain on finance lease receivable** | **-** | - | **(610,008)** | - |
| **Net income (loss)** | **$1,448,050** | $(501,767) | **$2,056,925** | $(1,580,669) |
| **Other comprehensive income (loss)** | | | | |
| **Amount that may be reclassified to profit or loss** | | | | |
| Foreign currency translation adjustment | **287,426** | (235,941) | **476,331** | (499,249) |
| **Total comprehensive income (loss)** | **$1,735,476** | $(737,708) | **$2,533,256** | $(2,079,918) |
| **Income (loss) per common share** | | | | |
| Basic income (loss) per share (Note 16) | **$0.06** | $(0.02) | **$0.08** | $(0.06) |
| Diluted income (loss) per share (Note 16) | **$0.06** | $(0.02) | **$0.08** | $(0.06) |

### Non-GAAP Financial Measures

(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.

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 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 as earnings (loss) before interest expense (income), depreciation and amortization, stock-based compensation, inventory provisions (reversals), accounts receivable write-offs, gain (loss) on finance lease receivable, and loss (gain) on disposal of property and equipment.

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 nine months ended June 30, 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.

(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.

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Gross profit before operating expenses | **$5,431,725** | $3,604,437 | **$13,590,724** | $11,471,297 |
| Add: Depreciation and amortization | **58,017** | 59,466 | **168,887** | 168,560 |
| Add: Inventory provisions (reversals) | **424,606** | (221,225) | **906,701** | (379,949) |
| Adjusted Gross Margin | **5,914,348** | 3,442,678 | **14,666,312** | 11,259,908 |
| Adjusted Gross Margin (%) | **64%** | 55% | **66%** | 57% |

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 nine months ended June 30, 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.

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Net income (loss) | **$1,448,050** | ($501,767) | **$2,056,925** | ($1,580,669) |
| Add: Finance expense (income) | **27,364** | (85,874) | **39,740** | (84,614) |
| Add: Depreciation and amortization | **246,416** | 271,184 | **734,366** | 754,604 |
| Add: Stock based compensation | **150,100** | 107,825 | **347,493** | 437,282 |
| Add: Inventory provisions (reversals) | **424,606** | (221,225) | **906,701** | (379,949) |
| Add: Loss (gain) on disposal of property and equipment | **85,021** | - | **85,021** | - |
| Add: Loss (gain) of finance lease receivable | **-** | - | **(610,008)** | - |
| Adjusted EBITDA | **$2,381,557** | ($429,857) | **$3,560,238** | ($853,346) |

To learn more about Covalon, please contact:

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### About Covalon

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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, 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.*

SOURCE Covalon Technologies Ltd.

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