

## **Covalon Announces Strong Fourth Quarter and Year End Fiscal 2024 Results**

*Outstanding progress made towards long-term company growth vision*

### Highlights:

- Strong sales growth:
  - Q4 revenue of \$8.9 million (29% growth)
  - Full year 2024 revenue of \$31.2 million (17% growth)
- Solid gross profit acceleration:
  - Q4 gross profit of \$5.3 million (82.8% growth)
  - Full year 2024 gross profit of \$18.9 million (31.3% growth)
- Robust profitability turnaround:
  - Q4 Adjusted EBITDA of \$1.1 million (\$2.9 million improvement over Q4 FY'23)
  - Full year 2024 Adjusted EBITDA of \$4.8 million (\$7.5 million improvement over full year 2023)
  - Q4 Earnings Per Share of \$0.02 (+ \$0.14 YoY improvement over Q4 FY'23)
  - Full year 2024 Earnings Per Share of \$0.11 (\$0.29 improvement over full year 2023)

MISSISSAUGA, Ontario – January 7, 2025 – (BUSINESS WIRE) – Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV; OTCQX: CVALF), an advanced medical technologies company, today announced its fiscal 2024 fourth quarter and year end results for the period ended September 30, 2024.

*"We delivered very strong revenue growth coupled with margin improvements, robust earnings, and positive free cash flow. Our Medical Consumables revenue increased 35% for Q4 and 30% for the full 2024 fiscal year." said Brent Ashton, Covalon's Chief Executive Officer. "As I reflect on my first 12 months at Covalon, I am incredibly proud of our team's efforts to drive these results in a year of significant change and challenges. We remain focused on delivering strong value to patients and the clinicians who serve them by enhancing our product offerings and supporting exceptional care. The team and I are excited to continue our growth journey and make an even greater impact in 2025 and beyond."*

### **Conference Call Scheduled**

A conference call and webcast to discuss Covalon's Q4 and year end Fiscal 2024 financial results will be held on Tuesday, January 7 at 8:30am Eastern Time. To view, listen to, and participate in the live webcast, please follow the link below:

<https://events.g4inc.com/attendee/735517619>

(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.



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: 30029

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](http://www.covalon.com) under Financials on the Investors tab.

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## **Financial Performance**

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

Total revenue increased 29% to \$8,867,558 compared to \$6,895,248 in the same period of the prior year. Product revenue grew by 35% to \$8,850,134 from \$6,535,060, driven by stronger customer demand for the Company's collagen dressing and the expansion of its product offerings within US hospitals.

Development and consulting services revenue amounted to \$5,939 compared to \$319,307 in the same period last year, reflecting the Company's strategic decision to prioritize its US product business. Licensing and royalty fees were \$11,485 compared to \$40,881, with timing variations dependent on the duration and progress of customer projects. Revenue may fluctuate quarterly due to variations in contractual arrangements, product shipment timing, and service completion.

Gross margin increased to 60% from 42% in the prior year, impacted by a decrease in inventory provisions to \$135,263 compared to \$697,470 previously. Margins fluctuate depending on the mix of products sold by type and geography.

Total operating expenses decreased to \$4,677,625 from \$5,753,759, primarily due to the restructuring of the sales and marketing teams earlier in the fiscal year. Operations expenses, encompassing Quality Control, Quality Assurance, Production, and Regulatory activities, declined to \$311,324 compared to \$527,306, mainly due to lower facility operating costs resulting from a partial sublease of the Company's US warehouse.

Research and development expenses decreased to \$453,511 from \$481,890, driven by lower patent & trademark costs as the costs can vary by quarter due to the timing and region of the renewals.

Sales and marketing expenses decreased by 46% to \$1,135,331 from \$2,101,152, attributed to streamlined staffing levels and reduced travel costs.

General and administrative expenses increased to \$2,777,459 from \$2,643,411, reflecting higher professional service fees. Wages, benefits, and consulting fees included non-cash share-based compensation expenses of \$58,488, down from \$121,872 in the prior year. These costs reflect outstanding options and deferred share units (DSUs) and their respective fair values.

### **For the year ended September 30, 2024:**

Total revenue increased by 17% to \$31,168,532 compared to \$26,595,286 in the prior year. Product revenue rose by 30% to \$31,020,731 from \$23,920,670, while development and consulting services revenue declined 97% to \$62,479 from \$2,451,288, reflecting the Company's focus on its US product

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business. Licensing and royalty fees amounted to \$85,322 compared to \$223,328, with timing influenced by customer discussions and project durations.

Gross margin for the year improved to 61% from 54% in the prior year, despite inventory provisions of \$1,041,964 for changes in obsolescence estimates, up from \$317,521 the year prior. The gross margin for the Company will fluctuate as a result of the mix of products being sold in any given quarter, year, or by product type and geography.

Operating expenses decreased by \$2,108,647 to \$16,781,692, reflecting reductions of \$2,735,431 in sales and marketing costs due to lower staffing levels, partially offset by increased expenses in research and development, general and administrative activities as well as operations expenses due to investments in quality and personnel for expanded in-house manufacturing.

Research and development expenses increased to \$1,594,079 from \$1,413,278, driven by higher sustaining engineering costs. Sales and marketing expenses decreased 33% to \$5,432,463 from \$8,167,894, due to streamlined staffing and travel expenses. General and administrative expenses increased to \$7,781,398 from \$7,404,226, reflecting higher IT infrastructure spending and professional service fees. Share-based compensation expense for the year were \$405,981 compared to \$559,154 in the prior year, reflecting outstanding options and DSUs and their fair value for accounting purposes.

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## Q4 Financial Overview

### Statement of Operations

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

	Three months ended September 30,		Twelve months ended September 30,	
	2024	2023	2024	2023
<b>Revenue</b>				
Product	\$8,850,134	\$6,535,060	\$31,020,731	\$23,920,670
Development and consulting services	5,939	319,307	62,479	2,451,288
Licensing and royalty fees	11,485	40,881	85,322	223,328
<b>Total revenue</b>	<b>8,867,558</b>	<b>6,895,248</b>	<b>31,168,532</b>	<b>26,595,286</b>
<b>Cost of sales</b>	<b>3,525,557</b>	<b>4,004,706</b>	<b>12,235,807</b>	<b>12,233,447</b>
<b>Gross profit before operating expenses</b>	<b>5,342,001</b>	<b>2,890,542</b>	<b>18,932,725</b>	<b>14,361,839</b>
<b>Operating expenses</b>				
Operations	311,324	527,306	1,973,752	1,904,941
Research and development activities	453,511	481,890	1,594,079	1,413,278
Sales, marketing and agency fees	1,135,331	2,101,152	5,432,463	8,167,894
General and administrative	2,777,459	2,643,411	7,781,398	7,404,226
	<b>4,677,625</b>	<b>5,753,759</b>	<b>16,781,692</b>	<b>18,890,339</b>
<b>Finance expenses (income)</b>	<b>51,509</b>	<b>17,112</b>	<b>91,249</b>	<b>(67,502)</b>
<b>Gain on finance lease receivable</b>	<b>-</b>	<b>-</b>	<b>(610,008)</b>	<b>-</b>
<b>Net income (loss)</b>	<b>\$612,867</b>	<b>\$(2,880,329)</b>	<b>\$2,669,792</b>	<b>\$(4,460,998)</b>
<b>Other comprehensive income (loss)</b>				
<b>Amount that may be reclassified to profit or loss</b>				
Foreign currency translation adjustment - continued operations	(297,313)	437,435	179,018	(61,814)
<b>Total comprehensive income (loss)</b>	<b>\$315,554</b>	<b>\$(2,442,894)</b>	<b>\$2,848,810</b>	<b>\$(4,522,812)</b>
<b>Earnings (loss) per common share</b>				
Basic income (loss) per share	\$0.02	\$(0.12)	\$0.11	\$(0.18)
Diluted earnings (loss) per share	\$0.02	\$(0.12)	\$0.11	\$(0.18)

(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.



## 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 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 twelve months ended September 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.

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	Three months ended September 30,		Year ended September 30,	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Gross profit before operating expenses	<b>\$5,342,001</b>	\$2,890,542	<b>\$18,932,725</b>	\$14,361,839
Add: Depreciation and amortization	<b>56,898</b>	56,484	<b>225,785</b>	225,044
Add: Inventory provisions (reversals)	<b>135,263</b>	697,470	<b>1,041,964</b>	317,521
Adjusted Gross Margin	<b>5,534,162</b>	3,644,496	<b>20,200,474</b>	14,904,404
Adjusted Gross Margin (%)	<b>62%</b>	53%	<b>65%</b>	56%

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 twelve months ended September 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 September 30,		Year ended September 30,	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Net income (loss)	<b>\$612,867</b>	(\$2,880,329)	<b>\$2,669,792</b>	(\$4,460,998)
Add: Finance expense (gains)	<b>51,509</b>	17,112	<b>91,249</b>	(67,502)
Add: Depreciation and amortization	<b>252,092</b>	214,766	<b>986,458</b>	969,370
Add: Stock based compensation	<b>58,488</b>	121,872	<b>405,981</b>	559,154
Add: Inventory provisions (reversals)	<b>135,263</b>	697,470	<b>1,041,964</b>	317,521
Add: Impairment of intangible assets	-	-	<b>175,052</b>	-
Add: Loss (gain) on disposal of property and equipment	<b>(4,578)</b>	-	<b>80,443</b>	-
Add: Gain of finance lease receivable	-	-	<b>(610,008)</b>	-
Adjusted EBITDA	<b>\$1,105,641</b>	(\$1,829,109)	<b>\$4,840,931</b>	(\$2,682,455)

To learn more about Covalon, please contact:

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## 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

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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](http://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, 2024, which is available on the Company's profile at [www.sedarplus.ca](http://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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