

Covalon Reports Fourth Consecutive Quarter of Year over Year Revenue Growth and Positive Earnings

MISSISSAUGA, Ontario – February 21, 2025 – (BUSINESS WIRE) – Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV; OTCQX: CVALF), an advanced medical technologies company, today announced its fiscal 2025 first quarter results for the period ended December 31, 2024 along with a number of important recent achievements and highlights.

“Covalon achieved strong revenue growth, driven by the success of our US Medical Consumables business, which remains our primary focus. This growth resulted in significant increases in gross profit and earnings compared to the prior year,” said Brent Ashton, Covalon’s Chief Executive Officer. *“Our Adjusted EBITDA for the trailing twelve months ended December 31, 2024, was \$7.6 million, compared to an Adjusted EBITDA loss of \$4.0 million for the trailing twelve-month period ended December 31, 2023. While we are reporting exceptional year-over-year growth of more than 75%, we did experience a slight sequential slowdown in our US Collagen business due to some normalization in our channel inventory. We expect this slowdown to reverse in the second half of fiscal 2025, supported by ongoing conversations and forecasts received from our customers. Additionally, we are very pleased with the performance of our US Vascular Access and Surgical Consumables business, which grew more than 20% sequentially over the previous quarter.”*

Fiscal 2025 First Quarter Financial Highlights:

- Overall revenue growth of 75%, including 73% growth in the US Medical Consumables business
- Gross profit of \$5.0 million (61.2%), a 75% increase over the prior year
- Adjusted EBITDA of \$1.6 million, up \$2.8 million compared to the prior year
- Earnings per share of \$0.04, an increase of \$0.07 over the prior year

Recent Covalon Achievements and Highlights

- Recognized as both a 2025 TSX Ventures Top 50 Company and a 2025 OTCQX Best 50 Company for 2024 company performance
- Secured a new patent for our flagship VALGuard® Line Guard product line
- Achieved 39% Year on Year revenue growth from our top 50 customers of our US Vascular Access and Surgical Consumables business, while also adding 21 new hospital customers
- Received confirmation that our VALGuard® Line Guard product line was approved for use system-wide at one of the top 5 Integrated Delivery Networks (“IDNs”) in the United States

Conference Call Scheduled

A conference call and webcast to discuss Covalon’s fiscal 2025 Q1 financial results will be held on Friday, February 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/640776244>

(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 under Financials on the Investors tab.

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Q1 Financial Overview

Total revenue increased 75% to \$8,165,980 compared to \$4,663,057 in the same period of the prior year. Product revenue grew by 77% to \$8,077,940 compared to \$4,575,767, 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 \$5,826 compared to \$56,640 in the same period last year, reflecting the Company's strategic decision to prioritize its United States Medical Consumables business. Licensing and royalty fees were \$82,214 compared to \$30,650, 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.

The company maintained a gross margin of 61% consistent with the same period in the prior year. During the three months ended December 31, 2024, the company recorded a \$114,645 release in inventory provision due to revised obsolescence estimates, compared to a \$192,771 release in the same period of 2023. Gross margin fluctuations are primarily influenced by product mix and geography.

Total operating expenses decreased by 15% to \$3,679,798, compared to \$4,320,052 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 in the first quarter of the prior fiscal year.

The operations department covers expenses related to quality control, quality assurance, production, and regulatory activities. Operations expenses decreased to \$371,069 compared to \$630,713 in the same period of the prior year, due to higher costs related to sustaining engineering costs in the prior period.

Research and development expenses increased to \$373,339 compared to \$311,411 in the same period of the prior year primarily due to higher patent & trademark costs as the costs can vary by quarter and fiscal year due to the timing and region of the renewals.

Sales and marketing expenses decreased 27% to \$1,209,820, compared to \$1,646,303 in the same period of the prior year. This decrease is attributed to the restructuring of the sales and marketing teams, which was completed in the first quarter of the prior fiscal year.

General and administrative expenses remained flat, decreasing by \$6,055 to \$1,725,570 compared to \$1,731,625 in the same period of the prior year. Wages, benefits, and consulting fees included non-cash share-based compensation expenses of \$90,523, down from \$115,929 in the prior year. These costs reflect outstanding stock options and deferred share units (DSUs) and their respective fair values.

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Statement of Operations

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

<i>(unaudited)</i>	Three months ended December 31,	
	2024	2023
Revenue		
Product	8,077,940	4,575,767
Development and consulting services	5,826	56,640
Licensing and royalty fees	82,214	30,650
	8,165,980	4,663,057
Total revenue		
	3,171,514	1,814,520
Cost of sales		
	4,994,466	2,848,537
Gross profit		
Operating expenses		
Operations	371,069	630,713
Research and development activities	373,339	311,411
Sales, marketing, and agency fees	1,209,820	1,646,303
General and administrative	1,725,570	1,731,625
	3,679,798	4,320,052
Finance income	(41,068)	(9,964)
Loss/(gain) on finance lease receivable	149,690	(610,008)
Net income (loss)	1,206,046	(851,543)
Other comprehensive income (loss)		
Amount that may be reclassified to profit or loss		
Foreign currency translation adjustment	1,850,454	(387,273)
Total comprehensive income (loss)	3,056,500	(1,238,816)
Earnings (loss) per common share		
Basic earnings (loss) per share	\$0.04	\$(0.03)
Diluted earnings (loss) per share	\$0.04	\$(0.03)

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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 ended December 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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	Three months ended December 31,	
	<u>2024</u>	<u>2023</u>
Gross profit before operating expenses	4,994,466	2,848,537
Add: Depreciation and amortization	69,625	52,548
Add: Inventory provisions (reversals)	(114,645)	(192,771)
Adjusted Gross Margin	4,949,446	2,708,314
Adjusted Gross Margin (%)	61%	58%

The table below provides a reconciliation of net income (loss) under IFRS Accounting Standards in the unaudited condensed consolidated interim financial statements to Adjusted EBITDA for the three months ended December 31, 2024. 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 December 31,	
	<u>2024</u>	<u>2023</u>
Net income (loss)	1,206,046	(851,543)
Add: Net finance income	(41,068)	(9,964)
Add: Depreciation and amortization	257,125	240,194
Add: Share based compensation	90,523	115,929
Add: Inventory provision reversals	(114,645)	(192,771)
Add: Impairment of intangible assets	-	74,448
Add: (Gain)/loss on finance lease receivable	149,690	(610,008)
Adjusted EBITDA	1,547,671	(1,233,715)

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 leading MedTech company dedicated to improving patient outcomes through innovative and compassionate medical products and technologies. Our expertise spans advanced wound care, vascular access, and surgical consumables, with a strong focus on enhancing healing, reducing healthcare-associated infections (HAIs), and protecting skin integrity. Our solutions are designed for patients and made for care providers. The Company is listed on the TSX Venture Exchange (COV)

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and trades on the OTCQX Market (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, 2024, 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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