

Covalon Announces Strong First Quarter Financial Results

MISSISSAUGA, Ontario--(BUSINESS WIRE)--Feb. 12, 2018-- Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV; OTCQX: CVALF), an advanced medical technologies company, announced today its first quarter financial results.

First Quarter Summary Financial Results

- Revenue for the three months ended December 31, 2017 was \$6,404,705.
- Gross margin for the quarter ended December 31, 2017 was 71%.
- Net income for the quarter was \$523,345 or \$0.02 per share.

CEO Comment

Mr. Brian Pedlar, Covalon President and CEO, stated:

"Fiscal 2018 is off to a great start with excellent first quarter results, which is traditionally Covalon's slowest quarter. As a result, I anticipate strong double-digit growth for the year, excluding any accelerated growth from potential acquisitions. We have continued our solid financial growth this past quarter, with revenue of \$6.4 million and profits of \$523,345. Revenue continues to grow from our IV Clear vascular access dressings and our ColActive Plus advanced wound care dressings. Our revenue in the United States has increased significantly this quarter compared to last year and we continue to deliver products under the competitive tenders previously announced in the Middle East. I am encouraged by our continued progress in entering the markets in Latin America and Europe. A number of the new products we introduced last year in our expanded CovaWound advanced wound care line have begun to contribute to our revenue this quarter. We are also making great progress in identifying opportunities to grow Covalon through acquisitions that will provide us direct access to expand our business in the United States and Europe, in addition to our current internal efforts.

"We continue to prudently invest in new product development, establishing distribution channels in new markets, and expand our already talented Covalon team. To that end we have increased headcount in operations, sales and marketing and research and development compared to last year at this time. We have a dedicated team in the United Kingdom focused on marketing our advanced wound care line to hospitals, clinics and physicians. We have begun the process to convert a number of hospitals and clinics to purchasing Covalon products and have been approved to begin offering our CovaWound line into the U.K.'s primary care prescription market. We have also added a small team in the United States focused on beginning the launch of our recently United States Food and Drug Administration approved product MediClear Pre-Op. We anticipate introducing MediClear Pre-Op mid 2018 to the surgical market in the U.S."

Company Highlights

Total revenue for the three months ended December 31, 2017, was \$6,404,705 compared to \$5,608,994 for the same period of the prior year.

Product revenue for the three-month period ended December 31, 2017, was \$5,974,640, compared to \$5,524,149 for the same period last year. This increase relates to the timing of major shipments under our previously announced competitive tenders awarded to the Company in Saudi Arabia and our increase in international and U.S. sales. During the period, the Company continued deliveries to fulfil the competitive tenders awarded by the Ministry of Health in Saudi Arabia.

Development and consulting services revenue was \$400,289 for the three months ended December 31, 2017, compared to \$7,405 in 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.

Licensing and royalty fees for the three months ended December 31, 2017, were \$29,776, compared to \$77,440 for the three months ended December 31, 2016.

Gross margin on sales for the three-month period ended December 31, 2017, was 71%, compared to 79% for the same period of the prior year. Gross margins are influenced by product revenue mix during any given quarter.

Operating expenses for the three months ended December 31, 2017, was \$4,015,875, compared to \$3,918,456 for the prior year's comparative period. The increase in operating expenses is primarily related to an increase in personnel costs. The Company increased headcount in operations, sales and marketing, and administration as a result of the Company's efforts to expand its penetration of new markets,

including Europe and the United States. In addition, the Company added new staff in research and development to support its continued efforts to commercialize new products and technologies. The increase in headcount cost was offset by a decline in agency fees incurred by the Company to deliver product and support services for the competitive tenders awarded to the Company by the Ministry of Health in Saudi Arabia. As part of the competitive tenders awarded to the Company, Covalon is required to provide sales, distribution, and clinical training and support of its products, and to accomplish this, the Company engaged a third-party agent to fulfil these duties on behalf of the Company.

Net income for the three months ended December 31, 2017, was \$523,345 or \$0.02 per share, on a diluted basis, compared to a net income of \$543,110 or \$0.03 per share for the three months ended December 31, 2016.

Conference Call Scheduled

A conference call to discuss Covalon's financial results will be held Tuesday February 13, 2018 at 9:00 a.m. EST. To participate in the call please dial:

Local / International: 416-640-5946
North American Toll-Free: 1 866-233-4585

About Covalon

Covalon Technologies Ltd. researches, develops and commercializes new healthcare technologies that help save lives around the world. Covalon's patented technologies, products and services address the advanced healthcare needs of medical device companies, healthcare providers and individual consumers. Covalon's technologies are used to prevent, detect and manage medical conditions in specialty areas such as wound care, tissue repair, infection control, disease management, medical device coatings and biocompatibility. To learn more about Covalon, visit our website at www.covalon.com

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This news release contains 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" and statements that an event or result "may", "will", "should", "could" or "might" occur or be achieved and other similar expressions. These forward-looking statements involve risk and uncertainties, including the difficulty in predicting product approvals, acceptance of and demands for new products, the impact of the products and pricing strategies of competitors, delays in developing and launching new products, the regulatory environment, fluctuations in operating results and other risks, any of which could cause results, performance, or achievements to differ materially from the results discussed or implied in the forward-looking statements. Many risks are inherent in the industry; others are more specific to the Company. Investors should consult the Company's ongoing quarterly filings for additional information on risks and uncertainties relating to these forward-looking statements. Investors should not place undue reliance on any forward-looking statements. The Company assumes no obligation to update or alter any forward-looking statements whether as a result of new information, further events or otherwise.

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Source: Covalon Technologies Ltd.

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