

Covalon Announces Second Quarter Fiscal 2020 Results

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MISSISSAUGA, Ontario--(BUSINESS WIRE)--Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV; OTCQX: CVALF), an advanced medical technologies company, today announces its second quarter fiscal 2020 results.

Brian Pedlar, Covalon's President and CEO, said, "Like all businesses everywhere in the world, Covalon has been severely impacted by the COVID-19 pandemic. In response, the entire Covalon team has been working very hard to generate sales, reduce costs, successfully apply to available government programs, and, most importantly, introduce new technologies that could help the world deal with the COVID-19 pandemic. I am very pleased with our progress on these fronts. As the world emerges from COVID-19, I have no doubt that Covalon will emerge as a stronger and much more valuable company because of Covalon's unique and highly respected infection control technologies that will be in greater demand than ever. I am already seeing signs of that recovery.

"In response to COVID-19, we rapidly developed our CovaGuard platform technology and announced several products that are currently being introduced into global markets. The process to launch such products would normally require 18 months. Because of the urgency of COVID-19, the Covalon team worked around the clock to launch our products in record time. CovaGuard Antimicrobial Hand Sanitizer with Benzalkonium Chloride and CovaGuard Mask Antimicrobial Sanitizer with Benzalkonium Chloride are now available for purchase in the United States at covaguard.com. CovalonGuard Antimicrobial Hand Sanitizer with Benzalkonium Chloride is now available for purchase in Canada at covaguard.ca, with additional products anticipated. We are actively engaged in developing distribution into several channels within the United States, Canada, and numerous other countries, and we expect those channels will positively impact our fourth quarter ended September 30, 2020 and beyond.

"Heading into the quarter ended March 31, 2020, our revenue in the United States was up 17% compared to the prior year and represented growth in both our sales to hospitals and our advanced wound care distribution channel. Unfortunately, that progress was interrupted during the quarter ended March 31, 2020, as sales in the United States declined 33% compared to the prior year's second quarter. This decline was primarily due to the COVID-19 pandemic.

"Because of COVID-19, medical facilities suspended virtually all elective procedures. A significant number of the Company's products are consumed during elective and other procedures at hospitals, clinics, and other medical institutions that were materially impacted by quarantine measures undertaken at these facilities. This slow-down in the ordering and usage of certain of the Company's products is anticipated to continue until hospitals and healthcare facilities are able to resume elective procedures that utilize the Company's products.

"As restrictions have been put in place related to COVID-19 on hospitals and those who are able to enter hospitals, our United States sales force has had to adapt and modify their approach. Depending on the institution this has resulted in limited access or virtual communication only. Our sales force is doing its best to adapt to these changes in order to engage customers. We are beginning to see elective procedures increase, quarantine measures undertaken at customer facilities lessen, and the demand for certain of our product lines beginning to increase, though they are not yet back to normal levels.

"There were no shipments under the Middle East contracts recognized in revenue during this quarter. The Company was in the process of transferring its contracts to a new distribution agent in the region when COVID-19 delayed this process. The Company expects shipments to resume once the contracts are fully transferred to its new distribution partner.

"We have reduced operating expenses before one-time charges by 46% compared to the second quarter last year. We are continuing to reduce operating expenses, headcount, and discretionary spending in an effort to return Covalon to profitability. We believe we are well on our way to doing so."

Q2 Fiscal 2020 Financial Results

Revenue for the three months ended March 31, 2020 was \$5.3 million, compared to \$13.3 million the prior year. Gross profit was 53% in Q2 fiscal 2020, compared to 69% in Q2 fiscal 2019. Net loss was \$3.9 million or \$0.15 per share, compared to a loss of \$0.2 million or \$0.01 per share in Q2 fiscal 2019.

Revenue in the United States for the quarter was down 33% year-over-year in Q2 to \$4.7 million and Middle East second quarter revenue of \$0.2 million was down by \$6.0 million compared to last year. Latin American, European, and other international regions revenue was \$1.0 million compared to \$0.4 million last year. Product

revenue was \$4.6 million, while services revenue was \$0.6 million compared to \$12.1 million and \$0.8 million, respectively.

General and administrative expenses were \$6.5 million compared to \$9.4 million last year and included a one-time \$1.4 million allowance for doubtful accounts associated with the move of contracts to a new distribution partner in the Middle East. Excluding this one-time charge, operating expenses were down 46% compared to the prior year's second quarter.

Consistent with September 30, 2019, as of March 31, 2020, the Company did not meet certain covenants with HSBC Bank Canada ("HSBC") under the lending facility agreement; however, subsequent to March 31, 2020 the Company obtained a waiver from HSBC related to the covenants that were not met as of the quarter end. Management is in continued discussions with HSBC regarding the Company's acquisition and operating banking credit facility and anticipates making changes to the banking agreement with HSBC in due course. A further update will be provided at the appropriate time.

Conference Call Scheduled

A conference call to discuss Covalon's Fiscal 2020 Q2 Financial Results will be held Wednesday July 15th, 2020 at 9:00am EDT. To participate in the call, please dial:

Local: 416.764.8659
North American Toll-Free: 1.888.664.6392
Confirmation Number: 09472669

A recording of the call will be available until Wednesday July 22nd, 2020, by calling 416.764.8677 or 1.888.390.0541 and entering the encore reply entry code 472669#.

About Covalon

Covalon Technologies Ltd. is a researcher, developer, manufacturer, and marketer of patent-protected medical products that improve patient outcomes and save lives in the areas of advanced wound care, infection management and surgical procedures. 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 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 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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