

Covalon Announces Third Quarter Fiscal 2020 Results

MISSISSAUGA, ON, Aug. 24, 2020 /CNW/ - Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV); (OTCQX: CVALF), an advanced medical technologies company, today announces its third quarter fiscal 2020 results.

Brian Pedlar, Covalon's President and CEO, said, "During the quarter ended June 30th, the entire Covalon team was focused on execution and delivering results, despite the challenges faced during this past quarter. We have been working very hard to generate new sales opportunities for our infection prevention portfolio of products, engage with existing customers and reduce operating costs. We also amended our banking agreement with HSBC Bank Canada ("HSBC"). The amendment provided relief under certain financial covenants until March 31, 2021 and an additional \$1 million facility through the Business Credit Availability Program ("BCAP") with the Business Development Bank of Canada ("BDC"). I am confident the steps we have taken have put Covalon in the best possible position for the long term and we will see the impact in increased revenue, better operating results, and expanded opportunities.

"Our efforts in reducing operating expenses and generating new sales allowed us to achieve a profit for the quarter ended June 30th, with the help of government subsidies related to COVID-19 relief. We are already seeing some signs of recovery in July and early August in the United States with increased procedure volumes that consume our products, and we are cautiously watching to determine if these signs of recovery continue.

"Sales for the quarter were flat compared to last year and the impact of COVID-19 has masked many of the positive gains we have made in the United States, Latin America, and the Middle East. For the quarter ended June 30th, sales overall in the United States were down by 17% compared to last year. Even though sales to hospital customers were down by 40% due to COVID-19, we were able to mitigate this decline with increased sales of products outside of our hospital channel. The decline in hospital sales is temporary and a result of the deferral of elective procedures by hospitals that consume our products. Our team has displayed determination and creativity in continuing to engage with current and new hospital customers and we are seeing positive signs of hospital customers willing to trial new products we have introduced in the last few months.

"Overall operating costs for the past 9 months are over \$8 million lower than last year. We are continuing to reduce operating expenses, headcount, and discretionary spending in an effort to return Covalon to consistent profitability. We believe we are well on our way to doing so.

"The diversity of our technology portfolio and the strength of our ability to adapt and innovate has allowed us to launch new products that are less affected by a reduction in hospital elective procedures. Our recently announced CovaGuard product line allows our sales team to engage with new customers. We also introduced CovaClear and VALGuard products that are targeted at neonatal and pediatric patients within our existing customer base. Collectively these efforts will over time contribute to revenue and help to reduce the impact of COVID-19 on our existing product sales. Our customers appreciate the strength and depth of our infection prevention product portfolio as they upgrade their infection prevention protocols. 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."

Q3 Fiscal 2020 Financial Results

Revenue for the three months ended June 30, 2020 was \$6.7 million, compared to \$6.9 million the prior year. Gross margin was 46% in Q3 fiscal 2020, compared to 59% in Q3 fiscal 2019. Net income was \$314,167 or \$0.01 per share, compared to a net loss of \$3.5 million or \$0.16 per share in Q3 fiscal 2019.

Revenue in the United States for the quarter was down 17% year-over-year in Q2 to \$4.7 million. Revenue from sales in the Middle East was \$1.0 million, up by \$0.2 million compared to last year. Sales in Latin American, European, and other international regions was \$1.0 million compared to \$0.4 million last year. Product revenue was \$6.4 million while services revenue was \$0.2 million, compared to \$6.4 million and \$0.6 million, respectively.

Gross margins were lower due to \$0.3 million of one-time inventory provisions, \$0.4 million of additional costs to re-purpose certain existing inventory to fulfil orders, and the impact of selling protective masks, face shields, and other personal protective equipment at very low margins. Going forward, gross margins are expected to recover to normal levels in line with last year before accounting for any additional one-time charges.

Operating expenses were \$2.5 million compared to \$7.3 million last year and included a one-time \$1.8 million

of COVID-19 related government subsidies which were netted out against the related expenses. Excluding this one-time offset, operating expenses were down 41% compared to the prior year's third quarter.

The Company obtained a waiver from HSBC related to the covenants that were not met as of the quarter ended June 30, 2020. The Company and HSBC also entered into an amended and restated credit agreement providing for, among other items, certain adjustments to the covenants in future quarters until March 2021. The amended and restated credit agreement also provides the Company with an additional \$1 million facility through the BCAP program with BDC, the availability of which is subject to certain conditions contained in the amended and restated credit agreement. The BDC Business Credit Availability Program is designed to provide access to working capital through eligible participating banks to eligible businesses, like Covalon, that have been impacted by COVID-19.

Conference Call Scheduled

A conference call to discuss Covalon's Fiscal 2020 Q3 Financial Results will be held Monday August 24th, 2020 at 9:00am EST. To participate in the call, please dial:

Local (Toronto): 416.764.8659
North American Toll-Free: 1.888.664.6392
Confirmation Number: 80896464

A recording of the call will be available until September 7th, 2020, by calling 416.764.8677 or 1.888.390.0541 and entering the encore replay entry code 896464#.

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 OTQX 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 completion of integration of the AquaGuard acquisition, 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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