

Covalon Announces First Quarter Fiscal 2022 Results

MISSISSAUGA, ON, March 1, 2022 /CNW/ - Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV) (OTCQX: CVALF), an advanced medical technologies company, today announced its first quarter fiscal 2022 results.

Brian Pedlar, Covalon's President and CEO, said, "I am very pleased to report that revenue from continuing operations for our first quarter of fiscal 2022 increased 90% to \$4.9 million. We finished the quarter with \$25 million of cash on our balance sheet and positive operating cash flows of \$0.5 million. We are a much stronger and improved company today, financially and operationally, than we were at this time last year.

"During the quarter we successfully completed the transition of our discontinued AquaGuard business. Operating costs from continuing operations were \$3.4 million for the quarter ended December 31, 2021, and as anticipated included additional costs associated with the transition. We incurred a net loss of \$1.5 million or \$0.06 per share and net loss of \$1.1 million from continuing operations. Our Adjusted EBITDA⁽¹⁾ improved \$0.6 million to \$0.2 million loss compared to last year's first quarter.

"I'm very proud of our team's contributions to our successful turnaround and with our strong balance sheet and improvements made to our operations since last year. Covalon is well positioned to take advantage of growth opportunities in 2022," continued Mr. Pedlar.

Continuing operations includes revenue from our core business of collagen and antimicrobial silicone adhesive dressings, which continues to experience growth in the United States and internationally. Discontinued operations comprised the net operations of AquaGuard for the periods ended December 31st. The AquaGuard product line was divested as of July 28, 2021.

Q1 Fiscal 2022 Financial Results

Revenue for the three months ended December 31st, 2021 increased \$2.3 million to \$4.9 million, compared to \$2.6 million in the prior year, as a result of increased product revenue sales in the United States. Gross profit was \$2.3 million, compared to \$1.3 million in Q1 fiscal 2021. Net loss for continuing operations was \$1.1 million or \$0.04 per share, compared to net loss from continuing operations of \$1.0 million or \$0.04 per share in Q1 fiscal 2021. Net loss from discontinued operations was \$0.4 million or \$0.02 per share, compared to net income from discontinued operations of \$0.7 million or \$0.03 per share in Q1 fiscal 2021.

Product revenue for the three months ended December 31st 2021 increased 125% to \$4.5 million, compared to \$2.0 million in the previous year. Product revenue in the United States was up \$2.6 million due in part to increased orders from our wound care distributors during the quarter and due to a recovery from the prior year in our supply chain which was negatively affected by delays in shipments of our collagen products. The delay in shipments in the prior year of collagen products resulted from COVID-19 related issues at a contract manufacturer, that temporarily delayed production and shipment of collagen products.

Revenue in the Middle East was \$0.7 million in Q1 fiscal 2022 compared to \$0.8 million in Q1 fiscal 2021 and revenue in other international markets was \$0.6 million compared to \$0.7 million the previous year.

Development and consulting services revenue for the three-month period ended December 31, 2021 decreased by 28% to \$388,367, compared to \$541,750 for the same period of the prior year. During the quarter, we engaged in 9 customer development projects of various sizes with approximately 4 medical product companies that included the various projects underway associated with the previously announced major contract with one of the world's largest medical device companies that licensed Covalon's proprietary medical coating technologies. Licensing revenue was \$50,280 for the quarter ended December 31, 2021, compared to \$60,590 for the prior year.

Gross margin was 46% for Q1 fiscal 2022, compared to 51% for the prior year. Included in cost of sales in the current quarter are inventory write-downs, totaling \$0.7 million. The gross margin is significantly influenced by source of revenue and by the relative mix of products sold in any given financial period.

Adjusted gross margin⁽¹⁾, which excludes inventory provisions and depreciation, was 62% for Q1 fiscal 2022, compared to 55% for the prior year. The increase is attributed to product mix and increased sales in the United States.

Operating expenses increased to \$3.4 million, compared to \$2.3 million for the prior year's comparative period. Excluding the impact of government subsidies (\$302,454) on the prior period, operating expenses for

continuing operations increased \$0.8 million. Approximately \$0.5 million relates to sales, marketing, operations and administrative staff previously dedicated to the discontinued AquaGuard business that were re-deployed to continuing operations. The remaining increase of \$0.3 million is due to increased facility and other expenses.

Adjusted EBITDA⁽¹⁾ for Q1 fiscal 2022 was a loss of \$0.2 million, compared to a loss of \$0.8 million in the prior year's comparative period.

Conference Call Scheduled

A conference call and webcast to discuss Covalon's Q1 fiscal 2022 financial results will be held Tuesday, March 1st, 2022 at 9:00am EST. To view, listen to, and participate in the live webcast, please follow the link below:

https://produceredition.webcasts.com/starthere.jsp?ei=1529622&tp_key=2a5681ae2b

To listen and participate via the conference call, please dial:

North American Toll-Free: 1-888-664-6392

Local (Toronto): 416-764-8659

Confirmation Number: 47526078

Participants will be able to ask questions of Company management during the Q&A portion of the conference call either by asking them on the call or by submitting them using the chat function on the webcast.

A recording of the call will be available by calling 1-888-390-0541 or 416-764-8677 and entering the encore replay enter code 526078# until March 15th, 2022. A recording of the call will also be available on www.covalon.com under News & Events on the Investors tab.

Statement of Operations

The following unaudited table presents Covalon's consolidated statements of operations for the three-month periods ended December 31st, 2021 and 2020.

<i>(unaudited)</i>	Three months ended December 31,	
	2021	2020
Revenue		
Product	\$4,497,698	\$1,997,359
Development and consulting services	388,367	541,750
Licensing and royalty fees	50,280	60,590
Total revenue	4,936,345	2,599,699
Cost of product sales	2,643,968	1,264,472
Gross profit before operating expenses	2,292,377	1,335,227
Operating expenses		
Operations	478,260	258,483
Research and development	259,667	142,770
Sales and marketing	1,170,177	560,932
General and administrative	1,479,552	1,309,031
	3,387,656	2,271,216
Financing expenses	12,223	97,925
Net income (loss) from continuing operations	\$(1,107,502)	\$(1,033,914)
Net income (loss) from discontinued operations	(409,295)	661,571
Net income (loss)	\$(1,516,797)	\$(372,343)

Other comprehensive loss

Foreign currency translation adjustment

Foreign operations translation adjustment	(486,584)	(576,865)
discontinued operations	-	(273,272)
Other comprehensive loss	\$(2,003,381)	\$(1,222,480)

Income (loss) per common share of continuing operations

Basic earnings (loss) per share	\$(0.04)	\$(0.04)
Diluted earnings (loss) per share	\$(0.04)	\$(0.04)

Income (loss) per common share of discontinued operations

Basic earnings per share	\$(0.02)	\$0.03
Diluted earnings per share	\$(0.02)	\$0.03

Income (loss) per common share

Basic earnings (loss) per share	\$(0.06)	\$(0.01)
Diluted earnings (loss) per share	\$(0.06)	\$(0.01)

Non-IFRS Financial Measures

This press release makes reference to certain non-IFRS measures. These measures are not recognized or defined measures under IFRS, do not have standardized meaning prescribed by IFRS 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 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. The non-IFRS 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. We use non-IFRS 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 measures. We believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS 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-IFRS 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 is defined as net loss, plus interest expense, plus depreciation and amortization, plus stock-based compensation, less government subsidies, plus inventory provisions, plus accounts receivable write-off expenses.

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-IFRS financial measures. Because these non-IFRS financial measures may be defined differently by other companies in our industry, our definitions of these non-IFRS 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 in the consolidated financial statements to Adjusted Gross Margin for the three months ended December 31, 2021 and 2020. 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.

<i>(unaudited)</i>	Three months ended December 31,	
	2021	2020
Gross profit before operating expenses	2,292,377	1,335,227
Add: Depreciation and amortization	54,295	80,509
Add: Inventory provisions	719,691	6,909
Adjusted Gross Margin	3,066,363	1,422,645
Adjusted Gross Margin (%)	62%	55%

The table below provides a reconciliation of net loss under IFRS in the consolidated financial statements to Adjusted EBITDA for the three months ended December 31, 2021 and 2020. Management believes that these non-IFRS measures are useful in assessing the performance of the Company's ongoing operations and its ability to generate cash flows to funds 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.

<i>(unaudited)</i>	Three months ended December 31,	
	2021	2020
Net loss	(1,107,502)	(1,033,914)
Add: Interest expense	12,223	97,926
Add: Depreciation and amortization	109,964	248,911
Add: Stock based compensation	21,034	99,236
Less: Government subsidies	----	(302,454)
Add: Inventory provisions	719,691	6,909
Adjusted EBITDA	(244,590)	(883,387)

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 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, the impact and timing of COVID-19 on operating activities and market conditions, 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.

- (1) See "Non-IFRS Measures" below, including for a reconciliation of the non-IFRS measures used in this release to the most comparable IFRS measures.

SOURCE Covalon Technologies Ltd.

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<https://ir.covalon.com/2022-03-01-Covalon-Announces-First-Quarter-Fiscal-2022-Results>