

Covalon Announces Third Quarter Fiscal 2022 Results

MISSISSAUGA, ON, Aug. 29, 2022 /CNW/ - Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV) (OTCQX: CVALF), an advanced medical technologies company, today announced its third quarter fiscal 2022 results.

Brian Pedlar, Covalon's President and CEO, said, "Covalon is making real and significant progress in transforming our sales, marketing, and operations teams to position us to achieve growth over the next few years. We are currently in active discussion regarding new business opportunities, while bringing on experienced and talented new executives that allow us to expand our United States hospital customer base.

Given the adoption of Covalon's products, such as VALGuard[®], IV Clear[®] and SurgiClear[®], in four of the top five pediatric hospitals and over 50 major teaching hospitals in the United States to date, we are positioned to become standard of care in helping doctors and clinicians prevent blood stream and surgical site infections in these hospitals.

"The investments we are making today have yet to impact our top line, as revenue from continuing operations for the nine months ended June 30, 2022, was \$12.8 million, compared to \$13.0 last year. Even though our United States product revenue has grown 10% over the last nine months, revenue during the third quarter was \$4.5 million compared to \$6.0 million last year, which simply reflects the timing of orders from our United States collagen distributors.

"Covalon is in the fortunate financial position of having a strong balance sheet with significant cash, no debt, and a loyal customer base. Our management team is laser-focused on building Covalon into the healthcare powerhouse we are destined to be, given our unique life-saving medical technologies and relationships with major prestigious hospitals and large multinational medical companies we are actively working with today.

"I'm very encouraged with the growth prospects we are seeing today and our growing base of customers and clinicians that are using our products on a daily basis. We are a much stronger company today than a year ago. We strengthened our balance sheet and improved our operations since last year at this time. We also have a stronger, more talented leadership team. These improvements are already positively impacting our growth prospects and I am looking forward to seeing their impact on our financial performance in 2023 and 2024," continued Mr. Pedlar.

As previously announced, Covalon's Board of Directors decided to use our strong cash position to further strengthen the Company by buying back up to 5% of Covalon's shares for cancellation. The Company received approval to make a normal course issuer bid ("NCIB") for its common shares with the TSX Venture Exchange, and to date, has purchased 574,500 shares for cancellation, which strengthens the value of existing shareholders' shares.

Conference Call Scheduled

A conference call and webcast to discuss Covalon's Q3 fiscal 2022 financial results will be held Monday, August 29th, 2022, at 9:00am EST. To view, listen to, and participate in the live webcast, please follow the link below:

<https://app.webinar.net/nwjXzxokLQI>

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: 97297097

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 entry code 297097# until September 12th, 2022. A recording of the call will also be available on www.covalon.com under News & Events on the Investors tab.

Q3 Fiscal 2022 Financial Results

Revenue for the three months ended June 30th, 2022 decreased 25% to \$4.5 million, compared to \$6.0 million in the prior year. Gross profit was \$2.1 million, compared to \$3.2 million in Q3 fiscal 2021. Net loss for continuing operations was \$1.6 million or \$0.06 per share, compared to net income from continuing operations of \$0.7 million or \$0.03 per share in Q3 fiscal 2021. Net loss from discontinued operations was \$nil or \$nil per share, compared to net income from discontinued operations of \$0.3 million or \$0.01 per share in Q3 fiscal 2021.

Product revenue for the nine-month period ended June 30, 2022 was consistent at \$11.6 million compared to the same period of the prior year. Product revenue for the three months ended June 30th, 2022 decreased 27% to \$4.1 million, compared to \$5.7 million in the previous year. The decrease is substantially due to the timing of collagen sales in the United States. During the prior year, collagen sales in the United States were more heavily weighted to Q3 and Q4, whereas this year collagen sales were spread more evenly throughout the three quarters to date.

Development and consulting services revenue for the three-month period ended June 30th, 2022 increased by 17% to \$0.4 million, compared to \$0.3 million for the same period of the prior year. Cost of sales for the three-month period ended June 30th, 2022 decreased by 15% to \$2.4 million, compared to \$2.8 million for the same period the prior year. During the quarter, we engaged in 15 customer development projects of various sizes with 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 and royalty fees was \$0.04 million for the quarter ended June 30th, 2022, compared to \$0.05 million for the prior year.

Gross margin decreased to 47% for Q3 fiscal 2022, compared to 54% for the prior year. The gross margin is significantly influenced by provisions, source of revenue and by the relative mix of products sold in any given financial period.

Adjusted gross margin⁽¹⁾, for the nine-month period ended June 30, 2022, increased to 58% compared to 54% for the same period of the prior year.

Operating expenses for the three months ended June 30, 2022 increased \$1.3 million to \$3.7 million, compared to \$2.4 million for the prior year's comparative period. Excluding the impact of government subsidies of \$0.3 million, which were netted against operating expenses in the prior period, operating expenses increased \$1.0 million. The increase is due mostly to increased headcount in sales and marketing as the Company continues to invest in growing its direct sales and marketing team in the United States. To support continued commercial growth, sales, marketing, operations and administrative staff previously dedicated to the discontinued AquaGuard business last year, were re-deployed to continuing operations accounting for an increase of \$0.4 million in the quarter.

Adjusted EBITDA⁽¹⁾ for Q3 fiscal 2022 was a loss of \$1.1 million, compared to positive EBITDA of \$0.9 million in the prior year's comparative period.

(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.

Statement of Operations

The following unaudited table presents Covalon's consolidated statements of operations for the three- and nine-month periods ended June 30th, 2022 and 2021.

	Three months ended		Nine months ended	
	2022	June 30, 2021	2022	June 30, 2021
Revenue				
Product	\$4,125,650	\$5,674,004	\$11,599,140	\$11,623,110
Development and consulting services	364,733	312,102	986,424	1,168,997
Licensing and royalty fees	35,623	48,268	170,621	158,614
Total revenue	4,526,006	6,034,374	12,756,185	12,950,721
Cost of sales	2,378,276	2,786,874	6,574,017	6,319,487
Gross profit before operating expenses	2,147,730	3,247,500	6,182,168	6,631,234

Operating expenses	586,071	231,772	1,472,250	806,158
Research and development activities	288,882	295,716	846,530	840,892
Sales, marketing and agency fees	1,580,128	555,536	4,316,515	1,621,888
General and administrative	1,269,873	1,343,662	4,643,373	3,667,101
	3,724,954	2,426,686	11,278,668	6,936,039
Finance expenses	31,376	105,769	81,617	301,475
Net income (loss) from continuing operations	(1,608,600)	715,045	(5,178,117)	(606,280)
Net income (loss) from discontinued operations	-	342,886	(409,295)	1,713,592
Net income (loss)	\$(1,608,600)	\$1,057,931	\$(5,587,412)	\$1,107,312

Other comprehensive income (loss)

Amount that may be reclassified to profit or loss

Foreign currency translation adjustment - continued operations	995,098	(169,487)	631,546	(884,706)
Foreign currency translation adjustment - discontinued operations	-	(72,940)	-	(422,959)
Total comprehensive income (loss)	\$(613,502)	\$815,504	\$(4,955,866)	\$(200,353)

(Loss) per common share of continuing operations

Basic earnings (loss) per share (Note 12)	\$(0.06)	\$0.03	\$(0.20)	\$(0.02)
Diluted earnings (loss) per share (Note 12)	\$(0.06)	\$0.03	\$(0.20)	\$(0.02)

Income (loss) per common share of discontinued operations

Basic earnings (loss) per share (Note 12)	\$0.00	\$0.01	\$(0.02)	\$0.06
Diluted earnings (loss) per share (Note 12)	\$0.00	\$0.01	\$(0.02)	\$0.06

Income (loss) per common share

Basic earnings (loss) per share (Note 12)	\$(0.06)	\$0.04	\$(0.22)	\$0.04
Diluted earnings (loss) per share (Note 12)	\$(0.06)	\$0.04	\$(0.22)	\$0.04

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 and nine months ended June 30th,

2022 and 2021. 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.

	Three months ended June 30 th ,		Nine months ended June 30 th ,	
	2022	2021	2022	2021
Gross profit before operating expenses	\$2,147,730	\$3,247,500	\$6,182,168	\$6,631,234
Add: Depreciation and amortization	55,949	73,043	151,774	233,373
Add: Inventory provisions	216,803	123,598	1,009,772	129,938
Adjusted Gross Margin	2,420,482	3,444,141	7,343,714	6,994,545
Adjusted Gross Margin (%)	53 %	57 %	58 %	54 %

The table below provides a reconciliation of net loss under IFRS in the consolidated financial statements to Adjusted EBITDA for the three and nine months ended June 30th, 2022 and 2021. 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.

	Three months ended June 30,		Nine months ended June 30,	
	2022	2021	2022	2021
Net income (loss)	(\$1,608,600)	\$715,045	(\$5,178,117)	\$(606,280)
Add: Interest expense	31,376	105,769	81,617	301,475
Add: Depreciation and amortization	171,450	227,478	488,063	660,282
Add: Share based compensation	87,737	(16,537)	126,988	147,024
Less: Government subsidies	-	(282,400)	-	(793,152)
Add: Inventory provisions	216,803	123,598	1,009,772	715,343
Adjusted EBITDA	\$(1,101,234)	\$872,953	\$(3,471,677)	\$424,692

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.

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