

Covalon Announces Improved First Quarter Fiscal 2023 Results

Revenue growth of 25%, significant margin improvement and strong balance sheet

MISSISSAUGA, ON, Feb. 23, 2023 /CNW/ - Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV) (OTCQX: CVALF), an advanced medical technologies company, today announced its first quarter fiscal 2023 results for the period ended December 31, 2022.

Brian Pedlar, Covalon's President and CEO, said, "We are in a much stronger position in our key markets compared to last year, and we are seeing the results of investments we made in 2022 positively impacting us in 2023. Our previous investments in added leadership, sales, marketing, and operations, along with our focused approach to key revenue markets, have strengthened Covalon. I am pleased to report that revenue for our first quarter of fiscal 2023 increased 25% to \$6.2 million. We finished the quarter with \$14.1 million of cash on our balance sheet and no debt. With our strong product and technology portfolio, Covalon is focused on becoming the leading provider of compassionate care solutions that help patients heal faster and live better. We are on track with our growth plan, and we have already made strong progress in 2023 towards reaching our goals.

"This year, we are continuing to invest in our sales and marketing efforts to grow our customer base in the United States and strengthening our brand world-wide. Our sales and marketing teams started fiscal 2023 with a focused sales and marketing strategy, based on the planning and investments we made in 2022. We have seen positive impacts in our product sales to hospitals and through our distributors in the United States, increased orders from our international channels and stronger services revenue from our medical coating projects. We anticipate continued growth in revenue this year.

"Gross margins were significantly improved in the first quarter of 2023. As part of the Company's customer focus initiatives, we improved our supply chain operations and invested in upgrading both business systems and infrastructure. Additional ongoing investments to allow us to better serve customers and drive growth in key markets going forward include expanding Covalon's in-house manufacturing and medical coating services capabilities. The full positive impact on our margins from our supply chain improvement initiatives are expected to be further realized over time.

"We continue to align our operating costs to growth prospects, as we see the results of our improved sales and marketing initiatives and as we fully realize the benefits of our efforts to transform our supply chain. Operating costs from continuing operations for the quarter ended December 31, 2022 increased over the same quarter last year. In 2022, our team executed on deliberate and well-planned strategic decisions to re-position Covalon to be able to unlock value from our lifesaving, patented products and technology, by investing in our people, our commercial capabilities, and our infrastructure. We are confident that the changes we have made to Covalon will allow us to consistently achieve our objectives.

"The momentum we have, and the certainty of purpose we have in our products and mission, will allow our Company to succeed. This quarter demonstrates that we are moving in the right direction with respect to investments made last year in several key business areas, including sales and marketing, operations, and IT infrastructure. We are excited about our progress in transforming Covalon into a patient-driven medical device company, built on the relentless pursuit to help the most vulnerable patients have a better chance at healing," concluded Mr. Pedlar.

(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.

Q1 Fiscal 2023 Financial Results

Total revenue for the three months ended December 31, 2022 increased 25% to \$6.2 million compared to \$4.9 million for the same period of the prior year.

Product revenue for the three-month period ended December 31, 2022 increased 17% to \$5.2 million compared to \$4.5 million for the same period of the prior year. Product revenue in international markets was up \$0.9 million due to stronger customer demand for the Company's CovaWound and IV Clear product lines.

Development and consulting services revenue for the three-month period ended December 31, 2022 increased by 111% to \$0.8 million, compared to \$0.4 million for the same period of the prior year. During the quarter, we engaged in 9 customer development projects of varying 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 and royalty fees for the three months ended December 31, 2022 were \$0.1 million, compared to \$0.05 million for the three months ended December 31, 2021.

Gross margin for the three-month period ended December 31, 2022 increased to 60% compared to 46% in the same period for the prior year. The gross margin is significantly influenced by source of revenue and by the relative mix of products sold in any given financial period.

Operating expenses for the three months ended December 31, 2022 increased \$0.7 million to \$4.0 million, compared to \$3.4 million for the prior year's comparative period. Approximately \$0.9 million relates to increased sales and marketing costs, offset by approximately \$0.2 million in reduced operations expenses primarily due to operations personnel and facility uses being reallocated to production activities in the three months ended December 31, 2022. These staff and facilities were not allocated to production activities in the comparable period.

Net loss for continuing operations for the three months ended December 31, 2022 was \$0.4 million or \$0.02 per share, compared to a net loss of \$1.1 million or \$0.04 per share for the three months ended December 31, 2021.

Net loss for discontinued operations for the three months ended December 31, 2022 was \$nil, compared to a net loss of \$0.4 million or \$0.02 per share for the three months ended December 31, 2021.

Net loss for the three months ended December 31, 2022 was \$0.4 million or \$0.02 per share, compared to a net loss of \$1.5 million or \$0.06 per share for the three months ended December 31, 2021.

Adjusted Gross Margin for the three-month period ended December 31, 2022 decreased slightly to 61% compared to 62% for the same period of the prior year. Gross margin is highly influenced by the mix of collagen-based dressings, silicone-based dressings, medical coating services, passive dressings, and related service revenues generated in the periods. Gross margin fluctuates as a result of the mix of products sold in any given quarter, or year, by product type and geography. For further information about Adjusted Gross Margin, see "*Definitions and Reconciliations of Non-IFRS Financial Measures*" below.

Adjusted EBITDA for the three months ended December 31, 2022, was an income of \$0.05 million, compared to an Adjusted EBITDA loss of \$0.2 million for the three months ended December 31, 2021. For further information about Adjusted EBITDA, see "*Definitions and Reconciliations of Non-IFRS Financial Measures*" below.

Conference Call Scheduled

A conference call and webcast to discuss Covalon's Q1 fiscal 2023 financial results will be held Thursday, February 23, 2023 at 9:00am EST. To view, listen to, and participate in the live webcast, please follow the link below:

<https://app.webinar.net/gjazX3a59pK>

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: 23219091

Alternatively, please follow the link below and specify your phone number in order to receive a call and be placed into the conference call:

<https://bit.ly/3W4uTEw>

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 219091# until March 9, 2023. 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, 2022 and 2021.

(unaudited)

Three months ended
December 31,

2022 2021

Revenue		
Product	\$5,245,264	\$4,497,698
Development and consulting services	818,346	388,367
Licensing and royalty fees	121,795	50,280
Total revenue	6,185,405	4,936,345
Cost of sales	2,490,573	2,643,968
Gross profit before operating expenses	3,694,832	2,292,377
Operating expenses		
Operations	207,879	478,178
Research and development activities	285,975	308,026
Sales and marketing	2,029,936	1,170,177
General and administrative	1,526,895	1,471,275
	4,050,685	3,387,656
Finance expenses	24,968	12,223
Net (loss) from continuing operations	(380,821)	(1,107,502)
Net (loss) from discontinued operations	-	(409,295)
Net (loss)	\$(380,821)	\$(1,516,797)
Other comprehensive income (loss)		
Foreign currency translation adjustment continued operations	(16,785)	(486,584)
Total comprehensive loss	\$(397,606)	\$(2,003,381)
Loss per common share of continuing operations		
Basic (loss) per share	\$(0.02)	\$(0.04)
Diluted (loss) per share	\$(0.02)	\$(0.04)
Income (loss) per common share of discontinued operations		
Basic earnings per share	\$(0.00)	\$(0.02)
Diluted earnings per share	\$(0.00)	\$(0.02)
Loss per common share		
Basic (loss) per share	\$(0.02)	\$(0.06)
Diluted (loss) per share	\$(0.02)	\$(0.06)

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

share-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, 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.

<i>(unaudited)</i>	Three months ended December 31,	
	2022	2021
Gross profit before operating expenses	\$3,694,832	\$2,292,377
Add: Depreciation and amortization	56,033	54,295
Add: Inventory provisions	-	719,691
Adjusted Gross Margin	\$3,750,865	\$3,066,363
Adjusted Gross Margin (%)	61 %	62 %

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, 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 fund 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,	
	2022	2021
Net loss	\$(380,821)	\$(1,107,502)
Add: Interest expense	24,968	12,223
Add: Depreciation and amortization	250,085	109,964
Add: Share based compensation	156,307	21,034
Add: Inventory provisions	-	719,691
Adjusted EBITDA	\$50,539	\$(244,590)

Copies of Covalon's financial statements and MD&A can be obtained on SEDAR at www.sedar.com and under Sedar Filings on the Investors tab of Covalon's website.

For those interested in learning more about Covalon's solutions, visit www.covalon.com or follow Covalon on [LinkedIn](#), [Facebook](#), [Instagram](#) or [Twitter](#).

About Covalon

Covalon Technologies Ltd. is a patient-driven medical device company, built on the relentless pursuit to help the most vulnerable patients have a better chance at healing. Through a strong portfolio of patented technologies and solutions for advanced wound care, infection prevention, and medical device coatings, we offer innovative, gentler and more compassionate options for patients to heal with less infections, less pain, and better outcomes. Our solutions are designed for patients and made for care providers. 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 the 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 may contain 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", or variations of such words and phrases or state that certain actions, events, or results "may", "could", "would", "might", "will" or "will be taken", "occur", or "be achieved". In addition, any statements that refer to expectations, projections, or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts, but instead represent management's expectations, estimates, and projections regarding future events. Forward-looking statements involve risks and uncertainties, including, but not limited to, the factors described in greater detail in the "Risks and Uncertainties" section of our management's discussion and analysis of financial condition and results of operations for the year ended September 30, 2022, which is available on the Company's profile at www.sedar.com, any of which could cause results, performance, or achievements to differ materially from the results discussed or implied in the forward-looking statements. Investors should not place undue reliance on any forward-looking statements. The forward-looking statements contained in this news release are made as of the date of this news release, and the Company assumes no obligation to update or alter any forward-looking statements, whether as a result of new information, further events, or otherwise, except as required by law.

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<https://ir.covalon.com/2023-02-23-Covalon-Announces-Improved-First-Quarter-Fiscal-2023-Results>