

## A Lighter Q4, Still Decent Growth Expected

### We are maintaining our BUY Rating and a C\$4.40 TP

Today, COV reported fiscal Q4 earnings ending Sep 30, 2024. Total revenues were \$8.9M, below our estimate of \$9.8M vs. \$6.5M last year (29% Y/Y growth). Revenues were primarily generated in the US market, \$8.2M vs. \$5.1M last year (61% Y/Y growth) - investors should note that COV does not provide any financial guidance. For Vascular Access and Surgical Consumables, COV acquired 66 new hospital customers in FY2024 and retained 98% of the top 50 hospital customers from 2023. The recurring revenue increased 55% Y/Y from the top 50 hospital customers from fiscal 2023 to 2024. COV's revenues are primarily derived from the US (USD), and weakening CDN should be more favourable moving forward. Q4/24 marks COV's third consecutive quarter of profitability since the appointment of the new CEO. We maintain our view that Covalon is a GARP (growth at a reasonable price) with a pristine balance sheet (zero debt) and a steady increase in product sales focusing on the US market. Any weakness in the stock today should be viewed as a buying opportunity.

**Q4 Results (ending Sep 30, 2024; in C\$):** Total revenues were \$8.9M, below our estimate of \$9.8M vs. \$6.5M last year (29% Y/Y growth). Sales were primarily attributed due to COV's strong US business (\$8.2M vs. \$5.1M last year), followed by the Middle East (\$0.4M vs. \$1.5M last year), rest of the world (\$0.2M vs. \$0.3M last year), and Canada (\$6K vs. \$70K last year). Operating expenses were (\$4.7M), in line with our estimate of (\$4.5M) vs. (\$5.8M) last year (-\$1.1M or 19% decrease Y/Y) due to COV's continuing efforts in switching to in-house manufacturing facility from 3rd party contract manufacturers. Adj. EBITDA was \$1.1M, below our estimate of \$1.78M, vs. (\$1.83M) last year. Net income (loss) was \$613K, or f.d. \$0.02/share, below our estimate of \$1.37M or f.d. \$0.05/share vs. (\$2.88M) or (\$0.12)/share last year. Net change in cash position was \$7.3M, out of which \$5.4M was due to warrants being exercised. As of Q4 end, COV had \$16.7M in cash and zero debt.

**Growing Business and Sticky Customer Retention:** COV sells Vascular Access and Surgical Consumables directly to its hospital customers through the company's direct sales force. In fiscal 2024, COV acquired 66 new hospital customers and retained 98% of the top 50 hospital customers from 2023. The recurring revenue increased 55% Y/Y from the top 50 hospital customers from fiscal 2023 to 2024. We continue to believe that COV's Vascular Access and Surgical Consumables should provide the most significant growth in the next 5 yrs.

### Maintaining a BUY Rating & C\$4.40 Target Price

Our valuation is based on applying the median 2024 EV/Sales Multiple of 3.3x for global wound care and dressing companies to 2024 sales of COV.

#### RATING & TARGET PRICE

Rating	BUY
Price	3.08
Price Target	4.40
Market Cap (\$M)	84.39
Projected Return	42.9%

#### MARKET DATA

COV-TSXV	3.08
52 Week Range	C\$4.30 - C\$0.97
Enterprise Value (\$M)	67.6
Cash (\$M)	16.75
Shares Out. (MM)	27.4
Debt (\$M)	0.00

#### ESTIMATES

		2023A	2024A	2025E
EPS (\$)	Q1	C\$(0.02)	C\$(0.03)	C\$(0.03)
	Q2	C\$(0.03)	C\$0.05	C\$0.03
	Q3	C\$(0.02)	C\$0.05	C\$0.07
	Q4	C\$(0.12)	C\$0.02	C\$(0.03)
	FY	C\$(0.18)	C\$0.11	C\$0.04
Revenue (\$MM)	Q1	6	5	6
	Q2	7	8	9
	Q3	6	9	10
	Q4	7	9	10
	FY	27	31	36

#### UPCOMING EVENTS/CATALYSTS

2025 - Expected Sales Growth

#### ANALYST INFORMATION

**Andre Uddin, Ph.D.**  
(416) 860-8675  
auddin@researchcapital.com

**Seungwoo (Steve) Lee**  
416-860-7658  
SLee@researchcapital.com

Figure 1 - Global Wound Care and Dressing Comparable Valuations

Name	Currency	Stock Price	Market Cap	Enterprise Value	2023A Sales	2024E Sales	2025E Sales	2023A EBITDA	2024E EBITDA	2025E EBITDA	2023A EPS	2024E EPS	2025E EPS	Price/Sales (2023)	Price/Sales (2024)	Price/Sales (2025)	EV/Sales (2023)	EV/Sales (2024)	EV/Sales (2025)	EV/EBITDA (2023)	EV/EBITDA (2024)	EV/EBITDA (2025)
		(\$)	(MM)	(MM)	(MM)	(MM)	(MM)	(MM)	(MM)	(MM)	(\$)	(\$)	(\$)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
<b>Global Wound Care and Dressing</b>																						
Organogenesis	USD	\$3.10	\$390	\$402	\$433	\$466	\$473	\$43	\$23	\$30	\$0.10	(\$0.03)	\$0.03	0.9x	0.8x	0.8x	0.9x	0.9x	0.8x	9.4x	17.4x	13.4x
Convatec	USD	\$277.80	\$5,699	\$7,015	\$2,142	\$2,288	\$2,380	\$527	\$570	\$615	\$0.13	\$0.15	\$0.17	2.7x	2.5x	2.4x	3.3x	3.1x	2.9x	13.3x	12.3x	11.4x
Integra LifeSciences Holdings	USD	\$23.17	\$1,788	\$2,927	\$1,542	\$1,613	\$1,712	\$354	\$320	\$335	\$1.82	\$2.45	\$2.51	1.2x	1.1x	1.0x	1.9x	1.8x	1.7x	8.3x	9.1x	8.7x
Sanara MedTech	USD	\$33.50	\$293	\$308	\$65	\$83	\$103	(\$0)	NMF	NMF	(\$0.50)	(\$1.33)	(\$1.07)	4.5x	3.5x	2.8x	4.7x	3.7x	3.0x	NMF	NMF	NMF
Mimedex Group	USD	\$9.19	\$1,350	\$1,281	\$321	\$345	\$377	\$42	\$76	\$86	\$0.42	\$0.29	\$0.31	4.2x	3.9x	3.6x	4.0x	3.7x	3.4x	30.4x	16.9x	14.9x
Average																						
Median														2.7x	2.4x	2.1x	3.0x	2.6x	2.4x	15.4x	13.9x	12.1x
														2.7x	2.5x	2.4x	3.3x	3.1x	2.9x	11.4x	14.6x	12.4x

Source: Bloomberg 2025-01-07

Figure 2 - Covalon Income Statement

COV Quarterly Income (CS, '000)	2016A	2017A	2018A	2019A	2020A	2021A	2022A	Q1/23A	Q2/23A	Q3/23A	Q4/23A	2023A	Q1/24A	Q2/24A	Q3/24A	Q4/24A	2024A	Q1/25E	Q2/25E	Q3/25E	Q4/25E	2025E	2026E	2027E	2028E	2029E	2030E	
								Dec/23	Mar/23	Jun/23	Sep/23		Dec/23	Mar/24	Jun/24	Sep/24		Dec/23	Mar/24	Jun/24	Sep/24							
Product revenue	\$5,729	\$24,081	\$19,991	\$30,148	\$11,330	\$17,651	\$16,429	\$5,245	\$6,106	\$6,035	\$6,535	\$23,921	\$4,576	\$8,388	\$9,207	\$8,890	\$31,021	\$6,336	\$8,639	\$10,384	\$10,456	\$35,785	\$39,499	\$43,238	\$46,699	\$50,983	\$55,950	
Medical coating systems	\$22	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Service revenue	\$157	\$866	\$1,782	\$3,266	\$1,979	\$1,691	\$1,484	\$818	\$1,108	\$205	\$319	\$2,451	\$57	\$307	\$307	\$6	\$63	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Licensing and royalty fees	\$803	\$1,762	\$4,959	\$591	\$199	\$219	\$233	\$122	\$30	\$30	\$41	\$223	\$31	\$26	\$17	\$11	\$88	\$30	\$30	\$30	\$30	\$120	\$150	\$150	\$150	\$150	\$150	
Total Revenue	\$6,711	\$27,710	\$26,723	\$34,085	\$13,508	\$19,561	\$18,146	\$6,185	\$7,245	\$6,279	\$6,895	\$26,595	\$4,663	\$8,814	\$9,224	\$8,968	\$31,169	\$6,366	\$8,669	\$10,384	\$10,486	\$35,985	\$39,649	\$43,388	\$46,849	\$51,133	\$56,100	
COGS	\$2,560	\$6,297	\$7,059	\$12,182	\$8,861	\$9,865	\$10,653	\$2,491	\$3,073	\$2,666	\$4,005	\$12,333	\$1,815	\$3,103	\$3,793	\$3,526	\$12,236	\$2,546	\$3,468	\$4,154	\$4,164	\$14,362	\$15,860	\$17,355	\$18,740	\$20,453	\$22,440	
Gross profit	\$4,151	\$21,413	\$19,664	\$21,903	\$4,647	\$9,696	\$7,493	\$3,694	\$4,172	\$3,614	\$2,891	\$14,262	\$2,849	\$5,710	\$5,432	\$5,442	\$18,933	\$3,820	\$5,202	\$6,230	\$6,321	\$21,623	\$23,789	\$26,033	\$28,110	\$30,680	\$33,660	
Sales, marketing, and agency fees	\$1,856	\$11,485	\$8,187	\$14,953	\$2,917	\$1,927	\$6,517	\$2,020	\$2,210	\$1,827	\$2,101	\$8,168	\$1,646	\$1,263	\$1,388	\$1,135	\$5,432	\$1,750	\$1,400	\$1,500	\$3,000	\$7,650	\$7,803	\$7,959	\$8,118	\$8,281	\$8,446	
General and administrative	\$3,545	\$5,156	\$6,453	\$11,849	\$7,263	\$4,795	\$6,959	\$1,527	\$1,862	\$1,372	\$2,643	\$7,404	\$1,732	\$1,491	\$1,581	\$2,775	\$7,281	\$1,800	\$1,700	\$1,600	\$3,000	\$8,100	\$8,262	\$8,427	\$8,596	\$8,768	\$8,943	
Operations	\$932	\$1,434	\$1,991	\$1,910	\$1,040	\$995	\$2,065	\$208	\$543	\$627	\$527	\$1,905	\$631	\$423	\$608	\$311	\$1,974	\$700	\$700	\$700	\$850	\$2,950	\$3,009	\$3,069	\$3,131	\$3,193	\$3,257	
R&D	\$763	\$1,126	\$1,417	\$1,359	\$794	\$1,141	\$1,095	\$286	\$279	\$366	\$482	\$1,413	\$311	\$451	\$379	\$454	\$1,594	\$300	\$450	\$400	\$400	\$1,550	\$1,581	\$1,613	\$1,645	\$1,678	\$1,711	
Others	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$610)	\$0	\$0	\$0	(\$610)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Total operating expenses	\$7,116	\$19,201	\$18,047	\$30,971	\$12,035	\$8,858	\$16,636	\$4,051	\$4,894	\$4,192	\$5,754	\$18,990	\$3,710	\$3,828	\$3,956	\$4,678	\$16,172	\$4,550	\$4,250	\$4,200	\$7,250	\$20,250	\$20,655	\$21,068	\$21,489	\$21,919	\$22,358	
Operating Profit	(\$2,965)	\$1,812	\$1,618	(\$8,249)	(\$7,387)	\$838	(\$9,142)	(\$356)	(\$722)	(\$588)	(\$2,863)	(\$4,529)	(\$862)	\$1,483	\$1,475	\$664	\$2,761	(\$780)	\$952	\$2,030	(\$959)	\$1,293	\$3,134	\$4,965	\$6,620	\$8,760	\$11,302	
Finance expense (income)	\$130	\$0	\$0	\$889	\$436	\$419	\$112	\$25	(\$24)	(\$86)	\$17	(\$68)	(\$10)	\$22	\$27	\$52	\$91	\$42	\$42	\$42	\$42	\$167	\$165	\$170	\$190	\$221	\$267	
Income tax expense (recovery)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$831	\$1,316	\$1,754	\$2,321	\$2,995	
Adj. EBITDA					(\$3,544)	\$1,262	(\$5,633)	\$51	(\$474)	(\$430)	(\$1,829)	(\$2,682)	(\$1,280)	\$2,487	\$2,382	\$1,106	\$4,841	(\$340)	\$1,342	\$2,420	(\$569)	\$2,853	\$3,918	\$5,303	\$6,561	\$8,176	\$10,088	
Net income (loss)	(\$3,095)	\$1,812	\$1,618	(\$9,138)	(\$7,823)	\$419	(\$9,254)	(\$381)	(\$698)	(\$502)	(\$2,880)	(\$4,461)	(\$852)	\$1,460	\$1,448	\$613	\$2,670	(\$772)	\$910	\$1,988	(\$1,000)	\$1,125	\$2,139	\$3,479	\$4,676	\$6,218	\$8,040	
Net income (loss) from discontinued operations					\$2,108	(\$409)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
EPS - Basic	(\$0.26)	\$0.09	\$0.08	(\$0.41)	(\$0.30)	\$0.02	(\$0.30)	(\$0.02)	(\$0.03)	(\$0.02)	(\$0.12)	(\$0.18)	(\$0.03)	\$0.06	\$0.06	\$0.02	\$0.11	(\$0.03)	\$0.03	\$0.07	(\$0.04)	\$0.04	\$0.08	\$0.13	\$0.17	\$0.23	\$0.29	
EPS - Diluted	(\$0.26)	\$0.09	\$0.07	(\$0.41)	(\$0.30)	\$0.02	(\$0.30)	(\$0.02)	(\$0.03)	(\$0.02)	(\$0.12)	(\$0.18)	(\$0.03)	\$0.05	\$0.05	\$0.02	\$0.11	(\$0.03)	\$0.03	\$0.07	(\$0.03)	\$0.04	\$0.07	\$0.12	\$0.16	\$0.21	\$0.28	
Weighted average common shares ('000)	11,814	20,028	21,560	22,461	25,819	25,821	25,760	25,178	25,928	25,000	24,881	24,881	24,670	24,670	24,670	24,834	27,398	27,398	27,398	27,398	27,398	27,398	27,398	27,398	27,398	27,398	27,398	27,398
Fully diluted common shares ('000)	12,106	20,758	23,222	23,710	30,176	25,831	25,769	29,200	29,871	28,924	28,165	28,165	28,765	29,272	29,272	29,201	24,987	29,201	29,201	29,201	29,201	29,201	29,201	29,201	29,201	29,201	29,201	29,201
Margin Analysis																												
Gross margin	62%	77%	74%	64%	34%	50%	41%	60%	58%	57%	42%	54%	61%	63%	59%	60%	61%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	
% of SG&A in revenues	95%	66%	62%	84%	83%	39%	86%	61%	64%	61%	76%	66%	80%	40%	39%	48%	49%	67%	44%	37%	65%	52%	48%	45%	42%	40%	37%	
% of R&D in revenues	11%	4%	5%	4%	6%	6%	6%	5%	4%	6%	7%	5%	7%	5%	4%	5%	5%	5%	5%	4%	4%	4%	4%	4%	4%	4%		
Net profit margin	-46%	7%	6%	-27%	-58%	2%	-51%	-6%	-10%	-8%	-4%	-17%	-18%	17%	16%	7%	9%	-12%	10%	19%	-10%	3%	5%	8%	10%	12%	14%	

Source: Covalon filings & RCC estimates

**Covalon Cash Flow Statement & Select Balance Sheet Items**

COV Cash Flow (CF) (CS, '000)	2016A	2017A	2018A	2019A	2020A	2021A	2022A	Q1/23A	Q2/23A	Q3/23A	Q4/23A	2023A	Q1/24A	Q2/24A	Q3/24A	Q4/24A	2024A	Q1/25E	Q2/25E	Q3/25E	Q4/25E	2025E	2026E	2027E	2028E	2029E	2030E	
								Dec-31	Mar-31	Jun-30	Sep-30		Dec-31	Mar-31	Jun-30	Sep-30		Dec-31	Mar-31	Jun-30	Sep-30							
<b>Operating activities</b>																												
Net income (loss)	(\$3,095)	\$1,812	\$1,618	(\$9,138)	(\$7,823)	\$419	(\$9,254)	(\$381)	(\$698)	(\$502)	(\$2,880)	(\$4,461)	(\$852)	\$1,460	\$1,448	\$613	\$2,670	(\$772)	\$910	\$1,988	(\$1,000)	\$1,125	\$2,139	\$3,479	\$4,676	\$6,218	\$8,040	
Adjustments for non-cash items:																												
Depreciation and amortization	\$234	\$269	\$356	\$630	\$518	\$459	\$790	\$191	\$172	\$211	\$188	\$761	\$184	\$187	\$182	\$191	\$744	\$180	\$180	\$180	\$180	\$720	\$750	\$765	\$780	\$796	\$812	
Depreciation of right of use assets	\$0	\$0	\$0	\$0	\$239	\$241	\$242	\$59	\$61	\$60	\$27	\$208	\$57	\$60	\$64	\$61	\$242	\$60	\$60	\$60	\$60	\$240	\$252	\$265	\$278	\$292	\$306	
Share-based payment	\$244	\$623	\$1,253	\$1,717	\$714	\$164	\$211	\$156	\$173	\$108	\$122	\$559	\$116	\$81	\$150	\$58	\$406	\$150	\$150	\$150	\$150	\$600	\$612	\$624	\$637	\$649	\$662	
Impairment of intangible assets	\$108	\$0	\$63	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$74	\$102	\$1	(\$2)	\$175	\$60	\$60	\$60	\$60	\$240	\$245	\$250	\$255	\$260	\$265	
Loss on disposal of PPE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$85	(\$5)	\$80	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Accrued interest income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$15)	(\$6)	\$2	(\$19)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Interest expense and accretion	\$0	\$0	\$0	\$889	\$425	\$419	\$114	\$30	\$13	(\$27)	\$69	\$85	\$26	\$3	\$15	\$12	\$56	\$20	\$20	\$20	\$20	\$80	\$80	\$80	\$80	\$80	\$80	
Others	\$190	\$6	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$610)	\$0	\$0	(\$8)	(\$618)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Change in working capital	\$1,297	(\$2,695)	(\$3,894)	\$3,076	(\$75)	(\$1,081)	(\$88)	(\$463)	(\$1,774)	(\$448)	\$2,367	(\$318)	\$1,100	(\$2,885)	\$299	\$1,203	(\$283)	(\$500)	(\$500)	(\$500)	(\$500)	(\$2,000)	(\$1,500)	(\$1,500)	(\$1,500)	(\$1,500)	(\$1,500)	
Net CF from operating activities	(\$1,026)	\$15	(\$660)	(\$2,225)	(\$6,001)	\$621	(\$7,994)	(\$407)	(\$2,068)	(\$660)	(\$105)	(\$3,180)	(\$95)	(\$891)	\$2,246	\$2,123	\$3,473	(\$802)	\$880	\$1,958	(\$1,030)	\$1,065	\$2,578	\$3,962	\$5,236	\$6,795	\$8,666	
<b>Investing activities</b>																												
Purchase of PPE	(\$102)	(\$300)	(\$729)	(\$1,264)	(\$206)	(\$176)	(\$690)	(\$128)	(\$187)	(\$154)	(\$52)	(\$495)	(\$74)	(\$111)	(\$88)	(\$17)	(\$291)	(\$150)	(\$150)	(\$150)	(\$150)	(\$600)	(\$600)	(\$612)	(\$624)	(\$637)	(\$649)	
Purchase of intangible assets	(\$150)	(\$50)	(\$14)	(\$20)	\$0	(\$2)	(\$482)	(\$144)	(\$142)	(\$346)	(\$189)	(\$822)	(\$18)	(\$65)	(\$34)	(\$10)	(\$126)	(\$100)	(\$100)	(\$100)	(\$100)	(\$400)	(\$408)	(\$416)	(\$424)	(\$433)	(\$442)	
Others	\$591	\$10	(\$0)	(\$5,812)	\$1	(\$101)	\$739	(\$135)	\$0	\$3	(\$3)	(\$135)	\$3	(\$3)	(\$1)	\$17	\$135	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Net cash from investing activities	\$339	(\$350)	(\$740)	(\$5,096)	(\$205)	(\$279)	(\$843)	(\$408)	(\$329)	(\$498)	(\$218)	(\$1,452)	(\$90)	(\$179)	(\$123)	\$111	(\$282)	(\$250)	(\$250)	(\$250)	(\$250)	(\$1,000)	(\$1,008)	(\$1,028)	(\$1,049)	(\$1,070)	(\$1,091)	
<b>Financing activities</b>																												
Interest paid	\$0	\$0	\$0	(\$410)	(\$343)	(\$293)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Proceeds from debt, net of repayment	\$0	\$0	\$1,521	\$6,884	(\$795)	(\$7,661)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Share issuance and repurchase	\$894	\$3,191	\$0	\$5,500	\$0	\$0	(\$1,727)	(\$520)	(\$533)	(\$419)	\$0	(\$1,472)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Exercise of options and warrants	\$0	\$0	\$897	\$2,005	\$0	\$7	\$126	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5,457	\$5,457	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Finance lease receivable	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$29	\$62	(\$29)	\$152	\$214	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Payment of lease liabilities	\$0	\$0	\$0	\$0	\$0	(\$375)	(\$306)	(\$585)	(\$170)	(\$170)	(\$172)	(\$684)	(\$179)	(\$166)	(\$177)	(\$177)	(\$699)	(\$170)	(\$170)	(\$170)	(\$170)	(\$680)	(\$1,000)	(\$1,020)	(\$1,040)	(\$1,061)	(\$1,082)	
Others	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net cash from financing activities	\$894	\$3,191	\$2,419	\$13,080	(\$1,413)	(\$8,252)	(\$2,186)	(\$690)	(\$703)	(\$591)	(\$172)	(\$2,156)	(\$150)	(\$105)	(\$206)	\$5,433	\$4,972	(\$170)	(\$170)	(\$170)	(\$170)	(\$680)	(\$1,000)	(\$1,020)	(\$1,040)	(\$1,061)	(\$1,082)	
<b>Free cash</b>																												
CF changes from discontinued operations	(\$57)	(\$154)	\$252	\$33	\$80	\$1,449	\$135	(\$196)	\$115	\$99	\$154	(\$358)	\$243	\$230	(\$326)	(\$211)	\$100	\$100	\$100	\$100	\$400	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net CF changes in the period	\$150	\$2,701	\$1,327	\$4,092	(\$7,540)	(\$7,177)	(\$8,885)	\$1	(\$3,296)	(\$1,577)	(\$895)	(\$5,267)	(\$502)	(\$1,033)	\$2,147	\$7,340	\$7,952	(\$1,122)	\$560	\$1,638	(\$1,350)	(\$275)	\$570	\$1,914	\$3,117	\$4,664	\$6,492	
CFPS (US\$, '000)	\$0.01	\$0.13	\$0.06	\$0.18	(\$0.29)	(\$0.28)	(\$0.34)	\$0.00	(\$0.13)	(\$0.06)	(\$0.02)	(\$0.21)	(\$0.02)	(\$0.04)	\$0.09	\$0.27	\$0.32	(\$0.04)	\$0.02	\$0.06	(\$0.05)	(\$0.01)	\$0.02	\$0.07	\$0.11	\$0.17	\$0.24	
<b>COV Selected Balance Sheet (CS, '000)</b>																												
Cash and equivalents	\$1,454	\$4,156	\$5,483	\$9,575	\$3,507	\$22,947	\$14,062	\$14,063	\$10,767	\$9,190	\$8,795	\$8,795	\$8,292	\$7,260	\$9,407	\$16,747	\$16,747	\$15,625	\$16,184	\$17,823	\$16,472	\$16,472	\$17,042	\$18,956	\$22,073	\$26,737	\$33,229	
Debt (incl. credit facility)	\$0	\$0	\$1,527	\$18,097	\$17,723	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total shareholders' equity	\$3,808	\$8,081	\$11,125	\$14,930	\$9,107	\$33,375	\$24,229	\$23,467	\$22,163	\$21,114	\$18,799	\$18,799	\$17,670	\$19,768	\$21,674	\$27,805	\$27,805	\$26,732	\$27,642	\$29,630	\$28,638	\$28,638	\$30,769	\$34,248	\$45,142	\$53,182		
Debt as % of Total equity	0%	0%	12%	121%	195%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Book Value/Share	\$0.32	\$0.45	\$0.61	\$0.66	\$0.35	\$1.29	\$0.94	\$0.93	\$0.85	\$0.84	\$0.76	\$0.76	\$0.72	\$0.80	\$0.88	\$1.00	\$1.00	\$0.98	\$1.01	\$1.08	\$1.04	\$1.04	\$1.12	\$1.25	\$1.42	\$1.65	\$1.94	
ROE	NMF	20%	12%	NMF	NMF	1%	NMF	NMF	NMF	NMF	NMF	NMF	NMF	7%	7%	2%	10%	NMF	3%	7%	NMF	4%	7%	10%	12%	14%	15%	

Source: Covalon filings & RCC estimates

## Company Description:

Covalon Technologies Ltd. (“Covalon”) is a medical device company headquartered in Mississauga, Ontario, that specializes in development and manufacturing of wound care, vascular access, and peri-operative products. Covalon currently markets its portfolio of medical devices in the US, Canada, the Middle East, and Latin America.

## Risks:

### Valuation:

We are maintaining our BUY rating of COV and a 12-month target price of C\$4.40. Our valuation is based on applying the median 2024 EV/Sales Multiple of 3.3x for global wound care and dressing companies. This 3.3x multiple is applied to COV's 2024 sales. We view Covalon as a GARP (growth at a reasonable price) stock, its multiple should expand as the company grows its sales.

Covalon and our estimates for the company are subject to a number of risks, including:

- **Foreign Exchange Rates:** Covalon operates internationally across multiple countries and regions, primarily the US. Fluctuations to the exchange rates between Canadian dollars and other currencies may significantly impact financial results.
- **Competition:** Covalon directly competes against companies of much larger size and scale, including 3M (US\$75B Market Cap) and Medline. Competitors enjoy multiple advantages, such as more established distribution networks and greater financial & non-financial resources -competitive risks may erode Covalon’s sales
- **Intellectual Property Protection & Infringement:** The extent to which discoveries and related products and processes can be effectively protected by patents and be enforceable is uncertain and subject to interpretation of the courts. Also, Covalon relies on multiple trade-secrets and proprietary know-how for the manufacturing of its products where patents are difficult to obtain. If competitors obtain such information, Covalon’s business could be materially impaired.
- **Manufacturing Risk:** Covalon utilizes an in-house manufacturing facility and contract manufacturers. Failure by the company or its manufacturing partners to meet the regulatory agency’s standards with manufacturing would have a negative impact on the company and our forecasts. Additionally, Covalon relies on a sole supplier of raw materials. Any interruptions in the supply of raw materials would negatively impact Covalon’s business and our forecasts.
- **Ownership Concentration:** Two biggest shareholders own more than 40% of Covalon’s outstanding shares. They may be able to exert a significant degree of influence over Covalon’s management and affairs and over matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. The concentration of ownership may facilitate or delay or prevent a change in control of Covalon and might affect the market price of shares.
- **Regulatory Risk:** Regulatory agencies, eg. the FDA, may require additional regulatory clearance on modification of marketed products. Any failure or delay in obtaining market approval may negatively impact Covalon’s business and our forecasts.
- **Dependence on Recurring Customers:** A significant portion of Covalon’s revenue is from a limited number of large customers with sizable recurring orders. If one or more of such customers were to cease to do business with Covalon, it would negatively affect Covalon’s business.
- **Litigation Risk:** As a medical device company, Covalon may become, in the ordinary course of business, a party to litigation, for a myriad of potential reasons.
- **Share Price Volatility:** Commercial stage wound care companies can experience large share price moves, particularly if earnings miss expectations, a product or products fail, regulatory issues occur and/or litigation happens. Covalon could also have larger share price swings due to its concentrated ownership of the company and due to its lack of liquidity.
- **Potential for Inaccurate Financial Projections Could Impact Our Valuation:** Covalon does not provide any financial guidance, there is risk that all of our financial estimates are inaccurate, which would also affect our valuation assumptions.

## Important Disclosures

### Analyst Certification

I, Andre Uddin, Ph.D., certify the views expressed in this report were formed by my review of relevant company data and industry investigation, and accurately reflect my opinion about the investment merits of the securities mentioned in the report. I also certify that my compensation is not related to specific recommendations or views expressed in this report. Research Capital Corporation publishes research and investment recommendations for the use of its clients. Information regarding our categories of recommendations, quarterly summaries of the percentage of our recommendations which fall into each category and our policies regarding the release of our research reports is available at [www.researchcapital.com](http://www.researchcapital.com) or may be requested by contacting the analyst. Each analyst of Research Capital Corporation whose name appears in this report hereby certifies that (i) the recommendations and opinions expressed in this research report accurately reflect the analyst's personal views and (ii) no part of the research analyst's compensation was or will be directly or indirectly related to the specific conclusions or recommendations expressed in this research report.

Andre Uddin, Ph.D. has visited Covalon Technologies Ltd. in the past 18 months.

### Relevant Disclosures Applicable to Companies Under Coverage

Relevant disclosures required under IROC Rule 3400 applicable to companies under coverage discussed in this research report are available on our website at [www.researchcapital.ca](http://www.researchcapital.ca)

### General Disclosures

The opinions, estimates and projections contained in all Research Reports published by Research Capital Corporation ("RCC") are those of RCC as of the date of publication and are subject to change without notice. RCC makes every effort to ensure that the contents have been compiled or derived from sources believed to be reliable and that contain information and opinions that are accurate and complete; RCC makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions which may be contained therein and accepts no liability whatsoever for any loss arising from any use of or reliance on its Research Reports or its contents. Information may be available to RCC that is not contained therein. Research Reports disseminated by RCC are not a solicitation to buy or sell. All securities not available in all jurisdictions.

### Distribution Policy

Through [www.researchcapital.com](http://www.researchcapital.com), our institutional and corporate clients can access our research as soon as it becomes available, 24-7. New reports are continually uploaded to the site as they become available throughout the day. Clients may also receive our research via Reuters, Bloomberg, FactSet, and Capital IQ. All of our research is made widely available at the same time to all Research Capital client groups entitled to our research. In addition, research reports are sent directly to our clients based on their delivery preference (mail, fax, e-mail).

### Fair Dissemination of Research Reports and Ratings

To the extent reasonably practicable, Research Reports will be disseminated contemporaneously to all of Research Capital Corporation ("RCC") customers who are entitled to receive the firm's research. Until such time, Research Analysts will not discuss the contents of their reports with Sales and Trading or Investment Banking employees. RCC equity research is posted to our proprietary website to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Please contact your investment advisor for more information regarding RCC research.

### Percentage Distribution of Research Ratings

As required by the Investment Industry Regulatory Organization of Canada, Research Capital provides a summary of the percentage of its recommendations that fall into each category of our ratings. Please click this link [Our Research - Research Capital Corporation](#) to see our distribution of ratings.

### Potential Conflicts of Interest

All Research Capital Corporation ("RCC") Analysts are compensated based in part on the overall revenues of RCC, a portion of which are generated by investment banking activities. RCC may have had, or seek to have, an investment banking relationship with companies mentioned in this report. RCC and/or its officers, directors and employees may from time to time acquire, hold or sell securities mentioned in our Research Reports as principal or agent. RCC makes every effort possible to avoid conflicts of interest, however readers should assume that a conflict might exist, and therefore not rely solely on this report when evaluating whether or not to buy or sell the securities of subject companies.

---

## RC USA INC.

Information about Research Capital Corporation's Rating System, the distribution of our research to clients and the percentage of recommendations which are in each of our rating categories is available on our website at [www.researchcapital.com](http://www.researchcapital.com).

The information contained in this report has been drawn from sources believed to be reliable but its accuracy or completeness is not guaranteed, nor in providing it does Research Capital Corporation assume any responsibility or liability. Research Capital Corporation, its directors, officers and other employees may, from time to time, have positions in the securities mentioned herein. Contents of this report cannot be reproduced in whole or in part without the express permission of Research Capital Corporation. US Institutional Clients – Research Capital USA Inc., a wholly owned subsidiary of Research Capital Corporation, accepts responsibility for the contents of this report subject to the terms and limitations set out above. US firms or institutions receiving this report should effect transactions in securities discussed in the report through Research Capital USA Inc., a Broker – Dealer registered with the Financial Industry Regulatory Authority (FINRA).

Member – Canadian Investor Protection Fund / membre – fonds canadien de protection des épargnants