

November 20, 2020



# Sonoma Pharmaceuticals Reports Second Quarter FY 2021 Financial Results

- Revenues of \$5.8 and \$11.5 million increased by 22% for the quarter and 25% for the six months ended September 30, 2020 due to strong international growth
- Operating Expenses continue to trend down by 33% for second quarter 2021 versus second quarter 2020
- Net income per share of \$0.07 (diluted) from continuing operations for the quarter

WOODSTOCK, Ga.--(BUSINESS WIRE)-- Sonoma Pharmaceuticals, Inc. (Nasdaq: SNOA), a global healthcare leader developing and producing stabilized hypochlorous acid (HOCl) products for a wide range of applications, including wound care, eye care, nasal care, oral care and dermatological conditions today announced financial results for its second fiscal quarter and six months ended September 30, 2020. It further announced that it had to restate its first quarter financial statements for the quarter ended June 30, 2020 due to material errors.

“We are pleased that our second fiscal quarter results show continued progress towards our goal of building a sustainable company that can deliver both growth and profitability,” said Amy Trombly, CEO of Sonoma Pharmaceuticals. Ms. Trombly continued, “We continue to invest in growth opportunities by building our pipeline of products and working with our extensive network of distributors to commercialize them.”

Ms. Trombly continued, “we are disappointed that a first quarter restatement was necessary. At the time the first quarter 10-Q was prepared, we were transitioning offices and staff. The restructuring of our Finance Department is now complete and we have hired a permanent CFO, CPA-certified controller and additional accounting staff to replace the temporary staff. They have been working exceptionally hard in the past few weeks to correct our first quarter 10-Q and prepare our second quarter 10-Q. We expect to be back on track with accurate SEC reporting going forward.” During the review of Sonoma’s financial statements, our staff discovered material errors in the first quarter financial statements that led to a restatement of the quarter ended June 30, 2020. The combined errors led to a correction of net income from \$992,000 to \$240,000 and earnings per share of \$0.54 per share to \$0.13 per share.

## Business Highlights for the Second Fiscal Quarter

During the second fiscal quarter, Sonoma successfully completed the move from Petaluma, CA to Woodstock, GA. All manufacturing is now completed in Sonoma’s state-of-the-art facility in Zapopan, Mexico. Sonoma expects to see a continuing reduction in both overhead and cost of good sold as a result of this reorganization.

A joint study by the University of Hong Kong and Queen Mary Hospital using Dermodacyn®

Disinfecting solution, a medical grade solution manufactured by Sonoma and sold by Sonoma's partner MicroDerm Technologies Limited in Hong Kong, was published in the Journal of Hospital Infection. (Journal of Hospital Infection 106 (2020) pages 226-231). The study showed that Dermodacyn® Disinfecting solution drastically reduced the viability of SARS-CoV-2 against other commonly-used laboratory and domestic disinfectants.

Sonoma's partner, MicroSafe Group DMCC, Dubai, received a "green" designation from "Good Environmental Choice Australia" (GECA) certifying Nanocyn® Disinfectant & Sanitizer as all natural. Sonoma manufactures Nanocyn using its proprietary HOCl technology.

Sonoma's international business continued to show strength as the company works with its global network of distribution partners to expand the number of products and territories where those products are offered. For example, Sonoma worked with its partner Te Arai BioFarma to launch two new products in Australia and New Zealand for nasal and oral care as previously disclosed on September 9, 2020.

Sonoma's operating results continue to improve quarter over quarter with an overall increase in revenue and reduction in operating costs. While the COVID-19 pandemic has provided a challenging global environment, Sonoma's diversity in product offerings and global markets served has proven to not only insulate Sonoma from regional downturns, but the Company's anti-viral and anti-bacterial products have seen increased demand in certain regions.

### **Results for the Second Quarter and Six Months Ended September 30, 2020**

Revenue of \$5,769,000 for the second quarter ended September 30, 2020, increased by \$1,042,000, or 22%, from \$4,727,000 for the same period last year. This increase was primarily the result of increases in revenue in Latin America and Europe and Rest of World of \$1,076,000 and \$191,000, respectively, offset by a decrease in revenue in the United States of \$225,000. Revenue of \$11,536,000 for the six months ended September 30, 2020, increased by \$2,315,000, or 25%, from \$9,221,000 for the same period last year. This increase was primarily the result of increases in revenue in Latin America of \$2,638,000 and Europe and Rest of World of \$768,000, respectively, offset by a decrease in revenue in the United States of \$1,091,000. The COVID-19 pandemic continues to impact our U.S. dermatology revenues. Further, during the six months ended September 30, 2020, animal care products increased slightly from the prior year. Acute products are down slightly in revenue from prior year during the six months ended September 30, 2020.

For the quarter ended September 30, 2020, Sonoma reported revenues of \$5,769,000 and cost of revenues of \$3,267,000, resulting in gross profit of \$2,502,000 or 43% of revenues, compared to a gross profit of \$2,175,000 or 46% of revenues, for the same period in the prior year. For the quarter ended September 30, 2020, gross margins decreased by 3% when compared to the same period last year as a result of the product mix sold. For the six months ended September 30, 2020, Sonoma reported revenues of \$11,536,000 and cost of revenues of \$6,779,000, resulting in gross profit of \$4,757,000, or 41% of revenues, compared to a gross profit of \$4,468,000 or 48% of revenues. For the six months ended September 30, 2020, gross margins decreased by 7% as a result of a larger share of low-margin Invekra sales compared to total sales. Sonoma expects profit margins to improve in the future as a result of the end of the contract with Invekra in October 2020 and moving U.S. manufacturing to the Mexican facility.

Total operating expenses during the second quarter of fiscal year 2020 were \$2,333,000, down \$1,129,000, or 33%, when compared to \$3,462,000 during the same period in the prior year. Total operating expenses during the six months ended September 30, 2020 of \$5,253,000 decreased by \$2,273,000, or 30%, compared to \$7,526,000 during the same period last year. The decrease in total operating expenses was primarily the result of a reduction in headcount and the closure of the Petaluma facility.

Net income from continuing operations for the quarter ended September 30, 2020, was \$151,000, compared to a net loss of \$(1,288,000) for the quarter ended September 30, 2019. EBITDAS income for the quarter ended September 30, 2020 of \$383,000, was up \$1,469,000, compared to an EBITDAS loss of \$(1,086,000), for the same period last year.

Net loss from continuing operations for the six months ended September 30, 2020, was \$(557,000), compared to a net loss of \$(614,000) for the same period in prior year. EBITDAS loss for the six months ended September 30, 2020 of \$(166,000), was up \$2,323,000, compared to an EBITDAS loss of \$(2,489,000) for the same period last year.

As of September 30, 2020, Sonoma had cash and cash equivalents of \$4,320,000. On May 1, 2020, Sonoma received loan proceeds in the amount of \$1,310,000 under the Paycheck Protection Program. Whether any amount will be forgiven has not been determined yet.

### **About Sonoma Pharmaceuticals, Inc.**

Sonoma Pharmaceuticals is a global healthcare leader for developing and producing stabilized hypochlorous acid (HOCl) products for a wide range of applications, including wound care, animal health care, eye care, nasal care, oral care and dermatological conditions. The company's products reduce infections, itch, pain, scarring and harmful inflammatory responses in a safe and effective manner. In-vitro and clinical studies of hypochlorous acid (HOCl) show it to have impressive antipruritic, antimicrobial, antiviral and anti-inflammatory properties. Sonoma's stabilized HOCl immediately relieves itch and pain, kills pathogens and breaks down biofilm, does not sting or irritate skin and oxygenates the cells in the area treated assisting the body in its natural healing process. The company's products are sold either directly or via partners in 53 countries worldwide and the company actively seeks new distribution partners. The company's principal office is in Woodstock, Georgia, with manufacturing operations in Latin America. European marketing and sales are headquartered in Roermond, Netherlands. More information can be found at [www.sonomapharma.com](http://www.sonomapharma.com). For partnership opportunities, please contact [businessdevelopment@sonomapharma.com](mailto:businessdevelopment@sonomapharma.com).

### **Forward-Looking Statements**

Except for historical information herein, matters set forth in this press release are forward-looking within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, including statements about the commercial and technology progress and future financial performance of Sonoma Pharmaceuticals, Inc. and its subsidiaries (the "company"). These forward-looking statements are identified by the use of words such as "continue," "reduce," "develop" and "expand," among others. Forward-looking statements in this press release are subject to certain risks and uncertainties inherent in the company's business that could cause actual results to vary, including such risks that regulatory clinical and guideline developments may change, scientific data may not be sufficient to meet

regulatory standards or receipt of required regulatory clearances or approvals, clinical results may not be replicated in actual patient settings, protection offered by the company's patents and patent applications may be challenged, invalidated or circumvented by its competitors, the available market for the company's products will not be as large as expected, the company's products will not be able to penetrate one or more targeted markets, revenues will not be sufficient to meet the company's cash needs, fund further development, as well as uncertainties relative to the COVID-19 pandemic and economic development, varying product formulations and a multitude of diverse regulatory and marketing requirements in different countries and municipalities, and other risks detailed from time to time in the company's filings with the Securities and Exchange Commission. The company disclaims any obligation to update these forward-looking statements, except as required by law.

Sonoma Pharmaceuticals™ is a trademark or registered trademark of Sonoma Pharmaceuticals, Inc. All other trademarks and service marks are the property of their respective owners.

**SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Balance Sheets**  
(In thousands, except share and per share amounts)  
(Unaudited)

	<b>September 30, 2020</b>	<b>March 31, 2020</b>
	(Unaudited)	<u>          </u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,320	\$ 3,691
Accounts receivable, net	5,279	4,062
Inventories, net	3,704	2,192
Prepaid expenses and other current assets	2,770	2,256
Current portion of deferred consideration, net of discount	194	182
Total current assets	<u>16,267</u>	<u>12,383</u>
Operating lease right-of-use assets	634	963
Property and equipment, net	370	365
Deferred consideration, net of discount, less current portion	770	786
Other assets	104	64
Total assets	<u><u>\$ 18,145</u></u>	<u><u>\$ 14,561</u></u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:		
Accounts payable	\$ 3,202	\$ 2,086
Accrued expenses and other current liabilities	932	1,774
Deferred revenue	150	228
Deferred revenue Invekra	48	45

Operating lease liabilities	188	251
Current portion of long-term debt	49	481
Total current liabilities	4,569	4,865
Operating lease liabilities-non-current	469	746
Long-term deferred revenue Invekra	235	245
Long-term debt	1,310	—
Total liabilities	6,583	5,856
Commitments and Contingencies		
Stockholders' Equity		
Convertible preferred stock, \$0.0001 par value; 714,286 shares authorized at September 30, 2020 and March 31, 2020, respectively, 0 and 1.55 shares issued and outstanding at September 30, 2020 and March 31, 2020, respectively	—	—
Common stock, \$0.0001 par value; 24,000,000 shares authorized at September 30, 2020 and March 31, 2020, 2,041,409 and 1,777,483 shares issued and outstanding at September 30, 2020 and March 31, 2020, respectively	2	2
Additional paid-in capital	188,701	186,559
Accumulated deficit	(171,886)	(172,246)
Accumulated other comprehensive loss	(5,255)	(5,610)
	11,562	8,705
	<u>\$ 18,145</u>	<u>\$ 14,561</u>

**SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Comprehensive Loss**

(In thousands, except per share amounts)  
(Unaudited)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Revenues	\$ 5,769	\$ 4,727	\$ 11,536	\$ 9,221
Cost of revenues	3,267	2,552	6,779	4,753
Gross profit	2,502	2,175	4,757	4,468
Operating expenses				
Research and development	(85)	270	391	608
Selling, general and administrative	2,418	3,192	4,862	6,918
Total operating expenses	2,333	3,462	5,253	7,526
Income (loss) from operations	169	(1,287)	(496)	(3,058)
Interest expense	(4)	(2)	(6)	(12)
Interest income	8	42	10	84
Other (expense) income, net	(77)	(41)	(197)	(100)
Gain on sale of assets	55	-	132	2,472

Income (loss) from continuing operations	151	(1,288)	(557)	(614)
Income (loss) from discontinued operations	(31)	85	917	126
Net income (loss)	<u>\$ 120</u>	<u>\$ (1,203)</u>	<u>\$ 360</u>	<u>\$ (488)</u>
Net income (loss) per share: basic				
Continuing operations	\$ 0.08	\$ (0.98)	\$ (0.29)	\$ (0.47)
Discontinued operations	(0.02)	0.06	0.48	0.10
	<u>\$ 0.06</u>	<u>\$ (0.92)</u>	<u>\$ 0.19</u>	<u>\$ (0.37)</u>
Net income (loss) per share: diluted				
Continuing operations	\$ 0.07	\$ (0.98)	\$ (0.26)	\$ (0.47)
Discontinued operations	(0.01)	0.06	0.43	0.10
	<u>\$ 0.06</u>	<u>\$ (0.92)</u>	<u>\$ 0.17</u>	<u>\$ (0.37)</u>
Weighted-average number of shares used in per common share calculations: basic	<u>2,008</u>	<u>1,317</u>	<u>1,924</u>	<u>1,317</u>
Weighted-average number of shares used in per common share calculations: diluted	<u>2,159</u>	<u>1,317</u>	<u>2,118</u>	<u>1,317</u>
Other comprehensive income (loss)				
Net income (loss)	\$ 120	\$ (1,203)	\$ 360	\$ (488)
Foreign currency translation adjustments	188	(163)	355	(96)
Comprehensive income (loss)	<u>\$ 308</u>	<u>\$ (1,366)</u>	<u>\$ 715</u>	<u>\$ (584)</u>

**SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES**  
**RECONCILIATION OF GAAP MEASURES TO NON-GAAP MEASURES**

(In thousands)

(Unaudited)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>(1) Loss from operations minus non-cash expenses EBITDAS loss:</b>				
GAAP income (loss) from operations as reported	\$ 169	\$ (1,287)	\$ (496)	\$ (3,058)
Non-cash adjustments:				
Stock-based compensation	160	133	223	425
Depreciation and amortization	<u>54</u>	<u>68</u>	<u>107</u>	<u>144</u>

Non-GAAP income (loss) from operations minus non-cash expenses EBITDAS income (loss)	\$	383	\$ (1,086)	\$ (166)	\$ (2,489)
<b>(2) Net loss minus non-cash expenses:</b>					
GAAP net income (loss) as reported	\$	120	(1,203)	360	(488)
Non-cash adjustments:					
Stock-based compensation		160	133	223	425
Depreciation and amortization		54	68	107	144
Non-GAAP net income (loss) minus non- cash expenses	\$	334	\$ (1,002)	\$ 690	\$ 81
<b>(3) Operating expenses minus non-cash expenses</b>					
GAAP operating expenses as reported	\$	2,333	3,462	5,253	7,526
Non-cash adjustments:					
Stock-based compensation		(160)	(133)	(223)	(425)
Depreciation and amortization		(54)	(68)	(107)	(144)
Non-GAAP operating expenses minus non- cash expenses	\$	2,119	\$ 3,261	\$ 4,923	\$ 6,957

(1) Loss from operations minus non-cash expenses (EBITDAS) is a non-GAAP financial measure. The Company defines operating loss minus non-cash expenses as GAAP reported operating loss minus operating depreciation and amortization, and operating stock-based compensation. The Company uses this measure for the purpose of modifying the operating loss to reflect direct cash related transactions during the measurement period.

(2) Net loss minus non-cash expenses is a non-GAAP financial measure. The Company defines net loss minus non-cash expenses as GAAP reported net loss minus depreciation and amortization, stock-based compensation, and non-cash foreign exchange transaction losses. The Company uses this measure for the purpose of modifying the net loss to reflect only those expenses to reflect direct cash transactions during the measurement period.

(3) Operating expenses minus non-cash expenses is a non-GAAP financial measure. The Company defines operating expenses minus non-cash expenses as GAAP reported operating expenses minus operating depreciation and amortization, and operating stock-based compensation. The Company uses this measure for the purpose of identifying total operating expenses involving cash transactions during the measurement period.

**SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES**  
**PRODUCT RELATED REVENUE SCHEDULES**

(In thousands)

(Unaudited)

The following table presents the Company's disaggregated product revenues by geographic region:

**Three Months Ended  
September 30,**

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>	<b>\$ Change</b>	<b>% Change</b>
United States	\$ 1,984	\$ 2,209	\$ (225)	(10)%
Latin America	2,024	948	1,076	114%
Europe and Rest of the World	1,761	1,570	191	12%
<b>Total</b>	<b>\$ 5,769</b>	<b>\$ 4,727</b>	<b>\$ 1,042</b>	<b>22%</b>

**Six Months Ended  
September 30,**

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>	<b>\$ Change</b>	<b>% Change</b>
United States	\$ 3,605	\$ 4,696	\$ (1,091)	(23)%
Latin America	4,350	1,712	2,638	154%
Europe and Rest of the World	3,581	2,813	768	27%
<b>Total</b>	<b>\$ 11,536</b>	<b>\$ 9,221</b>	<b>\$ 2,315</b>	<b>25%</b>

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