

July 14, 2021



# Sonoma Pharmaceuticals Reports Fiscal Year and Fourth Quarter 2021 Financial Results

- **Total Revenues Increase 4% Year over Year**
- **Strong International Growth with 34% Increase in Product Revenues Year over Year**
- **Increase in Net Loss by \$0.8 Million Year over Year due to \$3.6 Million in Gain on Sale of Assets Last Year**
- **EBITDAS Loss Declined by \$3.4 Million Year over Year**

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, oral and nasal care and dermatological conditions today announced financial results for fiscal year 2021 and the fourth quarter ended March 31, 2021.

“For the past 18 months we have been restructuring the Company to cut losses while positioning it for growth,” said Amy Trombly, CEO. “Last year we consolidated all manufacturing at our factory in Mexico (June), and ended our contract with Invektra that required us to sell product with low margin (October). This year, we entered into a partnership agreement with EMC Pharma, LLC for the sale and distribution of our prescription products in the U.S. allowing us to significantly cut our overhead expenses, including the direct sales force, while continuing to sell our high quality prescription products. Moving forward, we intend to identify additional distribution partners in the U.S. while continuing to bring our pipeline of established products to market and to build on the strength of our international business.”

## Business Highlights

On March 26, 2021, Sonoma entered into a new partnership with EMC Pharma, who gained exclusive rights in the U.S. to commercialize our prescription dermatology and prescription eye care products and non-exclusive rights to sell our wound care products into government channels. The initial term of the agreement is five years, it is renewable and subject to minimum purchases.

We continue to forge new partnerships and expand existing ones to increase our reach both in products sold and regions we sell into. Some recent examples are:

- In September 2020, along with our partner Te Arai Biofarma Ltd., we launched two new products in New Zealand, Nasocyn® Nasal Care and Oracyn® Oral Care.
- In December 2020, we partnered with Gabriel Science, LLC to sell our HOCl product, Endocyn®, into dental markets in the U.S.

- In January 2021, we received clearances in Thailand and began selling Dermodacyn® disinfectant in Hong Kong and Thailand through our partner VetSynova Co. Ltd.
- In May 2021, we first shipped wound care products to Egypt via Sonoma's partner in the Middle East, Microsafe Care.

Additionally, we continue to seek new regulatory clearances to expand potential markets we can sell our products into. For example, Sonoma secured the EU Article 95 biocidal registration in February 2021. As a follow-up, in March 2021 Sonoma was granted the PT2 disinfectant approval for Germany, France and Portugal. In addition, Sonoma has been granted PT3 approval for veterinary hygiene for its MicrocynAH product in Germany, France and Portugal.

### **Results for the Quarter Ended March 31, 2021**

Total revenue of \$2.2 million for the fourth quarter ended March 31, 2021, decreased by \$2.1 million, or 50%, from \$4.3 million for the same period last year. The primary reason for the decline was the \$1.6 million decline in United States sales driven by the decline of our dermatology business which we have now partnered with EMC Pharma, LLC and \$800,000 of revenue adjustments related to overestimation of revenue in the year ended March 31, 2020 that was determined using a look-back analysis. Another reason for the decline was the \$0.7 million decline in Latin America revenue as a result of the Invekra contract ending in October 2020. Pursuant to the Invekra contract, Sonoma manufactured for Invekra at low margins. Since the contract has ended, Sonoma has continued to manufacture for Invekra at reduced quantities but higher margins.

During the quarter ended March 31, 2021, Sonoma reported total revenues of \$2.2 million and cost of revenues of \$2.4 million resulting in total gross loss of \$0.2 million, or (9)% of total revenue, compared to a gross profit of \$1.4 million, or 33% of total revenue in the same period last year. Adjusted for the \$800,000 of revenue adjustments made to the dermatology business, the gross profit percentage for the quarter ended March 31, 2021 would be approximately 20%. The decline in gross margin is the result of product mix, associated with higher sales to Invekra at a lower margin and higher product sales to distributors versus sales through our direct sales force which tend to have higher net selling prices and thus higher margins. Although distributor sales typically have lower margins, they don't require the higher operating expenses associated with a dedicated sales force.

Total operating expenses during the fourth quarter of fiscal year 2021 were \$2.6 million, down \$2.0 million, or 49%, as compared to the same period in the prior year. This decrease in operating expenses was primarily due to lower employee costs resulting from a reduction in headcount and consolidation of manufacturing combined with a refocusing of the business activities resulting in cost-reductions across all divisions.

Net loss for the fourth quarter of fiscal 2021 was \$3.6 million, up by \$1.9 million, or 111%, compared to the same period last year. The increase in net loss was due primarily due to a gain on sale of assets to Microsafe of \$1.1 million in the fourth quarter of FY 2020 and to a lesser extent the writedowns of revenue in the fourth quarter of fiscal year 2021. EBITDAS loss for the fourth quarter of fiscal 2021 of \$2.7 million, was up by \$100,000, or 4%, compared to an EBITDAS loss of \$2.8 million for the same period last year.

As of March 31, 2021, Sonoma had cash and cash equivalents of \$4.2 million.

## **Results for the Year Ended March 31, 2021**

Total revenues for the year ended March 31, 2021 of \$18.6 million increased by \$0.6 million as compared to \$17.9 million for the year ended March 31, 2020. Product revenues for the year ended March 31, 2021 of \$18.5 million increased by \$0.7 million, or 4%, as compared to \$17.8 million for the year ended March 31, 2020. The product revenue consisted of a decrease in product revenue of \$2.6 million, or 32%, in the United States, an increase in product revenue of \$2.2 million, or 58%, in Latin America, and an increase of product revenue of \$1.0 million, or 17%, in Europe and Rest of World.

For the year ended March 31, 2021, Sonoma reported total revenues of \$18.6 million and total cost of revenues of \$12.0 million, resulting in total gross profit of \$6.6 million, or 35% of total revenues, compared to a gross profit of \$8.1 million, or 45% of total revenues, for the same period in the prior year. The gross profit percentage adjusted for the \$800,000 over estimation of prior year revenues would have been 37% for the year ended March 31, 2021. The decline in gross margin is the result of product mix, associated with higher sales to Invekra at a lower margin and higher product sales to distributors versus sales through our direct sales force which tend to have higher net selling prices and thus higher margins. Although distributor sales typically have lower margins they don't require the higher operating expenses associated with a dedicated sales force.

Total operating expenses during fiscal year 2021 were \$10 million, down \$5.5 million, or 35%, as compared to the same period in the prior year. This decrease in operating expenses was primarily due to lower employee costs resulting from a reduction in headcount and consolidation of manufacturing combined with a refocusing of the business activities resulting in cost-reductions across all divisions.

Net loss during fiscal year 2021 was \$3.9 million, up \$0.6 million, or 18%, compared to the same period last year. EBITDAS loss for fiscal year 2021 of \$2.9 million, was down \$3.3 million, or 53%, compared to an EBITDAS loss of \$6.2 million for the same period last year.

### **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 54 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**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share and per share amounts)

	<b>March 31</b>	
	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,220	\$ 3,691
Accounts receivable, net	2,806	3,973
Inventories	2,530	2,181
Prepaid expenses and other current assets	3,218	2,256
Current portion of deferred consideration, net of discount	209	182
Total current assets	12,983	12,383
Property and equipment, net	360	365
Operating lease, right of use assets	769	359
Deferred consideration, net of discount, less current portion	763	786
Non-current assets held for sale	-	704
Other assets	112	64
Total assets	\$ 14,987	\$ 14,561

## LIABILITIES AND STOCKHOLDERS' EQUITY

### Current liabilities:

Accounts payable	\$ 1,769	\$ 2,067
Accrued expenses and other current liabilities	1,154	1,774
Deferred revenue	267	228
Deferred revenue Invekra	52	45
Current portion of long-term debt	596	481
Operating lease liabilities	240	134
Total current liabilities	4,078	4,729
Long-term deferred revenue Invekra	229	245
Long-term debt, less current portion – PPP	1,310	–
Withholding tax payable	3,478	3,082
Liabilities associated with assets currently held for sale	-	646
Operating lease liabilities, less current portion	529	235
Total liabilities	\$ 9,624	\$ 8,937

### Commitments and Contingencies

### Stockholders' Equity

Convertible preferred stock, \$0.0001 par value; 714,286 shares authorized at March 31, 2021 and March 31, 2020, respectively, 0 and 1.55 shares issued and outstanding at March 31, 2021 and March 31, 2020, respectively	–	–
Common stock, \$0.0001 par value; 24,000,000 shares authorized at March 31, 2021 and March 31, 2020, respectively, 2,092,909 and 1,777,483 shares issued and outstanding at March 31, 2021 and March 31, 2020, respectively	2	2
Additional paid-in capital	189,217	186,559
Accumulated deficit	(178,277)	(175,327)
Accumulated other comprehensive loss	(4,579)	(5,610)
Total stockholders' equity	5,363	5,624
Total liabilities and stockholders' equity	\$ 14,987	\$ 14,561

## SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (In thousands, except per share amounts)

	Three Months Ended March 31,		Year Ended March 31,	
	(Unaudited)			
	2021	2020	2021	2020
Revenues	2,157	4,312	18,629	17,928
Cost of revenues	2,351	2,935	12,070	9,806
Gross profit (loss)	(194)	1,377	6,559	8,122

Operating expenses				
Research and development	130	483	555	1,339
Selling, general and administrative	2,490	4,120	9,453	14,173
Total operating expenses	<u>2,620</u>	<u>4,603</u>	<u>10,008</u>	<u>15,512</u>
Loss from operations	(2,814)	(3,226)	(3,449)	(7,390)
Interest expense	-	(3)	(12)	(16)
Interest income	2	8	16	50
Gain on sale of assets	-	1,100	137	3,572
Other income (expense)	93	399	(594)	240
Loss before income taxes	<u>(2,719)</u>	<u>(1,722)</u>	<u>(3,902)</u>	<u>(3,544)</u>
Income tax expense	(713)	(121)	(713)	(29)
Loss from continuing operations	<u><u>\$ (3,432)</u></u>	<u><u>\$ (1,843)</u></u>	<u><u>\$ (4,615)</u></u>	<u><u>\$ (3,573)</u></u>
Income (loss) from discontinued operations, net of tax	(228)	\$ 105	\$ 665	\$ 265
Net loss	\$ (3,660)	\$ (1,738)	\$ (3,950)	\$ (3,308)
Net loss per share: basic and diluted from continuing operations	\$ (1.64)	\$ (1.04)	\$ (2.31)	\$ (2.42)
Income (loss) per share from discontinued operations	<u>(0.11)</u>	<u>0.06</u>	<u>0.33</u>	<u>0.18</u>
Net loss per share: basic and diluted	<u><u>\$ (1.76)</u></u>	<u><u>\$ (0.98)</u></u>	<u><u>\$ (1.97)</u></u>	<u><u>\$ (2.24)</u></u>
Weighted-average number of shares used in per common share calculations:	<u>2,085</u>	<u>1,777</u>	<u>1,996</u>	<u>1,477</u>
Other comprehensive loss				
Net loss	\$ (3,660)	\$ (1,738)	\$ (3,950)	\$ (3,308)
Foreign currency translation adjustments	<u>(344)</u>	<u>(1,429)</u>	<u>1,031</u>	<u>(1,261)</u>
Comprehensive loss	<u><u>\$ (4,004)</u></u>	<u><u>\$ (3,167)</u></u>	<u><u>\$ (2,919)</u></u>	<u><u>\$ (4,569)</u></u>

**SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES**  
**RECONCILIATION OF GAAP MEASURES TO NON-GAAP MEASURES**  
(In thousands)  
(Unaudited)

	<b>Three Months</b>		<b>Year Ended</b>	
	<b>Ended</b>		<b>March 31,</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
<b>(1) Loss from operations minus non-cash expenses EBITDAS loss:</b>				
GAAP loss from operations as reported	\$ (2,814)	\$ (3,226)	\$ (3,449)	\$ (7,390)
Non-cash adjustments:				
Stock-based compensation	76	302	371	839

Depreciation and amortization	39	99	227	312
Non-GAAP loss from operations minus non-cash expenses EBITDAS loss	<u>\$ (2,699)</u>	<u>\$ (2,825)</u>	<u>\$ (2,851)</u>	<u>\$ (6,239)</u>
<b>(2) Net loss minus non-cash expenses:</b>				
GAAP net (loss) income as reported	\$(3,660)	\$ (1,738)	\$ (3,950)	\$ (3,308)
Non-cash adjustments:				
Stock-based compensation	76	302	371	839
Depreciation and amortization	<u>39</u>	<u>99</u>	<u>227</u>	<u>312</u>
Non-GAAP net (loss) income minus non-cash expenses	<u>\$ (3,545)</u>	<u>\$ (1,337)</u>	<u>\$ (3,352)</u>	<u>\$ (2,157)</u>
<b>(3) Operating expenses minus non-cash expenses</b>				
GAAP operating expenses as reported	\$ 2,620	\$ 4,603	\$ 10,008	\$ 15,512
Non-cash adjustments:				
Stock-based compensation	(76)	(302)	(371)	(839)
Depreciation and amortization	<u>(39)</u>	<u>(99)</u>	<u>(227)</u>	<u>(312)</u>
Non-GAAP operating expenses minus non-cash expenses	<u>\$ 2,505</u>	<u>\$ 4,202</u>	<u>\$ 9,410</u>	<u>\$ 14,361</u>

- (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 shows the Company's revenues by geographic region:

	<b>Three Months Ended March 31,</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>2021</b>	<b>2020</b>		
United States	\$ (171)	\$ 1,416	\$ (1,587)	(112%)
Latin America	324	1,072	(748)	(70%)
Europe and Rest of the World	2,004	1,823	181	10%
<b>Total</b>	<b>\$ 2,157</b>	<b>\$ 4,311</b>	<b>\$ (2,154)</b>	<b>(50%)</b>

  

	<b>Year Ended March 31,</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>2021</b>	<b>2020</b>		
United States	\$ 5,419	\$ 7,991	\$ (2,572)	(32%)
Latin America	5,976	3,773	2,203	58%
Europe and Rest of the World	7,234	6,164	1,070	17%
<b>Total</b>	<b>\$ 18,629</b>	<b>\$ 17,928</b>	<b>\$ 701</b>	<b>4%</b>

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