

July 8, 2019



Sonoma Pharmaceuticals Reports Fiscal Year and Fourth Quarter 2019 Financial Results

Strong Annual Year-Over-Year Growth with 14% Revenue Growth

Strong Quarter-Over-Quarter Growth with 20% Revenue Growth and 25% Reduction in Expenses

Reduction in Annual Year-Over-Year Net Loss by 18%

PETALUMA, Calif., July 08, 2019 (GLOBE NEWSWIRE) -- Sonoma Pharmaceuticals, Inc. (Nasdaq: SNOA), a specialty pharmaceutical company dedicated to identifying, developing and commercializing unique, differentiated therapies to millions of patients living with chronic skin conditions, yesterday announced financial results for the fiscal year 2019 and the fourth quarter ended March 31, 2019.

“We are pleased with the results for the fourth quarter ended March 31, 2019 and the overall year-over-year revenue growth. We have significantly slowed our cash burn and continue to build a sustainable business,” said Bubba Sandford, CEO of Sonoma Pharmaceuticals. “Our track record in dermatology has improved substantially and our efforts to grow revenues while containing expenses resulted in one of our strongest quarters to date.”

Business Highlights

In December 2018, the Company hired Bubba Sandford as Chief Executive Officer and Interim Chief Financial Officer. During his first three months in office, Mr. Sandford identified and implemented significant cost-cutting measures, including right-sizing the administrative headcount. The Company is continuing to streamline and improve its production processes while remaining focused on revenue growth. As part of its growth strategy, in December 2018, the Company launched EpicynTM, a prescription facial cleanser which helps achieve clear skin and provide relief from irritation for patients with acute and chronic dermal lesions. In May 2019, the Company sold certain animal health product rights and assets for the Asian and European markets for \$2.7 million. In addition to providing capital, this transaction was part of the Company’s strategic decision to focus on its core business of U.S. dermatology.

Results for the Quarter Ended March 31, 2019

Total revenue of \$4.4 million for the fourth quarter ended March 31, 2019, increased by \$727,000, or 20%, from \$3.7 million for the same period last year. Product revenues of \$4.1 million for the fourth quarter ended March 31, 2019, were up by 26%, or \$837,000, when compared to \$3.3 million in the same period last year, largely as the result of an increase of \$200,000 in our dermatology revenue and an increase of \$500,000 in international revenue.

During the quarter ended March 31, 2019, Sonoma reported total revenues of \$4.4 million and cost of revenues of \$2.5 million resulting in total gross profit of \$1.9 million, or 43% of total revenue, compared to a gross profit of \$1.3 million, or 36% of total revenue in the same period last year. The increase in gross profit, as a percentage of revenue, was primarily due to strong growth in U.S. dermatology sales where profit margins are higher.

Total operating expenses during the fourth quarter of fiscal year 2019 were \$4.6 million, down \$1.5 million, or 25%, 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 combined with cost-cutting across all divisions.

Net loss for the fourth quarter of fiscal 2019 was \$3.2 million, down \$1.6 million, or 33%, compared to the same period last year. EBITDA loss for the fourth quarter of fiscal 2019 of \$2.3 million, was down \$1.4 million, or 38%, compared to an EBITDA loss of \$3.7 million for the same period last year.

As of March 31, 2019, Sonoma had cash and cash equivalents of \$3.7 million.

Results for the Year Ended March 31, 2019

Total revenues for the year ended March 31, 2019 of \$19.0 million increased by \$2.3 million, or 14%, as compared to \$16.7 million for the year ended March 31, 2018. Product revenues for the year ended March 31, 2019 of \$17.9 million increased by \$2.2 million, or 14%, as compared to \$15.7 million for the year ended March 31, 2018. This increase was primarily the result of growth in product revenue of \$668,000, or 8%, in the United States, growth in product revenue of \$955,000, or 32%, in Latin America, and growth of product revenue of \$595,000, or 14%, in Europe and Rest of World.

For the year ended March 31, 2019, Sonoma reported total revenues of \$19.0 million and total cost of revenues of \$10.1 million, resulting in total gross profit of \$8.9 million or 47% of total revenues, compared to a gross profit of \$7.3 million or 44% of total revenues, for the same period in the prior year.

Total operating expenses during fiscal year 2019 were \$20.1 million, down \$1.4 million, or 6%, 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 combined with cost-cutting across all divisions.

Net loss during fiscal 2019 was \$11.8 million, down \$2.5 million, or 18%, compared to the same period last year. EBITDA loss for fiscal 2019 of \$9.2 million, was down \$2.0 million, or 18%, compared to an EBITDA loss of \$11.2 million for the same period last year.

About Sonoma Pharmaceuticals, Inc.

Sonoma Pharmaceuticals is a specialty pharmaceutical company dedicated to identifying, developing and commercializing unique, differentiated therapies to millions of patients living with chronic skin conditions. Sonoma offers early-intervention relief with virtually no side-effects or contraindications. The company believes its products, which are sold throughout the United States and internationally, have improved patient outcomes for more than six million patients by treating and reducing certain skin diseases including acne, atopic dermatitis, scarring, infections, itch, pain and harmful inflammatory responses. Sonoma's

vision is to be a catalyst for improved care and increased access for all patients. The company's headquarters are in Petaluma, California, with manufacturing operations in the United States and Latin America. European marketing and sales are headquartered in Roermond, Netherlands. More information can be found at www.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,” 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 and clinical studies, as well as uncertainties relative to 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)

	March 31	
	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,689	\$ 10,066
Accounts receivable, net	3,481	1,537
Inventories	3,409	2,865
Prepaid expenses and other current assets	1,694	1,547
Current portion of deferred consideration, net of discount	223	239
Total current assets	12,496	16,254
Property and equipment, net	727	1,136
Deferred consideration, net of discount, less current portion	1,103	1,322

Other assets	122	494
Total assets	<u>\$ 14,448</u>	<u>\$ 19,206</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 1,255	\$ 1,272
Accrued expenses and other current liabilities	1,501	1,406
Deferred revenue	47	147
Deferred revenue Invekra	55	59
Current portion of long-term debt	322	230
Current portion of capital leases	141	147
Common stock liability	270	—
Total current liabilities	<u>3,591</u>	<u>3,261</u>
Long-term deferred revenue Invekra	356	443
Long-term debt, less current portion	12	32
Long-term capital leases, less current portion	—	144
Total liabilities	<u>3,959</u>	<u>3,880</u>

Commitments and Contingencies

Stockholders' Equity

Convertible preferred stock, \$0.0001 par value; 714,286 shares authorized at March 31, 2019 and March 31, 2018, respectively, 1.55 shares issued and outstanding at March 31, 2019 and no shares issued and outstanding at March 31, 2018

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Common stock, \$0.0001 par value; 24,000,000 and 12,000,000 shares authorized at March 31, 2019 and March 31, 2018, respectively, 1,316,335 and 685,747 shares issued and outstanding at March 31, 2019 and March 31, 2018, respectively

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Additional paid-in capital	184,074	176,740
Accumulated deficit	(169,238)	(157,440)
Accumulated other comprehensive loss	(4,349)	(3,975)
Total stockholders' equity	<u>10,489</u>	<u>15,326</u>
Total liabilities and stockholders' equity	<u>\$ 14,448</u>	<u>\$ 19,206</u>

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

	Three Months Ended		Year Ended	
	March 31,		March 31,	
	2019	2018	2019	2018
Revenues	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Product	\$ 4,106	\$ 3,269	\$ 17,881	\$ 15,663
Service	276	386	1,089	995
Total revenues	<u>4,382</u>	<u>3,655</u>	<u>18,970</u>	<u>16,658</u>
Cost of revenues				
Product	2,328	2,140	9,334	8,669
Service	179	183	756	679
Total cost of revenues	<u>2,507</u>	<u>2,323</u>	<u>10,090</u>	<u>9,348</u>
Gross profit	<u>1,875</u>	<u>1,332</u>	<u>8,880</u>	<u>7,310</u>
Operating expenses				
Research and development	327	476	1,518	1,575
Selling, general and administrative	4,252	5,605	18,620	19,924
Total operating expenses	<u>4,579</u>	<u>6,081</u>	<u>20,138</u>	<u>21,499</u>
Loss from operations	(2,704)	(4,749)	(11,258)	(14,189)
Interest expense	(7)	(9)	(33)	(40)
Interest income	51	173	190	258
Other income (expense), net	(104)	(178)	(239)	(307)
Loss before income taxes	(2,764)	(4,763)	(11,340)	(14,278)
Income tax expense	(458)	(50)	(458)	(50)
Net loss	<u>\$ (3,222)</u>	<u>\$ (4,813)</u>	<u>\$ (11,798)</u>	<u>\$ (14,328)</u>
Net loss per share: basic and diluted	\$ (2.45)	\$ (8.45)	\$ (12.77)	\$ (28.49)
Weighted-average number of shares used in per share calculations: basic and diluted	1,318	570	924	503
Other comprehensive loss				
Net loss	\$ (3,222)	\$ (4,813)	\$ (11,798)	\$ (14,328)
Foreign currency translation adjustments	69	425	(374)	203
Comprehensive loss	<u>\$ (3,153)</u>	<u>\$ (4,338)</u>	<u>\$ (12,172)</u>	<u>\$ (14,125)</u>

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

	Three Months Ended		Year Ended	
	March 31,		March 31,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
(1) Loss from operations minus non-cash expenses EBITDA loss:				
GAAP loss from operations as reported	\$ (2,704)	\$ (4,749)	\$ (11,258)	\$ (14,189)
Non-cash adjustments:				
Stock-based compensation	301	908	1,635	2,500

Depreciation and amortization	106	124	453	490
Non-GAAP loss from operations minus non-cash expenses EBITDA loss	\$ (2,297)	\$ (3,717)	\$ (9,170)	\$ (11,199)
(2) Net loss minus non-cash expenses:				
GAAP net (loss) income as reported	\$ (3,222)	\$ (4,763)	\$ (11,798)	\$ (14,328)
Non-cash adjustments:				
Stock-based compensation	301	908	1,635	2,500
Depreciation and amortization	106	124	453	490
Non-GAAP net (loss) income minus non-cash expenses	\$ (2,815)	\$ (3,731)	\$ 9,710	\$ 11,338
(3) Operating expenses minus non-cash expenses				
GAAP operating expenses as reported	\$ 4,579	\$ 6,081	\$ 20,138	\$ 21,499
Non-cash adjustments:				
Stock-based compensation	(300)	(875)	(1,545)	(2,331)
Depreciation and amortization	(52)	(57)	(221)	(211)
Non-GAAP operating expenses minus non-cash expenses	\$ 4,227	\$ 5,149	\$ 18,372	\$ 18,957

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

	Three Months Ended March 31,			
	2019	2018	\$ Change	% Change
United States	\$ 1,666	\$ 1,362	\$ 304	22%
Latin America	957	912	45	5%
Europe and Rest of the World	1,483	995	488	49%
Total	\$ 4,106	\$ 3,269	\$ 837	26%

	Year Ended March 31,			
	2019	2018	\$ Change	% Change
United States	\$ 9,040	\$ 8,372	\$ 668	8%
Latin America	3,962	3,007	955	32%
Europe and Rest of the World	4,879	4,284	595	14%
Total	\$ 17,881	\$ 15,663	\$ 2,218	14%

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Source: Sonoma Pharmaceuticals, Inc.