

August 13, 2019



Sonoma Pharmaceuticals Reports First Quarter FY 2020 Financial Results

Strong Quarter-Over-Quarter Performance

- **26% Increase in U.S. Product Revenue**
- **46% Increase in Dermatology Revenue**
- **23% Reduction in Operating Expenses**

PETALUMA, Calif., Aug. 13, 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, today announced financial results for the first quarter ended June 30, 2019.

“We are pleased with the strong growth for the first quarter ended June 30, 2019. We have significantly slowed our cash burn and continue to build a sustainable business,” said Bubba Sandford, CEO of Sonoma Pharmaceuticals. “Our performance in dermatology has improved substantially, resulting in gross margins of 50% of total revenues compared to 40% a year ago, and our efforts to grow revenues while containing expenses resulted in one of our strongest quarters to date. While our quarterly results were impacted by one-time sale of our animal rights in Asia, revenue growth in our core U.S. dermatology business year-over-year out-paced our total revenue growth.”

Results for the Quarter Ended June 30, 2019

Total revenue of \$4.7 million for the first quarter ended June 30, 2019, increased by \$342,000, or 8%, from \$4.4 million for the same period last year. Product revenues of \$4.4 million for the first quarter ended June 30, 2019, were up by 7%, or \$290,000, when compared to \$4.1 million in the same period last year. This increase was primarily the result of growth in product revenue of \$516,000, or 26%, in the United States, and growth of product revenue of \$199,000, or 19%, in Europe and Rest of World offset by a decrease of \$425,000, or 39% in Latin America primarily due to timing of orders from our customer in Mexico.

Product revenues in the United States for the quarter ended June 30, 2019 of \$2,487,000 increased by \$516,000, or 26%, as compared to \$1,971,000 for the quarter ended June 30, 2018. This increase was primarily the result of an increase of \$551,000, or 46%, in sales of dermatology products, and an increase of \$74,000, or 19%, in sales of acute care products offset by a decrease of \$125,000 in sales of animal health care products.

During the quarter ended June 30, 2019, Sonoma reported total revenues of \$4.7 million and cost of revenues of \$2.3 million resulting in total gross profit of \$2.4 million, or 50% of total revenue, compared to a gross profit of \$1.7 million, or 40% of total revenue in the same period last year. The improved gross margins are primarily the result of an increase in

dermatology revenues combined with cost savings in the U.S.

Total operating expenses during the first quarter of fiscal year 2020 were \$4.1 million, down \$1.2 million, or 23%, 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 income for the first quarter of fiscal 2020 was \$715,000, up \$4.2 million, or 121%, compared net loss of \$3.5 million for the same period last year. The increase in net income is primarily due to a decrease in operating loss of \$1,820,000 due to an increase in sales and a decrease in operating expenses of \$1.2 million. Additionally, for the quarter ended June 30, 2019, Sonoma reported income related to the sale of certain assets to Petagon in the amount of \$2,472,000.

As of June 30, 2019, Sonoma had cash and cash equivalents of \$4.3 million compared to \$3.7 million at March 31, 2019. The operating loss minus non-cash expenses (EBITDA) was \$1.4 million for the quarter ended June 30, 2019, compared to \$3.1 million for the quarter ended June 30, 2018.

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," "build," 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
Condensed Consolidated Balance Sheets
(In thousands, except share amounts)

	June 30, 2019	March 31, 2019
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,284	\$ 3,689
Accounts receivable, net	4,315	3,481
Inventories	3,368	3,409
Prepaid expenses and other current assets	1,641	1,694
Current portion of deferred consideration, net of discount	226	223
Total current assets	13,834	12,496
Operating lease right-of-use assets	1,316	–
Property and equipment, net	564	727
Deferred consideration, net of discount, less current portion	1,081	1,103
Other assets	123	122
Total assets	\$ 16,918	\$ 14,448
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,518	\$ 1,255
Accrued expenses and other current liabilities	1,414	1,501
Deferred revenue	228	47
Deferred revenue Invekra	56	55
Operating lease liabilities	438	–
Current portion of long-term debt	211	322
Current portion of capital leases	–	141
Common stock liability	270	270
Total current liabilities	4,135	3,591
Operating lease liabilities-non-current	933	–
Long-term deferred revenue Invekra	346	356

Long-term debt, less current portion	—	12
Total liabilities	<u>5,414</u>	<u>3,959</u>
Commitments and Contingencies		
Stockholders' Equity		
Convertible preferred stock, \$0.0001 par value; 714,286 shares authorized at June 30, 2019 and March 31, 2019, respectively, 1.55 shares issued and outstanding at June 30, 2019 and March 31, 2019	—	—
Common stock, \$0.0001 par value; 24,000,000 shares authorized at June 30, 2019 and March 31, 2019, 1,317,170 and 1,316,335 shares issued and outstanding at June 30, 2019 and March 31, 2019, respectively	2	2
Additional paid-in capital	184,366	184,074
Accumulated deficit	(168,582)	(169,238)
Accumulated other comprehensive loss	<u>(4,282)</u>	<u>(4,349)</u>
Total stockholders' equity	<u>11,504</u>	<u>10,489</u>
Total liabilities and stockholders' equity	<u>\$ 16,918</u>	<u>\$ 14,448</u>

SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Loss)
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,	
	<u>2019</u>	<u>2018</u>
Revenues		
Product	\$ 4,385	\$ 4,095
Service	326	274
Total revenues	<u>4,711</u>	<u>4,369</u>
Cost of revenues		
Product	2,202	2,424
Service	142	214
Total cost of revenues	<u>2,344</u>	<u>2,638</u>
Gross profit	<u>2,367</u>	<u>1,731</u>
Operating expenses		
Research and development	338	350
Selling, general and administrative	3,759	4,933
Total operating expenses	<u>4,097</u>	<u>5,283</u>
Loss from operations	<u>(1,730)</u>	<u>(3,552)</u>
Interest expense	(10)	(12)
Interest income	42	55

Other (expense) income, net	(59)	51
Gain on sale of assets	2,472	—
Net income (loss)	715	(3,458)
Net income (loss) per share: basic	\$ 0.54	\$ (4.99)
Net income (loss) per share: diluted	\$ 0.54	\$ (4.99)
Weighted-average number of shares used in per common share calculations: basic	1,316	693
Weighted-average number of shares used in per common share calculations: diluted	1,336	693
Other comprehensive income (loss)		
Net income (loss)	\$ 715	\$ (3,458)
Foreign currency translation adjustments	67	(502)
Comprehensive income (loss)	\$ 782	\$ (3,960)

SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES
Reconciliation of GAAP Measures To Non-GAAP Measures

(In thousands)
(Unaudited)

	Three Months Ended June 30,	
	2019	2018
(1) Loss from operations minus non-cash expenses (EBITDA):		
GAAP loss from operations as reported	\$ (1,730)	\$ (3,552)
Non-cash adjustments:		
Stock-based compensation	292	347
Depreciation and amortization	76	121
Non-GAAP loss from operations minus non-cash expenses (EBITDA)	\$ (1,362)	\$ (3,084)
(2) Net income (loss) minus non-cash expenses:		
GAAP net loss as reported	\$ 715	\$ (3,458)
Non-cash adjustments:		
Stock-based compensation	292	347
Depreciation and amortization	76	121
Non-GAAP net income (loss) minus non-cash expenses	\$ 1,083	\$ (2,990)
(3) Operating expenses minus non-cash expenses		
GAAP operating expenses as reported	\$ 4,097	\$ 5,283
Non-cash adjustments:		
Stock-based compensation	(275)	(312)
Depreciation and amortization	(22)	(56)
Non-GAAP operating expenses minus non-cash expenses	\$ 3,800	\$ 4,915

- (1) Loss from operations minus non-cash expenses (EBITDA) 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.

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