

November 14, 2019



# Sonoma Pharmaceuticals Reports Second Quarter FY 2020 Financial Results

- **Quarterly and YTD Reduction in Net Loss Compared to Prior Year**

PETALUMA, Calif., Nov. 14, 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 second quarter and six months ended September 30, 2019.

“During the quarter, we continued to direct our efforts to building a more sustainable company focused on areas of potential growth and the bottom line while reducing expenses by 31% and our net loss by 57%. As we look forward, we will continue to examine the best ways to build upon the changes we have made to date, while maintaining our objective on improving overall profitability of our business segments,” said Amy Trombly, Interim CEO of Sonoma Pharmaceuticals.

## **Results for the Quarter Ended September 30, 2019**

Total revenue of \$4,968,000 for the second quarter ended September 30, 2019, increased by \$29,000, or 1%, from \$4,939,000 for the same period last year. Product revenues of \$4,712,000 million for the second quarter ended September 30, 2019, were up by 2%, or \$77,000, when compared to \$4,635,000 in the same period last year. This increase was primarily the result of growth in product revenue of \$358,000, or 30%, in Europe and Rest of World, offset by a decrease of \$219,000, or 9% in the United States, and a decrease of product revenue of \$62,000, or 6%, in Latin America.

For the quarter ended September 30, 2019, Sonoma reported total revenues of \$4,968,000 and total cost of revenues of \$2,674,000, resulting in total gross profit of \$2,294,000 or 46% of total revenues, compared to a gross profit of \$2,427,000 or 49% of total revenues, for the same period in the prior year. Product revenues were \$4,712,000 and cost of product revenues were \$2,551,000, resulting in product gross profit of \$2,161,000, or 46% of product revenues, compared to product gross profit of \$2,322,000, or 50% of product revenues, for the same period in the prior year. The decrease in gross profit as a percentage of product revenues was primarily due to product mix in the current period.

Total operating expenses during the second quarter of fiscal year 2020 were \$3,496,000, down \$1,583,000, or 31%, as compared to the same period in the prior year. The decrease in total operating expenses was primarily the result of certain cost savings measures implemented during fiscal year 2019 including a reduction in headcount.

Net loss for the three months ended September 30, 2019 of \$1,203,000 decreased by \$1,617,000, or 57%, when compared to net loss of \$2,820,000 for the three months ended

September 30, 2018. The decrease in net loss is due to a decrease in operating loss of \$1,450,000 as a result a decrease in operating expenses of \$1,583,000 primarily due to certain cost savings measures implemented during the latter part of fiscal year 2019. EBITDA loss for the three months ended September 30, 2019 of \$1,001,000, was down \$949,000, or 49%, compared to an EBITDA loss of \$1,950,000 for the same period last year.

As of September 30, 2019, Sonoma had cash and cash equivalents of \$3,232,000.

### **Results for the Six Months Ended September 30, 2019**

Total revenues for the six months ended September 30, 2019 of \$9,679,000 increased by \$371,000, or 4%, as compared to \$9,308,000 for the six months ended September 30, 2018. Product revenues for the six months ended September 30, 2019 of \$9,097,000 increased by \$367,000, or 4%, as compared to \$8,730,000 for the six months ended September 30, 2018. This increase was primarily the result of growth in product revenue of \$557,000, or 25%, in Europe and the Rest of the World, an increase of product revenue of \$297,000, or 7%, in the United States and a decrease of product revenue of \$487,000 or 23% in Latin America.

For the six months ended September 30, 2019, Sonoma reported total revenues of \$9,679,000 and total cost of revenues of \$5,018,000, resulting in total gross profit of \$4,661,000 or 48% of total revenues, compared to a gross profit of \$4,158,000 or 45% of total revenues, for the same period in the prior year.

Net loss for the six months ended September 30, 2019 of \$488,000 decreased by \$5,790,000, when compared to net loss of \$6,278,000 for the six months ended September 30, 2018. The decrease in net loss is due to a decrease in operating loss of \$3,272,000 as a result of an increase in gross profit of \$503,000 and a decrease in operating expenses of \$2,769,000 primarily due to certain cost savings measures implemented during the latter part of fiscal year 2019. Additionally, for the six months ended September 30, 2019, Sonoma reported income related to the sale of certain assets to Petagon in the amount of \$2,472,000. EBITDA loss for the six months ended September 30, 2019 of \$2,363,000, was down \$2,671,000, or 53%, compared to an EBITDA loss of \$5,034,000 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](http://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**  
**Condensed Consolidated Balance Sheets**  
(In thousands, except share and per share amounts)  
(Unaudited)

|   | <b>September<br/>30,<br/>2019</b> | <b>March 31,<br/>2019</b> |
|---|-----------------------------------|---------------------------|
|   | <b>2019</b>                       | <b>2019</b>               |
| <b>ASSETS</b>   |                                   |                           |
| Current assets:   |                                   |                           |
| Cash and cash equivalents                                     | \$ 3,232                          | \$ 3,689                  |
| Accounts receivable, net                                      | 4,735                             | 3,481                     |
| Inventories   | 3,098                             | 3,409                     |
| Prepaid expenses and other current assets                     | 2,025                             | 1,694                     |
| Current portion of deferred consideration, net of discount    | 220                               | 223                       |
| Total current assets  | 13,310                            | 12,496                    |
| Operating lease right-of-use assets                           | 1,178                             | —                         |
| Property and equipment, net                                   | 526                               | 727                       |
| Deferred consideration, net of discount, less current portion | 1,018                             | 1,103                     |
| Other assets  | 113                               | 122                       |

|              |           |           |
|--------------|-----------|-----------|
| Total assets | \$ 16,145 | \$ 14,448 |
|--------------|-----------|-----------|

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:

|  |              |              |
|--|--------------|--------------|
| Accounts payable                               | \$ 2,292     | \$ 1,255     |
| Accrued expenses and other current liabilities | 1,374        | 1,501        |
| Deferred revenue                               | 228          | 47           |
| Deferred revenue Invekra                       | 54           | 55           |
| Operating lease liabilities                    | 362          | –            |
| Current portion of long-term debt              | 106          | 322          |
| Current portion of capital leases              | –            | 141          |
| Common Stock liability                         | 270          | 270          |
| Total current liabilities                      | <u>4,686</u> | <u>3,591</u> |

|   |              |              |
|---|--------------|--------------|
| Operating lease liabilities non-current | 865          | –            |
| Long-term deferred revenue Invekra      | 323          | 356          |
| Long-term debt, less current portion    | –            | 12           |
| Total liabilities                       | <u>5,874</u> | <u>3,959</u> |

Commitments and Contingencies

Stockholders' Equity

Convertible preferred stock, \$0.0001 par value; 714,286 shares authorized at September 30, 2019 and March 31, 2019 respectively; 1.55 shares issued and outstanding at September 30, 2019 and March 31, 2019 respectively

|   |   |
|---|---|
| – | – |
|---|---|

Common stock, \$0.0001 par value; 24,000,000 shares authorized at September 30, 2019 and March 31, 2019, respectively, 1,318,004 and 1,316,335 shares issued and outstanding at September 30, 2019 and March 31, 2019, respectively

|   |   |
|---|---|
| 2 | 2 |
|---|---|

|  |                  |                  |
|--|------------------|------------------|
| Additional paid-in capital                 | 184,499          | 184,074          |
| Accumulated deficit                        | (169,785)        | (169,238)        |
| Accumulated other comprehensive loss       | (4,445)          | (4,349)          |
| Total stockholders' equity                 | <u>10,271</u>    | <u>10,489</u>    |
| Total liabilities and stockholders' equity | <u>\$ 16,145</u> | <u>\$ 14,448</u> |

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

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

|          | <b>Three Months<br/>Ended<br/>September 30,</b> |             | <b>Six Months<br/>Ended<br/>September 30,</b> |             |
|----------|---|-------------|---|-------------|
|          | <b>2019</b>                                     | <b>2018</b> | <b>2019</b>                                   | <b>2018</b> |
| Revenues |   |             |   |             |
| Product  | \$ 4,712  | \$ 4,635    | \$ 9,097                                      | \$ 8,730    |
| Service  | 256   | 304         | 582   | 578         |

|  |                |                  |              |                  |
|--|----------------|------------------|--------------|------------------|
| Total revenues   | <u>4,968</u>   | <u>4,939</u>     | <u>9,679</u> | <u>9,308</u>     |
| Cost of revenues   |                |                  |              |                  |
| Product  | 2,551          | 2,313            | 4,753        | 4,737            |
| Service  | 123            | 199              | 265          | 413              |
| Total cost of revenues   | <u>2,674</u>   | <u>2,512</u>     | <u>5,018</u> | <u>5,150</u>     |
| Gross profit   | <u>2,294</u>   | <u>2,427</u>     | <u>4,661</u> | <u>4,158</u>     |
| Operating expenses   |                |                  |              |                  |
| Research and development   | 270            | 390              | 608          | 740              |
| Selling, general and administrative  | 3,226          | 4,689            | 6,985        | 9,622            |
| Total operating expenses   | <u>3,496</u>   | <u>5,079</u>     | <u>7,593</u> | <u>10,362</u>    |
| Loss from operations   | (1,202)        | (2,652)          | (2,932)      | (6,204)          |
| Interest expense   | (2)            | (7)              | (12)         | (19)             |
| Interest income  | 42             | 47               | 84           | 102              |
| Other expense  | (41)           | (208)            | (100)        | (157)            |
| Gain on sale of assets   | —              | —                | 2,472        | —                |
| Net loss   | <u>(1,203)</u> | <u>(2,820)</u>   | <u>(488)</u> | <u>(6,278)</u>   |
| Net loss per share: basic and diluted  | (0.91)         | \$ (3.93)        | (0.37)       | \$ (8.89)        |
| Weighted-average number of shares used in per common share calculations: basic and diluted | 1,317          | 718              | 1,317        | 706              |
| Other comprehensive loss   |                |                  |              |                  |
| Net loss   | (1,203)        | \$(2,820)        | (488)        | \$(6,278)        |
| Foreign currency translation adjustments   | (163)          | 350              | (96)         | (152)            |
| Comprehensive loss   | <u>(1,366)</u> | <u>\$(2,470)</u> | <u>(584)</u> | <u>\$(6,430)</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>2019</b>               | <b>2018</b>      | <b>2019</b>             | <b>2018</b>      |
| <b>(1) Loss from operations minus non-cash expenses</b>           |                           |                  |                         |                  |
| <b>EBITDA loss:</b>   |                           |                  |                         |                  |
| GAAP loss from operations as reported                             | \$(1,202)                 | \$(2,652)        | (2,932)                 | \$(6,204)        |
| Non-cash adjustments:   |                           |                  |                         |                  |
| Stock-based compensation  | 133                       | 585              | 425                     | 932              |
| Depreciation and amortization                                     | 68                        | 117              | 144                     | 238              |
| Non-GAAP loss from operations minus non-cash expenses EBITDA loss | <u>\$(1,001)</u>          | <u>\$(1,950)</u> | <u>(2,363)</u>          | <u>\$(5,034)</u> |
| <b>(2) Net loss minus non-cash expenses:</b>                      |                           |                  |                         |                  |
| GAAP net (loss) income as reported                                | \$(1,203)                 | \$(2,820)        | (488)                   | \$(6,278)        |

|  |            |            |     |            |
|--|------------|------------|-----|------------|
| Non-cash adjustments:                              |            |            |     |            |
| Stock-based compensation                           | 133        | 585        | 425 | 932        |
| Depreciation and amortization                      | 68         | 117        | 144 | 238        |
| Non-GAAP net (loss) income minus non-cash expenses | \$ (1,002) | \$ (2,118) | 81  | \$ (5,108) |

**(3) Operating expenses minus non-cash expenses**

|   |          |          |       |           |
|---|----------|----------|-------|-----------|
| GAAP operating expenses as reported                 | \$ 3,496 | \$ 5,079 | 7,593 | \$ 10,362 |
| Non-cash adjustments:                               |          |          |       |           |
| Stock-based compensation                            | (116)    | (555)    | (391) | (867)     |
|   | (11)     | (56)     | (33)  | (112)     |
| Depreciation and amortization                       |          |          |       |           |
| Non-GAAP operating expenses minus non-cash expenses | \$ 3,369 | \$ 4,468 | 7,169 | \$ 9,383  |

(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:

|   |   |
|---|---|
| <b>Three Months Ended<br/>September 30,</b> | <b>Six Months Ended<br/>September 30,</b> |
|---|---|

|                              | <b>2019</b>         | <b>2018</b>         | <b>2019</b>         | <b>2018</b>         |
|------------------------------|---------------------|---------------------|---------------------|---------------------|
| United States                | \$ 2,207,000        | \$ 2,426,000        | \$ 4,694,000        | \$ 4,397,000        |
| Latin America                | 935,000             | 997,000             | 1,589,000           | 2,076,000           |
| Europe and Rest of the World | 1,570,000           | 1,212,000           | 2,814,000           | 2,257,000           |
| <b>Total</b>                 | <b>\$ 4,712,000</b> | <b>\$ 4,635,000</b> | <b>\$ 9,097,000</b> | <b>\$ 8,730,000</b> |

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Source: Sonoma Pharmaceuticals, Inc.