

August 14, 2020



# Sonoma Pharmaceuticals Reports First Quarter 2021 Financial Results

- **Highest Quarterly Revenues in Company History**
- **Revenues of \$7.3 Million Grow by 65% Compared to Same Period Last Year Fueled by International Growth**
- **Reduction in Operating Expenses of \$1.3 Million Compared to Last Year**
- **Net Quarterly Income of \$1.0 million**

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 first fiscal quarter ended June 30, 2020.

“We’ve made significant changes to our business model and company structure, and we’re pleased to see these efforts bear fruit,” said Amy Trombly, CEO of Sonoma Pharmaceuticals. She continued, “we’ve expanded our business model to focus on new and existing U.S and international distribution partnerships expanding our reach around the world. Additionally, we’ve transitioned most of our California manufacturing to our existing factory in Mexico, and we closed our California offices on June 24, 2020. We’re beginning to see the cost savings from those actions. In addition to lowering our overhead, relocating our remaining manufacturing to Mexico allows us to offer both customers and partners competitive pricing and we believe this will fuel future growth.”

## Business Highlights

The COVID-19 pandemic continues to influence the Company in positive and negative ways. The pandemic led to increased worldwide demand for virucidal and disinfectant technology, areas where Microcyn™ technology has been shown to be effective. We plan to continue to devote resources towards expanding our product offerings in these areas. We’ve also adapted our partnership strategy to seek new distribution partners worldwide and to expand our existing partnerships with new products and territories. The pandemic also caused our sales in U.S. dermatology to decline in the months of March through May 2020 as many areas issued shelter-in-place orders. These orders limited the ability of our sales representatives to conduct in-person sales. We’ve begun to see U.S. dermatology sales rebound in June and July, however, it is too early to tell if the rebound is backlogged demand from the shelter-in-place period or whether it represents a sustained increase in future demand.

## Results for the Quarter Ended June 30, 2020

Revenues from continuing operations for the quarter ended June 30, 2020, of \$7.3 million

increased by \$2.9 million, or 65%, as compared to \$4.4 million for the same period last year, largely as the result of increased sales in Latin America, Europe and Rest of World.

During the quarter ended June 30, 2020, Sonoma reported revenues of \$7.3 million and cost of revenues of \$4.3 million resulting in gross profit of \$3.0 million, or 41% of revenue, compared to a gross profit of \$2.2 million, or 50% of revenue in the same period last year. The reduction in gross profit as a percent of sales is the result of increased international sales which are typically higher volume and lower margin.

Total operating expenses during the first quarter of fiscal year 2021 were \$2.8 million, down \$1.3 million, or 31%, 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 a refocusing of the business activities resulting in cost-reductions across all divisions.

Net income from continuing operations for the quarter was \$39,000, down by \$492,000, or 93% when compared to income from continuing operations of \$531,000 for the three months ended June 30, 2019. The decrease is primarily due to the one-time gain on sale of assets in 2019, partially offset by higher revenues and lower operating expenses in 2020. Net income from discontinued operations for the quarter was \$1.0 million versus \$0.2 million in the same period last year.

Net income for the quarter was \$1.0 million, up by \$0.3 million, or 39%, compared to the same period last year. The increase in net income was due to higher revenues and decreased operating expenses, and the sale of our Micromed business unit. EBITDAS income for the first quarter of fiscal 2021 of \$0.4 million, was up by \$1.8 million, or 129%, compared to an EBITDAS loss of \$1.4 million for the same period last year.

As of June 30, 2020, Sonoma had cash and cash equivalents of \$4.6 million.

### **Sale of Micromed Laboratories Business and Impact on Accounting Treatment**

With the sale of the Micromed Laboratories business during the quarter, the components of the financial statements related to this transaction have been classified as a discontinued business for accounting purposes and in accordance with this accounting treatment, the income statement and balance sheet have been retroactively revised to reflect the revenue, expenses and balance sheet items of the continuing businesses for this fiscal year and last fiscal year. All of the income statement categories related to Micromed have been condensed to a one line item on the income statement as "Income from discontinued operations." Also, the discontinued balance sheets items have been listed separately from the continuing operations. As a result, the comparison of results discussed in this press release relate primarily to the continuing businesses in accordance with generally accepted accounting principles.

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

<b>June 30, 2020</b>	<b>March 31, 2020</b>
(Unaudited)	

## ASSETS

### Current assets:

Cash and cash equivalents	\$ 4,551	\$ 3,691
Accounts receivable, net	5,220	4,062
Inventories, net	4,193	2,192
Prepaid expenses and other current assets	2,937	2,256
Current portion of deferred consideration, net of discount	188	182
Total current assets	17,089	12,383
Operating lease right-of-use assets	343	963
Property and equipment, net	372	365
Deferred consideration, net of discount, less current portion	779	786
Other assets	69	64
Total assets	<u>\$ 18,652</u>	<u>\$ 14,561</u>

## LIABILITIES AND STOCKHOLDERS' EQUITY

### Current liabilities:

Accounts payable	\$ 4,133	\$ 2,086
Accrued expenses and other current liabilities	743	1,774
Deferred revenue	150	228
Deferred revenue Invekra	46	45
Operating lease liabilities	135	251
Current portion of long-term debt	265	481
Total current liabilities	5,472	4,865
Operating lease liabilities-non-current	220	746
Long-term deferred revenue Invekra	240	245
Long-term debt	1,310	—
Total liabilities	<u>7,242</u>	<u>5,856</u>

### Commitments and Contingencies

### Stockholders' Equity

Convertible preferred stock, \$0.0001 par value; 714,286 shares authorized at June 30, 2020, and March 31, 2020, respectively, 0 and 1.55 shares issued and outstanding at June 30, 2020, and March 31, 2020, respectively	—	—
Common stock, \$0.0001 par value; 24,000,000 shares authorized at June 30, 2020, and March 31, 2020, 1,966,958 and 1,777,483 shares issued and outstanding at June 30, 2020, and March 31, 2020, respectively	2	2
Additional paid-in capital	188,112	186,559
Accumulated deficit	(171,253)	(172,246)
	(5,451)	(5,610)
Accumulated other comprehensive loss		
Total stockholders' equity	<u>11,410</u>	<u>8,705</u>
Total liabilities and stockholders' equity	<u>\$ 18,652</u>	<u>\$ 14,561</u>

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

	<b>Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2020</b>	<b>2019</b>
Revenues	\$ 7,254	\$ 4,385
Cost of revenues	4,291	2,202
Gross profit	<u>2,963</u>	<u>2,183</u>
Operating expenses		
Research and development	476	338
Selling, general and administrative	2,369	3,759
Total operating expenses	<u>2,845</u>	<u>4,097</u>
Income (Loss) from operations	118	(1,914)
Interest expense	(2)	(10)
Interest income	2	42
Other (expense) income, net	(156)	(59)
Gain on sale of assets	77	2,472
Income from continuing operations	\$ 39	\$ 531
Income from discontinued operations	954	184
Net income	<u>\$ 993</u>	<u>\$ 715</u>
Net income per share: basic		
Continuing operations	\$ 0.02	\$ 0.40
Discontinued operations	0.52	0.14
	<u>\$ 0.54</u>	<u>\$ 0.54</u>
Net income per share: diluted		
Continuing operations	\$ 0.02	\$ 0.40
Discontinued operations	0.52	0.14
	<u>\$ 0.54</u>	<u>\$ 0.54</u>
Weighted-average number of shares used in per common share calculations: basic	<u>1,839</u>	<u>1,316</u>
Weighted-average number of shares used in per common share calculations: diluted	<u>1,843</u>	<u>1,336</u>
Other comprehensive income		
Net income	\$ 993	\$ 715
Foreign currency translation adjustments	159	67
Comprehensive income	<u>\$ 1,152</u>	<u>\$ 782</u>

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

(In thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>June 30,</b>	
	<u>2020</u>	<u>2019</u>
<b>(1) Income (Loss) from operations minus non-cash expenses EBITDAS income (loss):</b>		
GAAP income (loss) from operations as reported	\$ 118	\$ (1,914)
Non-cash adjustments:		
Stock-based compensation	63	292
Depreciation and amortization	53	76
Non-GAAP income (loss) from operations minus non-cash expenses EBITDAS income (loss)	<u>\$ 234</u>	<u>\$ (1,546)</u>
<b>(2) Net income minus non-cash expenses:</b>		
GAAP net income as reported	\$ 993	\$ 715
Non-cash adjustments:		
Stock-based compensation	63	292
Depreciation and amortization	53	76
Non-GAAP net income minus non-cash expenses	<u>\$ 1,109</u>	<u>\$ 1,083</u>
<b>(3) Operating expenses minus non-cash expenses</b>		
GAAP operating expenses as reported	\$ 2,845	\$ 4,097
Non-cash adjustments:		
Stock-based compensation	(84)	(275)
Depreciation and amortization	(30)	(22)
Non-GAAP operating expenses minus non-cash expenses	<u>\$ 2,731</u>	<u>\$ 3,800</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 product revenues by geographic region

	<b>Three Months Ended</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>June 30,</b>			
	<b>2020</b>	<b>2019</b>		
United States	\$ 1,720,000	\$ 2,487,000	\$ (767,000)	(31%)
Latin America	2,320,000	654,000	1,666,000	255%
Europe and Rest of the World	3,214,000	1,244,000	1,970,000	158%
<b>Total</b>	<b>\$ 7,254,000</b>	<b>\$ 4,385,000</b>	<b>\$ 2,869,000</b>	<b>65%</b>

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