

February 14, 2023



Sonoma Pharmaceuticals Reports Third Quarter 2023 Financial Results

- ***Cash burn of \$717,000 for the quarter ended December 31, 2022, 68% less than prior quarter cash burn of \$2,235,000***
- ***Revenues for three and nine months ended December 31, 2022 essentially flat with strong performance in international sales***
- ***European revenues increased 51% for the quarter and 29% for the nine months ended December 31, 2022, compared to the same periods prior year***

BOULDER, CO / ACCESSWIRE / February 14, 2023 /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 third fiscal quarter and nine months ended December 31, 2022.

"Our revenues remain strong despite overall economic trends such as inflation, and reduced consumer spending. These trends affected our U.S. business resulting in a decline in the sales of our consumer products. However, our international sales increased in the nine months ended December 31, 2022 compared to the same period in the prior year, with the largest increases in Europe and Latin America. We continue to grow our distributor network, recently adding partners in the U.S. and in Asia, and expanding our product offerings in many regions. We expect our ongoing efforts to add distributors and introduce new products to result in meaningful impacts to future results," said Amy Trombly, CEO of Sonoma. She continued, "Our sharply reduced cash burn for the quarter, combined with \$2.5 million raised since quarter end, places Sonoma in a solid position as we head toward the end of our fiscal year."

Business Highlights

Sonoma continued to expand its business by launching new products and building new partnerships while growing existing distributor relationships and seeking additional regulatory approvals:

- On January 4, 2023, Sonoma launched a line of office dispense products exclusively for skin care professionals. These products include Regenacyn[®] Plus Scar Management Hydrogel, Reliefacyn[®] Plus Itch-Burn-Rash-Pain Relief Hydrogel, and Rejuvacyn[®] Plus Skin Repair Cooling Mist, all in prescription strength formulations. Sonoma is targeting its office distribution program to dermatology practices and medical spas, offering improved outcomes, convenience, and lower healthcare costs for clients while providing an additional source of income for skin care professionals. Sonoma's office dispense products can be purchased by skin care professionals directly on our website at <https://sonomapharma.com/skin-care-professionals>.

- In January 2023, Sonoma's Microcyn[®] Rx products, including wound care, prescription dermatology products, Celacyn[®] and Levicyn[®], and prescription eye care Acuicyn[®], received a Distribution and Pricing Agreement (DAPA) for distribution by the Defense Logistics Agency (DLA), enabling our partner, EMC Pharma, LLC to enter into distribution agreements for these products with federal customers.
- On January 26, 2023, Sonoma entered into a new partnership with one of the largest pharmaceutical companies in South Korea, Daewoong Pharmaceuticals, for the exclusive distribution of Microcyn technology-based Primocyn[™] Skin Solution.
- In January 2023, Sonoma continued to expand its U.S. distributor network by partnering with Key Therapeutics, LLC, which will be introducing Sonoma's new line of pediatric care products to pediatricians in the United States.

Results for the Quarter Ended December 31, 2022

Revenues for the quarter ended December 31, 2022 of \$2.9 million increased slightly compared to the same period last year. European sales increased by 51%, reflecting an increase in demand for our wound care products as well as the introduction of several new products in Europe. Latin America revenue also increased compared to the same period last year. Decreased revenues in the United States were primarily the result of a decline in sales of our consumer-focused animal health care products as well as an overall retail market slowdown. The decrease in Rest of World revenue was due to decreased disinfectant sales in the Middle East that was partially offset by increased sales in India. The decrease in Asia revenue for the three months ended December 31, 2022 was due to timing of sales with Asian customers receiving higher values of sales earlier in the year compared to the third quarter. Sonoma's revenues tend to be choppy when viewed on a quarterly basis due to international customers placing larger but less frequent orders to benefit from quantity discounts and reduced shipping costs.

For the quarter ended December 31, 2022, Sonoma reported revenues of \$2.9 million and cost of revenues of \$2.1 million, resulting in gross profit of \$0.8 million, or 28% of revenue, compared to a gross profit of \$1.2 million, or 41% of revenue, for the same period last year. Gross margins decreased by 13% for the quarter ended December 31, 2022 when compared to the same period last year as a result of overall product mix, lower manufacturing levels and higher costs of materials and transportation.

Total operating expenses during the third quarter of fiscal year 2023 were \$2.7 million, up \$0.5 million, or 23%, when compared to \$2.2 million during the same period in the prior year, as a result of closing down our Woodstock, GA facility and moving finance and operations staff to our Boulder, CO headquarters, as well as \$350,000 of additional expenses for settling a long term contract, each of which management expects to be a one-time event. We continue to tightly manage expenses across all of our operations.

Net loss before income tax for the quarter was \$1.9 million, compared to a net loss of \$0.9 million for the same period last year. EBITDAS loss for the quarter ended December 31, 2022 of \$1.6 million was higher by \$0.7 million, compared to an EBITDAS loss of \$0.9 million for the same period last year.

Results for the Nine Months Ended December 31, 2022

Revenues of \$10.3 million for the nine months ended December 31, 2022 were essentially flat compared to the same period last year. Revenues increased in Europe, Asia, and Latin America. Decreased sales in the United States were due to the conversion of our prescription dermatology business to a distribution model and a decline in sales of our consumer-focused animal health care products as well as an overall retail market slowdown. The decrease in Rest of World revenue was due to decreased disinfectant sales in the Middle East that was partially offset by increased sales in India.

For the nine months ended December 31, 2022, Sonoma reported revenues of \$10.3 million and cost of revenues of \$6.6 million, resulting in gross profit of \$3.6 million, or 35% of revenues, compared to a gross profit of \$3.9 million or 38% of revenues in the same period last year. The decrease in gross profit margin for the nine months ended December 31, 2022 was primarily due to product mix and higher costs of materials and transportation.

Total operating expenses during the nine months ended December 31, 2022 of \$7.0 million increased by \$0.3 million, or 4%, compared to \$6.7 million during the same period last year due to \$350,000 of additional expenses for settling a long term contract and some increased expenses related to closing the Woodstock, GA office, each of which management expects to be a one-time event.

Net loss before taxes for the nine months ended December 31, 2022 was \$3.7 million, compared to a net loss before taxes of \$2.1 million for the same period in prior year. EBITDAS loss for the nine months ended December 31, 2022 of \$2.8 million was higher by \$0.3 million, compared to an EBITDAS loss of \$2.5 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 55 countries worldwide and the company actively seeks new distribution partners. The company's principal office is in Boulder, Colorado, with manufacturing operations in Guadalajara, Mexico. European marketing and sales are headquartered in Roermond, Netherlands. More information can be found at www.sonomapharma.com . For partnership opportunities, please contact

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 "expect," "continue," "believe" 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 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™, Microcyn® , Regenacyn® , Reliefacyn® , Rejuvacyn® , Celacyn® , Levicyn® and Acuicyn® are trademarks or registered trademarks of Sonoma Pharmaceuticals, Inc. All other trademarks and service marks are the property of their respective owners.

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SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except share amounts)

	December 31, 2022 (Unaudited)	March 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,634	\$ 7,396
Accounts receivable, net	2,297	2,407
Inventories, net	2,849	2,663
Prepaid expenses and other current assets	3,230	3,746
Current portion of deferred consideration, net of discount	222	218
Total current assets	11,232	16,430
Property and equipment, net	314	320
Operating lease, right of use assets	471	559
Deferred tax asset	1,089	829
Deferred consideration, net of discount, less current portion	514	630
Other assets	308	77
Total assets	<u>\$ 13,928</u>	<u>\$ 18,845</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,302	\$ 1,641
Accrued expenses and other current liabilities	2,201	1,843
Deferred revenue	100	1,223
Deferred revenue Invekra	55	54
Current portion of debt-PPP	-	120
Short-term debt	-	688
Operating lease liabilities	276	250
Total current liabilities	3,934	5,819
Long-term deferred revenue Invekra	128	182
Long-term debt	15	-
Withholding tax payable	4,097	3,838
Operating lease liabilities, less current portion	195	309
Total liabilities	<u>8,369</u>	<u>10,148</u>
Commitments and Contingencies (Note 5)		
Stockholders' Equity:		
Convertible preferred stock, \$0.0001 par value; 714,286 shares authorized at December 31, 2022 and March 31, 2022, respectively, no shares issued and outstanding at December 31, 2022 and March 31, 2022, respectively	-	-
Common stock, \$0.0001 par value; 24,000,000 shares authorized at December 31, 2022 and March 31, 2022, respectively, 3,109,652 and 3,100,937 shares issued and outstanding at December 31, 2022 and March 31, 2022, respectively (Note 7)	2	2
Additional paid-in capital	197,939	197,370
Accumulated deficit	(188,206)	(184,363)
Accumulated other comprehensive loss	(4,176)	(4,312)
Total stockholders' equity	<u>5,559</u>	<u>8,697</u>
Total liabilities and stockholders' equity	<u>\$ 13,928</u>	<u>\$ 18,845</u>

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	2021	2022	2021
Revenues	\$ 2,944	\$ 2,902	\$ 10,258	\$ 10,330
Cost of revenues	2,113	1,699	6,645	6,433
Gross profit	831	1,203	3,613	3,897
Operating expenses				
Research and development	-	26	6	121
Selling, general and administrative	2,665	2,135	7,030	6,603
Total operating expenses	2,665	2,161	7,036	6,724
Loss from operations	(1,834)	(958)	(3,423)	(2,827)
Interest income (expense), net	1	3	4	(1)
Other income (expense), net	(73)	11	(327)	542
Gain on sale of assets	1	-	1	150
Loss before income taxes	(1,905)	(944)	(3,745)	(2,136)
Income tax benefit (expense)	(34)	-	(98)	(6)
Net loss	<u>\$ (1,939)</u>	<u>\$ (944)</u>	<u>\$ (3,843)</u>	<u>\$ (2,142)</u>
Net loss per share: basic	<u>\$ (0.62)</u>	<u>\$ (0.31)</u>	<u>\$ (1.24)</u>	<u>\$ (0.85)</u>
Net loss per share: diluted	<u>\$ (0.62)</u>	<u>\$ (0.31)</u>	<u>\$ (1.24)</u>	<u>\$ (0.85)</u>
Weighted-average number of shares: basic	<u>3,107</u>	<u>3,080</u>	<u>3,104</u>	<u>2,507</u>
Weighted-average number of shares: diluted	<u>3,107</u>	<u>3,080</u>	<u>3,104</u>	<u>2,507</u>
Other comprehensive loss				
Net loss	\$ (1,939)	\$ (944)	\$ (3,843)	\$ (2,142)
Foreign currency translation adjustments	235	(65)	136	8
Comprehensive loss	<u>\$ (1,704)</u>	<u>\$ (1,009)</u>	<u>\$ (3,707)</u>	<u>\$ (2,134)</u>

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	2021	2022	2021
(1) Loss from operations minus non-cash expenses EBITDAS loss:				
GAAP operating loss as reported	\$ (1,834)	\$ (958)	\$ (3,423)	\$ (2,827)
Non-cash adjustments:				
Stock-based compensation	242	55	569	169
Depreciation and amortization	<u>31</u>	<u>51</u>	<u>91</u>	<u>151</u>
Non-GAAP income (loss) from operations minus non-cash expenses EBITDAS income (loss)	<u>\$ (1,561)</u>	<u>\$ (852)</u>	<u>\$ (2,763)</u>	<u>\$ (2,507)</u>
(2) Net loss minus non-cash and one-time expenses:				
GAAP net income (loss) as reported	\$ (1,939)	\$ (944)	\$ (3,843)	\$ (2,142)
Non-cash adjustments:				
Stock-based compensation	242	55	569	169
Non-cash foreign exchange transaction losses	73	-	327	
Income taxes	34	-	98	-
Depreciation and amortization	<u>31</u>	<u>51</u>	<u>91</u>	<u>151</u>
Non-GAAP net income (loss) minus non-cash expenses	<u>\$ (1,559)</u>	<u>\$ (838)</u>	<u>\$ (2,758)</u>	<u>\$ (1,822)</u>
(3) Operating expenses minus non-cash expenses				
GAAP operating expenses as reported	\$ 2,665	\$ 2,161	\$ 7,030	\$ 6,724
Non-cash adjustments:				
Stock-based compensation	(242)	(55)	(569)	(169)
Depreciation and amortization	<u>(31)</u>	<u>(51)</u>	<u>(91)</u>	<u>(151)</u>
Non-GAAP operating expenses minus non-cash expenses	<u>\$ 2,392</u>	<u>\$ 2,055</u>	<u>\$ 6,370</u>	<u>\$ 6,404</u>

1. Income (loss) from continuing operations minus non-cash expenses (EBITDAS) is a non-GAAP financial measure. The company defines operating income (loss) minus non-cash expenses as GAAP reported operating income (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. Non-GAAP measures should not be considered a substitute for financial measures presented in accordance with GAAP. Non-GAAP measures are not always consistent across, or comparable with, non-GAAP measures disclosed by other companies.
2. Net income (loss) minus non-cash and one time expenses is a non-GAAP financial measure. The company defines net income (loss) minus non-cash expenses as GAAP reported net income (loss) minus depreciation and amortization, stock-based compensation, forgiveness of PPP loan 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. Non-GAAP measures should not be considered a substitute for financial measures presented in accordance with GAAP. Non-GAAP measures are not always consistent across, or comparable with, non-GAAP measures disclosed by other companies.

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. Non-GAAP measures should not be considered a substitute for financial measures presented in accordance with GAAP. Non-GAAP measures are not always consistent across, or comparable with, non-GAAP measures disclosed by other companies.

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:

	Three Months Ended December 31,		\$ Change	% Change
	2022	2021		
<i>(In thousands)</i>				
United States	\$ 761	\$ 933	\$ (172)	(18 %)
Europe	1,104	731	373	51 %
Asia	514	664	(150)	(23 %)
Latin America	384	273	111	41 %
Rest of the World	181	301	(120)	(40 %)
Total	<u>\$ 2,944</u>	<u>\$ 2,902</u>	<u>\$ 42</u>	<u>1 %</u>
	Nine Months Ended December 31,			
	2022	2021	\$ Change	% Change
<i>(In thousands)</i>				
United States	\$ 2,603	\$ 3,872	\$ (1,269)	(33 %)
Europe	3,117	2,419	698	29 %
Asia	1,952	1,810	142	8 %
Latin America	1,827	1,356	471	35 %
Rest of the World	759	873	(114)	(13 %)
Total	<u>\$ 10,258</u>	<u>\$ 10,330</u>	<u>\$ (72)</u>	<u>(1 %)</u>

SOURCE: Sonoma Pharmaceuticals, Inc.

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