

February 14, 2020



# Sonoma Pharmaceuticals Reports Third Quarter FY 2020 Financial Results

PETALUMA, Calif., Feb. 14, 2020 (GLOBE NEWSWIRE) --

- **Quarterly Net Loss Reduced by 53% Compared to Prior Year**
- **YTD Net Loss Reduced by 82% Compared to Prior Year**
- **Total YTD Revenues of \$14.4 Million Lower by 2% Compared to Prior Year**

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 third quarter and nine months ended December 31, 2019.

"We are pleased that our third fiscal quarter results show continued progress towards our goal of building a sustainable company that can deliver both growth and profitability. This quarter is the closest we have come to break-even in the Company's history," said Amy Trombly, CEO of Sonoma Pharmaceuticals. Ms. Trombly continued, "We anticipate that 2020 will be a year of focusing on business strategies and geographic markets that have shown success and have future promise. We expect that our revenues and earnings will fluctuate in the near-term as we divest low or non-profitable business units and invest in strategies that have shown positive results."

## Results for the Quarter Ended December 31, 2019

Total revenue of \$4,678,000 for the third quarter ended December 31, 2019, decreased by \$602,000, or 11%, from \$5,280,000 for the same period last year. Product revenues of \$4,381,000 for the third quarter ended December 31, 2019, were down by 13%, or \$664,000, when compared to \$5,045,000 in the same period last year. This decrease was primarily the result of decline in product revenue of \$918,000, or 31%, in the United States partly due to the launch of Epicyn in the quarter ended December 31, 2018, and weakening insurance reimbursements for our prescription products in the current quarter. The decrease was partially offset by growth in product revenue of \$195,000, or 17%, in Europe and Rest of World mostly as a result of increased sales, and an increase of product revenue of \$59,000, or 6%, in Latin America.

For the quarter ended December 31, 2019, Sonoma reported total revenues of \$4,678,000 and total cost of revenues of \$2,520,000, resulting in total gross profit of \$2,158,000 or 46% of total revenues, compared to a gross profit of \$2,847,000 or 54% of total revenues, for the same period in the prior year. Product revenues were \$4,381,000 and cost of product revenues were \$2,394,000, resulting in product gross profit of \$1,987,000, or 45% of product revenues, compared to product gross profit of \$2,776,000, or 55% 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 and weakened insurance reimbursements in the current period.

Total operating expenses during the third quarter of fiscal year 2020 were \$3,140,000, down \$2,057,000, or 40%, 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 2019, including a reduction in headcount.

Net loss for the quarter ended December 31, 2019 of \$1,084,000 decreased by \$1,214,000, or 53%, when compared to net loss of \$2,298,000 for the quarter ended December 31, 2018. The decrease in net loss is due to a decrease in operating expenses of \$2,057,000, or 40%, primarily due to certain cost saving measures implemented during the latter part of fiscal year 2019. EBITDA loss for the quarter ended December 31, 2019 of \$802,000, was down \$1,839,000, or 56%, compared to an EBITDA loss of \$1,037,000, for the same period last year.

As of December 31, 2019, Sonoma had cash and cash equivalents of \$3,727,000.

## Results for the Nine Months Ended December 31, 2019

Total revenues for the nine months ended December 31, 2019, of \$14,357,000 decreased by \$231,000, or 2%, as compared to \$14,588,000 for the nine months ended December 31, 2018. Product revenues for the nine months ended December 31, 2019 of \$13,478,000 decreased by \$297,000, or 2%, as compared to \$13,775,000 for the nine months ended December 31, 2018. This decrease in product revenue was primarily the result of a decline of

\$621,000, or 8%, in United States partly due to the launch of Epicyn in the prior year, weakening insurance reimbursements for our prescription products and a decrease in spending on sales and marketing efforts in the current period. This decrease was partially offset by growth in product revenue of \$752,000, or 22% in Europe and Rest of World mostly as a result of increased sales and an expansion of customer base. Product revenues in Latin America for the nine months ended December 31, 2019, of \$2,577,000 decreased by \$428,000, or 14%, from \$3,005,000 for the same period last year. The decrease was primarily the result of a large initial order by our customer in Brazil in the nine months ended December 31, 2018, offset by a slight increase in Mexico revenue in the current period.

For the nine months ended December 31, 2019, Sonoma reported total revenues of \$14,357,000 and total cost of revenues of \$7,538,000, resulting in total gross profit of 6,819,000 or 47% of total revenues, compared to a gross profit of \$7,005,000 or 48% of total revenues, for the same period in the prior year.

Net loss for the nine months ended December 31, 2019 of \$1,572,000 decreased by \$7,004,000, when compared to net loss of \$8,576,000 for the nine months ended December 31, 2018. The decrease in net loss is due to a decrease in operating loss of \$4,640,000 as a result of a decrease in operating expenses of \$4,826,000 primarily due to certain cost savings measures implemented during the latter part of fiscal year 2019.

Additionally, for the nine months ended December 31, 2019, Sonoma reported income related to the sale of certain assets to Petagon in the amount of \$2,472,000. EBITDA loss for the nine months ended December 31, 2019 of \$3,165,000, was down \$3,708,000, or 54%, compared to an EBITDA loss of \$6,873,000 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™ and Epicyn™ are trademarks or registered trademarks of Sonoma Pharmaceuticals, Inc.

	<b>December 31, 2019</b>	<b>March 31, 2019</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,727	\$ 3,689
Accounts receivable, net	5,029	3,481
Inventories	2,825	3,409
Prepaid expenses and other current assets	2,048	1,694
Current portion of deferred consideration, net of discount	229	223
Total current assets	<u>13,858</u>	<u>12,496</u>
Operating lease right-of-use assets	1,057	—
Property and equipment, net	483	727
Deferred consideration, net of discount, less current portion	1,025	1,103
Other assets	73	122
Total assets	<u>\$ 16,496</u>	<u>\$ 14,448</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:		
Accounts payable	\$ 2,159	\$ 1,255
Accrued expenses and other current liabilities	1,423	1,501
Deferred revenue	228	47
Deferred revenue Invekra	57	55
Operating lease liabilities	291	—
Current portion of long-term debt	—	322
Current portion of capital leases	—	141
Common Stock liability	—	270
Total current liabilities	<u>4,158</u>	<u>3,591</u>
Operating lease liabilities non-current	807	—
Long-term deferred revenue Invekra	322	356
Long-term debt, less current portion	—	12
Total liabilities	<u>5,287</u>	<u>3,959</u>
Commitments and Contingencies	—	—
Stockholders' Equity		
Convertible preferred stock, \$0.0001 par value; 714,286 shares authorized at December 31, 2019 and March 31, 2019 respectively; 1.55 shares issued and outstanding at December 31, 2019 and March 31, 2019 respectively	—	—
Common stock, \$0.0001 par value; 24,000,000 shares authorized at December 31, 2019 and March 31, 2019, respectively, 1,777,483 and 1,316,335 shares issued and outstanding at December 31, 2019 and March 31, 2019, respectively	2	2
Additional paid-in capital	186,257	184,074
Accumulated deficit	(170,869)	(169,238)
Accumulated other comprehensive loss	(4,181)	(4,349)
Total stockholders' equity	<u>11,209</u>	<u>10,489</u>
Total liabilities and stockholders' equity	<u>\$ 16,496</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 Ended December 31,</b>		<b>Nine Months Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Revenues				
Product	\$ 4,381	\$ 5,045	\$ 13,478	\$ 13,775
Service	297	235	879	813
Total revenues	<u>4,678</u>	<u>5,280</u>	<u>14,357</u>	<u>14,588</u>

Cost of revenues				
Product	2,394	2,269	7,147	7,006
Service	126	164	391	577
Total cost of revenues	<u>2,520</u>	<u>2,433</u>	<u>7,538</u>	<u>7,583</u>
Gross profit	2,158	2,847	6,819	7,005
Operating expenses				
Research and development	248	451	856	1,191
Selling, general and administrative	2,892	4,746	9,877	14,368
Total operating expenses	<u>3,140</u>	<u>5,197</u>	<u>10,733</u>	<u>15,559</u>
Loss from operations	(982 )	(2,350 )	(3,914 )	(8,554 )
Interest expense	(1 )	(7 )	(13 )	(26 )
Interest income	33	37	117	139
Other (expense) income	(134 )	22	(234 )	(135 )
Gain on sale of assets	—	—	2,472	—
Net loss	<u>\$ (1,084 )</u>	<u>\$ (2,298 )</u>	<u>\$ (1,572 )</u>	<u>\$ (8,576 )</u>
Net loss per share: basic and diluted	<u>\$ (0.72 )</u>	<u>\$ (2.37 )</u>	<u>\$ (1.14 )</u>	<u>\$ (10.79 )</u>
Weighted-average number of shares used in per common share calculations: basic and diluted	1,500	971	1,378	795
Other comprehensive loss				
Net loss	\$ (1,084 )	\$ (2,298 )	\$ (1,572 )	\$ (8,576 )
Foreign currency translation adjustments	264	(291 )	168	(443 )
Comprehensive loss	<u>\$ (820 )</u>	<u>\$ (2,589 )</u>	<u>\$ (1,404 )</u>	<u>\$ (9,019 )</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,	
	2019	2018	2019	2018
<b>(1) Loss from operations minus non-cash expenses</b>				
<b>EBITDA loss:</b>				
GAAP loss from operations as reported	\$ (982 )	\$ (2,350 )	\$ (3,914 )	\$ (8,554 )
Non-cash adjustments:				
Stock-based compensation	112	402	537	1,334
Depreciation and amortization	68	109	212	347
Non-GAAP loss from operations minus non-cash expenses EBITDA loss	<u>\$ (802 )</u>	<u>\$ (1,839 )</u>	<u>\$ (3,165 )</u>	<u>\$ (6,873 )</u>
<b>(2) Net loss minus non-cash expenses:</b>				
GAAP net (loss) income as reported	\$ (1,084 )	\$ (2,298 )	\$ (1,572 )	\$ (8,576 )
Non-cash adjustments:				
Stock-based compensation	112	402	537	1,334
Depreciation and amortization	68	109	212	347
Non-GAAP net (loss) income minus non-cash expenses	<u>\$ (904 )</u>	<u>\$ (1,787 )</u>	<u>\$ (823 )</u>	<u>\$ (6,895 )</u>
<b>(3) Operating expenses minus non-cash expenses</b>				
GAAP operating expenses as reported	\$ 3,140	\$ 5,197	\$ 10,733	\$ 15,559
Non-cash adjustments:				
Stock-based compensation	(95 )	(378 )	(486 )	(1,245 )
Depreciation and amortization	(10 )	(57 )	(43 )	(169 )
Non-GAAP operating expenses minus non-cash expenses	<u>\$ 3,035</u>	<u>\$ 4,762</u>	<u>\$ 10,204</u>	<u>\$ 14,145</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 presents the Company's disaggregated product revenues by geographic region:

	<b>Three Months Ended December 31,</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>2019</b>	<b>2018</b>		
United States	\$ 2,059,000	\$ 2,977,000	\$ (918,000 )	(31 %)
Latin America	988,000	929,000	59,000	6 %
Europe and Rest of the World	1,334,000	1,139,000	195,000	17 %
Total	<u>\$ 4,381,000</u>	<u>\$ 5,045,000</u>	<u>\$ (664,000 )</u>	<u>(13 %)</u>

  

	<b>Nine Months Ended December 31,</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>2019</b>	<b>2018</b>		
United States	\$ 6,753,000	\$ 7,374,000	\$ (621,000 )	(8 %)
Latin America	2,577,000	3,005,000	(428,000 )	(14 %)
Europe and Rest of the World	4,148,000	3,396,000	752,000	22 %
Total	<u>\$ 13,478,000</u>	<u>\$ 13,775,000</u>	<u>\$ (297,000 )</u>	<u>(2 %)</u>

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Source: Sonoma Pharmaceuticals, Inc.