

February 16, 2021



Sonoma Pharmaceuticals Reports Third Quarter FY 2021 Financial Results

- Revenues of \$4.9 and \$16.5 million for the quarter and nine months ended December 31, 2020 increased by 13% and 21%, respectively, compared to the same periods in the prior year due to strong international growth
- Operating expenses of \$2.1 and \$7.4 million for the quarter and nine months ended December 31, 2020 both decreased by 31% compared to the prior year
- Net loss per share of \$0.32 for the quarter and \$0.15 for the nine months ended December 31, 2020 compared to \$0.72 and \$1.14 for the prior year periods
- Positive EBITDAS for the quarter and improvement of approximately \$1.0 million from prior year

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 third fiscal quarter and nine months ended December 31, 2020.

“We continue to effectively execute our business plan of increasing revenue while reducing our expenses,” said Amy Trombly, CEO of Sonoma. She continued, “following our restructuring, we are now focused on investing in the future with a robust product pipeline, new partnerships and expanding our reach worldwide. Our efforts have started to show results with our first contract for the over the counter market in the U.S., and we are confident that these investments will continue to pay off in the upcoming quarters.”

Business Highlights for the Third Fiscal Quarter

In December 2020, Sonoma and Crown Laboratories, Inc. entered into an exclusive license and supply agreement for the sale of OTC HOCl products in the United States. Crown plans to sell Sonoma’s Microcyn® technology-based dermal products under their private label Sarna®. Sonoma will continue to sell its prescription strength products while Crown will distribute an OTC version available without prescription.

Also in December 2020, Sonoma launched a new dental product, Endocyn® and received its first order from Gabriel Science, LLC. Endocyn® is used to irrigate, cleanse, and debride root canal systems including the removal of foreign material and debris during root canal therapy.

Sonoma’s partner, Microderm Technologies Ltd., received import clearance for Dermodacyn® disinfectant for use as a medical device in Thailand with help from Microderm’s partner VetSynova Co. Ltd., Thailand, and it is now selling online and in pharmacies and stores in Hong Kong and Thailand. Dermodacyn® disinfecting solution is

designed to be sprayed as an aerosol to disinfect areas suspected to contain bacteria and viruses that can lead to disease.

Sonoma received approval from The European Chemicals Agency (ECHA) to include its patented Microcyn® Technology as a biocide to the EU-wide list of active substances and suppliers that are used to protect humans, animals, and materials against harmful organisms like viruses and bacteria. The listing will enable Sonoma to market its products more broadly across the European Union and for new indications.

To respond to market demand for its Microcyn technology-based products, Sonoma launched Microcyn® OTC Wound and Skin Cleanser formulated for home use to help manage and cleanse wounds, minor cuts, and burns, including sunburns and other skin irritations. Microcyn® OTC Wound and Skin Cleanser is now available without prescription through Sonoma's online store at www.sonomapharma.com or <https://otc.sonomapharma.com>. Sonoma's prescription version of Microcyn Wound and Skin Cleanser has been used in hospitals and wound care centers all over the world for over 20 years.

Results for the Third Quarter Ended December 31, 2020

Revenue of \$4,936,000 for the third quarter ended December 31, 2020, increased by \$541,000, or 12%, from \$4,395,000 for the same period last year. This increase was primarily the result of increases in revenue in Latin America, Europe and Rest of World of \$305,000 and \$317,000, respectively, offset by a decrease in revenue in the United States of \$81,000. The decrease in U.S. revenue was primarily the result of a decrease in dermatology revenue as the result of the effects of COVID-19 on Sonoma's business and the associated restructuring of the sales team in response to COVID-19.

For the quarter ended December 31, 2020, Sonoma reported gross profit of \$1,995,000 or 40% of revenues, compared to a gross profit of \$2,001,000 or 46% of revenues, for the same period in the prior year. For the quarter ended December 31, 2020, gross margins decreased by 6% when compared to the same period last year as a result of the product mix sold and more distributor sales which have a lower margin but do not result in a higher operating expense.

Total operating expenses during the third quarter of fiscal year 2020 were \$2,133,000, down by \$976,000, or 31%, when compared to \$3,109,000 during the same period in the prior year. The decrease in total operating expenses was primarily the result of a reduction in headcount and the closure of the Petaluma facility.

Net loss from continuing operations for the quarter ended December 31, 2020, was \$626,000, compared to a net loss of \$1,210,000 for the quarter ended December 31, 2019. Approximately \$560,000 of this quarterly net loss for the current year was the result of foreign currency transaction losses. Foreign currency transaction losses relate primarily to trade payables and receivables and intercompany transactions between subsidiaries in Mexico and Europe. These transactions are expected to be settled in the foreseeable future. EBITDAS income for the quarter ended December 31, 2020 of \$35,000, was up \$962,000, compared to an EBITDAS loss of \$(927,000), for the same period last year.

Results for the Nine Months Ended December 31, 2020

Revenue of \$16,472,000 for the nine months ended December 31, 2020, increased by \$2,856,000, or 21%, from \$13,616,000 for the same period last year. This increase was primarily the result of increases in revenue in Latin America of \$2,944,000 and Europe and Rest of World of \$1,083,000, respectively, offset by a decrease in revenue in the United States of \$1,171,000. In addition, during the nine months ended December 31, 2020, sales of animal care products increased by \$500,000 from the prior year. Sales of acute care products are down slightly in revenue from prior year during the nine months ended December 31, 2020.

For the nine months ended December 31, 2020, Sonoma reported gross profit of \$6,753,000, or 41% of revenues, compared to a gross profit of \$6,469,000 or 48% of revenues. For the nine months ended December 31, 2020, gross margins decreased by 7% as a result of a larger share of low-margin sales to Invekra based on our contract that is now ended compared to total sales.

Total operating expenses during the nine months ended December 31, 2020 of \$7,388,000 decreased by \$3,247,000, or 31%, compared to \$10,635,000 during the same period last year. The decrease in total operating expenses was primarily the result of a reduction in headcount and the closure of the Petaluma facility.

Net loss from continuing operations for the nine months ended December 31, 2020, was \$1,183,000, compared to a net loss of \$1,824,000 for the same period in prior year. Approximately \$980,000 of this net loss for the current year was the result of foreign currency transaction losses. Foreign currency transaction losses relate primarily to trade payables and receivables and intercompany transactions between subsidiaries in Mexico and Europe. These transactions are expected to be settled in the foreseeable future. EBITDAS loss for the nine months ended December 31, 2020 of \$(152,000), was up \$3,264,000, compared to an EBITDAS loss of \$(3,416,000) for the same period last year.

As of December 31, 2020, Sonoma had cash and cash equivalents of \$5,441,000 compared to \$3,691,000 at March 31, 2020.

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 54 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. 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 “continue,” “expect,” “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-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
Condensed Consolidated Balance Sheets
(In thousands, except share amounts)

	December 31,	March 31,
	2020	2020
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,541	\$ 3,691
Accounts receivable, net	4,408	4,062
Inventories, net	2,958	2,192
Prepaid expenses and other current assets	3,087	2,256
Current portion of deferred consideration, net of discount	218	182
Total current assets	16,212	12,383
Operating lease right-of-use assets	671	963
Property and equipment, net	404	365
Deferred consideration, net of discount, less current portion	829	786
Other assets	115	64
Total assets	\$ 18,231	\$ 14,561
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,430	\$ 2,086
Accrued expenses and other current liabilities	1,049	1,774
Deferred revenue	150	228
Deferred revenue Invekra	54	45
Operating lease liabilities	200	251
Current portion of long-term debt	-	481
Total current liabilities	3,883	4,865
Operating lease liabilities-non-current	471	746
Long-term deferred revenue Invekra	251	245
Long-term debt	1,310	-
Total liabilities	5,915	5,856
Commitments and Contingencies (Note 6)		
Stockholders' Equity		
Convertible preferred stock, \$0.0001 par value; 714,286 shares authorized at December 31, 2020 and March 31, 2020, respectively, 0 and 1.55 shares issued and outstanding at December 31, 2020 and March 31, 2020, respectively	-	-
Common stock, \$0.0001 par value; 24,000,000 shares authorized at December 31, 2020 and March 31, 2020, 2,079,059 and 1,777,483 shares issued and outstanding at December 31, 2020 and March 31, 2020, respectively	2	2
Additional paid-in capital	189,085	186,559
Accumulated deficit	(172,536)	(172,246)
Accumulated other comprehensive loss	(4,235)	(5,610)
Total stockholders' equity	12,316	8,705
Total liabilities and stockholders' equity	\$ 18,231	\$ 14,561

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2020	2019	2020	2019
Revenues	\$ 4,936	\$ 4,395	\$ 16,472	\$ 13,616
Cost of revenues	2,941	2,394	9,719	7,147
Gross profit	1,995	2,001	6,753	6,469
Operating expenses				
Research and development	33	248	425	856
Selling, general and administrative	2,100	2,861	6,963	9,779
Total operating expenses	2,133	3,109	7,388	10,635
Loss from operations	(138)	(1,108)	(635)	(4,166)
Interest expense	(5)	(1)	(12)	(13)
Interest income	3	33	14	117
Other (expense) income, net	(490)	(134)	(687)	(234)
Gain on sale of assets	4	-	137	2,472
Loss from continuing operations	(626)	(1,210)	(1,183)	(1,824)
Income (loss) from discontinued operations	(24)	126	893	252
Net loss	<u>\$ (650)</u>	<u>\$ (1,084)</u>	<u>\$ (290)</u>	<u>\$ (1,572)</u>
Net income (loss) per share: basic and diluted				
Continuing operations	\$ (0.31)	\$ (0.81)	\$ (0.60)	\$ (1.32)
Discontinued operations	(0.01)	0.09	0.45	0.18
	<u>\$ (0.32)</u>	<u>\$ (0.72)</u>	<u>\$ (0.15)</u>	<u>\$ (1.14)</u>
Weighted-average number of shares used in per common share calculations: basic and diluted	<u>2,052</u>	<u>1,500</u>	<u>1,967</u>	<u>1,378</u>
Other comprehensive income (loss)				
Net loss	\$ (650)	\$ (1,084)	\$ (290)	\$ (1,572)
Foreign currency translation adjustments	1,020	264	1,375	168
Comprehensive income (loss)	<u>\$ 370</u>	<u>\$ (820)</u>	<u>\$ 1,085</u>	<u>\$ (1,404)</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,	
	2020	2019	2020	2019
(1) Loss from operations minus non-cash expenses EBITDAS loss:				
GAAP loss from operations as reported	\$ (138)	\$ (1,108)	\$ (635)	\$ (4,166)
Non-cash adjustments:				
Stock-based compensation	93	112	295	537
Depreciation and amortization	80	69	188	213
Non-GAAP loss from operations minus non-cash expenses EBITDAS income (loss)	<u>\$ 35</u>	<u>\$ (927)</u>	<u>\$ (152)</u>	<u>\$ (3,416)</u>
(2) Net loss minus non-cash expenses:				
GAAP net loss as reported	\$ (650)	(1,084)	(290)	(1,572)
Non-cash adjustments:				
Stock-based compensation	93	112	295	537
Depreciation and amortization	80	69	188	213
Non-GAAP net income (loss) minus non-cash expenses	<u>\$ (477)</u>	<u>\$ (903)</u>	<u>\$ 193</u>	<u>\$ (822)</u>
(3) Operating expenses minus non-cash expenses				
GAAP operating expenses as reported	\$ 2,133	3,109	7,388	10,635
Non-cash adjustments:				
Stock-based compensation	(93)	(112)	(295)	(537)
Depreciation and amortization	(80)	(69)	(188)	(213)
Non-GAAP operating expenses minus non-cash expenses	<u>\$ 1,960</u>	<u>\$ 2,928</u>	<u>\$ 6,905</u>	<u>\$ 9,885</u>

- (1) Income (Loss) from 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.
- (2) Net income (loss) minus non-cash 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, 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:

<i>(In thousands)</i>	Three Months Ended		\$ Change	% Change
	December 31,			
	2020	2019		
United States	\$ 1,978	\$ 2,059	\$ (81)	(4)%
Latin America	1,307	1,002	305	30%
Europe and Rest of the World	1,651	1,334	317	24%
Total	\$ 4,936	\$ 4,395	\$ 541	12%

<i>(In thousands)</i>	Nine Months Ended		\$ Change	% Change
	December 31,			
	2020	2019		
United States	\$ 5,582	\$ 6,753	\$ (1,171)	(17)%
Latin America	5,659	2,715	2,944	108%
Europe and Rest of the World	5,231	4,148	1,083	26%
Total	\$ 16,472	\$ 13,616	\$ 2,856	21%

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Media and Investor Contact:
Sonoma Pharmaceuticals, Inc.
ir@sonomapharma.com

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