

February 11, 2022



Sonoma Pharmaceuticals Reports Third Quarter FY 2022 Financial Results

- **Gross Profit Percentage for the Quarter ended December 31, 2021 Increased 1% versus Prior Year and 8% versus Prior Quarter**
- **Net loss per Share of \$(0.31) for the Third Quarter Compared to a Net Loss per Share of \$(0.32) for the Prior Year**
- **\$8.5 Million of Cash and Strengthened Balance Sheet**

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, 2021.

“We continue to reshape Sonoma into a healthier company by divesting unprofitable product lines while building strength in the U.S. and international markets with profitable products,” said Amy Trombly, CEO of Sonoma. “While our top line has decreased, primarily as the result of our low-margin contract with Invektra ending, our gross margins and bottom line have improved and our balance sheet is stronger than it has been in years. We continue to add new partners and expand our existing partner relationships with the goal of building a strong, diverse business driving towards profitability.”

Business Highlights for the Third Fiscal Quarter

Sonoma further expanded its existing partnerships and added new partnerships:

- On November 4, 2021, Sonoma entered into an expanded partnership with its long-term partner Dyamed Biotech Pte Ltd., for Singapore, Malaysia, Indonesia and Thailand for the sale and distribution of dermatology, eye, and oral products for multiple indications using Sonoma’s patented Microcyn® Technology. Dyamed, one of Sonoma’s first international partners, successfully commercializes Dermacyn® Wound Care, Dermacyn® Scarless for Scar Reduction, and Dermacyn® Ezyrna Spray for itch relief associated with atopic dermatitis. Dyamed expects to launch Ocucyn® Eye Care and Oracyn® Oral Care in 2022.
- On January 18, 2022, Sonoma partnered with Anlicare International to seek regulatory clearance to sell its oral and dental products in China. Anlicare will bear the costs of the regulatory process. The regulatory clearance is expected in 2024.
- On January 19, 2022, Sonoma granted Salus Medical a non-exclusive right to sell Sonoma’s dermatology, wound, eye, oral and dental care products in the United States.

Additionally, Sonoma added to its regulatory approvals around the world. Sonoma's New Zealand partner, Te Arai Biofarma, obtained regulatory approval in Taiwan for Sonoma's Electromicyn60 hospital grade surface disinfectant and expects to launch sales in summer 2022.

Results for the Third Quarter Ended December 31, 2021

Revenue of \$2,902,000 for the third quarter ended December 31, 2021, decreased by \$2,034,000, or 41%, from \$4,936,000 for the same period last year. The year-over-year decrease was primarily the result of decreases in revenue in United States of \$1,045,000 from the EMC transaction and a decrease in Latin America of \$1,034,000, offset by an increase in revenue in Europe and the Rest of World of \$45,000. The decrease in revenue in Latin America is the result of the low margin contract with Invekra ending in October 2020. Since then, Invekra has begun to produce their own product and Sonoma is manufacturing backup orders at a reduced scale at full cost rather than larger volumes at reduced prices. Although the end of this contract has caused a reduction in Sonoma's top line, the overall impact has been neutral to its bottom line due to the low margins required by the contract. Additionally, divesting sales in its prescription dermatology business to EMC has resulted in reduced revenue, but an improving bottom line. Sonoma now sells its prescription products to EMC at a lower price than what it sold them to patients for, however, EMC is responsible for sales and distribution and Sonoma eliminated the costs of a direct sales force and associated overhead costs. Prior to this transaction, the U.S. prescription dermatology business had operated at a significant loss and partnering with EMC has improved the overall financial health of Sonoma while retaining lower, but now profitable, revenues from the U.S. prescription dermatology business.

For the quarter ended December 31, 2021, Sonoma reported revenues of \$2,902,000 and cost of revenues of \$1,699,000, resulting in gross profit of \$1,203,000 or 41% of revenues, compared to a gross profit of \$1,995,000 or 40% of revenues, for the same period in the prior year, and compared to a gross profit of \$1,241,000, or 33% of revenues, for the September quarter. For the quarter ended December 31, 2021, gross margins increased by 1% when compared to the same period last year and 8% when compared to the previous quarter.

Total operating expenses during the third quarter of fiscal year 2022 were \$2,161,000, up \$28,000, or 1%, when compared to \$2,133,000 during the same period in the prior year.

Net loss from continuing operations for the quarter ended December 31, 2021, was \$944,000, compared to a net loss of \$626,000 for the quarter ended December 31, 2020. EBITDAS loss for the quarter ended December 31, 2021 of \$852,000, was down \$887,000, compared to an EBITDAS income of \$35,000 for the same period last year.

Results for the Nine Months Ended December 31, 2021

Revenue of \$10,330,000 for the nine months ended December 31, 2021, decreased by \$6,142,000, or 37%, from \$16,472,000 for the same period last year. This decrease was primarily the result of decreases in revenue in Latin America of \$4,303,000 and in the United States of \$1,710,000. The decrease in revenue in Latin America resulted from the contract with Invekra ending in October 2020. Although the end of this contract has caused a reduction in the top line, the overall impact has been neutral to the bottom line due to the low

margins required by the contract. Since the contract ended, Invekra has begun to produce their own product and Sonoma is manufacturing backup orders at a reduced scale at full cost.

For the nine months ended December 31, 2021, Sonoma reported revenues of \$10,330,000 and cost of revenues of \$6,433,000, resulting in gross profit of \$3,897,000, or 38% of revenues, compared to a gross profit of \$6,753,000 or 41% of revenues for the same period last year. For the nine month ended December 31, 2021, gross margins decreased by 3% when compared to the same period last year, partially as a result of the EMC transaction. While Sonoma now sells prescription products to EMC at a reduced price instead of selling directly to patients, it has brought its U.S. prescription drug business to profitability and improved the company's overall health by eliminating the overhead costs of a direct sales force and administration. The product mix sold during any particular quarter will also influence gross margins.

Total operating expenses during the nine months ended December 31, 2021 of \$6,724,000 decreased by \$664,000, or 9%, compared to \$7,388,000 during the same period last year. The decrease in total operating expenses was primarily related to a reduction in headcount as a result of the EMC deal, partially offset by increased insurance costs.

Net loss from continuing operations for the nine months ended December 31, 2021, was \$2,136,000, compared to a net loss of \$1,183,000 for the same period in prior year. EBITDAS loss for the nine months ended December 31, 2021 of \$2,507,000 was up \$2,355,000, compared to an EBITDAS loss of \$152,000 for the same period last year.

As of December 31, 2021, Sonoma had cash and cash equivalents of \$8.5 million compared to \$4.2 million at March 31, 2021.

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 busdev@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 “goal,” 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 the company may never achieve profitability or continue as a going concern, the company’s dependence on third-party distributors, the company’s exposure to risks from its international operations, its ability to obtain regulatory clearances, the market penetration of its products, 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™ and Microcyn® are trademarks 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, 2021	March 31, 2021
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,529	\$ 4,220
Accounts receivable, net	2,854	2,806
Inventories, net	2,879	2,530
Prepaid expenses and other current assets	3,226	3,218
Current portion of deferred consideration, net of discount	211	209
Total current assets	17,699	12,983
Property and equipment, net	299	360
Operating lease, right of use assets	623	769
Deferred consideration, net of discount, less current portion	651	763
Other assets	75	112
Total assets	\$ 19,347	\$ 14,987
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,583	\$ 1,769
Accrued expenses and other current liabilities	1,292	1,154
Deferred revenue	100	267
Deferred revenue Invekra	52	52
Current portion of debt – PPP	587	–
Current portion of long-term debt	–	596
Operating lease liabilities	261	240
Total current liabilities	3,875	4,078
Long-term deferred revenue Invekra	190	229
Long-term debt, less current portion – PPP	–	1,310
Withholding tax payable	3,751	3,478
Operating lease liabilities, less current portion	362	529
Total liabilities	\$ 8,178	\$ 9,624
Commitments and Contingencies	–	–
Stockholders' Equity:		
Convertible preferred stock, \$0.0001 par value; 714,286 shares authorized at December 31, 2021 and March 31, 2021, 0 shares issued and outstanding at December 31, 2021 and March 31, 2021	–	–
Common stock, \$0.0001 par value; 24,000,000 shares authorized December 31, 2021 and March 31, 2021, 3,099,341 and 2,092,909 shares issued and outstanding at December 31, 2021 and March 31, 2021, respectively	3	2
Additional paid-in capital	197,156	189,217
Accumulated deficit	(181,419)	(179,277)
Accumulated other comprehensive loss	(4,571)	(4,579)
Total stockholders' equity	11,169	5,363
Total liabilities and stockholders' equity	\$ 19,347	\$ 14,987

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,	
	2021	2020	2021	2020
Revenues	\$ 2,902	\$ 4,936	\$ 10,330	\$ 16,472
Cost of revenues	1,699	2,941	6,433	9,719
Gross profit	1,203	1,995	3,897	6,753
Operating expenses				
Research and development	26	33	121	425
Selling, general and administrative	2,135	2,100	6,603	6,963
Total operating expenses	2,161	2,133	6,724	7,388
Loss from operations	(958)	(138)	(2,827)	(635)
Interest income (expense), net	3	(2)	(1)	2
Other income (expense), net	11	(490)	542	(687)
Gain on sale of assets	–	4	150	137
Loss from continuing operations	(944)	(626)	(2,136)	(1,183)
Income tax expense	–	–	(6)	–
Income (loss) from discontinued operations (Note 4)	–	(24)	–	893
Net loss	\$ (944)	\$ (650)	\$ (2,142)	\$ (290)
Net income (loss) per share: basic				
Continuing operations	\$ (0.31)	\$ (0.31)	\$ (0.85)	\$ (0.60)
Discontinued operations	–	(0.01)	–	0.45
Total basic net income (loss) per share	\$ (0.31)	\$ (0.32)	\$ (0.85)	\$ (0.15)
Net income (loss) per share: diluted				
Continuing operations	\$ (0.31)	\$ (0.31)	\$ (0.85)	\$ (0.60)
Discontinued operations	–	(0.01)	–	0.45
Total diluted net income (loss) per share	\$ (0.31)	\$ (0.32)	\$ (0.85)	\$ (0.15)
Weighted-average number of shares used in per common share calculations: basic	3,080	2,052	2,507	1,967
Weighted-average number of shares used in per common share calculations: diluted	3,080	2,052	2,507	1,967
Other comprehensive income (loss)				
Net loss	\$ (944)	\$ (650)	\$ (2,142)	\$ (290)
Foreign currency translation adjustments	(65)	1,020	8	1,375
Comprehensive income (loss)	\$ (1,009)	\$ 370	\$ (2,134)	\$ 1,085

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,	
	2021	2020	2021	2020
(1) Loss from operations minus non-cash expenses				
EBITDAS loss:				
GAAP loss from continuing operations as reported	\$ (958)	\$ (138)	\$ (2,827)	\$ (635)
Non-cash adjustments:				
Stock-based compensation	55	93	169	295
Depreciation and amortization	51	80	151	188
Non-GAAP income (loss) from operations minus non-cash expenses EBITDAS income (loss)	<u>\$ (852)</u>	<u>\$ 35</u>	<u>\$ (2,507)</u>	<u>\$ (152)</u>
(2) Net loss minus non-cash expenses:				
GAAP net loss as reported	\$ (944)	\$ (650)	\$ (2,142)	\$ (290)
Non-cash adjustments:				
Stock-based compensation	55	93	169	295
Depreciation and amortization	51	80	151	188
Non-GAAP net income (loss) minus non-cash expenses	<u>\$ (838)</u>	<u>\$ (477)</u>	<u>\$ (1,822)</u>	<u>\$ 193</u>
(3) Operating expenses minus non-cash expenses				
GAAP operating expenses as reported	\$ 2,161	\$ 2,133	\$ 6,724	\$ 7,388
Non-cash adjustments:				
Stock-based compensation	(55)	(93)	(169)	(295)
Depreciation and amortization	(51)	(80)	(151)	(188)
Non-GAAP operating expenses minus non-cash expenses	<u>\$ 2,055</u>	<u>\$ 1,960</u>	<u>\$ 6,404</u>	<u>\$ 6,905</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. EBITDAS is not meant to be viewed as a substitution of net income or cash flow from operations, both of which are GAAP measures.
- (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. Net income (loss) minus non-cash expenses is not meant to be viewed as a substitution of net income or cash flow from operations, both of which are GAAP measures.
- (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. Operating expenses minus non-cash expenses is not meant to be viewed as a substitution of net income or cash flow from operations, both of which are GAAP measures.

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 December 31,		\$ Change	% Change
	2021	2020		
United States	\$ 933	\$ 1,978	\$ (1,045)	(53%)
Latin America	273	1,307	(1,034)	(79%)
Europe and Rest of the World	1,696	1,651	45	3%
Total	\$ 2,902	\$ 4,936	\$ (2,034)	(41%)

<i>(In thousands)</i>	Nine Months Ended December 31,		\$ Change	% Change
	2021	2020		
United States	\$ 3,872	\$ 5,582	\$ (1,710)	(31%)
Latin America	1,356	5,659	(4,303)	(76%)
Europe and Rest of the World	5,102	5,231	(129)	(3%)
Total	\$ 10,330	\$ 16,472	\$ (6,142)	(37%)

View source version on businesswire.com:

<https://www.businesswire.com/news/home/20220211005532/en/>

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

Source: Sonoma Pharmaceuticals, Inc.