

November 14, 2022



# Sonoma Pharmaceuticals Reports Second Quarter 2023 Financial Results

- *International sales increased by 18% in the six months ended September 30, 2022 compared to the same period prior year*
- *Gross profit percentage continues to trend upwards with the quarter ended September 30, 2022, coming in at 40% compared to 33% same period prior year*
- *Operating loss for the quarter ended September 30, 2022 improved 24% or \$233,000 compared to same period prior year*

**BOULDER, CO / ACCESSWIRE / November 14, 2022** /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 second fiscal quarter and six months ended September 30, 2022.

"We are pleased that our second quarter results show continued progress toward profitability and the successful expansion of our business," said Amy Trombly, CEO of Sonoma. "While our U.S. revenues are still impacted by the conversion of our prescription dermatology business to a now profitable distribution model, we are confident that this transition will generate a positive impact on our future results and allow us to focus on higher margin revenue streams. Increased sales in both Europe and Asia reflect the success of our robust international business, and we continue to launch new products, add distribution partners in the U.S. and internationally, and grow and diversify our existing distributor relationships."

## Business Highlights

Sonoma continued to expand its business by launching new products, building new partnerships and adding to its global regulatory clearances.

- On October 27, 2022, Sonoma launched two new dermatological products for over-the-counter use in the United States. Reliefacyn® Advanced Itch-Burn-Rash-Pain Relief Hydrogel is a new direct to consumer version of a product previously only available by prescription to alleviate symptoms such as red bumps, rashes, shallow skin fissures, peeling, and symptoms of eczema/atopic dermatitis. Rejuvacyn® Advanced Skin Repair Cooling Mist is intended for over-the-counter management of minor skin irritations following cosmetic procedures as well as daily skin health and hydration. Both products are available for distribution and can be purchased directly on our website at <https://sonomapharma.com/shop-now/>.
- We continued to expand our U.S. distributor network by granting Loma Lux Laboratories a non-exclusive right to distribute our products for pain and itch relief under a private label. Information about Loma Lux Laboratories can be found at [lomalux.com](http://lomalux.com). In addition, we expanded our online presence by partnering with Beauty

Bridge, a curated beauty and wellness marketplace, which began selling our Regenacyn® Advanced Scar Gel and Ocucyn® Eyelid & Eyelash Cleanser products on its website. Additional information about Beauty Bridge can be found at [www.beautybridge.com](http://www.beautybridge.com).

- In September 2022, our partner Te Arai BioFarma received regulatory approval to market and sell our Microdacyn and Microdacyn Hydrogel products in Taiwan, increasing the regulatory portfolio of our Microcyn® Technology.

### **Results for the Quarter Ended September 30, 2022**

Revenues for the quarter ended September 30, 2022 of \$3.3 million decreased by \$0.4 million, or 11%, as compared to \$3.7 million for the same period last year. Increased sales in Europe reflected an increase in demand for our wound care products as well as the introduction of several new products. Decreased revenues in the United States were primarily the result of the conversion of our prescription dermatology business into a distribution relationship and a decline in sales of our over-the-counter animal health care products that were partially offset by an increase in wound care and prescription animal health care product sales. Latin America revenue decreased due to a decline in manufacturing for one of our customers. Sonoma's revenues tend to be choppy when viewed on a quarterly basis due to customers placing larger but less frequent orders to benefit from quantity discounts and reduced shipping costs.

For the quarter ended September 30, 2022, Sonoma reported revenues of \$3.3 million and cost of revenues of \$2.0 million, resulting in gross profit of \$1.3 million, or 40% of revenue, compared to a gross profit of \$1.2 million, or 33% of revenue, for the same period last year. Gross margins increased by 7% for the quarter ended September 30, 2022 when compared to the same period last year as a result of increased production in our Mexico manufacturing facility, partially offset by a decline in margins in the Netherlands as a result of product mix and shipping costs to Europe.

Total operating expenses during the second quarter of fiscal year 2023 were \$2.1 million, down \$0.1 million, or 5%, when compared to \$2.2 million during the same period in the prior year. We continue to tightly manage expenses across all of our operations.

Net loss before income tax for the quarter was \$0.9 million, compared to a net loss of \$0.1 million for the same period last year due primarily to the one-time event last year of forgiveness of our PPP loan of \$723,000. EBITDAS loss for the quarter ended September 30, 2022 of \$0.6 million decreased \$0.3 million, compared to an EBITDAS loss of \$0.9 million for the same period last year.

### **Results for the Six Months Ended September 30, 2022**

Revenue of \$7.3 million for the six months ended September 30, 2022 decreased by \$0.1 million, or 2%, from \$7.4 million for the same period last year. Revenues increased in Latin America, Europe and Asia. Decreased sales in the United States were due to the conversion of our prescription dermatology business into a distribution relationship and a decline in sales of our over-the-counter animal health care products that were partially offset by an increase in wound care and prescription animal health care product sales. 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 New Zealand.

For the six months ended September 30, 2022, Sonoma reported revenues of \$7.3 million and cost of revenues of \$4.5 million, resulting in gross profit of \$2.8 million, or 38% of revenues, compared to a gross profit of \$2.7 million or 36% of revenues in the same period last year. The increase in gross profit margin for the six months ended September 30, 2022 was primarily due to the sale of machinery to a customer in Latin America, which management expects to be a one-time event.

Total operating expenses during the six months ended September 30, 2022 of \$4.4 million decreased by \$0.2 million, or 4%, compared to \$4.6 million during the same period last year.

Net loss before taxes for the six months ended September 30, 2022 was \$1.9 million, compared to a net loss before taxes of \$1.2 million for the same period in prior year, due primarily to the one-time event last year of forgiveness of our PPP loan of \$723,000. EBITDAS loss for the six months ended September 30, 2022 of \$1.2 million decreased \$0.5 million, compared to an EBITDAS loss of \$1.7 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 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 "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™ and Microcyn® 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)

<b>ASSETS</b>	<b>September 30, 2022</b>	<b>March 31, 2022</b>
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 3,351	\$ 7,396
Accounts receivable, net	2,487	2,407
Inventories, net	3,025	2,663
Prepaid expenses and other current assets	3,315	3,746
Current portion of deferred consideration, net of discount	215	218
Total current assets	<u>12,393</u>	<u>16,430</u>
Property and equipment, net	305	320
Operating lease, right of use assets	530	559
Deferred tax asset	957	829
Deferred consideration, net of discount, less current portion	539	630
Other assets	238	77
Total assets	<u>\$ 14,962</u>	<u>\$ 18,845</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,074	\$ 1,641
Accrued expenses and other current liabilities	1,789	1,843
Deferred revenue	100	1,223
Deferred revenue Invekra	53	54
Current portion of debt-PPP	-	120
Short-term debt	229	688
Operating lease liabilities	282	250
Total current liabilities	<u>3,527</u>	<u>5,819</u>
Long-term deferred revenue Invekra	138	182
Long-term debt	15	-
Withholding tax payable	4,013	3,838
Operating lease liabilities, less current portion	248	309
Total liabilities	<u>\$ 7,941</u>	<u>\$ 10,148</u>
Commitments and Contingencies		
Stockholders' Equity		
Convertible preferred stock, \$0.0001 par value; 714,286 shares authorized at September 30, 2022 and March 31, 2022, respectively, no shares issued and outstanding at September 30, 2022 and March 31, 2022, respectively	-	-
Common stock, \$0.0001 par value; 24,000,000 shares authorized at September 30, 2022 and March 31, 2022, respectively, 3,102,972 and 3,100,937 shares issued and outstanding at September 30, 2022 and March 31, 2022, respectively	2	2
Additional paid-in capital	197,697	197,370
Accumulated deficit	(186,267 )	(184,363 )
Accumulated other comprehensive loss	(4,411 )	(4,312 )
Total stockholders' equity	<u>7,021</u>	<u>8,697</u>
Total liabilities and stockholders' equity	<u>\$ 14,962</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 September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
Revenues	\$ 3,331	\$ 3,744	\$ 7,314	\$ 7,428
Cost of revenues	1,995	2,503	4,532	4,734
Gross profit	1,336	1,241	2,782	2,694
Operating expenses				
Research and development	-	10	6	95
Selling, general and administrative	2,067	2,195	4,362	4,468
Total operating expenses	2,067	2,205	4,368	4,563
Loss from operations	(731 )	(964 )	(1,586 )	(1,869 )
Interest income (expense), net	3	(4 )	3	(5 )
Other income (expense), net	(189 )	723	(256 )	531
Gain on sale of assets	-	150	-	150
Loss before income taxes	(917 )	(95 )	(1,839 )	(1,193 )
Income tax benefit (expense)	(100 )	(5 )	(65 )	(5 )
Net loss	\$ (1,017 )	\$ (100 )	\$ (1,904 )	\$ (1,198 )
Net loss per share: basic	\$ (0.33 )	\$ (0.04 )	\$ (0.61 )	\$ (0.54 )
Net loss per share: diluted	\$ (0.33 )	\$ (0.04 )	\$ (0.61 )	\$ (0.54 )
Weighted-average number of shares: basic	3,101	2,344	3,101	2,219
Weighted-average number of shares: diluted	3,101	2,344	3,101	2,219
Other comprehensive loss				
Net loss	\$ (1,017 )	\$ (100 )	\$ (1,904 )	\$ (1,198 )
Foreign currency translation adjustments	(34 )	(234 )	(99 )	73
Comprehensive loss	\$ (1,051 )	\$ (334 )	\$ (2,003 )	\$ (1,125 )

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
<b>(1) Loss from operations minus non-cash expenses EBITDAS loss:</b>				
GAAP operating loss as reported	\$ (731 )	\$ (964 )	\$ (1,586 )	\$ (1,869 )
Non-cash adjustments:				
Stock-based compensation	113	55	327	114
Depreciation and amortization	<u>29</u>	<u>51</u>	<u>59</u>	<u>100</u>
Non-GAAP income (loss) from operations minus non-cash expenses EBITDAS income (loss)	<u>\$ (589 )</u>	<u>\$ (858 )</u>	<u>\$ (1,200 )</u>	<u>\$ (1,655 )</u>
<b>(2) Net loss minus non-cash and one-time expenses:</b>				
GAAP net income (loss) as reported	\$ (1,017 )	\$ (100 )	\$ (1,904 )	\$ (1,198 )
Non-cash adjustments:				
Stock-based compensation	113	55	327	114
Non-cash foreign exchange transaction losses	189	-	256	192
Income taxes	100	5	65	5
Forgiveness of PPP loan	-	(723 )	-	(723 )
Depreciation and amortization	<u>29</u>	<u>51</u>	<u>59</u>	<u>100</u>
Non-GAAP net income (loss) minus non-cash expenses	<u>\$ (586 )</u>	<u>\$ (712 )</u>	<u>\$ (1,197 )</u>	<u>\$ (1,510 )</u>
<b>(3) Operating expenses minus non-cash expenses</b>				
GAAP operating expenses as reported	\$ 2,067	\$ 2,205	\$ 4,368	\$ 4,563
Non-cash adjustments:				
Stock-based compensation	(113 )	(55 )	(327 )	(114 )
Depreciation and amortization	<u>(29 )</u>	<u>(51 )</u>	<u>(59 )</u>	<u>(100 )</u>
Non-GAAP operating expenses minus non-cash expenses	<u>\$ 1,925</u>	<u>\$ 2,099</u>	<u>\$ 3,982</u>	<u>\$ 4,349</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.
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.
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>	<b>Three Months Ended September 30,</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>2022</b>	<b>2021</b>		
United States	\$ 973	\$ 1,347	\$ (374 )	(28 %)
Europe	1,170	919	251	27 %
Asia	330	437	(107 )	(24 %)
Latin America	394	518	(124 )	(24 %)
Rest of the World	464	523	(59 )	(11 %)
<b>Total</b>	<b>\$ 3,331</b>	<b>\$ 3,744</b>	<b>\$ (413 )</b>	<b>(11 %)</b>

  

<i>(In thousands)</i>	<b>Six Months Ended September 30,</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>2022</b>	<b>2021</b>		
United States	\$ 1,842	\$ 2,939	\$ (1,097 )	(37 %)
Europe	2,012	1,688	324	19 %
Asia	1,155	638	517	81 %
Latin America	1,444	1,083	361	33 %
Rest of the World	861	1,080	(219 )	(20 %)
<b>Total</b>	<b>\$ 7,314</b>	<b>\$ 7,428</b>	<b>\$ (114 )</b>	<b>(2 %)</b>

**SOURCE:** Sonoma Pharmaceuticals, Inc.

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