

July 10, 2020



Sonoma Pharmaceuticals Reports Fiscal Year and Fourth Quarter 2020 Financial Results

- **Reduction in Year-Over-Year Net Loss by 75%**
- **Total Revenues Flat Year-Over-Year at \$18.9 million**
- **Strong International Growth with 53% Increased Product Revenues**

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 and dermatological conditions today announced financial results for fiscal year 2020 and the fourth quarter ended March 31, 2020.

“We began this fiscal year with a goal of reducing our losses and cash burn and are pleased with an 75% drop in our net loss while maintaining revenues,” said Amy Trombly, CEO of Sonoma Pharmaceuticals. “We are now on a stronger foundation on which to grow revenues and margins. During the pandemic, we have seen demand for our Microcyn® technology-based products increase globally and we continue to build and improve upon our experience in killing pathogens with a safe, non-toxic product. One of our key strengths is innovating products for specific markets and we are working to expand our existing sales channels, as well as to develop new partnerships to distribute our Microcyn-powered products in the U.S. and around the world.”

Business Highlights

The COVID-19 pandemic has influenced the Company in positive and negative ways. The pandemic has increased worldwide demand for virucidal and disinfectant technology, areas that Microcyn™ technology has been shown to be effective. On May 28, 2020, the Company announced that its partner MicroSafe Group, Dubai and MicroSafe Care Australia received approval for their patented and trademarked Nanocyn® Disinfectant & Sanitizer, which is manufactured by Sonoma using its patented Microcyn Technology, to be entered into the Australian Register of Therapeutic Goods (ARTG) for use against SARS-CoV-2 (COVID-19). Claims that a disinfectant has a virucidal effect must be expressly permitted by the Australian Therapeutic Goods Administration before being used in consumer advertising (including on the label) in Australia.

Sonoma's increased international sales reflect, in part, Sonoma's work with key partners to expand their territories and product offerings. Over the last year, Sonoma expanded its agreement with Petagon, Ltd. for certain international animal health care rights, Microsafe Group for certain European, Middle Eastern and Australian disinfectant markets and Brill International, S.L. for certain eye care products in Europe. Sonoma also received a new CE

mark in Europe in April 2020 related to eye care.

Moreover, during fiscal year 2020, Sonoma's partnership with Manna Pro Products, LLC for animal health care products expanded with several new products and sales channels, such as PetSmart, Chewy.com and Tractor Supply Company stores. This resulted in annual revenues of over \$2 million, the most in Sonoma's animal health care division's history.

The COVID-19 pandemic has also created challenges in U.S. dermatology sales which have been primarily marketed via a direct sales force which calls on dermatologists. As states began their shelter-in-place process in March, many doctors shut their offices to outside sales representatives or closed their offices entirely. Sonoma's sales representatives were unable to do in-person sales and revenues declined. The decrease continued through April and May of this year but June 2020 has brought increased sales for some products. Management is closely tracking sales in this division and exploring alternative ways to sell dermatology products that do not need face to face interactions. Sonoma also expanded its strategy to seek distribution partners for its U.S. dermatology products instead of solely relying on an internal sales force.

Results for the Quarter Ended March 31, 2020

Total revenue of \$4.6 million for the fourth quarter ended March 31, 2020, increased by \$197,000, or 5%, from \$4.4 million for the same period last year. Product revenues of \$4.3 million for the fourth quarter ended March 31, 2020, were up by 5%, or \$193,000, when compared to \$4.1 million in the same period last year, largely as the result of increased sales in Latin America, Europe and Rest of World.

During the quarter ended March 31, 2020, Sonoma reported total revenues of \$4.6 million and cost of revenues of \$3.1 million resulting in total gross profit of \$1.5 million, or 33% of total revenue, compared to a gross profit of \$1.9 million, or 43% of total revenue in the same period last year. The reduction in gross profit margin is related to a one-time adjustment of \$510,000 for obsolete inventory in the Mexico facility.

Total operating expenses during the fourth quarter of fiscal year 2020 were \$4.3 million, down \$308,000, or 7%, as compared to the same period in the prior year. This decrease in operating expenses was primarily due to lower employee costs resulting from a reduction in headcount combined with a refocusing of the business activities resulting in cost-reductions across all divisions.

Net loss for the fourth quarter of fiscal 2020 was \$1.4 million, down by \$1.9 million, or 58%, compared to the same period last year. The decrease in net loss was due to a decrease in operating expenses and a gain on sale of assets to Microsafe. EBITDAS loss for the fourth quarter of fiscal 2020 of \$2.4 million, was up by \$91,000, or 4%, compared to an EBITDAS loss of \$2.3 million for the same period last year.

As of March 31, 2020, Sonoma had cash and cash equivalents of \$3.7 million.

Results for the Year Ended March 31, 2020

Total revenues for the year ended March 31, 2020 of \$18.9 million decreased marginally by \$34,000 as compared to \$19.0 for the year ended March 31, 2019. Product revenues for the

year ended March 31, 2020 of \$17.8 million decreased by \$104,000, or 1%, as compared to \$17.9 million for the year ended March 31, 2019. The product revenue consisted of a decrease in product revenue of \$2.4 million, or 27%, in the United States, a decrease in product revenue of \$278,000, or 7%, in Latin America, offset by growth of product revenue of \$2.6 million, or 53%, in Europe and Rest of World.

For the year ended March 31, 2020, Sonoma reported total revenues of \$18.9 million and total cost of revenues of \$10.6 million, resulting in total gross profit of \$8.3 million, or 44% of total revenues, compared to a gross profit of \$8.9 million, or 47% of total revenues, for the same period in the prior year. The reduction in gross profit margin is related to a one-time adjustment of \$510,000 for obsolete inventory in the Mexico facility.

Total operating expenses during fiscal year 2020 were \$15.0 million, down \$5.1 million, or 26%, as compared to the same period in the prior year. This decrease in operating expenses was primarily due to lower employee costs resulting from a reduction in headcount combined with a refocusing of the business activities resulting in cost-reductions across all divisions.

Net loss during fiscal year 2020 was \$2.9 million, down \$8.9 million, or 75%, compared to the same period last year. EBITDAS loss for fiscal 2020 of \$5.5 million, was down \$3.7 million, or 40%, compared to an EBITDAS loss of \$9.2 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, 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 53 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," "reduce," "develop" 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
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

| | March 31 | |
|---|------------------|------------------|
| | 2020 | 2019 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,691 | \$ 3,689 |
| Accounts receivable, net | 4,062 | 3,481 |
| Inventories | 2,192 | 3,409 |
| Prepaid expenses and other current assets | 2,256 | 1,694 |
| Current portion of deferred consideration, net of discount | 182 | 223 |
| Total current assets | 12,383 | 12,496 |
| Property and equipment, net | 365 | 727 |
| Operating lease, right of use assets | 963 | — |
| Deferred consideration, net of discount, less current portion | 786 | 1,103 |
| Other assets | 64 | 122 |
| Total assets | <u>\$ 14,561</u> | <u>\$ 14,448</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,086 | \$ 1,255 |
| Accrued expenses and other current liabilities | 1,774 | 1,501 |
| Deferred revenue | 228 | 47 |
| Deferred revenue Invekra | 45 | 55 |
| Current portion of long-term debt | 481 | 322 |
| Operating lease liabilities | 251 | — |
| Current portion of finance leases | — | 141 |
| Common stock liability | — | 270 |
| Total current liabilities | 4,865 | 3,591 |
| Long-term deferred revenue Invekra | 245 | 356 |
| Long-term debt, less current portion | — | 12 |
| Operating lease liabilities, less current portion | 746 | — |
| Total liabilities | 5,856 | 3,959 |
| Commitments and Contingencies | | |
| Stockholders' Equity | | |
| Convertible preferred stock, \$0.0001 par value; 714,286 shares authorized at March 31, 2020 and March 31, 2019, respectively, 1.55 shares issued and outstanding at March 31, 2020 and March 31, 2019, respectively | — | — |
| Common stock, \$0.0001 par value; 24,000,000 shares authorized at March 31, 2020 and March 31, 2019, respectively, 1,777,483 and 1,316,335 shares issued and outstanding at March 31, 2020 and March 31, 2019, respectively | 2 | 2 |
| Additional paid-in capital | 186,559 | 184,074 |
| Accumulated deficit | (172,246) | (169,238) |
| Accumulated other comprehensive loss | (5,610) | (4,349) |
| Total stockholders' equity | 8,705 | 10,489 |
| Total liabilities and stockholders' equity | <u>\$ 14,561</u> | <u>\$ 14,448</u> |

SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(In thousands, except per share amounts)

| | Three Months Ended March 31, (Unaudited) | | Year Ended March 31, | |
|---|--|-------------------|-------------------------|--------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Revenues | | | | |
| Product | \$ 4,299 | \$ 4,106 | \$ 17,777 | \$ 17,881 |
| Service | 280 | 276 | 1,159 | 1,089 |
| Total revenues | <u>4,579</u> | <u>4,382</u> | <u>18,936</u> | <u>18,970</u> |
| Cost of revenues | | | | |
| Product | 2,935 | 2,328 | 10,082 | 9,334 |
| Service | 130 | 179 | 521 | 756 |
| Total cost of revenues | <u>3,065</u> | <u>2,507</u> | <u>10,603</u> | <u>10,090</u> |
| Gross profit | <u>1,514</u> | <u>1,875</u> | <u>8,333</u> | <u>8,880</u> |
| Operating expenses | | | | |
| Research and development | 483 | 327 | 1,339 | 1,518 |
| Selling, general and administrative | 3,788 | 4,252 | 13,665 | 18,620 |
| Total operating expenses | <u>4,271</u> | <u>4,579</u> | <u>15,004</u> | <u>20,138</u> |
| Loss from operations | <u>(2,757)</u> | <u>(2,704)</u> | <u>(6,671)</u> | <u>(11,258)</u> |
| Interest expense | (3) | (7) | (16) | (33) |
| Interest income | 8 | 51 | 50 | 190 |
| Gain on sale of assets | 1,100 | — | 3,572 | — |
| Other income (expense), net | 399 | (104) | 240 | (239) |
| Loss before income taxes | <u>(1,253)</u> | <u>(2,764)</u> | <u>(2,825)</u> | <u>(11,340)</u> |
| Income tax expense | <u>(121)</u> | <u>(458)</u> | <u>(121)</u> | <u>(458)</u> |
| Net loss | <u>\$ (1,374)</u> | <u>\$ (3,222)</u> | <u>\$ (2,946)</u> | <u>\$ (11,798)</u> |
| Net loss per share: basic and diluted | <u>\$ (0.77)</u> | <u>\$ (2.45)</u> | <u>\$ (1.99)</u> | <u>\$ (12.77)</u> |
| Weighted-average number of shares used in per share calculations: basic and diluted | <u>1,777</u> | <u>1,318</u> | <u>1,477</u> | <u>924</u> |
| Other comprehensive loss | | | | |
| Net loss | \$ (1,374) | \$ (3,222) | \$ (2,946) | \$ (11,798) |
| Foreign currency translation adjustments | (1,429) | 69 | (1,261) | (374) |
| Comprehensive loss | <u>\$ (2,803)</u> | <u>\$ (3,153)</u> | <u>\$ (4,207)</u> | <u>\$ (12,172)</u> |

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

| | Three Months Ended March 31, | | Year Ended March 31, | |
|---|---|-------------------|---------------------------------|-------------------|
| | 2020 | 2019 | 2020 | 2019 |
| (1) Loss from operations minus non-cash expenses EBITDAS loss: | | | | |
| GAAP loss from operations as reported | \$ (2,757) | \$ (2,704) | \$ (6,671) | \$ (11,258) |
| Non-cash adjustments: | | | | |
| Stock-based compensation | 301 | 301 | 839 | 1,635 |
| Depreciation and amortization | 68 | 106 | 312 | 453 |
| Non-GAAP loss from operations minus non-cash expenses EBITDAS loss | <u>\$ (2,388)</u> | <u>\$ (2,297)</u> | <u>\$ (5,520)</u> | <u>\$ (9,170)</u> |
| (2) Net loss minus non-cash expenses: | | | | |
| GAAP net (loss) income as reported | \$ (1,374) | \$ (3,222) | \$ (2,946) | \$ (11,798) |
| Non-cash adjustments: | | | | |
| Stock-based compensation | 301 | 301 | 839 | 1,635 |
| Depreciation and amortization | 68 | 106 | 312 | 453 |
| Non-GAAP net (loss) income minus non-cash expenses | <u>\$ (1,005)</u> | <u>\$ (2,815)</u> | <u>\$ (1,795)</u> | <u>\$ (9,710)</u> |
| (3) Operating expenses minus non-cash expenses | | | | |
| GAAP operating expenses as reported | \$ 4,271 | \$ 4,579 | \$ 15,004 | \$ 20,138 |
| Non-cash adjustments: | | | | |
| Stock-based compensation | (259) | (300) | (745) | (1,545) |
| Depreciation and amortization | (63) | (52) | (106) | (221) |
| Non-GAAP operating expenses minus non-cash expenses | <u>\$ 3,949</u> | <u>\$ 4,227</u> | <u>\$ 14,153</u> | <u>\$ 18,372</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 shows the Company's product revenues by geographic region

| | Three Months Ended March 31, | | | |
|------------------------------|---|-----------------|------------------|-----------------|
| | 2020 | 2019 | \$ Change | % Change |
| United States | \$ 1,546 | \$ 1,666 | \$ (120) | 7% |
| Latin America | 1,107 | 957 | 150 | 16% |
| Europe and Rest of the World | 1,646 | 1,483 | 163 | 11% |
| Total | <u>\$ 4,299</u> | <u>\$ 4,106</u> | <u>\$ 193</u> | <u>5%</u> |

| | Year Ended March 31, | | \$ Change | % Change |
|------------------------------|----------------------|------------------|-----------------|-----------|
| | 2020 | 2019 | | |
| United States | \$ 6,633 | \$ 9,040 | \$ (2,407) | 27% |
| Latin America | 3,684 | 3,962 | (278) | 7% |
| Europe and Rest of the World | 7,460 | 4,879 | 2,581 | 53% |
| Total | <u>\$ 17,777</u> | <u>\$ 17,881</u> | <u>\$ (104)</u> | <u>1%</u> |

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