Trickle Research

Every raging river, every great lake, every deep blue sea starts … with a trickle

Allocation Increase & Post-Split Target Adjustment

Sonoma Pharmaceuticals, Inc.

(NASDAQ: SNOA)

Report Date: 08/26/25

12- 24 month Price Target: *$12.00

Allocation: **5

Closing Stock Price at Initiation (Closing Px: 05/11/23, adjusted for 1:20 Split): $20.60

Closing Stock Price at Target Decrease (Closing Px: 07/15/24): $7.80

Closing Stock Price at This Allocation Increase and Post-Split Target Decrease (Closing Px: 08/26/25): $4.82

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Disclosure: Portions of this report are excerpted from Sonoma's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

We initiated coverage of Sonoma over two years ago, and much of our enthusiasm centered on what we believe is the efficacy and versatility of their product(s). to briefly recap from their most recent 10K:

> *"…Sonoma is a global healthcare leader for developing and producing stabilized hypochlorous acid, or HOCl, products for a wide range of applications, including wound care, eye care, oral care, dermatological conditions, podiatry, animal health care and non-toxic disinfectants. Their products are clinically proven to reduce itch, pain, scarring, and irritation safely and without damaging healthy tissue. In-vitro and clinical studies of HOCl show it to safely manage skin abrasions, lacerations, minor irritations, cuts, and intact skin. We sell our products either directly or via partners in over 55 countries worldwide".*

More specifically, from our initiating coverage:

> *Hypochlorous acid is produced by the white blood cells (neutrophils) of all mammals as part of their (our) immune systems. More specifically from Wound Care Healing Network (Hypochlorous Acid: An Ideal Wound Care Agent With Powerful Microbicidal, Antibiofilm, and Wound Healing Potency (Hypochlorous Acid: An Ideal Wound Care Agent With Powerful Microbicidal, Antibiofilm, and Wound Healing Potency). "One of the remarkable features of the immune system against invading pathogens is its ability to generate an effective and rapid response by developing a group of highly reactive chemicals, such as reactive oxygen species (ROS). The mitochondrial membrane-bound enzyme nicotinamide adenine dinucleotide phosphate-oxidase (NADPH) is a primary enzyme responsible for ROS production. During the activation of neutrophils, respiratory bursts generate hydrogen peroxide (H2O2) and the activated granule enzyme myeloperoxidase converts H2O2 to hypochlorous acid (HOCl) in the presence of Cl- and H+. Hypochlorous acid leads to cell death by the oxidation of sulfhydryl enzymes and amino acids, ring chlorination of amino acids, loss of intracellular contents, decreased uptake of nutrients, inhibition of protein synthesis, decreased oxygen uptake, oxidation of respiratory components, decreased adenosine triphosphate production, breaks in DNA, and depressed DNA synthesis. Hypochlorous acid is highly active against all bacterial, viral, and fungal human pathogens and a small amount of HOCl can kill spore-forming and non-spore bacteria in a short time period".*

To translate, HOCl is produced naturally in our bodies, and it is the chemical that our immune system uses to kill pathogens. It is well established that HOCl is a highly effective defense against pathogens. Further, producing HOCl is relatively simple, in that it is the product of electrolyzing salt water. As a result, HOCl can be produced easily, and inexpensively. However, the problem with HOCl is that once it is electrolyzed/produced, it begins to break down and turn back into water and its other constituent parts (chlorine for instance). In a natural setting, that process of degradation will occur in a matter of days depending on the ambient conditions around it (temperature, light and access to oxygen). Recognize, Sonoma's business is driven by/dependent on, the technology they have developed that allows them to produce HOCl with a considerable shelf life (years as opposed to days), which in turn allows them to produce and sell commercial products, that, absent a reasonable shelf life, would not be practical.

In addition to the extended shelf lives of its collective products, Sonoma has also added another layer of value to its product suite. In short, Sonoma does not sell any product into any country/jurisdiction without the prior established clearance of that jurisdiction's applicable health authority. For instance, each product the Company sells in the U.S., is cleared through the U.S. Food and Drug Administration's 510K process, which requires some level of clinical rigor/study around biocompatibility and performance testing through the Agency for specific applications.

To summarize the above, Sonoma's approach is to develop shelf stable HOCl products for various applications including wound care, eye care, dermatological care, irrigations, animal products and a host of

others, that are all certified by healthcare authorities in various countries and jurisdictions. Their portfolio in that regard includes 50 active U.S. and international patents, 22 U.S. FDA 510K clearances, 25 CE Mark clearances (Europe), and established sales in 55 countries. Further, the Company has historically deployed an "asset lite" sales and marketing approach that largely relies on over 40 distribution agreements to market its products in various parts of the world.

Given the above refresher, Sonoma has achieved some recent milestones that we think could be highly additive to the story and perhaps transformational going forward. Below are two of those milestones:

> *BOULDER, CO / ACCESS Newswire / **August 13, 2025** / Sonoma Pharmaceuticals, Inc. (Nasdaq:SNOA), a global healthcare leader developing and producing patented Microcyn® technology based stabilized hypochlorous acid (HOCl) products for a wide range of applications, including wound care, eye, oral and nasal care, dermatological conditions, podiatry, and animal health care, today announced the launch of its HOCl-based diaper rash product for infants and children into large retailers in the United States.*
>
> *The antimicrobial hydrogel is being marketed and sold through Sonoma's U.S.-based distribution partner. The diaper rash product is currently carried in 3,600 Walmart stores, Amazon.com, and certain large grocery chains.*
>
> *"We are excited to see our strategy of expanding into the over-the-counter space begin to take hold with our first U.S. product targeted to consumers launched into large scale retail channels," said Amy Trombly, CEO of Sonoma. "We are also pleased about the increased availability of our Microcyn technology for consumers who seek safe and effective solutions for diaper rash and other skin irritations."*

Recognize, this particular announcement was originally referred to in an 8-K filing from January 29, 2025 and amended on March 21, 2025:

> *As previously disclosed, effective January 29, 2025, we entered into a Master Supply Agreement (the "Master Supply Agreement") with WellSpring Pharmaceutical Corporation ("WellSpring") for the sale of Microcyn® technology-based products to large retailers in the United States. The Master Supply Agreement is for an initial term of two years, subject to three automatic one-year renewal periods.*
>
> ***On March 21, 2025, we entered into an Amendment No. 1 to the Master Supply Agreement ("Amendment No. 1") with WellSpring for the sale of additional Microcyn technology-based products.***

There are a few takeaways from these announcements that we think are important…on different levels.

First, to edify, the original agreement from 01/29/25 was related to some number of Microcyn® based products, while the second expanded the number of Microcyn® products added by the amendment. Given the chronology here, we are assuming that the diaper rash product referenced above is likely the first of the products that are (will be) distributed/marketed by WellSpring. That is, we suspect, given the amendment, that other Sonoma products may end up on the shelves of large retail chains in the coming quarters as well.

Second, in case it is not clear, Sonoma management's approach to announcements of this nature is in our view, quite "conservative". Specifically, they have not provided much information about their partner WellSpring, and further to that notion, they did not provide any reference to the product that Wellspring

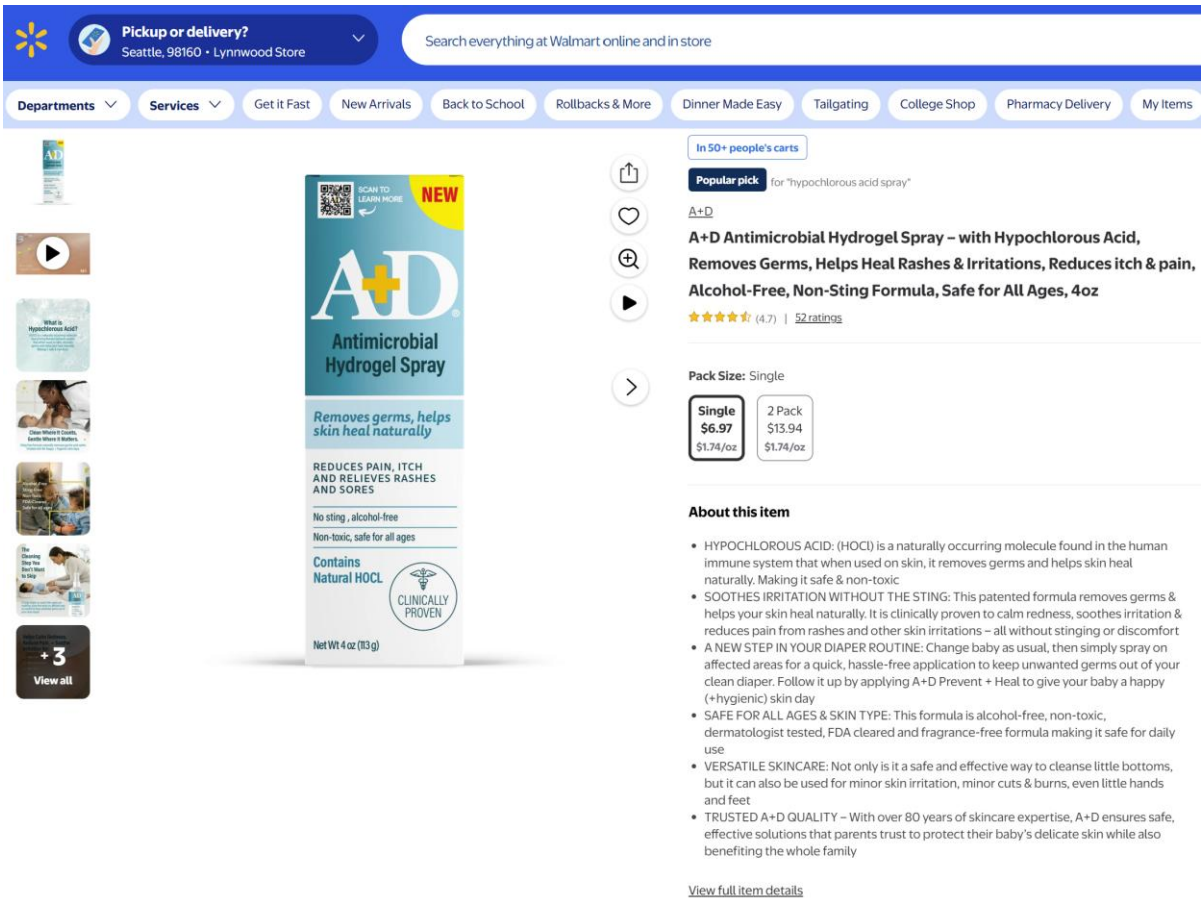
would be marketing to Walmart, Amazon and ostensibly others. Below is some color on each, because again, we think these are telling.

From WellSpring's website (https://wellspringpharm.com/about-us/):

> *WellSpring Pharmaceutical Corporation founded in 1999, is a privately held company focused on the development, manufacturing and marketing of consumer healthcare products. The company markets numerous trusted over-the-counter and personal care brands in the United States and Canada through its consumer products unit, WellSpring Consumer HealthCare.*

WellSpring distributes and/or owns several well-known brands, including Bactine®, Bonine®, A+D (ointment) and others. Specifically, A+D is an 80+-year-old brand, which today we believe includes (now) 8 different products addressing both infant and adult conditions. Industry estimates suggest that A+D is among the top 5 diaper rash creams that collectively control 75% of the roughly $2 billion diaper rash cream market. Obviously, WellSpring has well established distribution relationships with large retailers including Walmart, as well as products with both brand recognition and brand loyalty.

Recognize, WellSpring's distribution agreement with Sonoma does not involve a Sonoma branded product. Rather, it includes a ("white-label") A+D branded HOCl product. The graphic below is a screen shot of the product at Walmart:



In our view, the inclusion of Sonoma's HOCl formulary inside an established, well-known brand is a "best case scenario" for Sonoma. That is, we think the path to getting a Sonoma branded product onto the same shelf, would have been markedly more difficult and building the same customer awareness and presumably similar adoption unlikely. We would add, as the ratings above reflect, the product's initial launch appears to be well received. The reviews on Amazon are also collectively quite positive.

Beyond the above distribution advantages, we also think this deal provides some validation in terms of perhaps the strength of Sonoma's offering(s) relative to other potential HOCl competitors, which frankly, has been an issue that we have not always felt we had good visibility around. We think those strengths include many attributes like superior shelf life, production capabilities/scale, broad patent protection, efficacy and safety studies including a constructive history of consumer use of their products, extensive international health authority clearances, and others. In short, we think WellSpring likely considered all these attributes before they chose to use Sonoma's technology in an 80+year old successful brand. While we submit, it's too early to ascertain the impact of this product, or for that matter the likelihood of WellSpring perhaps introducing additional HOCl products with "Sonoma Inside", this may be the most significant development in the Company since we initiated our coverage.

Beyond WellSpring, in August (2024), Sonoma announced the following:

> *BOULDER, CO / ACCESSWIRE / August 21, 2024 / Sonoma Pharmaceuticals, Inc. (Nasdaq:SNOA), a global healthcare leader developing and producing patented Microcyn® technology based stabilized hypochlorous acid (HOCl) products for a wide range of applications, including wound care, eye, oral and nasal care, dermatological conditions, podiatry, and animal health care, today announced that it has entered into a distribution agreement with a leading global healthcare distributor for the marketing and distribution of its wound care products in the United States.*
>
> *The agreement provides for the distribution of Sonoma's wound care products through an existing and extensive network of hospital systems and other healthcare channels in the United States.*
>
> *"This partnership represents a huge step forward in the expansion of our wound care business in the United States," said Amy Trombly, CEO of Sonoma. "We are looking forward to working with a leading U.S.-based healthcare company, whose extensive distribution network will bring the benefits of our Microcyn technology to hospitals and other healthcare settings across the country."*

Here again, one needs to look back into the 8-K to find out that in this case, the distribution agreement is with Medline Industries. According to Forbes, *"Medline It is the nation's largest privately held manufacturer and distributor of medical supplies providing products, education, clinical programs and services across the continuum of care with operations in over 125 countries and territories. In 2022, Medline had sales of $21.2 billion. Medline is ranked at #15 on the Forbes 2022 list of largest privately held companies in America and employs over 35,000 people"*. According to Medline, they are "*the largest provider of medical-surgical products and supply chain solutions serving all points of care"*. We believe that Medline sells products/supplies into nearly every hospital in the U.S.

In our opinion, this announcement also represented a validating event for Sonoma and as some of those following the stock might recall, in mid-2023, Sonoma announced a new *"application for intraoperative pulse lavage irrigation treatment, which can replace commonly used IV bags in a variety of surgical procedures*". This announcement addresses the introduction in Europe, and alluded to expectations for a 2024 commercial launch in the U.S. We believe the above noted agreement with Medline addresses this pulse lavage application, which can essentially replace the use of saline to irrigate/clean a host of surgical procedures with the added benefit of killing any pathogens that might be associated with the wound.

As we recall, they actually launched the pulse lavage system commercially in the U.S. in late 2023, which we thought would lead to initial and then accelerating sales through 2024. However, in retrospect, success in that regard was going to require an established distributor into the hospital space, and in that regard, the Medline announcement represented an agreement with perhaps the largest distributor in the space. That said, as we understand it, the Company and Medline have spent the past year getting the product approved, coded and into various hospitals across the U.S. Ostensibly, that process generally takes 1-2 year to complete, (a time frame we did not have visibility around) but we believe they are just beginning to roll the product out into hospitals.

Briefly, irrigation is a standard of care *in millions* of surgeries in the U.S each year. If Medline is successful in driving adoption of Sonoma's Microcyn® technology in even a small portion of the procedures, the impact for Sonoma could be considerable. Moreover, we believe they can provide the product at costs in line with ordinary saline. In our view, this one product alone would have *the potential* to generate revenue contributions that could be multiples of the Company's current run rate.

We believe the new WellSpring agreement, along with what looks to be the commencement of sales of the pulse lavage product through Medline, may set the stage for breakout growth at Sonoma across the remainder of F26 and throughout F27. Further, it looks to us like each of these new distribution agreements could include additional products in the future.

In retrospect, we have spent much of our coverage of Sonoma being wrong, or at least early as the case may be. However, as we noted in a prior update, we think part of our error has been assuming that their growth would be something relatively linear. Rather, we think the setup here is geared to something more like we are starting to see playout. That is, Somona advancing new indications for their core technology and ultimately attracting large, entrenched distributors that recognize the superior safety, efficacy and overall advantages of shelf stable HOCl. We submit that process has taken some time, and we are not suggesting that we have good validation or visibility toward its proliferation, but it appears to us that the strategy might be gathering momentum. To that end we would add, the June 30, 2025 (Q1F26) numbers reflected the Company's best revenue performance since the pandemic when online sales of anything anti-microbial were breaking sales records. In addition, the quarter also reflected the Company's highest inventory level in years. We recognize that could be good news or bad news depending on the situation, but in this case, we see that inventory build as a tell with respect to expectations for sales through the new distribution arrangements we covered above.

Lastly, we suspect the Company will take advantage of the recent advances in the share price to sell some shares through the existing ATM, which while dilutive, should put some additional liquidity on the balance sheet and alleviate some of the "going concern" issues they wrestle with. We are hopeful that new levels of business may get them to positive cash flow allowing them to avoid further future dilution, which frankly, we think would be highly positive for the share price.

As a result of these developments, we are establishing a new (post 1-for-20 reverse stock split) 12-24 month price target of *$12.00, and we are raising our allocation from 4 to **5. Moreover, we think there are scenarios that could play out that could support higher targets. We will revisit these as additional data points arise.

Projected Operating Model

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Trickle Research co-sponsors two microcap conferences each year. Trickle Research encourages its coverage companies to present at those conferences and Trickle charges them a fee to do so. Companies are under no obligation to present at these conferences. Sonoma Pharmaceuticals has paid fees to present at Trickle co-sponsored conferences and we will encourage them to do so in the future.

Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals $250) and 10 representing 10 investment units or $2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit $25,000 to buying micro-cap stocks, that would assume an investment of $1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at $1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same $250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting $1000 into the position ($250 * 4). If we later raise the allocation to 6, you might consider adding two additional units or $500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Hold" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.