Research Update

Sonoma Pharmaceuticals, Inc.

(NASDAQ: SNOA)

Report Date: 11/17/25

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

Closing Stock Price at This Update (Closing Px: 11/17/25): $3.53

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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.

In August (2025) we provided an allocation increase and corresponding update on Sonoma, and much of that update and our associated enthusiasm dealt with some new business the Company has added recently, including a new product collaboration with WellSpring Pharmaceutical Corporation's A+D Ointment brand, which is an antimicrobial hydrogel spray for diaper rash. To refresh, 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. The new A+D hydrogel with "Microcyn inside", is now available at Walmart and other large retailers, which we believe contributed to the Company's comparative 2QF26 (ended September 30, 2025) revenue expansion.

Specifically, for 2QF26, the Company posted revenues of $5.6 million versus 2QF25 revenues of $3.6 million, and that compared to our 2QF26 revenue estimate of $4.6 million. Operating losses for the two comparative quarters reflected an improvement from 2QF25 of $807,000 to $337,000 for 2QF26. Also, that compared to our estimate of a loss of $290,000 for 2QF26. Generally, we would have expected a bit better operating results given the considerable revenue bump, but 2QF26 included some increases in Research and Development, which they noted was *"primarily due to increased product development to support new product releases"*. It also included higher SG&A expenses which they attributed to *"ongoing efforts to generate increased revenues across all geographic regions"*. As we note below, we are still wrestling a bit with the margins around the new distributor relationships. This brings us to a handful of salient points.

In our previous update and allocation increase (08/26/25), we touched on two new product introductions, that given the 2QF26 results, look to us like they are beginning to gather sales momentum. The first of these which we alluded to above, was the A+D antimicrobial hydrogel spray, which given the revenue bump, we assume impacted 2QF26 directly. The second of these was/is an agreement with Medline, wherein Medline would be distributing Sonoma's *application for intraoperative pulse lavage irrigation treatment, which can replace commonly used IV bags in a variety of surgical procedures*". Recall, Medline 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"*. Medline sells products/supplies into nearly every hospital in the U.S.

To also reiterate, Sonoma's initially launched its intraoperative pulse lavage irrigation treatment in Europe in mid-2023, and they followed that with an announcement in Mid-2024 regarding a similar distribution arrangement with a large U.S. distributor, which turned out to be Medline. In our discussions with management, we learned that these types of launches (those into hospitals in both Europe and the U.S.) require substantial time to get from initiation to commercial sales, for a variety of reasons that are not difficult to imagine. We always assumed that was the case, but it appears that "normal" timeline looks more like 24 months than a few months. Given that metric, again, we think the numbers may be validating some of that and may provide some constructive information around what that may portend for future quarters.

Specifically, the 2QF26 filing included the flowing product mix table, which the Company provides with all of its quarterly/yearly filings:

(In thousands)	Three Months Ended September 30, 2025	2024
United States	$ 1,449	$ 675
Europe	2,151	1,506
Asia	1,057	776
Latin America	532	465
Rest of the World	415	157
Total	$ 5,604	$ 3,579

The increase in United States revenue of $774,000 for the three months ended September 30, 2025 was primarily the result of an increase in revenue related to human health care products and over-the-c

Here are some interesting data points regarding the table above.

First, we believe the Q2F26 U.S. sales of $1.449 million were the highest U.S. sales the Company has achieved since the covid era of 2020-2021. To refresh a notion we have raised in the past, due to the frenzy around all things antimicrobial, we think Sonoma saw a sales bump during the pandemic because of that frenzy although, their filings at the time suggest that some of their sales were also muted because some of their traditional sales channels were closed (doctor's offices for instance), which specifically impacted their dermatology products traditionally sold through those channels. In addition, going into and through the pandemic, the Company was also restructuring its sales force, which ostensibly also impacted some of the comparative numbers. More broadly, the Company's sales have always included some lumpiness, that *we think* has largely been a result of the limited breadth of their distribution arrangements. All of that said, the $1.449 million in U.S. sales for 2QF26, could certainly fit in that lumpiness box, however, given the new arrangement with Wellspring, which includes distribution into large retailers like Walmart, we are inclined to believe that it represents a new (higher) level of business, that may become more predictable provided the new product(s) achieve some adoption and sell through.

In addition to U.S. sales, the table above also reflects a considerable bump in European sales to $2.15 million. Again, in retrospect, we have to go back to 2020 to find European sales in excess of that number. Here again, and in the context of our "lumpiness" comment, perhaps this quarter is more related to that phenomenon than to some new trend. However, revisiting our assessment above regarding the Company's sense that penetration of their intraoperative pulse lavage irrigation treatment into hospitals is a 24 month process, that would align with the launch of pulse lavage in Europe in mid-2023. To translate, that all suggests to us that European sales may be experiencing some pulse lavage traction, which again, if the product gains adoption, should provide a new level of more predictable and growing business. Further, since the U.S. launch with Medline was about 1 year behind Europe, our thesis is that the coming quarters should see contributions from pulse lavage sales into U.S hospitals as well.

Lastly, revisiting the bump in 2QF26 Research and Development, expenses, which the filing noted was *"primarily due to increased product development to support new product releases*", our expectation is that we may see some additional products launched in the coming quarters, and we think those could involve some of the new/large distributors we have noted above. If that is the case, it could result in additional new/additive sku's and resulting sales.

Clearly, we view the Wellspring and Medline arrangements as potential watershed events for Sonoma, and we think the revenue results for 2QF26 may reflect that. We submit, we may be misreading that and the reality may just be the lumpiness we have grown somewhat accustomed to with Sonoma. From that perspective, the results of the next two or three quarters should be telling, and to be clear, we are modeling, and our targets are assuming, continued traction from these new arrangements, which again may *or may not* be the case.

More specifically, in our experience, small companies that can achieve sustainable positive cash flow levels of business often see valuation expansion in conjunction with that milestone. The primary reason for that is it mitigates the need to continually dilute the shares to maintain working capital. In Sonoma's case, we think that breakeven operating cash level is around $6 million to $6.5 million in quarterly revenue. If these new pieces of business lead to where we think they may be leading, and in the context of the 2QF26 results, they could get to that level a bit quicker than we previously modeled, which would further support our current target assessments. On the flip side, it is unclear to us how these new agreements will impact margins, so for now, we are assuming lower margins from these new pieces of business around the logic that their new partners are likely to have some pricing power here. We will look for more clarity in that regard as future filings provide.

To summarize, we view the recent results as quite constructive, and we will look to the coming results to perhaps validate that view. As a result, we reiterate our allocation of 5 as well as our 12-24 month price target of $12.00 per share.

Projected Operating Model

Sonoma Pharmaceuticals, Inc.							
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By Trickle Research							
	(actual)	(actual)	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)
	6/30/2025	9/30/2025	12/31/2025	3/31/2026	Fiscal 2026	Fiscal 2027	Fiscal 2028
Revenues	$ 4,013,500	$ 5,604,000	$ 5,473,911	$ 5,565,284	$20,656,695	$23,911,251	$26,954,659
Cost of revenues	$ 2,551,000	$ 3,484,009	$ 3,379,138	$ 3,394,679	$12,808,826	$14,358,410	$15,880,208
Gross profit	**$ 1,462,500**	**$ 2,119,991**	**$ 2,094,772**	**$ 2,170,605**	**$ 7,847,869**	**$ 9,552,841**	**$11,074,451**
Operating expenses							
Research and development	$ 594,000	$ 575,000	$ 568,956	$ 572,611	$ 2,310,568	$ 2,356,450	$ 2,478,186
Selling, general and administrative	$ 1,965,000	$ 1,882,000	$ 2,016,440	$ 2,002,130	$ 7,865,570	$ 8,161,502	$ 8,479,338
Total operating expenses	**$ 2,559,000**	**$ 2,457,000**	**$ 2,585,396**	**$ 2,574,742**	**$10,176,138**	**$10,517,952**	**$10,957,524**
Loss from operations	**$ (1,096,500)**	**$ (337,009)**	**$ (490,624)**	**$ (404,136)**	**$ (2,328,269)**	**$ (965,111)**	**$ 116,926**
Interest income (expense), net	$ -	$ -	$ 1,926	$ 1,696	$ 3,622	$ 5,295	$ 4,420
Forgiveness of PPP Loan	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other income (expense), net	$ (147,000)	$ (394,000)	$ -	$ -	$ (541,000)	$ -	$ -
Gain on sale of assets	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loss before income taxes	**$ (1,243,500)**	**$ (731,009)**	**$ (488,698)**	**$ (402,440)**	**$ (2,865,647)**	**$ (959,816)**	**$ 121,347**
Income tax benefit (expense)	$ 1,000	$ 197,000	$ -	$ -	$ 198,000	$ -	$ -
Income (Loss)Loss from continuing operations, net of tax	**$ (1,242,500)**	**$ (534,009)**	**$ (488,698)**	**$ (402,440)**	**$ (2,667,647)**	**$ (959,816)**	**$ 121,347**
Income (Loss) from discontinued operations, net of tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net Income (Loss)	**$ (1,242,500)**	**$ (534,009)**	**$ (488,698)**	**$ (402,440)**	**$ (2,667,647)**	**$ (959,816)**	**$ 121,347**
Net Income (Loss) per share: basic	**$ (0.76)**	**$ (0.32)**	**$ (0.29)**	**$ (0.24)**	**$ (1.61)**	**$ (0.56)**	**$ 0.07**
Net Income (Loss) per share: diluted	**$ (0.76)**	**$ (0.32)**	**$ (0.29)**	**$ (0.24)**	**$ (1.61)**	**$ (0.56)**	**$ 0.07**
Weighted-average number of shares: basic	**1,641,000**	**1,646,000**	**1,664,765**	**1,679,765**	**1,657,883**	**1,717,265**	**1,777,265**
Weighted-average number of shares: diluted	**1,641,000**	**1,646,000**	**1,664,765**	**1,679,765**	**1,657,883**	**1,717,265**	**1,777,265**
Foreign currency translation adjustments	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Comprehensive Gain (Loss)	$ (1,242,500)	$ (534,009)	$ (488,698)	$ (402,440)	$ (2,667,647)	$ (959,816)	$ 121,347

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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.