Earnings Updates, Allocation Increase & Target Decrease

Sonoma Pharmaceuticals, Inc.

(NASDAQ: SNOA)

Report Date: 08/11/26

12- 24 month Price Target: *$3.75

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 Allocation Increase & Target Decrease (Closing Px: 08/10/26): $1.29

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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.

Sonoma reported Fiscal 2026 (ended 03/31/26) results on June 16, 2026, and the results of Q1F27 (ended 06/30/26). We did not provide an update to the year end, so we will address these first. However, there are some additional data points that are emerging that we think may be more telling so we will cover those as well.

For fiscal 2026, Sonoma reported revenues of $19.5 million and net loss of $3.2 million. Those results compared to our estimates of $20.7 million and a net loss of $3.2 million. For 4QF26, the Company reported revenues of $5.6 million a net loss of $600,000, versus our estimates of $5.6 million and $400,000. For Q1F27, Sonoma reported revenues of $6.4 million and a net loss of $330,000 versus our estimates of $5.8 million and $330,000 respectively. These numbers were largely in line, especially the quarterly results, so that leads us to the "more telling" items we noted above, but first some retrospective on our coverage to this point may be helpful.

Generally, and we have addressed this in prior updates as well, Sonoma has underperformed our estimates. The Company does not provide guidance, so ostensibly, that reality has more to do with our "misses" than theirs, but again, the numbers have not met our expectations, and there are some reasons for that.

First, Tables 1, 2 and 3 below hold some interesting insights:

Table 1.

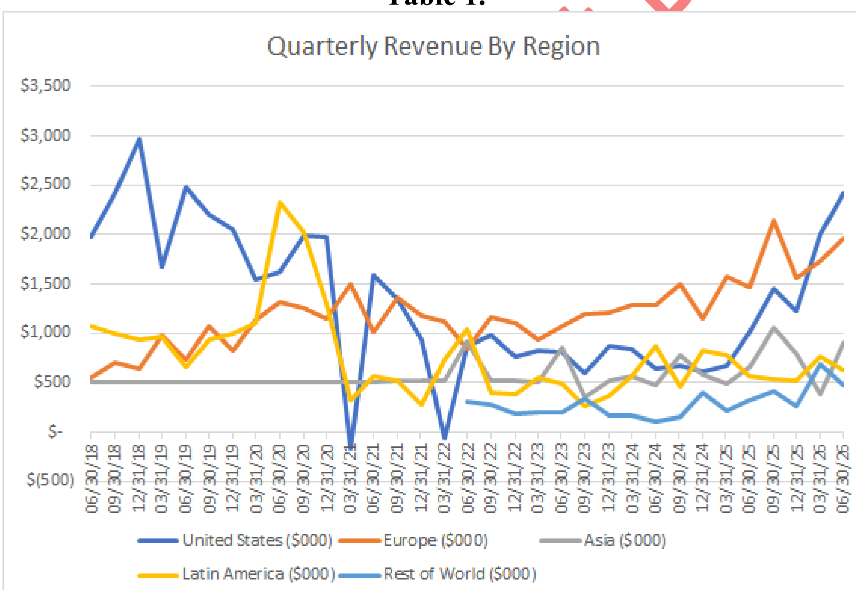


Table 2.

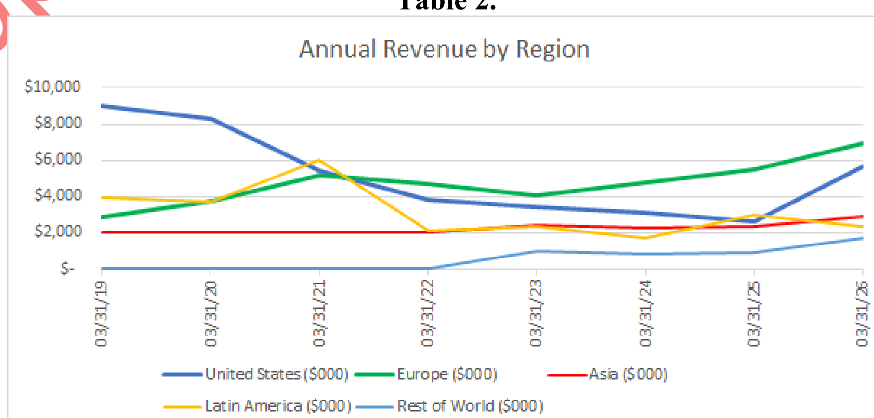
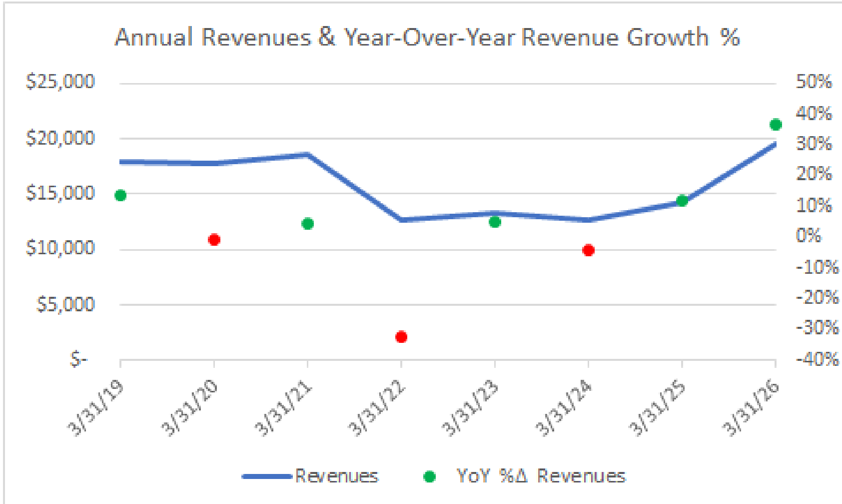


Table 3.

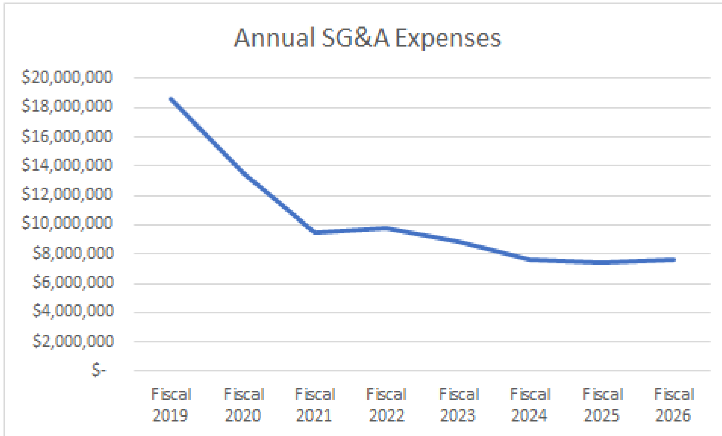


As labeled, the difference between **Table 1.** and **Table 2.** above is their relative reporting frequencies (Quarterly vs. Annual results). With this in mind, one of the problems with modeling performance is that the Company's quarterly revenue results are often quite volatile, and that is especially true within specific segments. That volatility is reflected in **Table 1.** Historically, from discussions with management our understanding of this volatility has been that their distributors in different regions order "in bulk" because of certain advantages that may afford them (volume shipping rates for instance). Those dynamics can cause lumpy quarterly results, which impact quarterly visibility.

Table 3. illustrates the aggregation of all segments on an annual basis, (total company-wide revenues for each noted fiscal year). To edify, the **green dots** represent years where revenue growth was positive, while the **red dots** are years where revenue growth was negative. As the table reflects, over the past several years, the Company has not been able to achieve sustainable/consistent revenue growth. However the good news is, the past *two fiscal years* are the first two consecutive years over the period to reflect back-to-back revenue growth. We think there are some reasons for that.

As a bit of history, Sonoma was founded in 1999 as Micromed Laboratories. It subsequently changed its name to Oculus Innovative Sciences and thereafter (2016) initiated another name change to Sonoma Pharmaceuticals. At the time of that second name change, the Company employed an in-house sales team, which in retrospect was unable to support the corresponding revenue levels it was generating. For instance, in fiscal 2018 (ended 03/31/18), revenues were $16.7 million while SG&A was $19.9 million. Those operating results led to a management change wherein in October 2019, current Sonoma CEO Amy Trombly was named Interim CEO, a position that eventually became permanent. That appointment came with a mandate to right size overhead and ostensibly prioritize profitability ahead of revenue growth. For perspective to that end, **Table 4** reflects the Company's SG&A Expenses over the same periods reflected in the prior charts. As the table reflects, since the time of the management change and the focus on downsizing the overhead, the reductions have been considerable, but as the prior charts reflect, those expense reductions have also perhaps come at the expense of revenues, that to date have yet to achieve profitability. That said, a bit more color on that dynamic might be helpful, because we think it is highly topical to where the Company is today, and where we think it may headed.

Table 4.



Recognize, absent an in-house sales force, the Company generally relies on agreements with individual distributors and those arrangements span various countries/regions across the globe. That being the case, from a practical standpoint, outside of the terms of their direct agreements, the Company is not involved in the sales efforts of those distributors, so by extension, it has limited ability to drive sales beyond their efforts to add new, more and better distributors. Put another way, the Company's revenue depends on the quality and quantity of their distributors. We believe that reality may be driving the next leg up in Sonoma's revenues and corresponding transition to profitability. We will elaborate on that a bit as well.

Over the past 12 months or so, Sonoma has entered into several new collaborations that we believe collectively speak to our prior notion that *"…the Company's revenue depends on the quality and quantity of their distributors. We believe that reality may be driving the next leg up in Sonoma's revenues and corresponding transition to profitability…"* Here are some of these agreements from their most recent 10K, (in *italics*) as well as some of our color regarding each:

- *In July 2025, we expanded our partnership with a U.S.-based distributor for the sale of Microcyn technology-based products to large retailers in the United States to include additional consumer-focused products.*

We believe this release references Sonoma's relationship with WellSpring Pharmaceutical Corporation, a "*privately held company focused on the development, manufacturing and marketing of consumer healthcare products"*. More specifically, Wellspring owns, markets and distributes a host of established and recognized OTC consumer brands including A+D, Solarcaine, Bactine and others. As noted, this release "expanded" an agreement from a few months prior to include a larger set of potential products. This agreement led to the next release.

- *In August 2025, we announced the launch of our HOCl-based diaper rash products for infants and children into Walmart stores and other large retailers in the United States.*

The specific product referenced in this release is the A+D product pictured here. The product is available at various major retailers both through their online and physical stores, including Walmart, Amazon, Target and others. We believe this *particular product* launch includes perhaps the strongest distribution partner the Company has ever attracted, and it may be responsible for a meaningful portion of the quarterly U.S. revenue growth reflected in **Table 1**. We submit, that is purely our speculation because the Company does not provide much information along these lines. However, looking at **Table 1**, the timing of this launch directly corresponds to that revenue growth. We will revisit this notion again below.

- *In October 2025, we announced the launch of a new HOCl wound cleanser for Medline Industries, LP, to be distributed into hospital systems, home healthcare and other healthcare channels across the United States.*

Like the August Wellspring announcement above, we have addressed this agreement in prior updates as well. Succinctly, we noted, *"Clearly, we view the Wellspring and Medline arrangements as a potential watershed events for Sonoma…"*. To reiterate, we believe this agreement could prove to be transformational for Somona, because Medline provides them an entree into nearly every hospital in the U.S. This gets back to an issue we address below, but we believe increasing awareness of the safety and efficacy of shelf stable HOCl within the healthcare industry could generate considerable new demand for HOCl based products. Clearly, if Sonoma can establish its products into the 5,000+ hospitals around the nation, the relative impact would be extraordinary. We would add, the Company recently announced that it received *"a new 510(k) clearance from the U.S. Food and Drug Administration (FDA) for its Microdacyn® Wound Irrigation Solution, including expanded claims, clearance for multiple use, and additional packaging configurations"*. We believe the Company's efforts to achieve these new clearances are likely directed at their collaboration with Medline. As such, we also believe this relationship is now poised to begin generating meaningful contributions that again could ultimately be markedly additive.

In March 2026, we announced the U.S. retail launch of our advanced HOCl-based burn relief hydrogel in CVS and Walmart stores in the United States.

We believe this is the second Wellspring product featuring Sonoma's proprietary HOCl. Many will recognize the Solarcaine brand name as well, although again, to our knowledge the Company has never expressly announced/acknowledged the brand name. Additionally, we found the Bactine product pictured here, which is also another well-known Wellspring brand. We believe this represents the *third* Wellspring brand/product to include Sonoma's HOCl technology. Further, we think the updated agreement with Wellspring contemplates up to 8 products, so we anticipate more, as Wellspring has other consumer product brands that are conducive to HOCl based initiation. For instance, Wellspring has a brand called vH essentials, which is "*a brand of feminine and intimate care products designed to support vaginal pH balance, urinary health, and odor control*". We know Sonoma provides products in this category through international distributors, so we suspect we could see a vH essentials HOCl product in the future, as well as (perhaps up to 8) others as well.

- *Also in March 2026, we announced the launch of Aquanil® AD, a hypochlorous acid-based dermatology product line for sensitive skin, developed exclusively for Persōn & Covey, Inc. for distribution through its established over-the-counter dermatology channels in the United States.*

It is interesting that in *this case* Sonoma made the announcement and included both the name of the distributor as well as the name of the product. Some background on their distributor might be helpful:

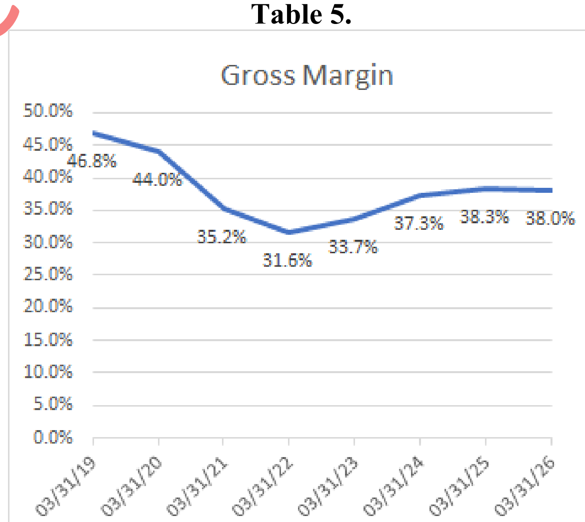
> *From its beginning, Persōn & Covey, Inc. has worked closely with the medical community to develop high-quality therapeutic formulas, especially in the areas of sun protection and dermatological care. Today the company continues to create revolutionary products for use by*

medical professionals and their patients. *Recognizing that each patient is unique, Persōn & Covey, Inc. carefully crafts products that are appropriate for use by even the most sensitive of users.*

What is also intersting about this relationship is that like many consumer product companies, Persōn & Covey sells directly online, but their greater focus appears to be on their relationships with "*medical professionals and their patients*". To that end, one of the legs to our original thesis around Sonoma, was (is) that while HOCl is a natural, proven, safe, non-caustic, anti-microbial, wound healing etc. treatment, its favorable profile is not widely recognized (or consequently used) because of its unstable nature. That is, HOCl is the product of electrolyzing salt water, but it has a short shelf life before it turns back into salt water. Sonoma's process extends the shelf life to years rather than a few days. Absent Sonoma's solution, while highly effective, HOCl is not particularly practical in its unstable state, which is in our view, why few people really know about its value, and that includes most medical professionals who probably should. That said, in our view, any collaborations Sonoma can forge, especially with entities or enterprises that can illuminate the value of HOCl *to the medical community* is a positive endeavor. On some levels, that is the challenge they are currently addressing in the hospital space with Medline.

Again, we believe these new collaborations are creating considerable opportunity for Sonoma especially among their new(er) U.S. distributors, and as reflected in Tables 1&2 above, and we think they are beginning to be reflected in the numbers. On the other hand, some of these new opportunities have also had us questioning what some of their impact might be on margins. Our experience with other consumer product companies that have "made it" to the large retailers, is that it often comes with a price. That may be especially true with Walmart, where aggressive price points are paramount. More specifically, checking the channels across the various products Sonoma provides, there are considerable differences in retail price points, and those we have found on retail shelves like Walmart's make us believe that some of the new business may put some pressure on margins. On the other hand, we have always understood that their manufacturing facility in Mexico is not at full utilization at current revenue rates, so we also believe they may be able to leverage unit manufacturing with improved scale/utilization. We would add, the new products displayed above are all manufactured, packaged and shipped from the Company's Mexico facility. Again, our approach has been to assume lower margins on much of the new business we addressed above, however, as **Table 5** below reflects, to this point, they have been able to defend margins in the 38% range. Moreover, for Q1F27, they posted 40% margins. Granted, 1 quarter does not constitute a trend, but it does suggest to us that any pricing power margins erosion they may see from some of their new channels may be offset by manufacturing or other scale. From that perspective, the margins from Q1F27 were a very favorable data point.

Table 5.



Lastly, on April 24, 2026, Sonoma announced *"the pricing of a public offering made on a firm commitment basis with gross proceeds to the Company expected to be approximately $4.0 million, before deducting fees and other expenses payable by the Company. The offering consisted of 2,962,963 shares of common stock and 2,962,963 warrants. Each share of common stock was sold at a purchase price of $1.35 per share. The warrants have an exercise price of $1.35 per share...".*

We believe the transaction included roughly 1.7 million common shares and just under 1.3 million pre-funded warrants, as well as 3.4 million $1.35 common warrants, (which included underwriter warrants). This transaction was completed after the fiscal year end (03/31/26), however the Q1F27 10Q reflects cash of $5.4 million. In conjunction with that cash position, in Q1F27, the Company **"achieved positive adjusted EBITDA for the first time in the company's history"**. Succinctly, from an investment perspective, one of the headwinds Sonoma has faced has been its lack of sustaining cash flow which has caused it to periodically sell shares and further dilute shareholders to finance cash burn. That scenario is often problematic for small companies with limited liquidity, because investors have no way of knowing what the outstanding share counts may look like by the time they eventually (presumably) get to profitability. **That dynamic makes valuation elusive**. In our experience, that factor represents one of the more cogent investment risks of small, emerging, unprofitable companies. To that end, the Company's release around the Q1F27 results included this narrative:

> *"Our first quarter results demonstrate that Sonoma has reached an important inflection point," said Amy Trombly, CEO of Sonoma. "We delivered record quarterly revenue, more than doubled our U.S. business, expanded gross margins to 40%, and achieved positive adjusted EBITDA for the first time in the company's history-all while keeping operating expenses essentially flat".*

Frankly, as we alluded to here and in past updates, one of the challenges covering Sonoma has been Management's reluctance to elaborate much on the business (provide guidance). That is not a critique per se, because sometimes poor visibility is just poor visibility as opposed to things management chooses not to share for one reason or another. In that context, we would just speculate that for management to note that "*…Sonoma has reached an important inflection point,"* is a proverbial mouthful. Again, one quarter does not constitute a trend, but if the Company has indeed raised the sustainable level of the business to a point where it will no longer have to feed cash burn via equity dilution, the investment case for Sonoma becomes much more compelling.

In summary, our coverage of Sonoma has been ongoing now for just over three years, and the look back regarding our initiating estimates versus actuals includes two primary places where our estimates missed. First, our revenue estimates have been about a year behind, which ties a bit with **Table 3.** above, and second, our lack of understanding around the lumpiness of the business. More specifically, we think that speaks to the capabilities of their distributor base over the period. Succinctly, while we cannot be certain that the more recent fundamental trajectory of the business will continue, we are quite comfortable suggesting that the quality of the distributor base has clearly improved. Further to that end, beyond the obvious, we believe these new distributor relationships and the products that are coming out of them may help drive further awareness of HOCL, which could open an array of both domestic and international opportunities for Sonoma.

If we are being honest, covering Sonoma has been a grind, which has included being wrong over much of the coverage period. However, there are some things here that we think we got right, which we continue to believe, and we think are beginning to unfold. Specifically, HOCl is an amazing natural antimicrobial and wound healing compound with a conclusive efficacy and safety profile that we believe makes it a better alternative to treat a myriad of conditions than many current OTC and even pharmaceutical products used (in much greater amounts than HOCl) by consumers/patients across the globe. that includes alternatives to products addressing wound healing, skin conditions (eczema, acne and others), nasal congestion, feminine care and hygiene, and a host of others. We would add, the Company sells products addressing all of these noted conditions as well as others, at least somewhere in the world, which is an important distinction because Sonoma does not sell products in any jurisdiction that does not have a certification from those jurisdictions (the U.S FDAA for instance). Further, Sonoma has found a way to make HOCl a *practical* alternative by extending its shelf life from days to years. Those things we continue to believe we got right, and we think those favorable attributes are beginning to gather momentum. As a result, we are increasing our allocation from 5 to *6 based on the momentum we believe is gathering in the business as well as on the compression in the valuation because of the recent dilutive round. In addition, we are establishing a new (lower) 12-24 month price target, again because of the impact of the dilutive round on the share counts. We will revisit each as new data comes to light.

Projected Operating Model

Sonoma Pharmaceuticals, Inc.						
Projected Operating Model						
By Trickle Research						
	(actual)	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)
	6/30/2026	9/30/2026	12/31/2026	3/31/2027	Fiscal 2027	Fiscal 2028
Revenues	$ 6,361,375	$ 6,489,700	$ 6,519,110	$ 6,785,465	$ 26,155,650	$ 29,205,009
Cost of revenues	$ 3,797,308	$ 3,825,812	$ 3,863,698	$ 4,016,962	$ 15,503,780	$ 17,320,220
Gross profit	**$ 2,564,067**	**$ 2,663,888**	**$ 2,655,412**	**$ 2,768,503**	**$ 10,651,870**	**$ 11,884,789**
Operating expenses						
Research and development	$ 597,000	$ 609,588	$ 610,764	$ 621,419	$ 2,438,771	$ 2,568,200
Selling, general and administrative	$ 2,020,000	$ 2,099,751	$ 2,113,867	$ 2,117,102	$ 8,350,720	$ 8,728,493
Total operating expenses	**$ 2,617,000**	**$ 2,709,339**	**$ 2,724,631**	**$ 2,738,521**	**$ 10,789,491**	**$ 11,296,693**
Loss from operations	**$ (52,933)**	**$ (45,451)**	**$ (69,219)**	**$ 29,982**	**$ (137,621)**	**$ 588,096**
Interest income (expense), net	$ -	$ 3,447	$ 3,441	$ 3,423	$ 10,310	$ 14,311
Forgiveness of PPP Loan	$ -	$ -	$ -	$ -	$ -	$ -
Other income (expense), net	$ (290,000)	$ -	$ -	$ -	$ (290,000)	$ -
Gain on sale of assets	$ -	$ -	$ -	$ -	$ -	$ -
Loss before income taxes	**$ (342,933)**	**$ (42,004)**	**$ (65,778)**	**$ 33,405**	**$ (417,311)**	**$ 602,406**
Income tax benefit (expense)	$ -	$ -	$ -	$ -	$ -	$ -
Income (Loss)Loss from continuing operations, net of tax	**$ (342,933)**	**$ (42,004)**	**$ (65,778)**	**$ 33,405**	**$ (417,311)**	**$ 602,406**
Income (Loss) from discontinued operations, net of tax	$ -	$ -	$ -	$ -	$ -	$ -
Net Income (Loss)	**$ (342,933)**	**$ (42,004)**	**$ (65,778)**	**$ 33,405**	**$ (417,311)**	**$ 602,406**
Net Income (Loss) per share: basic	**$ (0.07)**	**$ (0.01)**	**$ (0.01)**	**$ 0.01**	**$ (0.09)**	**$ 0.12**
Net Income (Loss) per share: diluted	**$ (0.06)**	**$ (0.01)**	**$ (0.01)**	**$ 0.00**	**$ (0.06)**	**$ 0.08**
Weighted-average number of shares: basic	**3,846,000**	**4,792,020**	**4,807,020**	**4,822,020**	**4,566,765**	**4,859,520**
Weighted-average number of shares: diluted	**6,078,769**	**6,216,587**	**6,584,632**	**6,914,850**	**6,448,709**	**7,584,528**
Foreign currency translation adjustments	$ 235,000	$ -	$ -	$ -	$ 235,000	$ -
Comprehensive Gain (Loss)	$ (107,933)	$ (42,004)	$ (65,778)	$ 33,405	$ (182,311)	$ 602,406

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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.