Sonoma PHARMACEUTICALS
A Relentless Passion For Healing

STONEGATE CAPITAL PARTNERS

3/21/17

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MARKET STATISTICS

Exchange / Symbol	NASDAQ: SNOA
Price:	$7.53
Market Cap ($mm):	$32.1
Enterprise Value ($mm):	$13.2
Shares Outstanding (mm):	4.3
Float (%):	99%
Volume (3 month avg.):	39,950
52 Week Range:	$3.65-$8.00
Industry:	Specialty Pharmaceuticals

CONDENSED BALANCE SHEET

($mm, except per share data)

Balance Sheet Date:	12/31/2016
Cash & Cash Equivalent:	$18.98
Cash/Share:	$4.45
Equity (Book Value):	$22.86
Equity/Share:	$5.36

CONDENSED INCOME STATEMENTS

($mm, except per share data)

FY - 03/31	Revenue	Income	Adj. EBITDA	EPS
Q3 FY16	$2.48	$(3.2)	$(3.6)	$(0.96)
Q3 FY17	$3.36	$16.2	$(2.6)	$3.84
Q4 FY17E	$3.38	$(2.5)	$(2.6)	$(0.59)
FY18E	$17.34	$(3.7)	$(4.7)	$(0.83)

LARGEST SHAREHOLDERS

Bard Associates, Inc.	125,600
The Vanguard Group Inc.	120,800
Sabby Management LLC	99,200
Blackrock, Inc.	27,100
Janus Capital Management LLC	26,900
Renaissance Technologies Corp.	13,600
Geode Capital Management LLC	13,500
Aurus S.A.	12,000
Raymond James Financial Inc.	10,900

STOCK CHART

COMPANY DESCRIPTION

Sonoma Pharmaceuticals, Inc. (Sonoma) is a specialty pharmaceutical company that develops and markets solutions for the treatment of dermatological conditions and advanced tissue care based upon its proprietary technology Microcyn®. The Company's products, which are sold throughout the United States and internationally, have improved outcomes for more than five million patients globally by reducing infections, itching, pain, scarring, and harmful inflammatory responses. The Company's headquarters are in Petaluma, California, with manufacturing operations in the United States and Latin America. European marketing and sales are headquartered in Roermond, Netherlands.

SUMMARY

As part of this notable turnaround story, Sonoma Pharmaceuticals continues to expand domestically and abroad, capturing greater share of the US dermatology market and executing upon its revamped long-term strategic plan put in place mid-2014.

- As of 12/6/16, the Company announced a name change from Oculus Innovative Sciences, Inc. to Sonoma Pharmaceuticals, Inc. as part of a rebranding initiative and the Company's commitment to focusing on the high-margin US dermatology market moving forward.
- The dermatology market offers tremendous upside potential. Within dermatology, the Company is initially targeting atopic dermatitis, which is expected to grow to $810 million by 2016. Also, Sonoma launched a new scar treatment to support the approximately 42 million surgical skin procedures that are performed in the US per year, with many patients experiencing hypertrophic scarring and keloids after those surgical procedures; newer product launches address sizable markets as well.
- Sonoma has launched eight dermatology products to date and has several additional products set to hit the market in calendar 2017.
- Sonoma created a new direct sales force in 2014 with 14 sales reps initially. Currently, the Company has a salesforce of 22+ and plans to increase that number to 30 by March 2017, both to support the launch of products and to increase market share for those currently in the bags.
- The Company's Microcyn®-based products are sold throughout the US and the world, and have treated more than 5M patients globally to reduce infection, itch, pain, scarring, and harmful inflammatory responses; these products are based on technology designed to be a non-irritating, shelf-stable solution containing oxychlorine compound with an established safety profile.
- The Company grows sales abroad through its relationships with distributors. Approximately 48% of its revenue came from sales internationally in Q3 FY17. Sonoma has made a concerted effort to engage strong partners internationally.
- As of 10/31/16, management announced the sale of its Latin American business for $19.5M cash to Invekra S.A.P.I. de C.V of Mexico; the deal enabled the Company to sell a slower growing, lower margin segment of its business in exchange for a sizable cash payment that has been put to work advancing its US dermatology business (fast growing and higher margin).
- A key focus for management is driving towards commercial EBITDAs breakeven without shareholder dilution; with careful execution, the timing within various quarter-over-quarter growth scenarios shows this goal being achieved 1H calendar 2018.
- As of 12/31/16, the Company reported $3.4M in total revenue for Q3 FY17, with product revenues up from $2.5M in the prior year (restated) driven by growth in US dermatology and animal health sales, with over $20M in cash on hand and minimal debt.

On an EV/R basis, Sonoma currently trades at 0.8x vs. the median of its peers at 13.2x based on FY18 estimates. In addition, companies in the dermatology space have been acquired at a median EV/R multiple of 3.6x. See pages 9 – 10 for further details.

MICROCYN® TECHNOLOGY

The Company's main technology platform Microcyn® is a potent broad-spectrum antimicrobial designed to treat a wide range of pathogens, including viruses, fungi, spores and antibiotic-resistant strains of bacteria such as Methicillin-resistant Staphylococcus aureus (MRSA), Vancomycin-resistant Enterococcus (VRE), and Clostridium difficile, among others. All of these cause disease or inhibit the healing in both acute and chronic wounds. Microcyn® products are generated through a unique, patented electrochemical treatment of diluted saltwater where a pH neutral solution of hypochlorous acid, and its sodium salt, hypochlorite, is generated. The hypochlorous acid in Microcyn®, similar to the natural hypochlorous acid produced by the human body, preserves the Microcyn® solution. In addition, Microcyn® has demonstrated a reduction in inflammation, itch, pain, skin infections, healing and scarring without irritation and side effects.

Microcyn® is a non-irritating, shelf-stable solution containing an oxychlorine compound. Its safety profile has been established as comparable to saline through treatment of over five million patients to date, and efficacy has been validated via more than 30 clinical studies. There are several unique qualities that set Microcyn® apart from other technologies in the dermatology and wound care markets. Its advantages include:

- Microcyn® is based on shelf-stable hypochlorous acid – Hypochlorous acid (HOCI) is unquestionably a potent sterilization agent. The human immune system manufactures it to kill harmful microbes. There are other companies in these markets that produce HOCI formulations; however, these formulations typically become unstable after a short time.
- Microcyn® has multiple applications – Microcyn® has been proven in laboratory studies to kill fungus, spores, viruses, and bacteria, including antibiotic-resistant bacteria such as MRSA, VRE and Pseudomonas in just 30 seconds. With the proliferation of "super bug" mutations reaching a high level, there is clearly a need for an effective broad spectrum antimicrobial. Additionally, Microcyn® based products have proven therapeutic capabilities to relieve various irritations and afflictions of the skin and improve the healing process.
- It has a strong safety profile – Microcyn®'s safety profile has been established through the treatment of over five million patients to date under FDA 510(k) clearances as a medical device in the United States, and its efficacy has been validated through more than 30 clinical studies. Microcyn® has received the European Union certification for wound cleaning, reduction of microbial load, treatment of acne, atopic dermatitis and scar management, among others, as well as various drug approvals in Mexico, Latin America, the Caribbean, India, China, as well as other Asian countries and throughout the Middle East. For example, most recently in August 2016, Australia and New Zealand granted medical device approvals for Microcyn® solution as well as Hydrogel.
- There is low potential for resistance – Because Microcyn® does not target specific strains of bacteria, which tends to promote resistance, there is a very low potential for the bacteria to develop resistance against this treatment formulation.
- Microcyn® line is well suited for the dermatology market – The Company is primarily targeting the dermatology market, which benefits from having shorter development time, lower clinical trial costs and regulatory hurdles, and offers a level of pricing power. In addition, Microcyn® has demonstrated a reduction in inflammation, itch, pain, skin infections, healing and scarring without irritation and side effects related to many competitive, steroid-based products.

Exhibit 1: Sample of Sonoma Products Offerings

Source: Company Reports

As last reported, the Company had a total of 53 issued patents, with 14 in the US and 39 issued abroad. Sonoma also had 70 patent applications pending worldwide as last reported. Patent claims cover:

- Chemical composition
- Apparatus
- Method of manufacturing
- Therapeutic uses

DERMATOLOGY PRODUCTS

Sonoma has launched eight dermatology products to date and recently announced additional approvals for products in the US and abroad. Most recently for the December 2016 quarter, the Company launched a combination pack of Alevicyn™ and Celacyn™. Management has the stated goal of launching one new product per quarter for remainder of FY17 and into 1H FY18. Below we review two of the more established product lines, Alevicyn™ and Celacyn™.

The Company received FDA clearance for **Alevicyn™ Antipruritic Gel** in March 2010, and it was approved for the use of managing atopic and radiation dermatitis in February 2011, with a US patent issued for atopic dermatitis. Alevicyn™ is intended to reduce or replace the use of corticosteroids. **Alevicyn™ Dermal Spray** for reduction of pain and itch in skin dermatoses was introduced November 2014, followed by **Alevicyn™ Spray Gel** for trunk dermatitis in early 2015.

The Company estimates the addressable US market for the Alevicyn™ products at approximately $500 - $600 million. Pricing has been established around $165 (170 grams) with up to a $45 rebate; a comparable course of corticosteroids can cost in the $100 - $800 range.

Exhibit 2: Atopic Dermatitis Product Comparison

	Topical Immunomodulators	Topical Corticosteroids	Alevicyn
Reduces Itch	Very Good	Very Good	Very Good
Reduces Inflammation	Very Good	Very Good	Good
Anti-microbial & Time to Kill	Neutral	Neutral	Very Good
Improves Broken Skin	Very Poor	Very Poor	Very Good
Safety	Very Poor	Very Poor	Very Good
Side Effects	Very Poor	Very Poor	Very Good

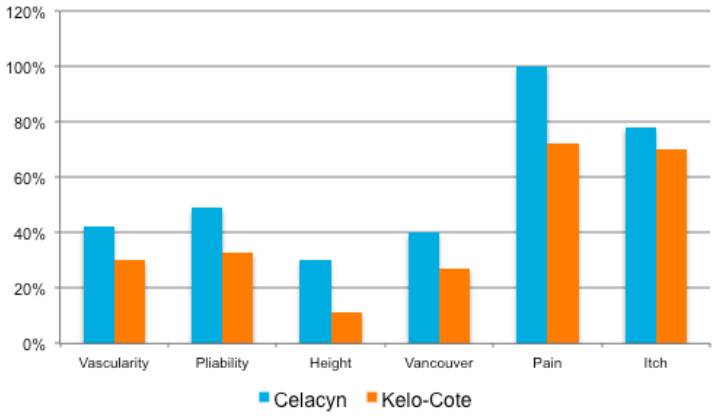
Source: Company Reports, Stonegate Capital Partners

Additionally, Sonoma faces other competitive products in this area such as Novartis' Elidel® Cream and Astellas' Protopic®, both prescription medicines addressing moderate to severe eczema, or atopic dermatitis.

Celacyn™ Scar Management Gel prescription treatment was introduced in early 2015. It is one of only two approved prescription scar products in the US. It is approved for the management of old and new keloid and hypertrophic scarring.

The Company estimates that the addressable US market includes approximately 62 million new scars formed annually, and clinical study results have demonstrated Celacyn™ advantages over the competition.

Exhibit 3: Percentage of Improvement Over Baseline at 12 Weeks – Celacyn vs. Kelo-Cote in Double Blind, Randomized Clinical Study



Source: Company Reports

GROWTH STRATEGY

Since mid-2014, Sonoma has been executing upon a new strategic plan put in place to more keenly focus its target markets and to drive the top line. As part of its new long-term plan, the Company spun off its surgical products division and recently sold its Latin American business, brought in new management as well as directors, made a decision to go after the dermatology market with full force, and executed a name change. Funds from the spin-off of its surgical products division were utilized to kick start the process. Management has set out the following approach to reaching Sonoma's long-term goals.

Establish a Direct Sales Platform in the US Focused on Derm: In fall 2014, the Company deployed a direct salesforce in the US, using Microcyn® as its cornerstone technology, and subsequently launched several new products under its new IntraDerm Pharmaceuticals division. The Sonoma sales team is made up of seasoned sales veterans that have established relationships with dermatologists, and many of those are heavy prescription writers. As last reported, the Company had a salesforce of 22+, and it plans on adding more (up to 30 by March 2017), both to spur growth from already launched products as well as to support new ones slated to be released.

Continue Strong Sales Abroad via International Distribution Network: The Company maintains an international network of distributors in over 30 countries to support and grow sales abroad. In Europe and the rest of the world, Sonoma continues to support and build out a network of international distributors for its broad portfolio of CE Mark and other international approvals. As of October 31, 2016, Sonoma announced the sale of its Latin American business to Invekra for $19.5M in cash; additionally, Invekra will pay the Company a 3% royalty going forward on all Latin American revenues outside of Mexico, with a minimum of $250K per year for the next 10 years. While Sonoma sold all its Latin American assets related to Microdacyn-based products sold there and in the Caribbean, the Company maintains rights to dermatology products sales in Brazil.

Notably, the Company will maintain its current manufacturing facility in Mexico for production of its Sonoma-branded Microdacyn-based products for all countries outside of the US and Latin America. Overall, the deal with Invekra allowed the Company to sell a slower growing, lower margin segment of its business in exchange for a sizable cash payment that can be put to work advancing its US dermatology business (fast growing and higher margin).

Create a Competitive Pricing Strategy: Sonoma has a unique product pricing strategy, which it believes bridges many of the challenges associated with the prescription dermatology market's pricing and rebate programs. The Company recently increased dermatology product prices, which has had a very positive impact on operations to date. Expectations are for a 10% - 20% increase in dermatology products prices in 2017.

Develop a Pharmaceutical Line: The Company plans to acquire and/or develop pharmaceutical products with affordable clinical trials to increase its market presence and will protect its proprietary technology with innovator patent protection. Recently, the Company licensed and launched Mondoxyne, an oral drug approved for the treatment of severe acne, which is a bestseller by dollars for Sonoma. Additionally, Sonoma end-licensed Ceramax™ with FDA approval for atopic dermatitis and launched sales in April 2016; the Company also launched Lasercyn™ in August 2016 for the treatment of post laser and microdermabrasion procedures as well as chemical peels. This most recent quarter, the Company launched SebuDerm for the treatment of seborrhea dermatitis.

Exhibit 4: Dermatology Pipeline

Brand	Indication	FDA Status	Launch
Ceramax Skin Barrier Repair	Atopic dermatitis	Approved	Launched April 2016
SebuDerm	Seborrhea dermatitis	Approved	Launch underway
RD 068-66	Post laser procedure, chemical peels	Approved	Spring 2017
RD 01-16	Skin descaling	Early 2017	Summer 2017
RD 068-126	Post Mohs procedure	Approved	Spring 2018
TS 02-16	Atopic dermatitis	2017	1H 2018
TS 03-16	Atopic dermatitis	2017	2H 2018

Source: Company Reports

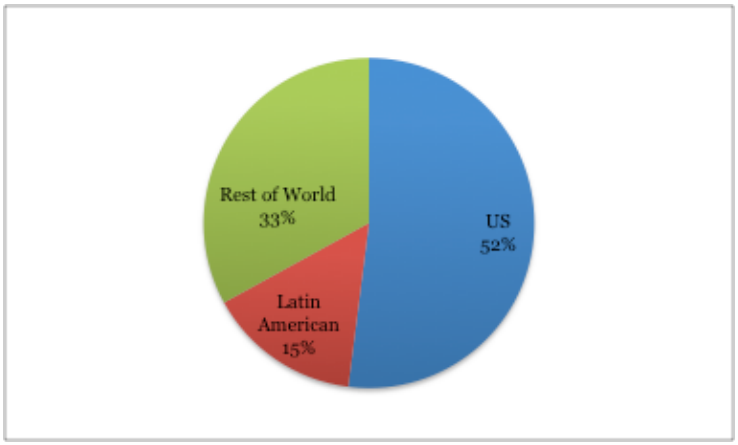
Re-establish Presence in Animal Healthcare Market with New Partner: The Company recently launched two new products for animals – MicrocynAH® Anti-Itch Spray Gel and MicrocynAH® Hot Spot Spray Gel. Sonoma established the MicrocynAH family of animal healthcare products for North America in February of 2015 and has partnered with Manna Pro Products for distribution in the US. In February 2017, Sonoma announced that PetSmart, Inc. had launched the MicrocynAH® family of healthcare products with chain-wide availability at 1,500+ stores across North America.

Through careful execution of its growth strategy, Sonoma should be capable of generating continued increases in prescriptions quarter-over-quarter, reaching one the Company's most important milestones of EBITDAs breakeven, most likely in 1H calendar 2018.

GLOBAL SNAPSHOT

The Company expects to grow its product revenues in the US and abroad in FY17 and beyond, with the US becoming a larger part of that mix within the short-term. As reported for Q3 FY17, the United States represents approximately 52% of total product revenue, while Latin America, and the rest of the world made up 15%, and 33% of its product revenue, respectively.

Exhibit 5: Product Revenues for Quarter ending 12/31/16



Source: Company Reports, Stonegate Capital Partners

United States: Sonoma is focused primarily on the dermatology market and secondarily on advanced wound tissue care. As mentioned, management has the stated goal of launching one new dermatology product each quarter for the remainder of FY17 and into 1H FY18 utilizing its own salesforce. Meanwhile, the Company's acute care team continues to advance market adoption of the Microcyn® tissue care products. Partner Manna Pro Products, LLC will handle sales and distribution of animal healthcare products, principally marketing non-prescription animal care products for pet, equine and farm animal to venues in the US and Canada.

Europe: Sonoma currently has distribution partners in Austria, Belgium, Italy, Liechtenstein, Luxemburg, the Netherlands, Germany, Greece, the Czech Republic, Sweden, Spain, Norway, Switzerland, Poland, Finland, Denmark and Serbia.

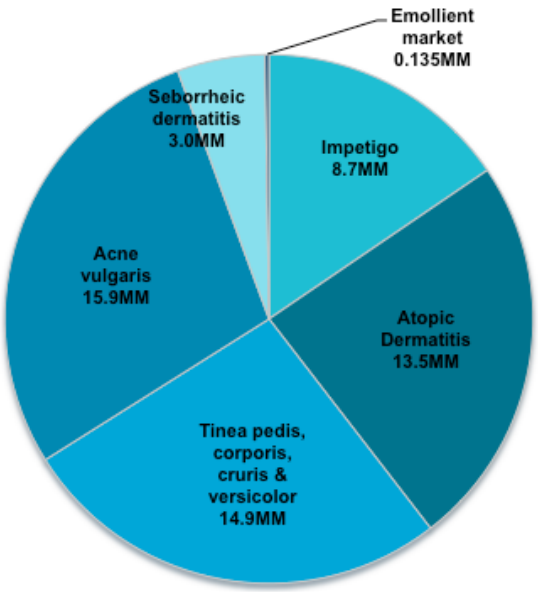
Latin America: As of 10/31/16 the Company announced the sale of its Latin American business for $19.5M in cash as well as 10-year annual payment of 3% on Latin American sales, excluding Mexico, with a minimum of $250,000 per year. Sonoma retains rights to sell dermatology products in Brazil.

Rest of World: Strategic partnership have been formed for sales and distribution of Microcyn®-based products in Bangladesh, Pakistan, India, China, UAE, Saudi Arabia, Dubai, Kuwait, Iraq, Singapore, Indonesia, Malaysia, Australia and New Zealand.

DERMATOLOGY MARKET

The dermatology market is large and can offer certain pricing flexibility not afforded by other areas of healthcare. This highly competitive marketplace is characterized by an often affluent patient base willing to pay out of pocket. Management is looking to capitalize on the potential of capturing a meaningful segment of the market with a smaller salesforce, given that it's frequently a concentrated group of dermatologists writing the bulk of prescriptions. With the Company's newer strategic plan of being a pure play dermatology-focused company, Sonoma initially targeted two areas in the US: atopic dermatitis and prescription scar products. More recent approvals have been granted for a patented skin repair and seborrheic derm products. The Company also recently acquired rights to a branded acne drug.

Exhibit 6: US Annual Topical Total Prescriptions by Dermatology Indication



Source: Company Reports

Atopic Dermatitis
In a 2009 GlobalData study, it was estimated the global atopic dermatitis therapeutics market delivered revenues of $643 million in 2009. It was expected to grow to $810 million at a Compound Annual Growth Rate (CAGR) of 3.4% by 2016. Globally, the United States remains the largest market for atopic dermatitis therapeutics and generated revenue of $402 million in 2009. It was forecasted to reach $582 million by 2016, and Sonoma estimates its addressable US market size at $500M - $600M.

Scar Treatment
Approximately 42 million surgical skin procedures are performed in the US per year based on the market survey conducted by The Nemetz Group in 2009. Moreover, 62 million scars are formed annually in the US according to the Center for Disease Control. Many patients experience hypertrophic scarring and keloids (overgrowth of scar tissues) after the surgical procedures. It is estimated that 93 million people in the US are living with scars, and about 169 million scars can be characterized as hypertrophic or keloid (raised and red colored scars due to overgrowth of repairing tissues) according to Frost & Sullivan.

RISKS

As with any investment, there are certain risks associated with Sonoma's operations as well as with the surrounding economic and regulatory environments.

- Sonoma faces operational challenges in executing its strategy. While the Company has established direct sales teams in the dermatology and advanced tissue care markets, the Company partners with distributors to market and sell its other products. If these distributors do not invest enough resources or there is a misstep in educating their teams, sales of Sonoma's products could be hampered.
- There are stringent regulatory requirements in the US and abroad where government authorities strictly regulate the research, testing, manufacturing and sales of pharmaceutical products, biologics, and medical devices. All of the Company's products require approval by government agencies prior to being commercialized, and then there are various compliance standards that must be met and/or maintained subsequent to launching a product. The Company currently has fifteen 510(k) clearances from the FDA for its products to be used as medical devices, as well as numerous comparable approvals in countries abroad. Should the Company fail to meet or comply with any of these regulatory requirements, future financial results could be severely affected.
- The Company has patents issued to protect proprietary rights covering its Microcyn® technology and current know-how related to chemical composition, methods of manufacturing, and targeted indications, among others. Even if patents are issued, they can be challenged by competitors. Additionally, competitors can develop modified, non-infringing versions of the drug in order to obtain approval for sales. Litigation related to IP infringement can be lengthy and very costly to prove.
- Sonoma has a history of losses. The Company incurred a net loss for almost all the quarters in the last five years. As of Q3 FY 2017, Sonoma reported an accumulated deficit of approximately $141M. Should the Company be unable to obtain additional capital as needed at reasonable terms, the result would likely be a delay in the expansion of its product sales and pipeline, which in turn would impair the Company's ability to execute upon its long-term strategic plan to profitability.

RECENT RESULTS

On February 9, 2017, the Company announced financial results for the third quarter of fiscal year 2017. Below we outline those results and note certain variances year-over-year. In general, quarterly performance was in-line with management's guidance, which was as follows:

- The third quarter of FY17 will be a transition period because of the sale of the Latin American business
- Sonoma will continue to manufacture for purchaser Invekra at cost until they can establish their own manufacturing facilities (contractually obligated for two years following deal)
- With the sale, the Company will be losing approximately $4.5M - $5M in annual revenue, but in an area of the business that was not slated for much growth due to the continued decline of the peso
- Sonoma will be gaining a guaranteed $250,000 royalty payment per year minimum as well as interest income on the cash of $19.5M being paid for the sale
- High growth is still expected in the US dermatology business
- The $19.5M will be partially offset by expenses of approximately $0.5M and recognized as a gain
- Offsetting NOLs will keep the overall minimum alternative taxes at less than $0.5M

We note that there was a the reclassification, in the prior period, of Latin America product and license revenue and related variable cost of goods sold from continuing operations to discontinued operations.

Exhibit 7: Quarterly Variation Analysis Year-over-year

Sonoma Pharmaceuticals, Inc.
Consolidated Statements of Income (in thousands $, except per share amounts)
Fiscal Year: March

	Q3 FY 2016 Dec-15	Q3 FY 2017 Dec-16	Variance	
Total revenues	**$ 2,483**	**$ 3,361**	**878**	Product revenues up y-o-y increase driven by growth in US dermatology and animal health sales, but partially offset by decrease in international revenue
Total cost of revenues	2,028	1,655	**(373)**	Gross margins 51% vs. 18% in PY due to the reclassification of Latin America revenue and related variable cost of goods sold from continuing operations to discontinued ops
Gross profit (loss)	**455**	**1,706**		
Operating expenses				
Research and development	486	487	**1**	N/M
Selling, general and administrative	4,158	4,784	**626**	Due to higher selling expenses associated with dermatology division, primarily related to additional headcount, sampling and higher stock- comp expenses
Total operating expenses	4,644	5,271		
Income (loss) from operations	**(4,189)**	**(3,565)**		
Total other income (expense)	(25)	288	**313**	Primarily related to foreign exchange gains in Mexico
Pre-tax income (loss)	**(4,214)**	**(3,277)**		
Provision for taxes (benefit)	-	**(4,040)**	**(4,040)**	Tax benefit from net operating loss carryovers
Income (loss) from continuing operations	**$ (4,214)**	**$ 763**		
Income from discontinued operations, net of tax	1,065	15,465	**14,400**	Includes a gain on the sale of the Latin American business to Invekra of $19.5M with a tax expense netted of $4.6M for current quarter
Net income (loss)	**(3,149)**	**16,228**		
Basic EPS (loss) - continuing ops	**$ (1.28)**	**$ 0.18**		
Basic EPS (loss) - discontinued ops	**$ 0.32**	**$ 3.66**		
	$ (0.96)	**$ 3.84**		
Diluted EPS (loss) - continuing ops	**$ (1.28)**	**$ 0.18**		
Diluted EPS (loss) - discontinued ops	**$ 0.32**	**$ 3.66**		
	$ (0.96)	**$ 3.84**		
Basic shares outstanding*	3,293	4,225		
Diluted shares outstanding*	3,293	4,228		
EBITDA	$ (4,130)	$ (3,505)		
Adjusted EBITDA	$ (3,575)	$ (2,590)		

Source: Company Reports, Stonegate Capital Partners

BALANCE SHEETS

Sonoma Pharmaceuticals, Inc.
Consolidated Balance Sheets (in thousands $)
Fiscal Year: March

ASSETS	FY 2014	FY 2015	FY 2016	Q3 FY 2017 Sep-16
Current Assets				
Cash and cash equivalents	5,480	6,136	7,469	18,983
Restricted cash	-	-	-	1,500
Accounts receivable, net	1,790	1,517	2,274	1,977
Inventories, net	1,088	1,402	1,640	2,066
Prepaid expenses & other	1,184	592	1,505	601
Total Current Assets	**9,542**	**9,647**	**12,888**	**25,127**
Property and equipment, net	971	795	850	798
Deferred offering costs	-	-	-	-
Long-term investment, at cost	10,150	-	-	-
Other assets	128	68	65	1,582
Total Assets	**$ 20,791**	**$ 15,048**	**$ 13,803**	**$ 27,507**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts payable	735	932	1,337	1,092
Accrued expenses and other current liabilities	889	782	1,526	1,626
Deferred revenue	2,629	769	574	794
Current portion of LTD, net of debt discount	143	87	114	12
Derivative liability	3,176	11	-	-
Taxes payable	-	-	-	229
Total Current Liabilities	**7,572**	**2,581**	**3,551**	**3,753**
Long-Term Liabilities				
Deferred revenue	1,152	413	112	531
LTD, less current portion, net of debt discount	4	-	-	48
Deferred tax liability	-	-	-	312
Total Liabilities	**8,728**	**2,994**	**3,663**	**4,644**
Stockholders' Equity				
Common stock	1	2	2	1
Additional paid-in capital	149,141	157,772	166,367	168,198
Accumulated other comprehensive loss	(3,069)	(3,507)	(3,854)	(4,671)
Accumulated deficit	(134,010)	(142,213)	(152,375)	(140,665)
Total Stockholders' Equity	**12,063**	**12,054**	**10,140**	**22,863**
Total Liabilities and Stockholders' Equity	**$ 20,791**	**$ 15,048**	**$ 13,803**	**$ 27,507**
Ratios				
Liquidity				
Current Ratio	1.3x	3.7x	3.6x	6.7x
Quick Ratio	1.0x	3.0x	2.7x	6.0x
Working Capital	$1,970	$7,066	$9,337	$21,374
Leverage				
Debt To Equity	1.2%	0.7%	1.1%	0.3%
Debt To Capital	1.2%	0.7%	1.1%	0.3%

Source: Company Reports, Stonegate Capital Partners

INCOME STATEMENTS

Sonoma Pharmaceuticals, Inc.
Consolidated Statements of Income (in thousands $, except per share amounts)
Fiscal Year: March

	Actual Q3 FY16 Dec-15	Actual Q3 FY17 Dec-16	Q4 FY17 E Mar-17	FY 2018 E
Revenues				
Product	$ 2,212	$ 3,174	$ 3,194	$ 16,487
Service	227	187	181	600
Royalties	44	-	-	250
Total revenues	**2,483**	**3,361**	**3,376**	**17,337**
Cost of revenues				
Product	1,851	1,476	1,374	5,523
Service	177	179	165	447
Total cost of revenues	2,028	1,655	1,539	5,970
Gross profit (loss)	**455**	**1,706**	**1,837**	**11,367**
Operating expenses				
Research and development	486	487	439	1,281
Selling, general and administrative	4,158	4,784	4,844	17,375
Total operating expenses	4,644	5,271	5,283	18,657
Income (loss) from operations	**(4,189)**	**(3,565)**	**(3,446)**	**(7,290)**
Other income (expense):				
Interest expense	-	-	-	-
Interest income	-	6	68	195
Change in fair value of derivative liability or stock	4	-	-	-
Other income (expense), net	(29)	282	-	-
Total other income (expense)	(25)	288	68	195
Pre-tax income (loss)	**(4,214)**	**(3,277)**	**(3,378)**	**(7,095)**
Provision for taxes (benefit)	-	(4,040)	-	-
Income (loss) from continuing operations	**$ (4,214)**	**$ 763**	**$ (3,378)**	**$ (7,095)**
Income from discontinued operations, net of tax	1,065	15,465	839	3,354
Net income (loss)	**(3,149)**	**16,228**	**(2,540)**	**(3,741)**
Basic EPS (loss) - continuing ops	**$ (1.28)**	**$ 0.18**	**$ (0.79)**	**$ (1.58)**
Basic EPS (loss) - discontinued ops	**$ 0.32**	**$ 3.66**	**$ 0.20**	**$ 0.75**
	$ (0.96)	**$ 3.84**	**$ (0.60)**	**$ (0.83)**
Diluted EPS (loss) - continuing ops	**$ (1.28)**	**$ 0.18**	**$ (0.79)**	**$ (1.58)**
Diluted EPS (loss) - discontinued ops	**$ 0.32**	**$ 3.66**	**$ 0.20**	**$ 0.75**
	$ (0.96)	**$ 3.84**	**$ (0.59)**	**$ (0.83)**
Basic shares outstanding	3,293	4,225	4,267	4,485
Diluted shares outstanding	3,293	4,228	4,270	4,485
EBITDA	(4,130)	(3,505)	(3,386)	(7,040)
Adjusted EBITDA	(3,575)	(2,590)	(2,586)	(4,740)
Margin Analysis				
Gross margin	18.3%	50.8%	54.4%	65.6%
Research and development	19.6%	14.5%	13.0%	7.4%
Selling, general and administrative	167.5%	142.3%	143.5%	100.2%
Operating margin	-168.7%	-106.1%	-102.1%	-42.1%
EBITDA margin	-166.3%	-104.3%	-100.3%	-42.7%
Pre-tax margin	-169.7%	-97.5%	-100.1%	-40.9%
Net income margin	-169.7%	22.7%	-100.1%	-40.9%
Tax rate	0.0%	-123.3%	0.0%	0.0%

Source: Company Reports, Stonegate Capital Partners estimates
Note: Restatement made for sale of Latin American business, making previous quarters' data not comparable, other than Q3 FY16

VALUATION

As of mid-2014, CEO Jim Schutz described the Company's operations as "a mile wide and an inch deep." Financial results were suffering, and management was struggling to define the direction of the business. As a result, Sonoma put in place a new long-term strategic plan that included an overhaul of the management team as well as some housekeeping related to its Board of Directors. The Company decided to focus on the dermatology market going forward and to launch its own direct US salesforce. Now, having just finished Q3 FY17, Sonoma is reaping the benefits of its significant turnaround, recently reporting total revenues up 29% for the first nine months of FY 2017 over the same period last year, led by increases in dermatology markets and animal health, and noting a growth rate of 19% quarter-over-quarter for the last 4 quarters of prescriptions filled at the pharmacy counter. Additionally, at 12/31/16 the Company reported approximately $20M+ in cash on hand, minimal debt, and an intention to launch at least one new dermatology product each quarter for the remainder of FY17 and into 1H FY18. Most recently for the December 2016 quarter, the Company successfully launched a combination pack of Alevicyn™ and Celacyn™.

Looking ahead, we believe that Sonoma has positioned itself for strong growth in the dermatology market. Per the summary comparables analysis detailed below, on an EV/R basis, SNOA trades at 0.8x vs. the median of its peers at 13.2x based on the FY18 revenue estimates.

Exhibit 8: Comparables Analysis ($mm except per share information)

Name	Ticker	Price	Sh	Mrkt Cap	EV	Revenues 2018E
Achaogen, Inc,	AKAO	$ 20.13	35.8	$ 720.7	$ 689.5	$ 6.5
Cempra, Inc.	CEMP	$ 3.98	52.4	$ 208.6	$ 3.8	$ 14.3
China Pharma Holdings, Inc.	CPHI	$ 0.25	43.6	$ 10.9	$ 21.5	n/a
Imprimis Pharmaceuticals, Inc.	IMMY	$ 2.37	18.6	$ 44.1	$ 54.3	$ 46.0
MyoKardia, Inc.	MYOK	$ 13.90	31.4	$ 436.5	$ 318.8	$ 28.0
Paratek Pharmaceuticals, Inc.	PRTK	$ 15.55	24.3	$ 377.9	$ 309.2	$ 20.6
SCYNEXIS, Inc.	SCYX	$ 2.79	25.5	$ 71.1	$ 27.7	$ 0.2
Tetraphase Pharmaceuticals, Inc.	TTPH	$ 7.77	37.1	$ 288.3	$ 168.1	$ 8.1
Titan Pharmaceuticals, Inc.	TTNP	$ 3.58	21.2	$ 75.9	$ 62.3	$ 23.7
Sonoma Pharmaceuticals, Inc.*	**SNOA**	**$7.53**	**4.3**	**$ 32.1**	**$ 13.2**	**$ 17.3**

Name	Ticker	Price	Sh	Mrkt Cap	EV	EV/Revs 2018E
Achaogen, Inc,	AKAO	$ 20.13	35.8	$ 720.7	$ 689.5	106.1x
Cempra, Inc.	CEMP	$ 3.98	52.4	$ 208.6	$ 3.8	0.3x
China Pharma Holdings, Inc.	CPHI	$ 0.25	43.6	$ 10.9	$ 21.5	n/a
Imprimis Pharmaceuticals, Inc.	IMMY	$ 2.37	18.6	$ 44.1	$ 54.3	1.2x
MyoKardia, Inc.	MYOK	$ 13.90	31.4	$ 436.5	$ 318.8	11.4x
Paratek Pharmaceuticals, Inc.	PRTK	$ 15.55	24.3	$ 377.9	$ 309.2	15.0x
SCYNEXIS, Inc.	SCYX	$ 2.79	25.5	$ 71.1	$ 27.7	145.8x
Tetraphase Pharmaceuticals, Inc.	TTPH	$ 7.77	37.1	$ 288.3	$ 168.1	20.7x
Titan Pharmaceuticals, Inc.	TTNP	$ 3.58	21.2	$ 75.9	$ 62.3	2.6x
					Average	**37.9x**
					Median	**13.2x**
Sonoma Pharmaceuticals, Inc.*	**SNOA**	**$ 7.53**	**4.3**	**$ 32.1**	**$ 13.2**	**0.8x**

**Estimates are from Capital IQ and Stonegate Capital Partners (for SNOA)*
Source: Company reports, Stonegate Capital Partners

We also note that since 2008, companies in the dermatology space have been acquired at median EV/S multiple of 3.6x.

Exhibit 9: Precedent Transactions

		Price (1)	Revenue	Multiple
Acquired Companies	**Acquirer**			
Steifel Laboratories	Sinclair Pharmaceutical (LON: SPH)	$ 3,600.0	$ 1,000	3.6x
Medicis Pharmaceutical	Valeant Pharmaceuticals (TSX: VRX)	$ 2,600.0	$ 721	3.6x
Fougera Pharmaceutical	Sandox, Inc.	$ 1,525.0	$ 429	3.6x
PreCision Dermatology	Valeant Pharmaceuticals (TSX: VRX)	$ 500.0	$ 130	3.8x
Graceway Pharmaceuticals	Medicis Pharmaceutical	$ 455.0	$ 355	1.3x
Aqua Pharmaceuticals	Almiral, S.A. (CAT: ALM)	$ 402.0	$ 127	3.2x
SkinMedica	Allergan, Inc.	$ 350.0	$ 69	5.1x
Dow Pharmaceutical Sciences	Valeant Pharmaceuticals (TSX: VRX)	$ 285.0	$ 45	6.3x
Allergan	Actavis (NYSE: ACT)	$ 77,000.0	$ 7,238	10.6x
			Average	**4.6x**
			Median	**3.6x**
Sonoma Pharmaceuticals, Inc.				**0.8x**

(1) Closing price at acquisition

Source: Company reports, CapitalIQ, Stonegate Capital Partners

All figures in $M expect per share information

Following its recent sale of the Latin American business, we again note that Sonoma now has approximately $20M+ in cash on hand; therefore, cash value per share alone is approximately $5 vs. the current share price of $7.53 on a company that had over 30% growth in fiscal 2016 and 29% for the first 9 months of fiscal 2017 over the prior year period. Given this and the Company's current multiples vs. those of comparable companies in addition to the SNOA multiple when compared to precedent transactions in the dermatology space, we believe that Sonoma is significantly undervalued at current levels as a company well-positioned to continue capturing high growth in the US dermatology space.

2-YEAR TIMELINE

February 2017 – PetSmart, Inc. launched MicrocynAH® family of healthcare products with chain-wide availability at 1,500+ stores across North America; SNOA also announced positive results from SebuDerm™ study in treatment of mild to moderate facial and scalp seborrheic dermatitis

December 2016 – Management announced a corporate name change to Sonoma Pharmaceuticals, Inc. with new ticker SNOA effective 12/6/16

October 2016 – Company sold Latin American business to Invekra for $19.5M in cash and 3% annually on Latin American sales outside Mexico with $250K minimum per year

August 2016 – Company received approvals for the marketing (launch target of January 2017) of Microcyn® solution and hydrogel in Australia and New Zealand, and new post-dermal procedures product received US FDA approval with an estimated launch of March 2017; Company also launched Lasercyn™ into US markets

June 2016 - Company announced 1-for-5 reverse split effective after the close of business on June 24th

May 2016 – Ceramax™ Skin Barrier Cream launched in the US for atopic dermatitis and other dermatoses

April 2016 - Company announced FDA approval of Lasercyn™ Gel for use following laser procedures, microdermabrasions, and chemical peels; additionally, EU approval received for marketing of Sinudox™ as indicated for use in nasal irrigation

March 2016 - Sales and distribution agreement with Manna Pro Products, LLC announced, expanding the animal care products channel

January 2016 - CE Mark issued for MucoClyns™, a Microcyn®-based solution intended for emergencies

December 2015 - Microcyn®-based SebDerm Gel received FDA clearance as a new prescription therapeutic for dermatologic conditions related to seborrhea and seborrhea dermatitis

September 2015 - Company launched two new MicrocynAH® dermatology products for animals - an anti-itch spray gel and a spray gel for hot spots

August 2015 - Announced the launch of the Company's new Alevicyn™ Antipruritic Spray Gel for the prescription market targeting atopic dermatitis

February 2015 - Entered into an agreement with SLA Brands, Inc., to be the Company's sales representative and distributor of pet specialty and equine products within the US and Canada

CORPORATE GOVERNANCE

Jim Schutz, J.D., Chief Executive Officer, President and Director - Jim Schutz has 20 years of experience in healthcare and was appointed CEO in February 2013. Mr. Schutz was formerly the general counsel of Jomed, Inc. until 2003 when he orchestrated the sale of Jomed to Abbott Laboratories (NYSE: ABT) and Volcano Therapeutics (NASDAQ: VOLC, now part of Royal Philips, NYSE: PHG). Mr. Schutz received a B.A. in economics from the University of California, San Diego and a J.D. from the University of San Francisco School of Law.

Robert Miller, Chief Financial and Operating Officer - Mr. Robert E. Miller has been the Chief Financial Officer of Sonoma since June 2004, and he serves as its Principal Accounting Officer. Mr. Miller has been Chief Operating Officer and Secretary of Sonoma since February 2013. He has over 20 years of experience as Chief Financial Officer for companies up to $650 million. Mr. Miller's early career was with Merrill Lynch and Blyth Eastman Dillion, Inc., where he served as Vice President of Investment Banking. Mr. Miller served as Chief Financial Officer for GAF Corporation, Penwest Ltd., Cerus, Ameron, and Bugle Boy, and Treasurer of Mead Corporation. Mr. Miller served as a Consultant to Sonoma from March 2003 to May 2004. Mr. Miller holds a B.A. in Economics from Stanford University and an M.B.A. in Corporate Finance and Accounting from the Columbia University Graduate School of Business.

Mark Umscheid, Chief Strategy and Marketing Officer – On January 31, 2017, Sonoma announced the appointment of Marc Umscheid as Chief Strategy and Marketing Officer. Previously, Mr. Umscheid worked at the Clorox Company where he most recently served as senior marketing director and business development team leader. As CSO/CMO at Sonoma, Mr. Umscheid will direct overall global strategy and marketing efforts while facilitating continued revenue growth across the Sonoma Pharmaceutical product portfolio, which includes dermatology, advanced wound care and animal healthcare products. Mr. Umscheid will report directly to Sonoma CEO Jim Schutz. Umscheid is a graduate of Cornell University, where he received both a BS in business management/finance and an MBA from the Johnson Graduate School of Management.

Robert Northey, Ph.D., Executive Vice President of Research and Development - Dr. Robert Northey, Ph.D. serves as Executive Vice President of Research and Development at Sonoma and served as its Vice President of Research and Development. Dr. Northey served as Director for Research and Development of Sonoma since July 2005. He served as a consultant to Sonoma from May 2001 to June 2005. From August 1998 to June 2005, he was an Assistant Professor in the Paper Science and Engineering Department at the University of Washington. He received a B.S. in wood and fiber science and a Ph.D. in wood chemistry, each from the University of Washington.

Board of Directors:

James Schutz – *Chief Executive Officer, President and Director*

Russell Harrison – *Independent Director*

John McLaughlin – *Lead Independent Director*

Sharon Surrey-Barbari – *Independent Director*

Jay Edward Birnbaum, Ph.D. – *Independent Director*

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