Novan Reports First Quarter 2017 Financial Results

MORRISVILLE, N.C., May 12, 2017 -- Novan, Inc. ("the Company" or "Novan") (NASDAQ:NOVN) today announced the Company's financial results for the first quarter of 2017.

Total operating expenses for the three months ended Mar. 31, 2017, were approximately $11.5 million, which includes research and development, or R&D, expenses totaling approximately $7.0 million and general and administrative, or G&A, expenses totaling approximately $4.5 million. Total operating expenses for the three months ended Mar. 31, 2016, were approximately $11.3 million, which included R&D expenses totaling approximately $7.9 million and G&A expenses totaling approximately $3.4 million. The year-over-year decrease in R&D expenses was due primarily to the completion of the SB206 Phase 2 and SB204 Phase 3 clinical trials.

As of Mar. 31, 2017, Novan's cash and cash equivalents totaled approximately $30.1 million. This amount includes an upfront payment of approximately $10.8 million following the execution of a license agreement with Sato Pharmaceutical Co., Ltd. in the first quarter of 2017 for the exclusive right to develop, use and sell SB204 in certain topical dosage forms in Japan for the treatment of acne vulgaris. Novan continues to believe that the Company's cash on hand is sufficient to fund operations at least through the end of 2017.

"We are exploring a number of potential financing options, including partnering activities, in efforts to continue the advancement of our product candidates," said Nathan Stasko, Ph.D., President and Chief Executive Officer of Novan. "We are also looking at ways to right size the Company to execute on the highest value portfolio programs based upon our internal assessments, as well as feedback from potential partners and key advisors."

In April of 2017, Novan reported topline results from a Phase 2 proof-of-concept trial in 222 patients with signs and symptoms of tinea pedis. Novan's SB208 Gel, at the 16% concentration, demonstrated a statistically significant effect ($p<0.05$) compared to vehicle in both the primary endpoint of the proportion of patients achieving negative fungal culture at day 14 and the secondary endpoint of mycological cure at day 42. The Company has also continued to advance its inflammatory skin disease program and the SB414 product candidate toward Phase 2 clinical development. With the preclinical data presented recently at the annual meeting of the Society for Investigative Dermatology, the Company has established mechanistic evidence for nitric oxide's immunomodulatory potential from a locally-applied, topical cream formulation. Near term, Novan plans to submit an Investigational New Drug application to the U.S. Food and Drug Administration later this quarter to begin clinical exploration of SB414 in patients with mild-to-moderate psoriasis in an 8-week, vehicle and active comparator-controlled trial in approximately 120 subjects throughout the United States.

About Novan

Novan, Inc. is a late-stage pharmaceutical company focused on redefining the standard of care in dermatology through the development and commercialization of innovative therapies using the Company's nitric oxide-releasing platform. Nitric oxide plays a vital role in the natural immune system response against microbial pathogens and is a critical regulator of inflammation. Our ability to harness nitric oxide and its multiple mechanisms of action has enabled us to create a platform with the potential to generate differentiated, first-in-class product candidates. We are advancing programs in five dermatological conditions with significant unmet medical need. We believe that our ability to conveniently deploy nitric oxide on demand in topical formulations allows us the potential to significantly improve patient outcomes in a variety of skin diseases and positions us to be a commercially successful leader in the dermatology market.

For more information, visit the Company's website at www.Novan.com.

Forward-Looking Statements

This press release contains forward-looking statements including, but not limited to, statements related to pharmaceutical development of nitric oxide-releasing product candidates, our potential financing opportunities and partners, as well as our expected uses of cash, and the future prospects of our business, operating activities and our product candidates. Forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from our expectations, including, but not limited to, uncertainties and risks in the clinical development process, including, among others, length, expense, ability to enroll patients, reliance on third parties, and that results of earlier research and preclinical or clinical trials may not be predictive of results, conclusions or interpretations of later research or trials; the lengthy and unpredictable nature of the U.S. Food and Drug Administration's drug approval process; whether we will be able to enter into strategic arrangements or obtain adequate funding to support our operations and initiatives on acceptable terms, or at all; our ability to implement and realize anticipated benefits from any adjustments to our business; and other risks and uncertainties described in our annual report filed with the Securities and Exchange Commission, or SEC, on Form 10-K for the twelve months ended Dec. 31, 2016, and in any subsequent filings with the SEC. These forward-looking statements speak only as of the date of this press release, and Novan disclaims any intent or obligation to update these forward-looking statements to reflect events or circumstances after the date of such statements, except as may be required by law.

Novan, Inc.

Condensed Consolidated Statements of Operations

(unaudited; in thousands, except for share and per share data)

	Three Months Ended March 31,	
	2017	**2016**
License and collaboration revenue	$ 100	$ —
Operating expenses:		
Research and development	6,946	7,905
General and administrative	4,531	3,367
Total operating expenses	11,477	11,272
Operating loss	(11,377)	(11,272)
Other income, net	(230)	12
Net loss and comprehensive loss	$ (11,607)	$ (11,260)
Net loss per share, basic and diluted[1]	$ (0.73)	$ (4.60)
Weighted-average common shares outstanding, basic and diluted[2]	15,967,882	2,445,351

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Selected Consolidated Balance Sheet Data

(in thousands)

	March 31, 2017 (unaudited)	December 31, 2016
Cash and cash equivalents	$ 30,088	$ 34,611
Total assets	48,572	52,473
Total current liabilities	11,502	13,377
Total liabilities	27,840	21,407
Total stockholders' equity	20,732	31,066
Total liabilities and stockholders' equity	48,572	52,473

1 Basic net loss per share is calculated by dividing net loss by the weighted average shares outstanding during the period, without consideration for common stock equivalents. Diluted net loss per share is calculated by adjusting weighted average shares outstanding for the dilutive effect of common stock equivalents outstanding for the period. Diluted net loss per share is the same as basic net loss per share, since the effects of potentially dilutive securities are antidilutive for all periods presented. Potentially dilutive securities include convertible preferred stock and stock options outstanding during the periods presented.

2 Upon closing of the IPO on Sept. 26, 2016, all outstanding shares of the Company's non-voting common stock and convertible preferred stock were automatically converted into 8,967,321 shares of common stock. As of March 31, 2017, there were 15,969,493 shares of common stock outstanding.

CONTACT:

(Investors)
Novan, Inc.
919-627-6847
investors@novan.com

(Media)
Deb Holliday
Pascale Communications, LLC
412-877-4519
deb@pascalecommunications.com