



NYSE: NBY

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I. Introduction & Investment Thesis

Investment Recommendation

NovaBay Pharmaceuticals, Inc. (NYSE: NBY) presents both a near and long-term growth opportunity given its recent expansion in product sales and platforms, strong financial history, and refocused business strategy that emphasizes operating efficiency and the development of new products

Recommendation: INVEST

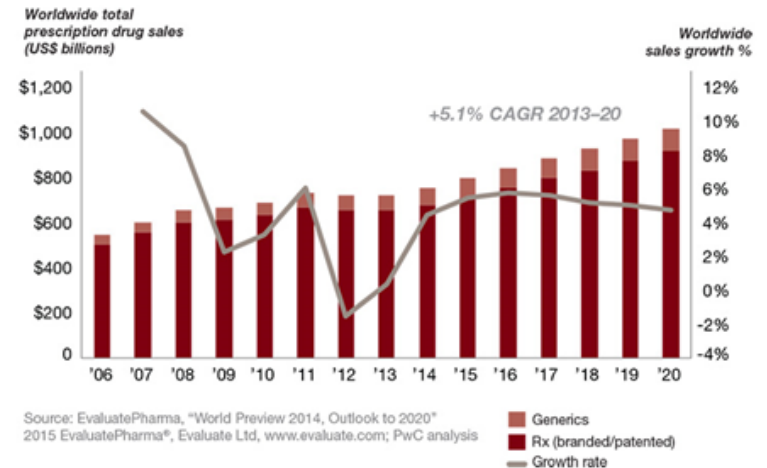
Market Cap: \$18.973 M

II. Industry Overview

Industry Overview

- The global market for pharmaceuticals is expected to grow at an annual rate of 4.9% to \$1.3 trillion by 2020.
- The U.S pharma market is expected to grow to \$320 billion by 2020
- The demand is also due to increases in the incidence of chronic diseases and technological advancement
- Increase in demand for medicines in emerging economies compared to industrialized economies
- Risks include loss of patents, tighter regulatory standards, and increased competition

While the pharma industry struggles with stagnant growth rates...



III. Company Overview & Segment Analysis

Company Overview

Overview

- Clinical-stage biopharmaceutical company
- Develops synthetic anti-microbial compounds that mimic white blood cells' natural defense to fight infection of eyes
 - Main focus is on commercializing prescription eye treatment drug Avenova
 - Received approximately 700,000 new prescriptions or reorders for Avenova since the launch of product in 2014.
 - Founded in 2000 with HQ in Emeryville, California.
- Two main product categories:
 - NEUTROX®
 - AGANOCIDE®

Key Executive



- Justin Hall
 - Appointed CEO in 2019
 - With NovaBay for six years as corporate counsel and involved in number of operating functions including sales organization and manufacturing
 - Led successful implementation of shift in U.S. commercial strategy announced in March and **recent launch of U.S. direct-to-consumer sales of Avenova on Amazon**

Summary

Company Metrics

- \$18.973 Million Current Market Cap
- \$8.520 Million Revenue (TTM)
- -0.4570 EPS (TTM)
- Common for many micro—cap pharma companies to have negative EPS initially
- 4 year Revenue CAGR: 85.79%

<2018 Fiscal Year>

Revenue: 12.51M Operating Cash Flow: -8.49M

(US\$ in millions)

	FY18	FY16	FY14
Revenue	12.51	11.90	1.054

Segment Overview

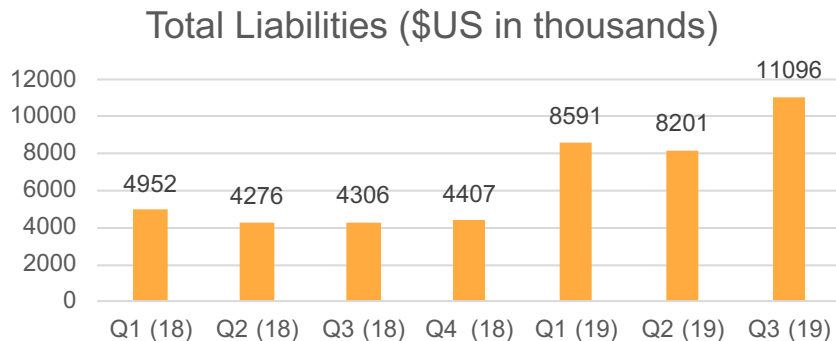
- Neutrox
 - Avenova (eye care and flagship product)
 - Neutrophase (wound care)
 - Cellerex (aesthetic dermatology)
 - Incorporate proprietary hypochlorite solution and subject to legal approvals
- Aganocide
 - Still under development
 - Target applications in dermatology and urology markets

1-Year Stock Performance: \$NBY



Present Liabilities Profile

- No listing of long-term debt on balance sheet
- Liabilities comprised of majority short-term, with miscellaneous long-term obligations



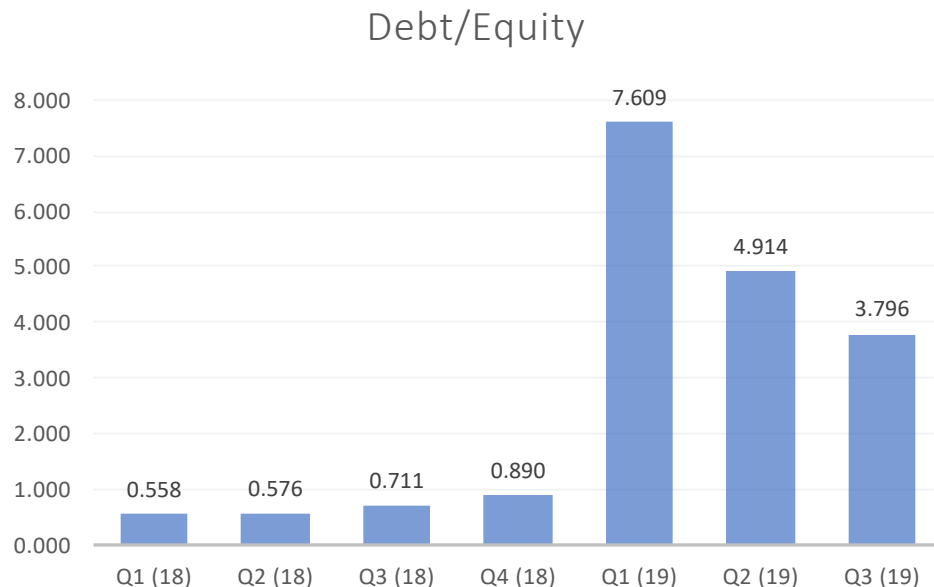
LIABILITIES	US\$ (in thousands)
Accounts payable	503
Accrued liabilities	1,642
Deferred revenue	
Operating lease liability	1,058
Notes payable, related party	1,155
Convertible note	1,890
Embedded derivative liability	4
Total current liabilities	6,252
Operating lease liabilities-non-current	627
Deferred rent	
Warrant liability	3,902
Other liabilities	315
Total liabilities	11,096

Financing Press Releases since 01/2018

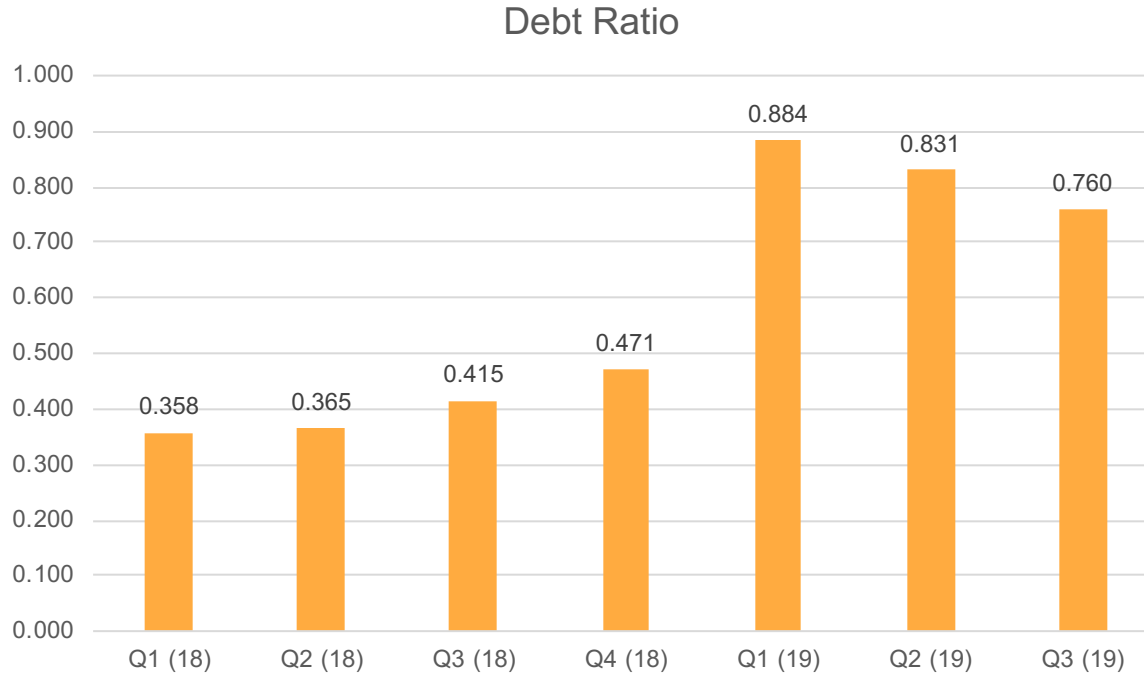
- \$6.0 Million dollar private placement with 1.7 million shares of common stock to OP Financial Investments Limited (HKEX investor) for gross proceeds of \$5,984,000 (Feb 2018)
- Investments totaling \$5 million including a convertible loan of \$2.0 million (Apr 2019)
- Triton Funds LP has committed to making an investment of up to \$3 million (Apr 2019)
- Private placement of common stock and warrants with accredited investors, raising gross proceeds of \$2.4 million (Jun 2019)
- Securities purchase agreement with certain institutional investors providing for the purchase and sale of 4,198,566 shares of common stock at a price of \$1.00 per share. Total gross proceeds of about \$4.2 million (Aug 2019)

Debt and Equity Profile since Q1 2018

- Sharp increase at start of 2019 fiscal year coincides with shift in strategy
- Shows continued faith in growth by institutional investors
- Seems to favor debt to equity and has no issue raising additional capital to fuel growth

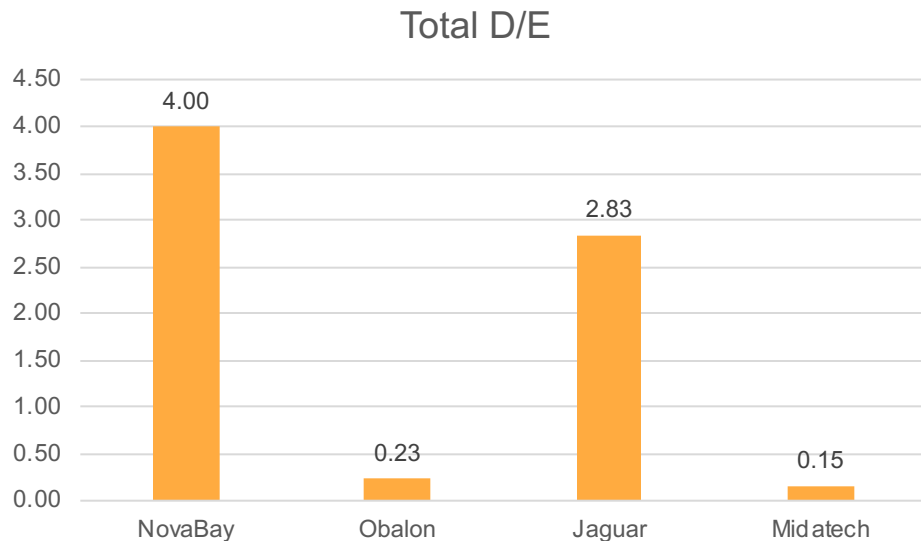


Debt Ratio (since Q1 2018)



- Sharp increase at start of 2019 fiscal year
- Declines in every quarter since then reveal ability to pay back debts

Initial Comparative Analysis



Company	EV/Sales	EBITDA Growth (YoY)	Gross Profit Margin
NovaBay	1.24	52.48%	81.38%
Obalon		- 31.96%	16.69%
Jaguar	3.99	3.38%	-63.81%
Midatech	4.6	4.58%	-346.66%

Sources: Seeking Alpha and Yahoo Finance

IV. Catalysts and Risks

Catalysts

1. Launch of CelleRx without prescription (2020)
 - Expansion into topical industry
 - Broad applicability and competitive proprietary hypochlorite solution (best of 20 similar products tested)
2. Refocus of business strategy
 - Optimizing sales force efficiency
 - Recent launch of Amazon direct sales (June 2019)
3. Seeking additional sources of revenue
 - Monetizing non-core assets
 - E.g. urology, dermatology, and wound care (Aganocide products)

Risks

- Revenues depend on continued legal approval for Avenova. “Cannot guarantee that the FDA will continue to allow us to market and sell Avenova as a cleared medical device”
- Uncertainty regarding IP protection and sustaining competitive advantage in international markets (e.g. China)
- Reliant on certain pharmaceutical wholesalers to distribute Avenova (Amazon addresses this risk)
- It may be difficult to forecast accurately our key operating and performance metrics because of our limited operating history (true for many micro-cap companies)
- May be subject to liability claims if products cause adverse reactions in patients (true for every drug producer)

Conclusion

- CVP Investment Strategy: “Invest our own capital...across a variety of industry sectors and to provide funding at a pace that meets the portfolio company’s **near-term and long-term** liquidity needs.”

Near-term

- Recent launch of Avenova sales on Amazon
- Cellerex sales into 2020
- Demonstrated ability to acquire and repay debt (and equity) financing
- High CAGR
- Favorable multiple and margins relative to similar companies

Long-term

- Shift in business strategy and growing competitive advantage
- Aganocide product category and new industries
- Expansion into international markets
- Increased growth facilitated by financing

Thank you!

Sources

- <https://investmentbank.com/pharma-industry-overview/>
- <https://finance.yahoo.com/quote/NBY/>
- https://www.sec.gov/Archives/edgar/data/1389545/000143774919006017/nby20181231_10k.htm
- <https://novabay.com/news/press-releases/>
- <https://seekingalpha.com/symbol/NBY/peers/comparison>