



Novan Provides Business Update via 10-Q, Adopts Incentive Plan and Agrees to CEO Contract

August 8, 2018

- Company provides a comprehensive business update via its second quarter 2018 Form 10-Q filing
- New incentive plan is aligned with the achievement of two specific stockholder value targets and is intended to replace annual employee equity grants
- CEO employment contract agreed; foundation centered on creating stockholder value

MORRISVILLE, N.C., Aug. 08, 2018 (GLOBE NEWSWIRE) -- Novan, Inc. ("the Company" or "Novan") (Nasdaq:NOVN) today provided a comprehensive business update in its Form 10-Q for the second quarter of 2018 and announced that it has implemented the Tangible Stockholder Return Plan (the "Performance Plan"). The Performance Plan is a performance-based incentive compensation plan designed to directly align the long-term interests of Novan's employees, including executive officers, with the interests of Novan's stockholders.

The design of the Performance Plan is intended to accomplish two key objectives:

- Align future incentive compensation awards with the creation of stockholder value based on achieving specific stock price targets.
- Reduce the utilization of the existing 2016 Incentive Award Plan share pool by replacing the current practice of granting annual equity incentive awards to employees with the Performance Plan.

Executive Chairman of Novan's Board of Directors, Robert Ingram, stated, "We believe this plan is both customized and bold, as it ties employee incentive equity compensation directly to pre-defined and specific increases in the Company's stock price, which drives value to our stockholders." Mr. Ingram further commented, "In adopting the plan, the board of directors has made it clear that the board intends – for the life of this new plan – that traditional annual equity compensation for employees would be largely discontinued and that incentive awards would be provided with the realization of specific increases in stockholder value as reflected in our stock price. We designed the Performance Plan – tied solely to the generation of stockholder value – to meaningfully motivate our employees, crystalize our goals and objectives, enable us to retain talent as well as identify and recruit additional talent and have a positive effect on our overall culture and operations."

Novan's product, clinical drug and business development activities drive certain developmental timelines and strategic activities which depend on successful company-wide execution in order to potentially enable value creation for the Company's stockholders. With respect to key product candidates, top line results for SB414 (psoriasis and atopic dermatitis) and SB206 (molluscum contagiosum) are targeted to be released in the third and fourth quarters of 2018 respectively; and the Company is still awaiting receipt of the FDA's written feedback for SB204 (acne vulgaris). This new incentive plan is intended to directly align management's execution and accountability for Company objectives with stockholder returns.

The foundational metric of the Performance Plan is the achievement of two share price goals for Novan's common stock, which if achieved, would represent measurable increases in stockholder value. Payments under the Performance Plan will occur only if these share price targets are achieved. The two plan targets are:

- Target # 1: \$ 11.17 per share; reaching this objective over the life of the plan will generate a bonus pool of \$ 25.0 million to be distributed to the employees.
- Target # 2: \$ 25.45 per share; reaching this objective over the life of the plan will generate a bonus pool of \$ 50.0 million to be distributed to the employees.

For computational purposes, both share price targets will be measured as the average publicly traded share price of the Company's common stock on the Nasdaq stock exchange for thirty consecutive trading days, and may be adjusted to reflect any stock splits, dividends, reorganizations or similar events. While the Performance Plan provides for each bonus pool to be paid out in cash, our board has the discretion to pay any bonus all or in part in shares, subject to approval of our stockholders. The Performance Plan became effective August 2, 2018, following approval by the Company's board of directors, and expires on March 1, 2022.

Additionally, Kelly Martin, Novan's Chief Executive Officer, and the Company's board of directors have reached agreement on the terms of Mr. Martin's employment contract. Since his appointment as interim CEO in June of 2017, Mr. Martin has performed CEO duties and responsibilities while receiving compensation only for his services as a director under the Company's non-employee director compensation policy.

Mr. Martin's employment contract is designed to link his potential incentive compensation to stockholder value creation based on future stock price increases. Under the terms of his employment contract, Mr. Martin will receive a one-time signing bonus in recognition of previous contributions and an agreement to continue in this role, and an annual base salary. These are the only fixed components of his compensation. By design, Mr. Martin will not receive an annual cash bonus, annual equity awards or other discretionary annual bonuses under the terms of this agreement. Rather, in order to achieve maximum alignment with stockholders and demonstrate his commitment to the Company overall, Mr. Martin's potential incentive compensation will take the form of participation in the Performance Plan and an award of stock appreciation rights, which will vest at the end of the initial term of the employment contract in February of 2020.

About Novan

Novan, Inc. is a clinical-stage biotechnology company focused on leveraging nitric oxide's natural antiviral and immunomodulatory mechanisms of

action to treat dermatological and oncovirus-mediated diseases. We believe that our ability to conveniently deploy nitric oxide in a solid form, on demand and in localized formulations allows us the potential to significantly improve patient outcomes in a variety of diseases.

Forward Looking Statements

This press release contains forward-looking statements including, but not limited to, statements related to our future prospects and the future value of our common stock, statements related to our ability to motivate employees through the Performance Plan and other forms of compensation and statements related to our operations and business strategy. Forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from our expectations and plan targets, including, but not limited to: risks and uncertainties 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 activities or additional trials; risks related to the regulatory approval process, which is lengthy, time-consuming and inherently unpredictable; risks related to the manufacture of clinical trial materials and commercial supplies of any potentially approved product candidates, including the manufacture of our NVN1000 active pharmaceutical ingredient in our primary facility; the need for strategic relationships for the further development and potential commercialization of our product candidates; our need for substantial additional funding for the further development of our product candidates; uncertainties related to our ability to fund the bonus pools when plan targets are achieved and contingencies based on stockholder approval, including with respect to the stock appreciation rights to be granted to Mr. Martin; variability in our stock price due to market factors; and other risks and uncertainties described in our annual report filed with the SEC on Form 10-K for the twelve months ended December 31, 2017, and in our 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.

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Novan, Inc.