

# NovaBay Pharmaceuticals, Inc.

## DERMAdoctor Acquisition to Bolster Topline Trajectory & Create Efficiencies; BUY

NBY (NYSE American)

Company & Market Data	
Closing Price (as of 11/12/2021):	\$0.52
Rating:	BUY
Price Target:	\$2.20
52 Week Range:	\$0.50 - \$1.79
Shares Outstanding (MM):	44.9
Market Capitalization (MM):	\$23
Cash (MM):	\$9.0
Debt (MM):	\$0.1
Fiscal Year End:	Dec

Estimates			
EPS	2021E	2022E	2023E
1Q	\$(0.04)A	\$(0.03)	\$(0.02)
2Q	\$(0.04)A	\$(0.03)	\$(0.01)
Prior			\$(0.02)
3Q	\$(0.05)A	\$(0.02)	\$(0.01)
Prior	\$(0.04)	\$(0.03)	\$(0.02)
4Q	\$(0.07)	\$(0.01)	\$0.00
Prior	\$(0.04)	\$(0.03)	\$(0.01)
Full Year	\$(0.21)	\$(0.09)	\$(0.03)
Prior	\$(0.16)	\$(0.11)	\$(0.07)
Revenue (MM)	2021E	2022E	2023E
1Q	\$1.8A	\$4.1	\$6.1
Prior		\$4.0	\$6.0
2Q	\$2.1A	\$4.7	\$6.7
Prior		\$4.5	\$6.3
3Q	\$1.8A	\$5.3	\$7.3
Prior	\$2.5	\$4.7	\$6.4
4Q	\$3.4	\$6.1	\$8.0
Prior	\$3.6	\$5.5	\$7.2
Full Year	\$9.2	\$20.1	\$28.0
Prior	\$10.0	\$18.7	\$25.9

NovaBay Pharmaceuticals, Inc. is a biopharmaceutical company focusing on high-quality, differentiated, anti-infective consumer products: Avenova, CelleRx Clinical Reser, and NeutroPhase Skin and Wound Cleanser. NovaBay's products are formulated with its patented, pure, stable, pharmaceutical grade hypochlorous acid that replicates the antimicrobial chemicals used by white blood cells to fight infection. NovaBay's hypochlorous acid products do not cause stinging or irritation, are non-toxic and non-sensitizing, making them completely safe for regular use. Avenova is the only commercial hypochlorous acid lid and lash spray product clinically proven to reduce bacterial load on ocular skin surfaces, thus effectively addressing the underlying cause of bacterial dry eye.

NovaBay announced Q3-2021 financial results as well as an overall corporate update and held a conference call to discuss.

Revenue for the quarter totaled \$1.8 million and was driven by Avenova sales with overall unit sales increasing 11% year-over-year and OTC unit sales increasing 26% y/y. OPEX was \$3.6 million comprised of \$1.9 million from Sales and Marketing, \$1.8 million from General and Administrative, and \$10,000 from Research and Development. OPEX decreased slightly when compared to Q3-20 due to reduced sales headcount and overall legal expenses both of which were offset by higher digital marketing expenditures to support DTC initiatives. Net loss and loss per share was \$2.3 million and \$0.05.

Recall, during the quarter, the company announced an agreement to acquire DERMAdoctor, LLC. The acquisition closed on November 8, 2021, and NBY provided a more comprehensive update. With the closing, Dr. Audrey Kunin was appointed to Chief Product Officer of NBY. She is largely responsible for the formulations of DERMAdoctor's innovative offerings and will continue to develop products for both the skin care and eyecare markets. Further, Dr. Jeff Kunin, the co-founder of DERMAdoctor, will remain as President and NBY has begun the integration of the DERMAdoctor's 13-individual team. The entity will continue operations out of the existing headquarters in Riverside, Missouri. The acquisition provides NBY with several advantages including product diversification, enhanced marketing capabilities, international distribution, as well as warehouse and logistics synergies. The DERMAdoctor products are currently available in North America, South America, Europe, and Asia. The distributor network is dense and growing and NBY believes Avenova and other eyecare products may be beneficial additions. As such, this acquisition should prove to support topline growth beginning in Q4-21.

Dr. Audrey Kunin also provided details on the product development initiatives currently underway at the company. Recall, DERMAdoctor's product portfolio includes 30 products through the Ain't Misbehavin', Calm Cool + Corrected, Kakadu C, KP Duty, and Wrinkle Revenge lines. Currently, there are various problem-solving and clinically proven products in various stages of development. As such, NBY expects at least four new SKUs to be manufactured and commercially available during 1H-22. These offerings are targeting common concerns and growing categories such as anti-aging and eczema through the Calm Cool + Corrected, Kakadu C, KP Duty product families. Dr. Audrey Kunin also noted that expansion of new products and product lines will continue well into 2023. Further, the proven and effective product development strategy will be integrated into eyecare with expansion under the Avenova brand. The initial products will focus on dry eye, blepharitis, and contact resistance. It is anticipated this development will underpin NBY as a leader in lid and lash health. To support the acquisition, the company closed a \$15.0 million private placement on November 3, 2021.

Based on the anticipated revenue contribution for Q4-21, the potential product expansion and associated revenue, and NBY's commentary around potential profitability during 2022, we have made modifications to our model. We are highly encouraged by the company's progress and recognize potential significant upside as NBY expands from a one-product company to a strong player within both the eyecare and skin care markets.

Based on our Comparable Company Valuation table, we believe that it is appropriate to value the company based on a revenue multiple for 2022. We have determined that the company's valuation should be 4.5 times our FY-2024 revenue estimate discounted by one year at 11.5%, or \$2.20.

Disclosures and Analyst Certifications can be found in Appendix A.

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## Valuation

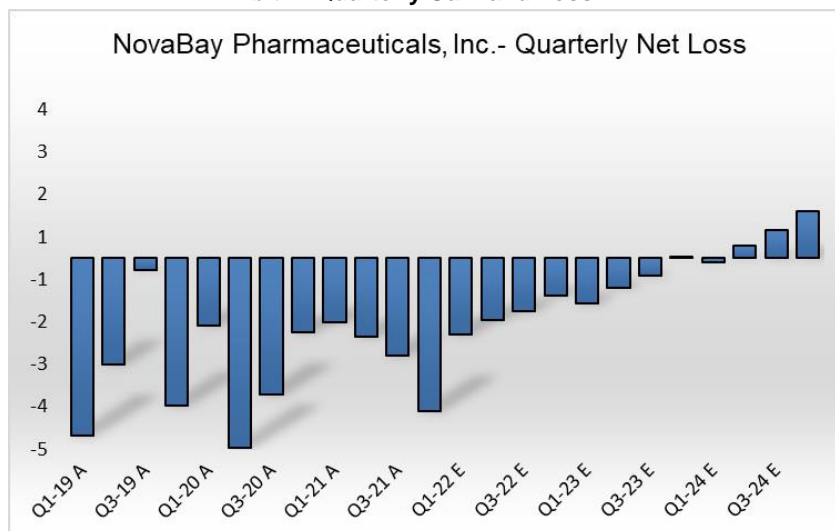
### Financial Assumption and Modelling

**Exhibit 1: Quarterly Segment Revenue Composition**



Source: Ladenburg Thalmann & Co., Inc. estimates

**Exhibit 2: Quarterly Gain and Loss\***



We believe that NovaBay should be valued in comparison with other innovative companies within the medical technology sector and more specifically based on multiples to revenue at some time in the future. We have assembled a comprehensive list of other comparable companies and measured their current revenue multiple valuations as compared with anticipated revenues out three years.

Based on our Comparable Company Valuation table, we believe that it is appropriate to value the company based on a revenue multiple for 2022. We have determined that the company's valuation should be 4.5 times our FY-2024 revenue estimate discounted by one year at 11.5%, or \$2.20.

### Exhibit 3: EV/Revenue Price Target

NovaBay Pharmaceuticals, Inc. - EV/Revenue Price Target Model (MM)			
<b>Enterprise Value to Revenue (EV/R)</b>			
EV/Revenue average for peer group			4.50
Total current cash & investments	\$	10.29	
Total current debt	\$	0.00	
Total outstanding shares used in calculation (MM)	\$	67.00	
Estimated Revenue for FY-2024	\$	35.81	
Enterprise Value at EV/Revenue multiple	\$	171.46	
Price target at EV/Revenue multiple	\$	2.56	
Annual discount rate			11.5%
Discounted number of years			1.5
Price Target at EV/Revenue Multiple	\$	2.13	
<b>Source: Ladenburg Thalmann &amp; Co. Inc., Company reports</b>			

**Exhibit 4: Comparable Company Analysis**

Company Detail			Market Data			Revenue Estimates				TEV/Total Revenue Estimates			
Company Name	Ticker	Rating	Price	Shares (MM)	Market Cap (M)	FY2021	FY2022	FY2023	FY2024	FY2021	FY2022	FY2023	FY2024
NovaBay Pharmaceuticals, Inc.	NYSEAM:NBX	BUY	0.52	45	23	9.8	16.8	25.9	33.2	1.5	0.9	0.6	0.4
Harrow Health, Inc.	NasdaqGM:HROW	BUY	11.08	27	298	72.2	84.5	101.2	118.6	4.2	3.6	3.0	2.6
Jaguar Health, Inc.	NasdaqCM:JAGX	BUY	1.89	46	87	13.2	25.1	48.5	88.8	6.9	3.7	1.9	1.0
Adams Pharmaceuticals Corporation	NasdaqCM:ADMP	NR	1.00	149	149	22.0	10.0	13.8	18.2	6.8	14.9	10.8	8.2
Alimera Sciences, Inc.	NasdaqGM:ALIM	NR	6.11	7	42	54.8	60.9	69.6	-	1.6	1.4	1.2	-
Otonomy, Inc.	NasdaqGS:OTIC	NR	2.25	57	128	0.1	-	-	16.7	-	-	-	4.3
Sonoma Pharmaceuticals, Inc.	NasdaqCM:SNOA	NR	5.78	2	12	-	-	-	-	-	-	-	-
Average			4.09	48	106	28.7	39.5	51.8	55.1	4.19	4.88	3.50	3.31
Median			2.25	45	87	17.6	25.1	48.5	33.2	4.25	3.63	1.89	2.58

Source: S&amp;P Capital IQ

NR = Not Rated.

Pricing is as of 11/12/2021.

Mention of specific companies not covered by Ladenburg Thalmann &amp; Co Inc. is not a recommendation to buy, hold or sell those securities mentioned.

## Primary Risks

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In addition to normal economic and market risk factors that impact most all equities, we believe that the primary risks to our recommendation and price target of an investment in NovaBay Pharmaceuticals, Inc. shares include, but are not limited to:

### **Management and Board Stability**

Significant loss of key personnel could prove to be damaging toward the operational efficiencies and further growth of the company. The departure of key personnel could materially affect the overall performance and strategy of the company going forward. The company is highly dependent on the services of its current management team and board.

### **Funding and Financing**

The company had \$9.0 million of cash as of Q3-2021. Positive cash flow is expected to occur during fiscal 2022 when quarterly revenues are approximately \$6.0 million, this estimate is highly dependent on revenue and spending trajectories.

### **Commercialization**

There are no assurances that the company will be able to execute its current commercial strategy and generate our estimated revenues. Similar products are regularly developed and introduced to the market and compete with NovaBay's current and anticipated offerings. The competitive products could take market share and reduce our current revenue projections.

### **Acquisitions**

There is no guarantee the acquisition of DERMAdoctor, or any other acquisitions will close in a timely manner or at all. Further, the acquisition may not provide the growth anticipated. As such, our financial models may be impacted.

### **Competition and Adoption**

As is the case within the healthcare industry, there exist various innovative and highly competitive corporations. The company could be negatively impacted from current and future competitive products into the marketplace. There can be no assurances that the products will continue to be attractive as compared with other potential technologies or drug therapies which exist or are developed. Potential, current and future market share and market acceptance of the company's technologies will depend on its ability to demonstrate that its products represent an attractive alternative when compared with traditional offerings.

### **Intellectual Property**

The company's dense portfolio of exclusively and non-exclusively licensed domestic and international patents has provided significant protection to this point. It may be possible that the company's patents be called into question or determined to infringe on their portfolio. Likewise, the company could become engaged in legal disputes among other entities. Any potential litigation could negatively impact the company with regard to their freedom to operate, product limitations could result in costly and lengthy litigation. The future expiration of the existing patents could also pose as a problem for the company's technology as well as its growth strategies.

### **Regulatory / Development Risks**

Modifications or future iterations of the company's currently approved products are subject to FDA and other regulatory body requirements in the United States and similar agencies in other countries. Products under current development may require extensive testing, studies, data submission and/or clinical evaluation prior to granting of proper licenses to sell in various geographies. If the company fails to comply with applicable regulatory requirements the FDA and other regulatory bodies could deny marketing clearance or approval, withdraw approvals, or impose civil penalties, including fines, product seizures or product recalls and, in extreme cases, criminal sanctions.

**Other**

There is uncertainty about the company's ability to continue as a going concern.

If the company conducts offerings in the future, the price at which they offer their securities may trigger a price protection provision included in warrants originally issued in July 2011, March 2015 and October 2015, reducing the probability and magnitude of any future share price appreciation.

China Pioneer, Pioneer Hong Kong, Mr. Jian Ping Fu, OP Financial Investments Limited and/or China Kington might influence corporate matters in a manner that is not in the best interest of other stockholders.

Financial Statements & Modelling

Exhibit 5: Revenue Segmentation

NovaBay Pharmaceuticals, Inc. - U.S. Revenue & Percentage Composition																								
All figures are U.S. Dollars (\$ in Millions)																								
	2018 A	2019 A	2020 A	Q1-21 A	Q2-21 A	Q3-21 A	Q4-21 E	2021 E	Q1-22 E	Q2-22 E	Q3-22 E	Q4-22 E	2022 E	Q1-23 E	Q2-23 E	Q3-23 E	Q4-23 E	2023 E	Q1-24 E	Q2-24 E	Q3-24 E	Q4-24 E	2024 E	
	Dec-18	Dec-19	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Dec-24	
Revenue Composition																								
Product revenue	12.47	6.56	9.92	1.80	2.13	1.83	3.38	9.14	4.05	4.68	5.32	6.05	20.10	6.08	6.64	7.29	7.99	27.99	7.96	8.57	9.25	9.98	35.77	
Other revenue	0.03	0.04	0.02	0.01	0.01	0.01	0.01	0.03	0.01	0.01	0.01	0.01	0.04	0.01	0.01	0.01	0.02	0.04	0.01	0.01	0.01	0.02	0.05	
Total Revenue	12.51	6.60	9.93	1.81	2.13	1.84	3.39	9.17	4.06	4.69	5.33	6.06	20.13	6.09	6.65	7.29	8.00	28.03	7.97	8.58	9.26	10.00	35.81	
Percentage Composition																								
Product revenue	99.7%	99.3%	99.8%	99.7%	99.7%	99.7%	99.7%	99.7%	99.8%	99.8%	99.9%	99.8%	99.8%	99.9%	99.9%	99.9%	99.8%	99.9%	99.9%	99.9%	99.9%	99.8%	99.9%	
Other revenue	0.3%	0.7%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%	0.1%	0.2%	0.2%	0.1%	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.2%	0.1%	
Totals	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Growth Analysis (Y/Y)																								
Product revenue	-31.2%	-47.4%	51.3%	-4.8%	-46.6%	-15.4%	80.0%	-7.8%	125.0%	120.0%	190.0%	79.0%	119.9%	50.0%	42.0%	37.0%	32.0%	39.3%	31.0%	29.0%	27.0%	25.0%	27.8%	
Other revenue	-67.0%	26.5%	-58.1%	0.0%	100.0%	200.0%	15.0%	69.4%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	
Totals	-31.4%	-47.2%	50.5%	-4.5%	-46.5%	-15.2%	79.7%	-7.7%	124.6%	119.7%	189.4%	78.8%	119.5%	49.9%	42.0%	37.0%	32.0%	39.2%	31.0%	29.0%	27.0%	25.0%	27.8%	

Source: Ladenburg Thalmann & Co. Inc., Company reports

## Exhibit 6: Income Statement

NovaBay Pharmaceuticals, Inc. - Consolidated Statement of Operations (\$MM)		2018 A	2019 A	2020 A	Q1-21 A	Q2-21 A	Q3-21 A	Q4-21 E	2021 E	Q1-22 E	Q2-22 E	Q3-22 E	Q4-22 E	2022 E	Q1-23 E	Q2-23 E	Q3-23 E	Q4-23 E	2023 E	Q1-24 E	Q2-24 E	Q3-24 E	Q4-24 E	2024 E
All figures are U.S. Dollars (\$ in Millions) Blue shading denotes variables		Dec-18	Dec-19	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Dec-24
Total Revenue		12.51	6.60	9.93	1.81	2.13	1.84	3.39	9.17	4.06	4.69	5.33	6.06	20.13	6.09	6.65	7.29	8.00	28.03	7.97	8.58	9.26	10.00	35.81
Cost of revenue (COGS)		1.50	1.74	3.97	0.46	0.61	0.49	1.03	2.60	1.24	1.41	1.57	1.76	5.97	1.73	1.86	2.01	2.16	7.76	2.03	2.19	2.36	2.55	9.13
Gross profit		11.01	4.86	5.96	1.35	1.52	1.35	2.36	6.58	2.82	3.28	3.75	4.31	14.16	4.35	4.79	5.29	5.84	20.27	5.94	6.39	6.90	7.45	26.68
Operating expenses																								
Research and Development		0.26	0.18	0.29	0.01	0.02	0.01	0.07	0.10	0.05	0.06	0.06	0.07	0.24	0.07	0.08	0.07	0.09	0.32	0.09	0.10	0.08	0.10	0.37
Sales and Marketing		12.79	8.77	6.17	1.68	1.79	1.86	2.65	7.97	2.86	2.95	3.01	3.13	11.94	3.43	3.54	3.55	3.63	14.14	3.87	3.97	3.94	3.99	15.77
General and Administrative		5.83	5.31	5.93	1.19	1.57	1.77	3.25	7.77	1.72	1.73	1.95	1.98	7.38	1.93	1.88	2.08	2.12	8.01	2.08	2.03	2.23	2.27	8.61
Total Operating expenses		18.88	14.26	12.39	2.87	3.38	3.64	5.97	15.85	4.63	4.73	5.01	5.18	19.55	5.43	5.50	5.70	5.84	22.47	6.05	6.09	6.25	6.36	24.75
Operating Income (Loss)		(7.87)	(9.40)	(6.43)	(1.52)	(1.86)	(2.29)	(3.61)	(9.28)	(1.81)	(1.45)	(1.25)	(0.88)	(5.39)	(1.08)	(0.71)	(0.41)	0.00	(2.20)	(0.11)	0.30	0.65	1.09	1.93
Other income (expense)																								
Non cash (loss) gain on fair value of warrant liability		1.31	0.75	(5.22)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non cash loss on fair value of embedded derivative liability		0.00	0.42	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other (expense) income, net		0.02	(1.43)	0.61	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total other income (expense), net		1.33	(0.25)	(4.61)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gain(Loss) before income tax		(6.54)	(9.65)	(11.03)	(1.52)	(1.86)	(2.29)	(3.61)	(9.27)	(1.81)	(1.45)	(1.25)	(0.88)	(5.39)	(1.08)	(0.71)	(0.41)	0.00	(2.20)	(0.11)	0.30	0.65	1.09	1.93
Income taxes		(0.00)	(0.01)	(0.01)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net gain (loss)		(6.55)	(10.49)	(11.04)	(1.52)	(1.86)	(2.29)	(3.61)	(9.27)	(1.81)	(1.45)	(1.25)	(0.88)	(5.39)	(1.08)	(0.71)	(0.41)	0.00	(2.20)	(0.11)	0.30	0.65	1.09	1.93
Preferred deemed dividend																								
Retained earnings reduction			(0.80)																					
			(0.03)																					
Net income (loss) per share - basic		(0.39)	(0.48)	(0.31)	(0.04)	(0.04)	(0.05)	(0.07)	(0.21)	(0.03)	(0.03)	(0.02)	(0.01)	(0.09)	(0.02)	(0.01)	(0.01)	0.00	(0.03)	(0.00)	0.00	0.01	0.02	0.03
Net gain (loss) per share - diluted		(0.38)	(0.48)	(0.31)	(0.04)	(0.04)	(0.05)	(0.07)	(0.21)	(0.03)	(0.03)	(0.02)	(0.01)	(0.09)	(0.02)	(0.01)	(0.01)	0.00	(0.03)	(0.00)	0.00	0.01	0.02	0.03
Shares used to compute basic net loss per share		16.93	21.64	35.08	41.78	42.56	44.92	50.00	44.82	55.00	58.00	60.00	60.00	58.25	64.00	65.00	66.00	67.00	65.50	70.00	70.00	70.00	70.00	70.00
Shares used to compute diluted net loss per share		17.06	21.64	35.08	41.78	42.56	44.92	50.00	44.82	55.00	58.00	60.00	60.00	58.25	64.00	65.00	66.00	67.00	65.50	70.00	70.00	70.00	70.00	70.00
MARGIN ANALYSIS																								
Cost of revenue (COGS)																								
Cost of goods		12.0%	26.3%	40.0%	25.2%	28.8%	26.8%	30.5%	28.3%	30.5%	30.0%	29.5%	29.0%	29.7%	28.5%	28.0%	27.5%	27.0%	27.7%	25.5%	25.5%	25.5%	25.5%	25.5%
Gross margins		88.0%	73.7%	60.0%	74.8%	71.2%	73.2%	69.5%	71.7%	69.5%	70.0%	70.5%	71.0%	70.3%	71.5%	72.0%	72.5%	73.0%	72.3%	74.5%	74.5%	74.5%	74.5%	74.5%
Expenses																								
Research and Development		2.1%	2.8%	2.9%	0.3%	1.0%	0.5%	2.0%	1.1%	1.3%	1.2%	1.0%	1.2%	1.2%	1.2%	1.2%	1.0%	1.1%	1.1%	1.2%	1.1%	0.9%	1.0%	1.0%
Sales and Marketing		102.2%	132.9%	62.1%	93.0%	83.8%	100.8%	78.2%	86.9%	70.4%	63.0%	56.4%	51.6%	59.3%	56.3%	53.2%	48.6%	45.4%	50.4%	48.6%	46.2%	42.5%	39.9%	44.0%
General and Administrative		46.6%	80.5%	59.7%	65.7%	73.6%	96.3%	95.7%	84.8%	42.4%	36.8%	36.6%	32.7%	36.6%	31.7%	28.3%	28.6%	26.5%	28.6%	26.1%	23.7%	24.1%	22.7%	24.0%
Total Expenses (%)		150.9%	216.1%	124.7%	158.9%	158.4%	197.6%	175.9%	172.8%	114.1%	101.0%	94.0%	85.5%	97.1%	89.2%	82.7%	78.2%	73.0%	80.2%	75.8%	71.0%	67.5%	63.6%	69.1%
GROWTH ANALYSIS (Y/Y)																								
Revenues		-31.4%	-47.2%	50.5%	-4.5%	-46.5%	-15.2%	79.7%	-7.7%	124.6%	119.7%	189.4%	78.8%	119.5%	49.9%	42.0%	37.0%	32.0%	39.2%	31.0%	29.0%	27.0%	25.0%	27.8%
Revenues (q/q)					-4.3%	18.0%	-13.7%	84.3%		19.7%	15.4%	13.7%	13.9%		0.4%	9.3%	9.7%	9.7%		-0.4%	7.6%	8.0%	8.0%	
Cost of goods		-46.0%	15.6%	128.4%	-21.7%	-69.9%	-8.0%	27.2%	-34.6%	172.1%	128.9%	218.7%	70.0%	130.0%	40.1%	32.5%	27.7%	22.9%	30.0%	17.2%	17.5%	17.8%	18.0%	17.6%
Expenses																								
Research and Development		-36.8%	-29.0%	54.9%	-44.4%	-81.7%	-92.0%	85.0%	-64.0%	950.0%	175.0%	450.0%	10.0%	132.5%	40.0%	40.0%	30.0%	25.0%	33.1%	25.0%	20.0%	15.0%	10.0%	17.1%
Sales and Marketing		-6.7%	-31.4%	-29.6%	7.7%	25.7%	9.6%	77.0%	29.2%	70.0%	65.0%	62.0%	18.0%	49.7%	20.0%	20.0%	18.0%	16.0%	18.4%	13.0%	12.0%	11.0%	10.0%	11.5%
General and Administrative		-32.5%	-8.9%	11.7%	-7.0%	6.2%	-5.7%	150.0%	31.1%	45.0%	10.0%	10.0%	-39.0%	-5.1%	12.0%	9.0%	7.0%	7.0%	8.6%	8.0%	8.0%	7.0%	7.0%	7.5%
Total operating expenses		-17.1%	-24.4%	-13.1%	0.9%	12.0%	-1.6%	110.6%	27.9%	61.2%	40.1%	37.7%	-13.1%	23.4%	17.3%	16.2%	13.9%	12.7%	14.9%	11.4%	10.7%	9.6%	8.9%	10.1%
Source: Ladenburg Thalmann & Co. Inc., Company reports																								



**Exhibit 7: Revenue Segmentation**

NovaBay Pharmaceuticals, Inc. - U.S. Revenue & Percentage Composition							
<i>All figures are U.S. Dollars (\$ in Millions)</i>							
	2018 A Dec-18	2019 A Dec-19	2020 A Dec-20	2021 E Dec-21	2022 E Dec-22	2023 E Dec-23	2024 E Dec-24
<b>Revenue Composition</b>							
Product revenue	12.47	6.56	9.92	9.14	20.10	27.99	35.77
Other revenue	0.03	0.04	0.02	0.03	0.04	0.04	0.05
<b>Total Revenue</b>	<b>12.51</b>	<b>6.60</b>	<b>9.93</b>	<b>9.17</b>	<b>20.13</b>	<b>28.03</b>	<b>35.81</b>
<b>Percentage Composition</b>							
Product revenue	99.7%	99.3%	99.8%	99.7%	99.8%	99.9%	99.9%
Other revenue	0.3%	0.7%	0.2%	0.3%	0.2%	0.1%	0.1%
<b>Totals</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Growth Analysis (Y/Y)</b>							
Product revenue	-31.2%	-47.4%	51.3%	-7.8%	119.9%	39.3%	27.8%
Other revenue	-67.0%	26.5%	-58.1%	69.4%	15.0%	15.0%	15.0%
<b>Totals</b>	<b>-31.4%</b>	<b>-47.2%</b>	<b>50.5%</b>	<b>-7.7%</b>	<b>119.5%</b>	<b>39.2%</b>	<b>27.8%</b>
Source: Ladenburg Thalmann & Co. Inc., Company reports							

**Exhibit 8: Annual Income Statement**

NovaBay Pharmaceuticals, Inc. - Consolidated Statement of Operations (\$MM)							
All figures are U.S. Dollars (\$ in Millions) Blue shading denotes variables							
	2018 A	2019 A	2020 A	2021 E	2022 E	2023 E	2024 E
	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Total Revenue	12.51	6.60	9.93	9.17	20.13	28.03	35.81
Cost of revenue (COGS)	1.50	1.74	3.97	2.60	5.97	7.76	9.13
Gross profit	11.01	4.86	5.96	6.58	14.16	20.27	26.68
Operating expenses							
Research and Development	0.26	0.18	0.29	0.10	0.24	0.32	0.37
Sales and Marketing	12.79	8.77	6.17	7.97	11.94	14.14	15.77
General and Administrative	5.83	5.31	5.93	7.77	7.38	8.01	8.61
Total Operating expenses	18.88	14.26	12.39	15.85	19.55	22.47	24.75
Operating Income (Loss)	(7.87)	(9.40)	(6.43)	(9.28)	(5.39)	(2.20)	1.93
Other income (expense)							
Non cash (loss) gain on fair value of warrant liability	1.31	0.75	(5.22)	0.00	0.00	0.00	0.00
Non cash loss on fair value of embedded derivative liability	0.00	0.42	0.00	0.00	0.00	0.00	0.00
Other (expense) income, net	0.02	(1.43)	0.61	0.00	0.00	0.00	0.00
Total other income (expense), net	1.33	(0.25)	(4.61)	0.00	0.00	0.00	0.00
Gain(Loss) before income tax	(6.54)	(9.65)	(11.03)	(9.27)	(5.39)	(2.20)	1.93
Income taxes	(0.00)	(0.01)	(0.01)	0.00	0.00	0.00	0.00
Net gain (loss)	(6.55)	(10.49)	(11.04)	(9.27)	(5.39)	(2.20)	1.93
Preferred deemed dividend		(0.80)					
Retained earnings reduction		(0.03)					
Net income (loss) per share - basic	(0.39)	(0.48)	(0.31)	(0.21)	(0.09)	(0.03)	0.03
Net gain (loss) per share - diluted	(0.39)	(0.48)	(0.31)	(0.21)	(0.09)	(0.03)	0.03
Shares used to compute basic net loss per share	16.93	21.64	35.08	44.82	58.25	65.50	70.00
Shares used to compute diluted net loss per share	17.06	21.64	35.08	44.82	58.25	65.50	70.00
<b>MARGIN ANALYSIS</b>							
Cost of revenue (COGS)							
Cost of goods	12.0%	26.3%	40.0%	28.3%	29.7%	27.7%	25.5%
Gross margins	88.0%	73.7%	60.0%	71.7%	70.3%	72.3%	74.5%
Expenses							
Research and Development	2.1%	2.8%	2.9%	1.1%	1.2%	1.1%	1.0%
Sales and Marketing	102.2%	132.9%	62.1%	86.9%	59.3%	50.4%	44.0%
General and Administrative	46.6%	80.5%	59.7%	84.8%	36.6%	28.6%	24.0%
Total Expenses (%)	150.9%	216.1%	124.7%	172.8%	97.1%	80.2%	69.1%
<b>GROWTH ANALYSIS (Y/Y)</b>							
Revenues	-31.4%	-47.2%	50.5%	-7.7%	119.5%	39.2%	27.8%
Revenues (q/q)							
Cost of goods	-46.0%	15.6%	128.4%	-34.6%	130.0%	30.0%	17.6%
Expenses							
Research and Development	-36.8%	-29.0%	54.9%	-64.0%	132.5%	33.1%	17.1%
Sales and Marketing	-6.7%	-31.4%	-29.6%	29.2%	49.7%	18.4%	11.5%
General and Administrative	-32.5%	-8.9%	11.7%	31.1%	-5.1%	8.6%	7.5%
Total operating expenses	-17.1%	-24.4%	-13.1%	27.9%	23.4%	14.9%	10.1%

Source: Ladenburg Thalmann &amp; Co. Inc., Company reports

**Exhibit 9: Balance Sheet**

NovaBay Pharmaceuticals, Inc. - Consolidated Balance Sheet (\$MM)	2017 A	2018 A	2019 A	2020 A	Q1-21 A	Q2-21 A	Q3-21 A
All figures are denominated into U.S. Dollars (\$ in Millions)	Dec-17	Dec-18	Dec-19	Dec-20	Mar-21	Jun-21	Sep-21
<b>Assets</b>							
Current Assets							
Cash and cash equivalents	3.20	3.18	6.94	11.95	10.51	10.29	9.03
Accounts receivable	3.63	3.39	1.07	1.11	1.04	1.23	0.84
Inventory	0.50	0.28	0.49	0.61	0.85	0.68	0.97
Prepaid expenses	1.66	1.76	0.89	0.58	0.75	0.56	0.66
Total Current Assets	9.00	8.61	9.38	14.24	13.15	12.77	11.50
Non-current assets							
Operating lease right-of-use assets	0.00	0.00	1.25	0.44	0.35	0.26	0.17
Property and equipment	0.47	0.20	0.11	0.08	0.10	0.09	0.10
Other assets	0.61	0.55	0.48	0.48	0.48	0.48	0.48
<b>Total assets</b>	<b>10.08</b>	<b>9.36</b>	<b>11.22</b>	<b>15.24</b>	<b>14.07</b>	<b>13.60</b>	<b>12.24</b>
<b>Liabilities and Stockholders' Equity (Deficit)</b>							
Current liabilities							
Accounts payable	0.47	0.55	0.33	0.30	0.83	0.21	1.35
Accrued liabilities	1.67	3.26	1.78	2.12	1.85	1.88	1.33
Deferred revenue	2.84	0.04			0.00	0.00	0.00
Operating lease liabilities	0.00	0.00	0.93	0.42	0.40	0.30	0.20
Notes payable	0.00	0.00	1.20		0.00	0.00	0.00
Convertible note			1.41		0.00	0.00	0.00
Embedded derivative liability			0.00		0.00	0.00	0.00
Warrant liability			0.03		0.00	0.00	0.00
Total Current Liabilities	4.98	3.85	5.69	2.83	3.08	2.39	2.87
Operating lease liabilities	0.00	0.00	0.51	0.09	0.01	0.01	0.00
Deferred revenue	0.53				0.00	0.00	0.00
Deferred rent	0.27	0.18			0.00	0.00	0.00
Notes payable	0.00	0.00			0.00	0.00	0.00
Warrant liability	1.49	0.18	4.06		0.00	0.00	0.00
Convertible note	0.00	0.00			0.00	0.00	0.00
Embedded derivative liability	0.00	0.00			0.00	0.00	0.00
Other	0.22	0.20			0.00	0.00	0.00
<b>Total liabilities</b>	<b>7.49</b>	<b>4.41</b>	<b>10.25</b>	<b>2.92</b>	<b>3.09</b>	<b>2.39</b>	<b>2.88</b>
<b>Stockholders' Equity</b>							
Preferred stock	0.00	0.00			0.00	0.00	0.00
Common stock	0.15	0.17	0.28	0.42	0.42	0.45	0.45
Additional paid-in capital	113.51	119.76	125.72	147.96	148.15	150.20	150.64
Accumulated deficit	-111.07	-114.98	-125.02	-136.06	-137.58	-139.44	-141.73
<b>Total Stockholders Equity (Deficit)</b>	<b>2.59</b>	<b>4.95</b>	<b>0.97</b>	<b>12.32</b>	<b>10.98</b>	<b>11.21</b>	<b>9.36</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>10.08</b>	<b>9.36</b>	<b>11.22</b>	<b>15.24</b>	<b>14.07</b>	<b>13.60</b>	<b>12.24</b>

Source: Ladenburg Thalmann &amp; Co. Inc., Company reports

## Exhibit 10: Cash Flow

NovaBay Pharmaceuticals, Inc. - Consolidated Statement of Cash Flows (\$MM)	2017 A Dec-17	2018 A Dec-18	2019 A Dec-19	2020 A Dec-20	Q1-21 A Mar-21	Q2-21 A Jun-21	Q3-21 A Sep-21
<i>All figures are denominated into U.S. Dollars (\$ in Millions)</i>							
<b>Operating Activities</b>							
Net loss	-7.40	-6.55	-9.66	-11.04	-1.52	-3.38	-5.67
Adjustments for reconciliation - operating activities							
Depreciation and amortization	0.10	0.27	0.07	0.05	0.01	0.02	0.03
Gain on early termination of lease				-0.05			
Impairment of PPE			0.03				
Loss (gain) on disposal of PPE	0.00	0.00	0.00	0.00			
Impairment of operating lease right-of-use assets			0.13				
Stock-based compensation expense; employees and directors	1.87	0.59	0.33	0.42	0.13	0.37	0.52
Stock-based compensation expense: non-employees	0.14	0.00	0.04	0.06	0.05	0.11	0.18
Stock option modification expense	0.50	0.08	0.11	0.05		0.00	
Issuance of RSUs to employees	0.00	0.00	0.01	0.00			
Issuance of RSUs related to employee separation agreement			0.22				
Issuance of RSUs to non-employees	0.03	0.00	0.02	0.22			0.01
Non-cash loss (gain) on change in fair value of warrant liability	0.10	-1.31	-0.75	5.22			
Non-cash loss on derivative liability			-0.42	0.00			
Amortization of debt issuance and debt discount	0.00	0.00	0.67	0.14			
Amortization of debt issuance related to note payable	0.00	0.00		0.00			0.00
Issuance of warrants for service			0.06			0.01	
Warrant modification	0.00	0.00					
Note receivable impairment	0.00	0.00					
Property and equipment impairment	0.00	0.00					
Accounts receivable	-1.51	0.77	2.32	-0.32	0.07	-0.13	0.26
Inventory	0.37	0.20	-0.21	-0.12	-0.24	-0.07	-0.36
Prepaid expenses and other	0.31	-0.10	0.89	0.31	-0.17	0.01	-0.08
Operating lease right-of-use			0.86	0.82	0.09	0.17	0.27
Other assets long-term	-0.07	0.06	0.01	0.00	0.00	0.00	0.00
AP and accrued liabilities	-0.26	0.52	-1.80	0.32	0.27	-0.33	0.26
Operating lease liabilities			-1.07	-0.88	-0.10	-0.20	-0.31
Related party note payable			0.20	0.07			
Long-term obligations	0.00	0.00	0.04				
Deferred rent	0.03	-0.07					
Deferred revenue	-0.47	-0.03	-0.04			0.00	
Taxes	0.00	0.00					
Other current liabilities							
Net cash and cash equivalents used in operating activities	<u>-6.27</u>	<u>-5.57</u>	<u>-7.93</u>	<u>-4.72</u>	<u>-1.42</u>	<u>-3.41</u>	<u>-4.87</u>
<b>Investing Activities</b>							
Purchases of PPE	-0.24	-0.04	-0.02	-0.03	-0.03	-0.03	-0.04
Proceeds from disposal of PPE							
Net cash and cash equivalent used in investing activities	<u>-0.24</u>	<u>-0.04</u>	<u>-0.02</u>	<u>-0.03</u>	<u>-0.03</u>	<u>-0.03</u>	<u>-0.04</u>
<b>Financing Activities</b>							
Proceeds from common stock issuance	0.00	5.59	6.70	5.22		1.78	1.99
Proceeds from exercise of warrants	0.04	0.00	0.07	7.10			
Proceeds from exercise of options	0.19	0.01	0.19	0.01			
Proceeds from preferred stock			2.60				
Proceeds of issuance of notes payable			1.00				
Proceeds from stock options and RSUs to cover tax	0.03	0.00	0.00				
Proceeds from convertible notes			2.00				
Payment on convertible notes			-0.65	-1.56			
Payment on the related party loan				-1.00			
Repayment of all borrowings	0.00		-0.20				
Payment on the note payable							
Settlement of restricted stock for tax withholding	-0.05						
Proceeds from all borrowings							
Proceeds from shelf offering							
Net cash and cash equivalents provided by financing activities	<u>0.20</u>	<u>5.60</u>	<u>11.70</u>	<u>9.76</u>	<u>0.00</u>	<u>1.78</u>	<u>1.99</u>
Effect of exchange rate changes on cash and cash equivalents	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net increase (decrease) in cash and cash equivalents	-6.31	-0.01	3.75	5.02	-1.44	-1.66	-2.92
Cash and Cash equivalents - beginning of year	<u>9.51</u>	<u>3.67</u>	<u>3.66</u>	<u>7.41</u>	<u>12.43</u>	<u>12.43</u>	<u>12.43</u>
Cash and Cash equivalents - end of year	<u>3.20</u>	<u>3.66</u>	<u>7.41</u>	<u>12.43</u>	<u>10.98</u>	<u>10.77</u>	<u>9.50</u>

Source: Ladenburg Thalmann &amp; Co. Inc., Company reports

# APPENDIX A: IMPORTANT RESEARCH DISCLOSURES

## ANALYST CERTIFICATION

I, Jeffrey S. Cohen, attest that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. Furthermore, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report, provided, however, that:

The research analyst primarily responsible for the preparation of this research report has or will receive compensation based upon various factors, including the volume of trading at the firm in the subject security, as well as the firm's total revenues, a portion of which is generated by investment banking activities.

Additional information regarding the contents of this publication will be furnished upon request. Please contact Ladenburg Thalmann, Compliance Department, 640 Fifth Avenue, 4th floor, New York, New York 10019 (or call 212-409-2000) for any information regarding current disclosures, and where applicable, relevant price charts, in regard to companies that are the subject of this research report.

## COMPANY BACKGROUND

NovaBay Pharmaceuticals, Inc. is a biopharmaceutical company focusing on high-quality, differentiated, anti-infective consumer products: Avenova, CelleRx Clinical Reset, and NeutroPhase Skin and Wound Cleanser. NovaBay's products are formulated with its patented, pure, stable, pharmaceutical grade hypochlorous acid that replicates the antimicrobial chemicals used by white blood cells to fight infection. NovaBay's hypochlorous acid products do not cause stinging or irritation, are non-toxic and non-sensitizing, making them completely safe for regular use. Avenova is the only commercial hypochlorous acid lid and lash spray product clinically proven to reduce bacterial load on ocular skin surfaces, thus effectively addressing the underlying cause of bacterial dry eye.

## VALUATION METHODOLOGY

We believe that NovaBay should be valued in comparison with other innovative companies within the medical technology sector and more specifically based on multiples to revenue at some time in the future. We have assembled a comprehensive list of comparable companies and measured their current revenue multiple valuations as compared with anticipated revenues out three years.

Based on our Comparable Company Valuation table, we believe that it is appropriate to value the company based on a revenue multiple for 2022. We have determined that the company's valuation should be 4.5 times our FY-2024 revenue estimate discounted by one year at 11.5%, or \$2.20.

## RISKS

In addition to normal economic and market risk factors that impact most all equities, we believe that the primary risks to our recommendation and price target of an investment in NovaBay Pharmaceuticals, Inc. shares include, but are not limited to: management and board stability, commercialization, competition and adoption, intellectual property, and regulatory / development risks.

## STOCK RATING DEFINITIONS

Buy: The stock's return is expected to exceed 12.5% over the next twelve months.

Neutral: The stock's return is expected to be plus or minus 12.5% over the next twelve months.

Sell: The stock's return is expected to be negative 12.5% or more over the next twelve months.

Investment Ratings are determined by the ranges described above at the time of initiation of coverage, a change in risk, or a change in target price. At other times, the expected returns may fall outside of these ranges because of price movement and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review.

## RATINGS DISPERSION AND BANKING RELATIONSHIPS AS OF (November 15, 2021)

Rating	%	IB %
BUY	79.4	67.4
NEUTRAL	20.6	42.9
SELL	0.0	0.0

## COMPANIES UNDER JEFFREY'S COVERAGE

CARMAT SA (ALCAR)  
Anavex Life Sciences Corp. (AVXL)  
BrainsWay Ltd. (BWAY)

Applied UV, Inc. (AUVI)  
Bionano Genomics, Inc. (BNGO)  
ChromaDex Corporation (CDXC)

Celsius Holdings, Inc. (CELH)  
 Dynatronics Corp. (DYNT)  
 Harrow Health, Inc. (HROW)  
 Itamar Medical Ltd. (ITMR)  
 LumiraDx Ltd. (LMDX)  
 CareCloud, Inc. (MTBC)  
 Nano-X Imaging Ltd. (NNOX)  
 enVveno Medical Corporation (NVNO)  
 Orthofix Medical Inc. (OFIX)  
 SAb Biotherapeutics, Inc. (SABS)  
 STRATA Skin Sciences, Inc. (SSKN)  
 Venus Concept Inc. (VERO)  
 Windtree Therapeutics, Inc. (WINT)

CryoLife, Inc. (CRY)  
 electroCore, Inc. (ECOR)  
 Helius Medical Technologies, Inc. (HSDT)  
 Jaguar Health, Inc. (JAGX)  
 Motus GI Holdings, Inc. (MOTS)  
 NovaBay Pharmaceuticals, Inc. (NBX)  
 Nuwellis, Inc. (NUWE)  
 Invitae Corporation (NVTA)  
 OPKO Health, Inc. (OPK)  
 SeaSpine Holdings Corporation (SPNE)  
 Vericel Corporation (VCEL)  
 Viveve Medical, Inc. (VIVE)  
 Zynex, Inc. (ZYXI)

## COMPANY SPECIFIC DISCLOSURES

Ladenburg Thalmann & Co. Inc. has managed or co-managed a public offering for NovaBay Pharmaceuticals, Inc. and Harrow Health, Inc. within the past 12 months.

Ladenburg Thalmann & Co. Inc. expects to receive compensation for investment banking and/or advisory services from NovaBay Pharmaceuticals, Inc. within the next 3 months.

Ladenburg Thalmann & Co. Inc. intends to seek compensation for investment banking and/or advisory services from NovaBay Pharmaceuticals, Inc. and Jaguar Health, Inc. within the next 3 months.

Ladenburg Thalmann & Co. Inc. received compensation for investment banking services from NovaBay Pharmaceuticals, Inc., Harrow Health, Inc. and Jaguar Health, Inc. within the past 12 months.

Ladenburg Thalmann & Co. Inc. had an investment banking relationship with NovaBay Pharmaceuticals, Inc., Harrow Health, Inc. and Jaguar Health, Inc. within the last 12 months.

Ladenburg Thalmann & Co. Inc. acted as sole placement agent in a securities offering for the subject company in the last 12 months.

Ladenburg Thalmann & Co. Inc. makes a market in Harrow Health, Inc. and Jaguar Health, Inc..

Ladenburg Thalmann & Co. Inc. acted in an advisory capacity for Jaguar Health, Inc. in the last 12 months.

Ladenburg Thalmann & Co. Inc. acted as exclusive placement agent in a securities offering for the subject company in the last 12 months.

## OTHER COMPANIES MENTIONED

Harrow Health, Inc. (HROW, \$11.08, BUY)

Jaguar Health, Inc. (JAGX, \$1.89, BUY)

## INVESTMENT RATING AND PRICE TARGET HISTORY

### NovaBay Pharmaceuticals, Inc. Rating History as of 11/12/2021

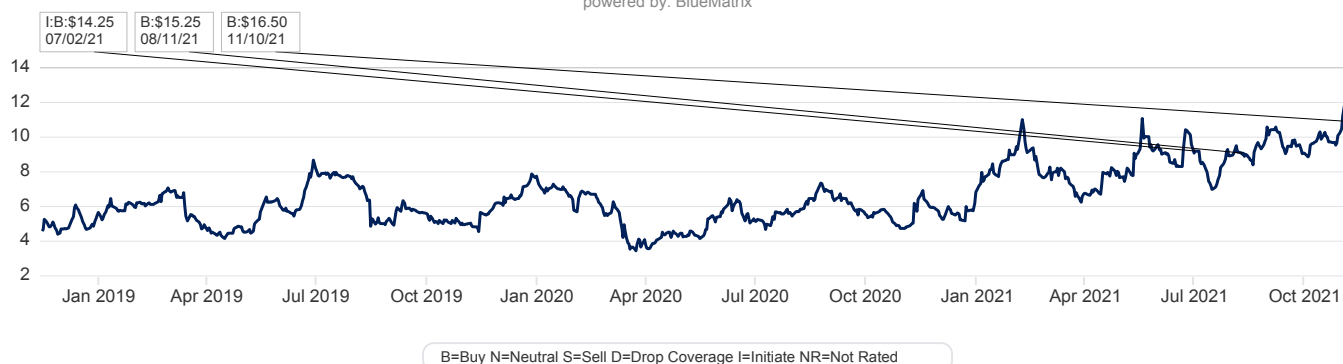
powered by: BlueMatrix



B=Buy N=Neutral S=Sell D=Drop Coverage I=Initiate NR=Not Rated

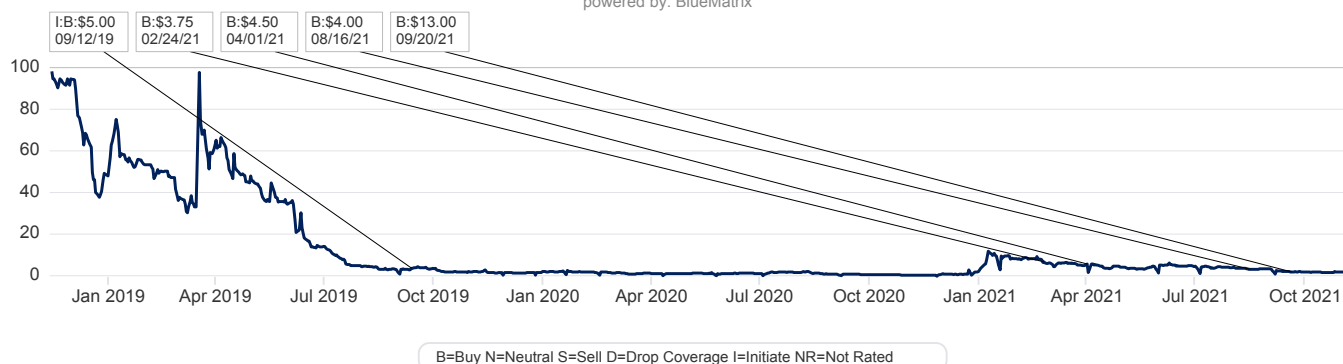
## Harrow Health, Inc. Rating History as of 11/12/2021

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## Jaguar Health, Inc. Rating History as of 11/12/2021

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