Trickle Research

Every raging river, every great lake, every
deep blue sea starts … with a trickle

Allocation Increase

Report Date: 02/26/19

12- 24 month Price Target: $10.25

Allocation: *6

Closing Stock Price at Initiation (Closing Px: 02/06/18): $2.96

Closing Stock Price at Allocation Increase (Closing Px: 05/02/18): $2.82

Intraday Stock Price at 02/26/19: $2.11

AzurRx BioPharma, Inc.

(Stock Symbol - NASDAQ: AZRX)

http://azurrx.com/

Prepared By:
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Today, Oppenheimer and Co. Upgraded their price target for AzurRx shares from $6 to $8. Much of the upgrade was based on two things; first, the enrolling/initiation of the cystic fibrosis trial (we have discussed that in prior research), and some telling channel checking they did amongst physicians to determine their likelihood to prescribe MS1819 to their patients in the event of an approval. Obviously, given their price target bump, that polling resulted in favorable enough responses that apparently lead Oppenheimer to conclude that the drug could achieve penetration than they originally projected (they estimate 25% of the market (currently $1.2B) by 2029).

Another interesting conclusion they arrived at via their survey, involved the issue that MS1819 does not address the "other" major digestive enzymes that legacy therapies *do* address. Specifically, just to refresh, MS1819 provides for the breakdown of fats (typically the job of lipase) but does not assist in the breakdown of proteins (via the enzyme protease) or carbohydrates (accomplished with amylase). We (and the Company for that matter) have always rationalized that "deficiency" of MS1819 by suggesting that the body breaks down enough amylase via saliva and gut bacteria does a good job of breaking down sufficient amounts of protein. By extension, the Company is always quick to point out that their studies reflect that 90% of the undigested food in the affected patients studied *is fat*. Apparently, many of the physicians surveyed concur with the assessment that addressing lipase is the real issue, as roughly ½ suggested that the lack of amylase and protease would NOT impede them from prescribing the treatment, while an additional 30% indicated they were unsure. By the way, that assessment, ½ of the respondents reflecting a likelihood to recommend the therapy, is well beyond the market share assessments currently being assumed by the existing research universe.

Lastly, we are not going to get into the specifics, because it is beyond the scope of this research although we did allude to this in portions of the initial coverage. We think many of the constituents in the PERT space have a variety of concerns about animal-based solutions. The FDA has addressed this in the past, and we think it continues to be topical. A good comparison in that regard might be the adoption of synthetic insulin following its discovery and approval vis-à-vis the use of animal-based insulin. To that point we will just say, today, synthetic "human" insulin, is the standard of care *largely supplanting* animal-based insulin products. By extension, while perhaps anecdotal, we don't believe it is a huge stretch to think a lipase substitute with similar characteristics, might someday largely replace the current animal-based therapies.

Recall, we initiated coverage of AZRX in February 2018, with an allocation of 4 and 12-24 month price target of $10.25. In May 2018, we raised our allocation from 4 to 5 following a $10 million raise at $2.50 by Oppenheimer & Co.

Since that time, the Company has attracted the following additional research:

- **October 17, 2018** AxurRx BioPharma started at outperform with $6 stock price target at Oppenheimer
- **January 25, 2019** AzurRx BioPharma Initiated at Buy by Roth Capital with a $10.50 Price Target
- **February 14, 2019** AzurRx started at buy with $5 stock price target at Maxim Group
- **February 26, 2019** Oppenheimer and Co, Inc. raised their price target on AZRX from $6 to $8

We are happy to see the additional coverage in the stock, and while coverage from analysts is certainly no guarantee of future success, we think it helps validate some of our conclusions from the initiating research. Frankly, its baffling to us that the stock has discounted about 30% from our initiating price, despite what has essentially been a handful of positive milestones/events since that time, which have included positive Phase II results and additional Phase II progress. Succinctly, those successes, coupled with the delta between the current stock price and the price targets of essentially all (to varying degrees) the current coverage price targets, encourage us to (continue to) pound the table here.

We submit, there are further milestones that need to be achieved, the results of the current cystic fibrosis Phase II for instance. Granted, those results *could* prove less favorable than those of the prior exocrine pancreatic insufficiency trial, which would likely prove adverse. We think that event is markedly less likely than likely because these current patients essentially suffer from similar deficiencies (although probably more acute on average), they just happen to be younger. We must admit, given the milestones, the stock certainly trades like we are wrong about that. On the other hand, given our mantra that information in the microcap space is far from "efficient" we don't generally spend a lot of time trying to figure out why stocks we think are improving fundamentally aren't trading like it.

Given the progress of the current CF clinical, and in line with the Company's guidance, we expect to see CF Phase II results by "mid-year", which could provide yet another milestone. As a result of continued compression in the stock in the face of continued clinical progress, which we think is expanding the risk/reward ratio in the name, we are increasing our allocation of AZRX shares from 5 to *6. We will look to additional datapoints to further delineate our allocation and price target conclusions.

Projected Operating Model

Projected Operating Model						
AzurRx BioPharma, Inc.						
Prepared By: Trickle Research LLC						
	(Actual)	**(Actual)**	**(Actual)**	**(estimate)**	**(estimate)**	**(estimate)**
	3/31/2018	**6/30/2018**	**9/30/2018**	**12/31/2018**	**Fiscal 2018**	**Fiscal 2019**
Research and development expenses	$ 1,678,029	$ 925,776	$ 1,168,874	$ 863,908	$ 4,636,587	$ 3,631,905
General & administrative expenses	$ 1,916,333	$ 2,167,247	$ 1,317,132	$ 1,343,475	$ 6,744,187	$ 5,648,021
Fair value adjustment, contingent consideration	$ (10,000)	$ 170,000	$ 80,000	$ -	$ 240,000	$ -
Loss from operations	$ (3,584,362)	$ (3,263,023)	$ (2,566,006)	$ (2,207,383)	$ (11,620,774)	$ (9,279,926)
Other:	$ -	$ -	$ -	$ -	$ -	$ -
Interest expense	$ (48,635)	$ (46,154)	$ (5,629)	$ -	$ (100,418)	$ -
Fair value adjustment, warrants	$ -	$ -	$ -	$ -	$ -	$ -
Total other	$ (48,635)	$ (46,154)	$ (5,629)	$ -	$ (100,418)	$ -
Loss before income taxes	$ (3,632,997)	$ (3,309,177)	$ (2,571,635)	$ (2,207,383)	$ (11,721,192)	$ (9,279,926)
Income taxes	$ -	$ -	$ -	$ -	$ -	$ -
Net loss	$ (3,632,997)	$ (3,309,177)	$ (2,571,635)	$ (2,207,383)	$ (11,721,192)	$ (9,279,926)
Other comprehensive loss:	$ -	$ -	$ -	$ -	$ -	$ -
Foreign currency translation adjustment	$ -	$ -	$ (36,215)	$ -	$ (36,215)	$ -
Total comprehensive loss	$ (3,632,997)	$ (3,309,177)	$ (2,607,850)	$ (2,207,383)	$ (11,757,407)	$ (9,279,926)
Basic and diluted weighted average shares outstanding	12,447,438	15,300,197	16,889,519	17,989,519	15,656,668	20,464,519
Loss per share - basic and diluted	$ (0.29)	$ (0.22)	$ (0.15)	$ (0.12)	$ (0.75)	$ (0.45)

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Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals $250) and 10 representing 10 investment units or $2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit $25,000 to buying micro-cap stocks, that would assume an investment of $1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at $1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same $250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting $1000 into the position ($250 * 4). If we later raise the allocation to 6, you might consider adding two additional units or $500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.