

Trickle Research

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



Allocation Upgrade

Report Date: 05/02/18

12- 24 month Price Target: \$10.25

Allocation: *5

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

AzurRx BioPharma, Inc.



(Stock Symbol - NASDAQ: AZRX)

<http://azurrx.com/>

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On May 1, 2018 AzurRx announced the pricing of a public equity offering of 4.16 million shares at \$2.50. Oppenheimer & Co. was the sole underwriter of the deal, which is part of a shelf registration they filed about 6 months ago.

We have a couple of observations regarding the deal.

First, we submit, secondary equity transactions of this nature are almost always detrimental to the prevailing price of the stock. Fundamentally, underwriters like to price these transactions as low as possible to make them more attractive to the buyers, which ultimately ensures that the deals get done. For those who own the stock (or follow it on the long side) the stock going down is not particularly welcome. Secondly, these transactions are obviously dilutive, which means that following the transaction, each existing shareholder now owns a smaller piece of the company. Again, transactions of this nature are often detrimental to the near-term trading price of the underlying stock. That's the bad news.

So, here's the good news...

Their ongoing need for capital should not be a surprise to anyone. In fact, as we noted in the initial coverage, their inability to access the public equity markets to continue financing their clinical progress is, outside of clinical failure, likely the biggest risk to the deal. Historically, they have accessed the public markets in small intermittent tranches to fund their endeavors, which in our view, has led to poor visibility about additional required financing. We think that approach has been more about necessity than choice. That is, larger financing ins are often harder to come by because they are less likely in earlier stages of deals. While a large raise can *sometimes* be a bit more dilutive (and sometimes in retrospect less dilutive) than the small intermittent financings, all things considered, we think larger financings of this nature are generally more attractive and perhaps even telling. In addition, we think Oppenheim's involvement may also provide a bit of validity to the collective due diligence. Not that Oppenheim or any other bank is always right, but we don't think they are doing the deal because they suspect AZRX is going to fail.

Again, we think this is a positive event in the context of the overall thesis and associated risks, and as such, we see the compression in the stock as an opportunity. As a result, we are raising our allocation from 4 to *5.

Projected Operating Model

Projected Operating Model						
AzurRx BioPharma, Inc.						
Prepared By: Trickle Research LLC						
	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)
	<u>3/31/2018</u>	<u>6/30/2018</u>	<u>9/30/2018</u>	<u>12/31/2018</u>	<u>Fiscal 2018</u>	<u>Fiscal 2019</u>
Research and development expenses	\$ 814,080	\$ 830,362	\$ 846,969	\$ 863,908	\$ 3,355,319	\$ 3,631,905
General & administrative expenses	\$ 2,163,324	\$ 2,206,591	\$ 2,250,722	\$ 2,295,737	\$ 8,916,374	\$ 9,651,370
Fair value adjustment, contingent consideration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loss from operations	\$(2,977,404)	\$(3,036,952)	\$(3,097,691)	\$(3,159,645)	\$(12,271,693)	\$(13,283,275)
Other:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest expense	\$ (350,000)	\$ (250,000)	\$ -	\$ -	\$ (600,000)	\$ -
Fair value adjustment, warrants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loss before income taxes	\$(2,977,404)	\$(3,036,952)	\$(3,097,691)	\$(3,159,645)	\$(12,271,693)	\$(13,283,275)
Income taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net loss	\$(2,977,404)	\$(3,036,952)	\$(3,097,691)	\$(3,159,645)	\$(12,271,693)	\$(13,283,275)
Other comprehensive loss:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Foreign currency translation adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total comprehensive loss	\$(2,977,404)	\$(3,036,952)	\$(3,097,691)	\$(3,159,645)	\$(12,271,693)	\$(13,283,275)
Basic and diluted weighted average shares outstanding	12,591,644	16,751,644	16,751,644	17,851,644	15,986,644	20,326,644
Loss per share - basic and diluted	\$ (0.24)	\$ (0.18)	\$ (0.18)	\$ (0.18)	\$ (0.77)	\$ (0.65)

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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.