Trickle Research

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

Coverage Termination

First Wave BioPharma, Inc.

(aka:AzurRx BioPharma, Inc.)

(Stock Symbol - FWBI)
https://www.firstwavebio.com/

Report Date: 03/30/23

Closing Stock Price at Termination (Closing Px: 03/29/23): $2.49

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Disclosure: Portions of this report are excerpted from FirstWave's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

Our last update on FWBI (albeit several quarters ago) was a mea culpa of sorts, because First Wave (formerly AzurRx) was one of our "pound the table" names that we thought had a good chance at moonshot valuations/returns. In retrospect, the initial clinical results of their lead drug MS1819 ("Adrulipase") turned out to be less robust than we had anticipated, although the drug's combination trials proved more positive than the mono trials, which led us to conclude that the opportunity remained open-ended. Further, the Company has always believed that they could improve the results of the mono therapy by including an enteric capsule that could further regulate when/where along the GI tract that the drug would be delivered. In short, the clinical trials were not what we had hoped, but there was still reason to believe that pathways remained that could help them achieve clinical endpoints, both in terms of combination and mono iterations. Unfortunately, management (which took over in 4Q 2019) along with the Board of Directors, did not see that the way we did. In short, they hitched the wagon to niclosamide therapies they licensed from First Wave Bio, which they ultimately acquired in 3Q 2021.

We are not going to debate either the merits of the license with and/or the acquisition of First Wave in general, or the potential of their niclosamide strategies more specifically. What we will say is that those efforts appear to have proven largely unsuccessful to this point and their pursuit has been catastrophically dilutive. Specifically, they completed a 1 for 10 reverse split in September 2021 a 1 for 30 reverse split in August 2022, and another 1 for 7 reverse split in January 2023. To put that into perspective, the collective splits have turned 1,000 shares of stock into less than 1 share over the course of a year and a half or so. Again, we think "catastrophic" is appropriate. Further, what is perhaps more disappointing is that despite the capital that has been raised and spent in conjunction with these splits, the Company has essentially come full circle back to where they were when new management was brought in (4Q 2019) to "save" the business. That is, they are back to banking on additional clinical trials of MS1819 and are talking optimistically about those prospects. One cannot help but wonder where they would be had they just stayed on that course? We think it is fair to suggest that had they chosen that path that they would probably *have* an answer regarding clinical results around the use of enteric capsules in their mono trail, and they would have done so with considerably less dilution.

From another perspective and with all due respect, despite the fruitless (and expensive) niclosamide endeavors, despite their demoting what appears to be the Company's best shot at the brass ring, despite the draconian dilution of the shares and despite the extreme erosion of shareholder value, the Board of Directors still managed to be well compensated in 2022 (as well as in years prior). The tables below reflect some of that notion. Moreover, Company executives were also well compensated despite the poor results. To reiterate, some of these individuals were ostensibly brought in to "save" the Company. Frankly, it seems a bit unconscionable in our view.

The following table provides information regarding compensation paid to non-employee directors for the year ended December 31, 2022. Mr. Sapirstein did not receive compensation for his service on the Board as employee director for the year ended December 31, 2022. Information regarding executive compensation paid to Mr. Sapirstein during 2022 is reflected in the Summary Compensation table under "*Executive Compensation.*"

Non-Executive Directors	Fees Earned or Paid in Cash(3)	Stock Award	Option Award (4)	All Other Compensation	Total
Edward J. Borkowski	$ 75,625	$ —	$ 38,049	$ —	$ 113,674
Charles J. Casamento	$ 65,625	$ —	$ 38,049	$ —	$ 103,674
Alastair Riddell	$ 70,000	$ —	$ 38,049	$ —	$ 108,049
David Hoffman (1)	$ 40,000	$ —	$ —	$ —	$ 40,000
Terry Coelho	$ 81,250	$ —	$ 38,049	$ —	$ 119,299
Gregory Oakes (2)	$ 37,500	$ —	$ —	$ —	$ 37,500

(1) Mr. Hoffman was appointed to the board effective April 27, 2022.

(2) Mr. Oakes resigned from the board effective June 16, 2022.

(3) Represents amounts of accrued and unpaid cash compensation for board services through December 31, 2022.

(4) Represents the aggregate grant date fair value of 164 stock options issued to each of Messrs. Borkowski, Casamento, Riddell, and Coelho on January 3, 2022, our non-employee directors, calculated in accordance with ASC Topic 718.

Summary Compensation

The table set forth below reflects certain information regarding the compensation paid or accrued during the years ended December 31, 2022 and 2021 to our Chief Executive Officer and our executive officers, other than our Chief Executive Officer, who were serving as an executive officer as of December 31, 2022, and whose annual compensation exceeded $100,000 during such year (collectively the "*Named Executive Officers*").

Executive Compensation

Named Executive Officers	Year	Salary	Bonus	Equity Awards	All Other Compensation	Total
James Sapirstein	2022	$ 480,000	$ — (3)	$ 165,720 (5)	$ —	$ 645,720
President and Chief Executive Officer	2021	$ 480,000	$ 186,000 (4)	$ 628,380 (6)	$ —	$ 1,294,380
Sarah Romano	2022	$ 304,166	$ — (3)	$ 135,503 (5)	$ —	$ 439,670
Chief Financial Officer	2021	$ —	$ — (4)	$ — (6)	$ —	$ —
James Pennington (1)	2022	$ 204,599	$ — (3)	$ 8,286 (5)	$ —	$ 212,885
Chief Medical Officer	2021	$ 370,000	$ 49,406 (4)	$ 63,181 (6)	$ —	$ 482,587
Daniel Schneiderman (2)	2022	$ 47,500	$ — (3)	$ 11,037 (5)	$ —	$ 58,537
Chief Financial Officer	2021	$ 285,000	$ 48,592 (4)	$ 199,348 (6)	$ —	$ 532,940

(1) Mr. Pennington's employment with us as Chief Medical Officer terminated effective May 14, 2022 due to his resignation.

(2) Mr. Schneiderman's employment with us as Chief Financial Officer terminated effective February 28, 2022 due to his resignation.

(3) Represents accrued and unpaid bonuses during 2022, as of December 31, 2022.

(4) Represents accrued and unpaid bonuses during 2021, as of December 31, 2021.

(5) Represents the grant date fair value of stock options issued during the year ended December 31, 2022, calculated in accordance with ASC Topic 718. The assumptions used in the calculation of these amounts are included in Note 11 of the notes to the consolidated financial statements contained in this Annual Report.

(6) Represents the grant date fair value of restricted stock and stock options issued during the year ended December 31, 2021, calculated in accordance with ASC Topic 718. The assumptions used in the calculation of these amounts are included in Note 11 of the notes to the consolidated financial statements contained in the Company's Annual Report, filed with the SEC on March 31, 2022.

In retrospect, as we said, we provided a mea culpa some time ago for our optimism around MS1819. However, the Company's recent updates have us feeling a bit vindicated. That is, we always believed MS1819 had marked potential, and since we never really understood the nicolsamide opportunity, especially in the context of it usurping their MS1819 efforts, the fact that they are apparently rehitching the wagon to MS1819 makes us think we were right all along. To edify, "right all along" means sticking with MS1819, and not necessarily "right all along" about the eventual clinical success of MS1819 since that is yet to be proven by pending clinical results. Also, we use the term "vindicated" guardedly because it does not change the dismal performance of the shares since **our** initiation.

Given the above, we probably should have terminated this coverage quite some time ago, and outside of some comments in some of our general coverage universe updates, we have not officially updated the coverage, although we have had individual conversations regarding our views with any of our subscribers who have inquired. To be clear, given the trajectory of the Company and the underlying shares we do not see any reason for investors to put any faith in management or the board. We do not think that view requires much defense and it certainly provided considerable cover to terminate the stock. However, despite a variety of reason to do so, our reluctance to terminate the name stems from our original and continued optimism for the commercial potential of MS1819. Succinctly, if the clinical trials prove successful, we believe the Company share price could achieve levels many times higher than the current nominal valuation reflects. Moreover, from a practical standpoint, terminating the stock at this point is tantamount to shutting the barn door after the horses have already escaped, but we also do not typically keep covering names that have clearly failed to achieve the goals established by our original thesis. We are eager to see the clinical results, and we will be the first to admit that we were wrong all along if those results suggest that MS1819 is unable to achieve clinical endpoints.

Succinctly, we have no line of communication with management and frankly, for a variety of reasons, we are not sure what value there would be in trying to establish one even if we could. However, they do expect top line clinical data by mid-year 2023, so visibility in that regard should be forthcoming. On the other hand, recognize they recently completed an equity private placement, but our sense is that the resulting cash position is still unlikely to support their ongoing working capital burn so additional dilution appears likely to us. To translate, barring positive developments we are not anticipating, and despite what we think is a marked differential between current valuations and the valuations that positive clinical results would portend, we expect the stock price to face continued headwinds from likely additional dilution.

Clearly, sticking around is a roll of the dice on the clinical results, but again, we think positive clinical results should result in markedly higher valuation for the shares. Frankly, that posture is not much different than with most small biopharma companies. However, the difference here may be that we have seen mono clinical trials for MS1819, and while not-quite-good-enough, they did prove efficacy so our thinking is that the new enteric approach could push the results over the clinical endpoints. Moreover, we still believe that MS1819 has value as a combination therapy along with existing porcine standards. We think the combination clinical results support that view as well. In that event, we tend to think that the commercial value of MS1819 as a *combination therapy alone* could also be worth more than the current valuation reflects, which also suggests that failure on the mono trials, while markedly negative, *may not* be the last straw. That said, the sad reality is that in our view, much of the damage to the Company's capitalization is likely unrecoverable even with clinical success. Succinctly, while a successful mono trial might arguably make the Company worth hundreds of millions of dollars, we have a hard time imagining a sub $5 million market cap company catching a $300 million buyout bid. On the other hand, they could certainly get considerably more than the stock is trading at today.

Again, we do not think we provide much value from an ongoing research perspective, and from a practical standpoint, to "save" the recommendation's impact on our coverage performance, we would have to increase the allocation ("average down") at these levels to claw out of the hole. Given our disappointment in management, we

are generally averse to that approach. A long time ago a seasoned investor once reminded us that if we find ourselves in a hole, sometimes the best thing to do is stop digging. As a result, **we are terminating the coverage, but we submit,** it may still be worth taking a speculative shot at impending clinical results.

General Disclaimer:

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Trickle Research co-sponsors two microcap conferences each year. Trickle Research encourages its coverage companies to present at those conferences and Trickle charges them a fee to do so. Companies are under no obligation to present at these conferences.

First Wave has paid fees to present at investor conferences co-sponsored by Trickle Research.

Portions of this publication excerpted from company filings or other sources are noted in italics and referenced throughout the report.

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.