

## Onwards and upwards

20 March 2023

Now that all the resolutions for Destiny's fundraising that needed shareholder approval have been passed at its general meeting, we have taken the opportunity to update both our valuation and financials. Our valuation increases marginally because, while we had lower milestone payment and royalty totals, they are partly offset by a launch a year later than we originally forecast. We have also emulated the non-toxicogenic *Clostridioides difficile* strain M3 (NTCD-M3) deal terms in an XF-73 deal which is now expected in 2024. The successful fundraising that was enabled by the M3 licensing transaction and our expectations of an XF-73 deal in 2024 could mean that, as things stand, Destiny may be self-funding from hereon.

### Fundraising approved

The GM to approve the £6.74m net placing, subscription and open offer (that was a condition of the Sebela Pharmaceuticals licensing transaction of NTCD-M3) has passed all resolutions. We now update our financials for the milestone payment received, the cash raised and the higher share count. We have also extended out our forecasts for Destiny to YE 2024 since the company has stated that the Sebela transaction and the fundraising extends their cash runway until late 2024. We could go further. Since Destiny has demonstrated its business development prowess for one of its two Phase 3-ready assets, there is now every reason to expect a similar transaction for XF-73 in 2024. Indeed, our valuation of Destiny has always incorporated an XF-73 licensing deal and emulating the terms of the M3 transaction could result a similar \$1m upfront milestone next year, which we have included in our FY 2024 forecasts. Moreover, the Sebela deal and fundraising have **put Destiny into a position of significant strength** for the subsequent deals. Whilst not publishing forecasts beyond 2024, it is possible that with the flow of milestones and royalties from both licensing transactions, Destiny as it stands today may not need to come back to the markets again.

### Lots of moving parts

The \$1m in upfront cash from Sebela, the £6.74m net equity raise, and the resulting increased share count are just three of the changes to our financials. Along with higher interest rates on its cash balances, we have also reduced the expenditure on M3 in 2024 (and eliminated it thereafter) which, if a \$1m milestone and expense reductions are associated with a deal to license XF-73 2024, could extend Destiny's cash runway well beyond their current assumptions of the end of 2024. We provide more detail on the changes to our valuation and financials in the body of this note.

### Fair Value little changed

Our fair value for Destiny Pharma plc has increased modestly to £251.9m (or 267 pence per share) from £251.2m (or 345p per share). The higher share count explains the per share change while our expectations of the launch of NTCD-M3 in the US and Europe, and XF-73 in the US in 2027 were offset by the higher values of the milestones and royalties in the Sebela deal.

#### Company Data

EPIC	DEST
Price (last close)	31.5p
52 weeks Hi/Lo	62p / 29p
Market cap	£28.5m
ED Fair Value - per share	£251.9m / 267p
Reported cash end H1 22	£8.4m
Avg. daily volume	358k

#### Share Price, p



Source: ADVFN

#### Description

Destiny Pharma (Destiny) is a clinical development-stage biotech company developing novel anti-infectives to prevent and treat infections caused by sensitive and resistant bacteria and viruses.

Destiny's proprietary drug discovery platform has generated a number of active antimicrobials including its lead drug XF-73. XF-73 has successfully completed a Phase 2b clinical study under a US IND for the prevention of staphylococcal post-operative infections. In September 2020, Destiny started a preclinical collaboration to prevent COVID-19 diseases by stimulating innate immunity. In November 2020, Destiny acquired the Phase 3-ready asset NTCD strain M3 for the prevention of *C. difficile* infections (CDI).

Destiny's shares are listed on AIM.

#### Summary Financials

£'000s, y/e 31 December	2020A	2021A	2022E	2023E	2024E
<b>Revenues</b>					
EBIT	-6,553	-6,287	-6,983	-7,609	-5,028
Basic EPS (p)	-12.0	-8.9	-8.1	-6.9	-4.1
Net Assets	12,436	7,509	7,736	8,775	5,047
Net Cash	9,744	4,646	4,963	6,002	2,958

Source: Company historic data, ED estimates.

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## The Sebela deal changes everything

The licensing of Destiny's lead Phase 3-ready product NTCD-M3 and the associated fundraising that was a condition of the transaction have together transformed the prospects of Destiny Pharma. The \$1m milestone payment and the fundraising, as well as the elimination of Destiny's spend on M3 after 2024, have necessitated a number of changes to our financials and valuation.

Destiny's expectations for the start of the Phase 3 study of NTCD-M3 in the prevention of *C.difficile* infections (CDIs) will be in 2024 has prompted us to move the launch of M3 in the US and Europe to sometime in 2027. While this shifts out some of the milestones and the royalties from Sebela, it is offset to some extent by the higher value of these payments and tiered royalties (our previous expectations were for a flat 10% royalty rate), and the lower spend on the product. Our non-risk-adjusted value of NTCD-M3 decreased from \$178m to \$147m as a result.

However, prior to the deal being signed, we had estimated a 70% chance of a transaction. Now that the deal has been signed, **this rises to 100%** and our risk-adjusted valuation of M3 has marginally increased from \$84m to \$88m. Since M3 has not yet started Phase 3, our discount rate and probability of success remain unchanged; and both are applied to the milestones, royalties and costs that we have forecasted beyond YE 2023.

Our expectations for Destiny's expenses related to the Phase 3 study and regulatory approvals of M3 in the US and Europe **have now been eliminated beyond 2024**. This is because Destiny's announcement of the Sebela transaction included Sebela's minority interest in ex-US sales and our interpretation is that a *quid pro quo* of those rights is that the Phase 3 study funded by Sebela would include sufficient South American and European patients to enable regulatory submissions in those jurisdictions.

Thus, we have also moved a European launch of M3 forward to the same year (2027) as the US launch because Destiny will provide an ex-North American and China (China Medical Systems has Chinese rights) partner an over-ready biological license application with no need for the expense of clinical trials.

The transaction with Sebela and the subsequent fundraising have placed Destiny in a **significantly stronger negotiating position** for the deals to come on XF-73 and ex-North American rights to M3. In addition, the investment in M3 that resulted in the Sebela deal was clearly money well-spent so a similar investment on XF-73 (which we include in FY 2023) should be equally encouraged.

### More to come?

Destiny have pencilled in a deal for M3 outside of North America and China in 2024 and, while the sales and therefore royalties for M3 outside the US are a minor component of our valuation of Destiny, together with the expectations for a 2024 licensing transaction on XF-73 – which is also anticipated in 2024 and royalties and milestones on which, do not have a pay away – provide plenty to look forward to.

Indeed, although we have included only one \$1m upfront milestone payment in 2024 in our financial forecasts for that year, two additional upsides could potentially occur:

- Firstly, there could be more than one milestone payment in 2024 (global XF-73 rights and ex-North American and Chinese M3 rights).
- Secondly, the cumulative milestone and royalty flows from both M3 and XF-73 deals could mean that, as things stand today, the March 2023 equity fundraising could have been Destiny's last raise for the foreseeable future. This is an enviable position for the group to be in, given the damage done to future drug development financing by the collapse of Silicon Valley Bank.

## FINANCIALS

Income Statement & Forecasts					
£'000s, y/e 31 December	2020A	2021A	2022E	2023E	2024E
<b>IFRS Income Statement</b>					
Total revenue					
Administration expenses	-1925	-2200	-2100	-2100	-2100
R&D	-4500	-3816	-4366	-5066	-2,900
Other income (expense)		135	123		
Share-base payments & exceptionals	-139	-406	-210	-25	-25
Depreciation & amortisation			-2	-2	-3
<b>Reported EBIT</b>	<b>-6553</b>	<b>-6287</b>	<b>-6983</b>	<b>-7609</b>	<b>-5028</b>
<b>Reported profit before tax</b>	<b>-6481</b>	<b>-6271</b>	<b>-6932</b>	<b>-7460</b>	<b>-4847</b>
Taxation	1070	932	950	950	950
<b>Reported Net income</b>	<b>-5411</b>	<b>-5339</b>	<b>-5982</b>	<b>-6510</b>	<b>-3897</b>
Basic EPS (p)	-11.97	-8.92	-8.14	-6.89	-4.12
Diluted EPS (p)	-11.97	-8.92	-8.14	-6.89	-4.12

Source: Company historic data, ED estimates

Balance Sheet & Forecasts					
£'000s, at y/e 31 December	2020A	2021A	2022E	2023E	2024E
<b>Assets</b>					
<b>Non-current assets</b>					
Tangible assets	18	40	40	41	41
Intangible assets	2261	2297	2297	2297	2297
Total non-current assets	2280	2337	2338	2338	2339
<b>Current assets</b>					
Trade and other receivables	1172	992	992	992	277
Cash and equivalents	9744	4646	4963	6002*	2958**
Total current assets	11425	5985	6303	7342	3583
<b>Total assets</b>	<b>13705</b>	<b>8323</b>	<b>8640</b>	<b>9680</b>	<b>5922</b>
<b>Equity and liabilities</b>					
<b>Equity</b>					
Ordinary shares	598	599	733	943	943
Share Premium	27086	27091	33044	39431	39431
Retained earnings	-15247	-20181	-26041	-31599	-35358
Equity attributable to the company	12436	7509	7736	8775	5017
Total equity	12436	7509	7736	8775	5017
<b>Current liabilities</b>					
Trade and other payables	726	218	349	349	349
Total current liabilities	1268	773	905	905	905
Total non-current liabilities					
<b>Total equity and liabilities</b>	<b>13705</b>	<b>8283</b>	<b>8640</b>	<b>9680</b>	<b>5922</b>

Source: Company historic data, ED estimates. \*Including \$1m upfront milestone from M3 licensing transaction.

\*\*including an estimated \$1m milestone from XF-73 licensing transaction

**Cash Flow Statements & Forecasts**

£'000s, y/e 31 December	2020A	2021A	2022E	2023E	2024E
Profit before taxation	-6481	-6271	-6932	-7460	-4847
Depreciation & amortisation	17	13	2	2	3
Share-based payments	139	406	210	25	25
Movements in working capital	91	-296			
Net cash generated by operating activities	-5492	-5090	-5820	-6631	-4050
<b>Investing activities</b>					
CapEx on tangibles & intangibles	-2264	-30			-1
Acquisitions					
Other investing activities	72	16	51	149	180
Net cash used in investing activities	-2192	-15	51	148	180
<b>Financing activities</b>					
Proceeds from issue of shares	9949	7	6086	6737	
Movements in debt					
Net cash from financing activities	9949	7	6086	7522*	826**
Cash & equivalents at beginning of year	7480	9744	4646	4963	6002
<b>Cash &amp; equivalents at end of year</b>	<b>9744</b>	<b>4646</b>	<b>4963</b>	<b>6002</b>	<b>2958</b>

Source: Company historic data, ED estimates. \*Including \$1m upfront milestone from M3 licensing transaction.

\*\*Including an estimated \$1m milestone from XF-73 licensing transaction.



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