

2021 starts well with XF-73 study fully recruited

6 January 2021

Destiny has announced that the patient recruitment for its Phase 2b study, conducted under a US IND, is complete and that they are on-track to report results for this study before the end of Q1 2021. The recent update on the progress of its recently acquired Phase 3-ready biologic NTCD-M3 and the completion of the fundraising required to acquire and develop the asset, also means that investors have considerable news flow to look forward to in 2021.

Destiny's internally developed product XF-73, for the prevention of post-surgical *Staphylococcal* infections, has completed the target recruitment of 125 patients scheduled for open heart surgery. While not all the patients will have completed the follow-up period after their surgical procedure, Destiny's announcement means that they are **on track to keep their promise of top-line results from this study before the end of Q1 2021**. As we have previously indicated, as a microbiologically-active product that has shown the reduction the nasal *S.aureus* colonisation to below detectable levels in a previous NIH-funded study in healthy volunteers, **the likelihood of success in this study is high**, since the primary endpoint is microbiological.

Our recent note highlighted the withdrawal of the principal (although off-label) competitor to XF-73 in the US – Bactoban Nasal – that would leave the market clearer for XF-73, once approved. It is important to note that while generic mupirocin dermal formulations are still available in the US, the Bacroban Nasal formulation was developed with a non-PEG base. Also, the calcium salt of mupirocin is different to the generic dermal formulations, specifically to avoid the irritation and inflammation that was seen when dermal formulations were attempted to be used for nasal eradication.

Progress on NTCD-M3

Destiny also recently announced progress on the recently-acquired Phase 3-ready asset non-toxicogenic *C.difficile* strain M3 (NTCD-M3) in preparation for the start of the Phase 3 study in 2022. The appointment of a manufacturer and the development of a more efficient and lower cost manufacturing process should not be underestimated for a biologic product that is new to the company. To achieve this progress in such a short space of time since acquiring the product (although Destiny's due diligence process almost certainly aided this process) illustrates that Destiny is 'punching above its weight'.

Valuation unchanged

Our financials and valuation have not changed as a result of the recent updates on the XF-73 clinical trial and the progress on NTCD-M3. **We calculate the fair value of Destiny Pharma at £156.9m (262p per share)**. However, should Destiny become a company with two Phase 3-ready programs, our valuation will need to be updated.

Summary Financials					
£'000s, y/e 31 December	2017A	2018A	2019A	2020E	2021E
Revenues					
EBIT	-3,222	-6,084	-5,585	-6,659	-5,944
Basic EPS (p)	-8.45	-11.86	-10.75	-9.68	-8.40
Net Assets	16,686	12,257	7,759	12,367	7,364
Net Cash	16,724	12,061	7,480	10,559	5,175

Source: Company historic data, ED estimates

Company Data

EPIC	DEST
Price (last close)	76.5p
52 weeks Hi/Lo	115p/29p
Market cap	£46m
ED Fair Value - per share	£156.9m 262p
Est. net cash FY'20*	£10.6m
Avg. daily volume	102,548

*Based on recent offering and estimated costs.

Share Price, p



Source: LSE

Description

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

Destiny's proprietary drug discovery platform has generated a number of active antimicrobials including its lead drug XF-73. XF-73 is currently in 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).

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Potentially a big year ahead for the portfolio

On the successful completion of the Phase 2b study for XF-73, we have assumed that Destiny will partner XF-73 and have forecast a \$10m (£7.69m) upfront payment (illustrated as debt in our financials) before the end of FY 2021. This would be a considerable validation of Destiny's development heritage, and a track record on which to develop and partner the other assets in its portfolio.

In addition, there is currently considerable concern about the new variants of coronavirus being detected across the world, and their potential to 'escape' (render less likely to provide complete protection) from the first-generation of vaccines. Destiny's equal share collaboration with SporeGen on their non-specific innate immune modulator, **SPOR-COV**, could be an important weapon in the pandemic response that is likely to be unaffected by antigenic drift. Despite being in preclinical development, the pandemic has taught us that grant funding and government support can take the first coronavirus vaccines from preclinical development to approval in less than a year, should the need arise.

Financials

Consolidated Income Statement & Forecasts					
£'000s, y/e 31 December	2017A	2018A	2019A	2020E	2021E
IFRS Income Statement					
Total revenue					
Administration expenses	-1011	-1800	-1887	-1850	-2100
R&D	-387	-3546	-3800	-4000	-3816
Other income (expense)	-613		306	25	
Share-base payments & exceptionals	-710	-738	-204	-117	-25
Depreciation & amortisation	-2	-4		-9	-2
Reported EBIT	-3222	-6084	-5585	-6659	-5944
Reported profit before tax	-3211	-6008	-5521	-6632	-5828
Taxation	234	841	813	839	800
Reported Net income	-2977	-5167	-4708	-5793	-5028
Basic EPS (p)	-8.45	-11.86	-10.75	-9.68	-8.40
Diluted EPS (p)	-8.45	-11.86	-10.75	-9.68	-8.40

Source: Company historic data, ED estimates

Consolidated Balance Sheet & Forecasts

£'000s, at y/e 31 December	2017A	2018A	2019A	2020E	2021E
Assets					
Non-current assets					
Tangible assets	22	30	33	26	24
Goodwill				2308	2308
Total non-current assets	22	30	33	2333	2332
Current assets					
Trade and other receivables	277	931	911	560	277
Cash and equivalents	11724	7061	7480	10559	12868
Total current assets	17061	13028	8525	11135	13161
Total assets	17083	13058	8557	13469	15493
Equity and liabilities					
Equity					
Ordinary shares	436	436	439	696	696
Share Premium	17292	17292	17296	27439	27464
Retained earnings	-1042	-5471	-9976	-15768	-20796
Equity attributable to the company	16686	12257	7759	12367	7364
Total equity	16866	12257	7759	12367	7364
Current liabilities					
Trade and other payables	152	404	514	818	152
Total current liabilities	397	802	798	1102	436
Total non-current liabilities					-7692
Total equity and liabilities	17083	13058	8557	13469	15493

Source: Company historic data, ED estimates

Consolidated Cash Flow Statements & Forecasts

£'000s, y/e 31 December	2017A	2018A	2019A	2020E	2021E
Profit before taxation	-3211	-6008	-5521	-6632	-5828
Depreciation & amortisation	2	10	18	9	2
Share-based payments	710	738	204	117	25
Movements in working capital	165	381	-83	656	-383
Net cash generated by operating activities	-2153	-4721	-4631	-5038	-5500
Investing activities					
Acquisitions				-2308	
Capital expenditure on tangibles	-23	-18	-21	-2	
Other investing activities	-4990	76	5063	27	116
Net cash used in investing activities	-5013	58	5043	-2283	116
Financing activities					
Proceeds from issue of shares	17406		7	10400	
Movements in debt					7692
Net cash from financing activities	17409		7	10400	7692
Cash & equivalents at beginning of year	1481	11724	7061	7480	10559
Cash & equivalents at end of year	11724	7061	7480	10559	12868

Source: Company historic data, ED estimates



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