

Results bring welcome detail and no surprises

12 April 2022

After the recent fundraising, there were no surprises in Destiny's FY 2021 financials which continue to demonstrate its prudent financial management. Whilst preparing its two Phase 3-ready assets for partnering, the stumbles of its competitors in the CDI prevention space have made Destiny's negotiating position stronger and arguably, easier. As does the recent fundraising which enables a stronger stance in partnering discussions. Part of Destiny's announcement detailed the hierarchy of its two lead assets that is emerging as a result of the regulatory discussions and the stage of partnering interest.

FY 2020 Results

Destiny's operating expenses excluding share-based payment charges decreased to £6.0m from £6.4m in FY 2020, as a result of the lower clinical trial expense after the XF-73 Phase 2b study. The operating expenses included R&D costs of £3.7m, which came in under our £3.8m estimate, and £2.3m in other operating costs (£4.5m and £1.9m in FY 2020, respectively). Destiny's FY 2021 operational costs were offset by an expected £1.1m R&D tax credit, and £0.1m in grant income (£0.8m and £0.01m in FY 2020, respectively). Cash at the end of FY 2022 was £4.6m and has since been bolstered by the recent fundraising raising £6.5m gross (vs £9.7m at end FY 2020 and £7.1m at the end of H1 2021).

Destiny continues to balance prudently managing its financial resources with investing in its assets ahead of a partnering transaction. Excluding our expectations for a partnering deal, Destiny's cash reach is expected to extend to mid-2023.

All eyes on partnering

Destiny's confident FY 2021 results presentation should have left investors in no doubt that the Phase 3 studies and commercialisation of its two products – non-toxicogenic *Clostridioides difficile* strain M3 (NTCD-M3) for the prevention of *C.difficile* infections (CDIs), and XF-73 for the prevention of post-operative staphylococcal infections – will be conducted with partners.

Indeed, the recent missteps by Destiny's competitors in the CDI space and Destiny's recent fundraising may have expanded the potential partnering list and given Destiny the mandate to negotiate better terms, respectively. Our model includes one licensing transaction in 2022 with an estimated \$10m milestone payment.

Fair value tweaked

We had recently updated our model and valuation after the fundraising and subsequent model changes for FY 2022. As Destiny's FY 2021 results had in a modestly lower YE 2021 cash position after the increased investment in the two lead assets and increased staff costs, our valuation changes very slightly from £210.3m or 289p per share to **£209.6m or 288p per share**.

Summary Financials					
£'000s, y/e 31 December	2018A	2019A	2020A	2021E	2022E
Revenues					
EBIT	-6,084	-5,585	-6,553	-6,287	-9,508
Basic EPS (p)	-11.9	-10.8	-12.0	-8.9	-11.9
Net Assets	12,257	7,759	12,436	7,509	3,957
Net Cash	12,061	7,480	9,744	4,646	1,185*

Source: Company historic data, ED estimates. *including matching liability for \$10m milestone

Company Data

EPIC	DEST
Price	51p
52 weeks Hi/Lo	172p / 46p
Market cap	£37.6m
ED Fair Value - per share	£209.6m / 288p
Estimated net cash end FY 22	£1.2m
Avg. daily volume	43,524

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.

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Pipeline priority emerges

Within the detail of the FY 2021 results announcement, a race is emerging for the mantle of Destiny's lead product amongst its two Phase 3-ready assets.

The announcement notes NTCD-M3 is the company's 'lead drug candidate' by virtue of the manufacturing scale-up requirements that emerged from discussions with the FDA, and the activity of 'several parties' in the partnering process. The results announcement also includes detail on the positive feedback from the European Medicines Agency (EMA) on the proposed primary endpoint of the XF-73 Phase 3 study.

It is expected that the regulatory clarity from the US FDA and European EMA are expected to be completed mid-2022 which will define the size, nature and the costs of the XF-73 Phase 3 program so that partners can be sought in H1 2023 or sooner. The possibility was mentioned on Destiny's call for XF-73 to catch-up with NTCD-M3, but we have assumed licensing transactions in the successive years 2022 and 2023.

To date, Destiny had probably only disclosed to its potential partners the broad terms on the numbers of patients, the non-inferiority or superiority nature of the studies, and the active comparator (in Europe, for XF-73) that have emerged so far from discussions with regulators, since these all determine the cost of the Phase 3 studies and thus the partnering transaction. Included in the FY 2021 announcement was the FDA's confirmation that the NTCD-M3 Phase 3 study will be a single 800 patient placebo-controlled study.

With more detail also likely to be available to the parties in Destiny's data room, it appears that NTCD-M3 has nudged ahead of XF-73 in the race for Destiny's lead asset and a partnering transaction, for the moment.

Our financial model includes one licensing transaction in FY 2022 with a \$10m upfront payment, which is now likely to be for NTCD-M3 and another for XF-73 in FY 2023, the latter of which aligns with Destiny's current expectations in their FY 2021 results announcement.

Income Statement & Forecasts

£'000s, y/e 31 December	2018A	2019A	2020A	2021E	2022E
IFRS Income Statement					
Total revenue					
Administration expenses	-1800	-1887	-1925	-2200	-2100
R&D	-3546	-3800	-4500	-3816	-6866
Other income (expense)		306	12	135	123
Share-base payments & exceptionals	-738	-204	-139	-406	-210
Depreciation & amortisation	-4				-2
Reported EBIT	-6084	-5585	-6553	-6287	-9508
Reported profit before tax	-6008	-5521	-6481	-6271	-9457
Taxation	841	813	932	800	800
Reported Net income	-5167	-4708	-5411	-5339	-8657
Basic EPS (p)	-11.86	-10.75	-11.97	-8.92	-11.90
Diluted EPS (p)	-11.86	-10.75	-11.97	-8.92	-11.90

Source: Company historic data, ED estimates

Balance Sheet & Forecasts

£'000s, at y/e 31 December	2018A	2019A	2020A	2021E	2022E
Assets					
Non-current assets					
Tangible assets	30	33	26	40	40
Intangible assets			2261	2297	2297
Total non-current assets	30	33	2280	2297	2338
Current assets					
Trade and other receivables	931	911	1172	992	992
Cash and equivalents	7061	7480	9744	4646	8597*
Total current assets	13028	8525	11425	5985	9877
Total assets	13058	8557	13705	8283	12215
Equity and liabilities					
Equity					
Ordinary shares	436	439	598	599	663
Share Premium	17292	17296	27086	27091	33692
Retained earnings	-5471	-9976	-15247	-20181	-30398
Equity attributable to the company	12257	7759	12436	7509	3957
Total equity	12257	7759	12436	7509	3957
Current liabilities					
Trade and other payables	404	514	726	218	349
Total current liabilities	802	798	1268	773	905
Total non-current liabilities					
Total equity and liabilities	13058	8557	13705	8283	12215

Source: Company historic data, ED estimates

Cash Flow Statements & Forecasts

£'000s, y/e 31 December	2018A	2019A	2020A	2021E	2022E
Profit before taxation	-6008	-5521	-6481	-6271	-9457
Depreciation & amortisation	10	18	17	13	2
Share-based payments	738	204	139	406	210
Movements in working capital	381	-83	91	-296	0
Net cash generated by operating activities	-4721	-4631	-5492	-5090	-8496
Investing activities					
CapEx on tangibles & intangibles	-18	-21	-2264	-30	0
Other investing activities	76	5063	27	16	51
Net cash used in investing activities	58	5043	-2192	-15	-1420
Financing activities					
Proceeds from issue of shares		7	9949	7	6455
Movements in debt					7353*
Net cash from financing activities		7	9949	7	13807
Cash & equivalents at beginning of year	11724	7061	7480	9744	4646
Cash & equivalents at end of year	7061	7480	9744	4646	1185*

Source: Company historic data, ED estimates.

*including \$10m milestone and matching liability for \$10m milestone



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