Destiny Pharma plc

A year of progress, and addressing the future

26 April 2024

Destiny's full-year results for the year ending December 31 2023 included news of a strategic review of the options for its lead program XF-73 nasal. Cost-controls and reduced clinical trial spend at this point in the development of Destiny's assets reduced the loss for the year. With the increased focus on the partnering of XF-73 nasal, we were left in no doubt after the analysts' meeting that XF-73 nasal is both a valuable asset and that it will be partnered at some point in time.

Financial results

Tight expense control resulted in Destiny's loss falling to £6.4m from £7.7m in FY 2022. This was partly due to the out-licensing of its Phase 3-ready product NTCD-M3 to Sebela Pharmaceuticals, and partly due to Destiny being in an interim period between clinical trials. Although partnering activity for XF-73 nasal intensified, R&D expense fell to £3.3m from £4.9m in FY 2022. Other operating costs increased to £3.8m (from £2.5m in FY 2022) as a result of inflationary pressures, partnering and market analysis efforts on XF-73 nasal and the Board and management changes. Buffering this was an £0.8m licensing payment from Sebela, an R&D tax credit of £1.2m, a reduction in working capital and higher interest on cash balances. The first-quarter 2023 fundraise, cost control and reduced clinical expenditure resulted in Destiny's year-end cash balance increasing to £6.4m from £4.9m at the end of FY 2022. Destiny estimates that their cash runway will extend to Q1 2025.

XF-73 nasal strategic review

Following a period of business development activity focussed on its now lead product – XF-73 nasal for the prevention of post-operative staphylococcal infections, including MRSA – Destiny announced a review of the strategic options for its development funding. While investors will be disappointed that a transaction didn't happen in 2023, we were left with the important conclusions from the analysts' meeting that: **XF-73 nasal is a valuable asset**, it should eventually be partnered, and will not be marketed by Destiny. The more important question is when that will be and, adjusting for the changes to the timelines on clinical trial starts by Destiny's partners, we reduce our valuation accordingly. While an external out-licensing transaction for XF-73 nasal similar to that for NTCD-M3 remains probable, the strategic update suggests a range of other options to achieve the same result for this asset.

Valuation changes

Our fair value for Destiny Pharma plc has changed to **£212.0m (or 234p / share)** from £254.7m (or 279p / share). This reflects the longer times until Phase 3 studies start and, in consequence, its products launch at Destiny's partners. This value is materially above the share price and does assume successful financing for XF-73 nasal's approval and commercialisation. It also reflects the vast global unmet need that XF-73 nasal can address.

Summary Financials

£'000s, y/e 31 December	2020A	2021A	2022A	2023A	2024E
Revenues				832	
EBIT	-6,553	-6,287	-7,776	-6.736	-6,578
Basic EPS (p)	-12.0	-8.9	-9.3	-6.2	-6.0
Net Assets	12,436	7,509	7,626	9,189	4,480
Net Cash	9,744	4,646	4,903	6,383	2,250

Source: Company historic data, ED estimates.

Company Data

EPIC	DEST
Price (last close)	17p
52 weeks Hi/Lo	84p / 14p
Market cap	£16m
ED Fair Value - per share	£212.0m 234p
Reported cash end H2 23	£6.4m
Avg. daily volume	459k

Share Price, p

Source: ADVFN

Description

Destiny Pharma (Destiny) is an innovative clinical-stage biotechnology company focused on the development and commercialisation of novel medicines that can prevent life-threatening infections. The company's drug development pipeline includes two late-stage assets, NTCD-M3, a microbiome-based biotherapeutic for the prevention of *C.difficile* infection (CDI) recurrence, which is the leading cause of hospital-acquired infection (HAI) in the US, and XF-73 nasal gel, a proprietary drug targeting the prevention of post-surgical staphylococcal infections including MRSA.

Destiny's shares are listed on AIM.

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Notes from the analysts' meeting

While we were left in no doubt of management's confidence that XF-73 nasal will be partnered, the most important point arising from the analysts' meeting was that changes needed to be made to the Phase 3 program cost to make the profile of XF-73 nasal to potential partners more attractive.

The commercial value of XF-73 nasal in the prevention of post-operative staphylococcal infections is unchanged, but it seems that potential partners want a broad label at a reasonable Phase 3 program cost. To address this stumbling block, Destiny has developed a revised Phase 3 plan that **halves the Phase 3 costs but achieves the same study outcomes**. Destiny is discussing this with selected potential partners and regulators.

Notably, these changes include a clinical trial population of reconstructive breast, and high-risk cardiothoracic surgical patients. This provides continuity and read-though with the positive Phase 2b study which included cardiothoracic surgical patients. The number of patients in the study was able to be reduced partly by eliminating the more difficult-to-recruit orthopedic surgical patients while the power of the study was maintained by using **the clinical endpoint of post-operative antibiotic usage** This endpoint which demonstrated a 35% difference over placebo in only 125 patients in Phase 2b. Phase 3 will also be **enriched for MRSA carriage**. Thus, there are two factors maintaining consistency between Phase 2 and Phase 3.

Measuring the post-surgical antibiotic usage (no post-surgical infections: no antibiotics required) has the advantage of being quicker and cheaper to assess than, for example waiting for culture-positive surgical infections to be confirmed. In addition, based on the performance of this endpoint in Destiny's Phase 2b study, the total number of patients in two Phase 3 studies can be reduced to just one thousand over two studies. Furthermore, the endpoint of reduction in post-operative antibiotic usage almost certainly has **reimbursement advantages**, too.

XF-73 nasal partnering remains on the table

The clinical development program for XF-73 nasal is in transition while partners review the recently available protocol changes and costings.

Destiny could start the Phase 3 studies alone to increase the value of the asset before partnering, but this would require further funding that could involve a stock offering. All the options for XF-73 nasal will be explored in the strategic review.

Destiny have also discontinued and returned of the rights to the SPOR-COV program on commercial grounds since the emphasis of this product was the prevention of respiratory infections and evolved as a result of the pandemic. Destiny's other earlier-stage programs are grant funded.

UPDATED FINANCIALS

Income Statement & Forecasts					
£'000s, y/e 31 December	2020A	2021A	2022A	2023A	2024E
IFRS Income Statement					
Total revenue				832	
Administration expenses	-1925	-2200	-2497	-3800	-2500
R&D	-4500	-3816	-4900	-3292	-3600
Other income (expense)		135	154		
Share-based payments & exceptionals	-139	-406	-534	-475	-475
Depreciation & amortisation				-2	-3
Reported EBIT	**-6553**	**-6287**	**-7776**	**-6736**	**-6578**
Reported profit before tax	**-6481**	**-6271**	**-7712**	**-6446**	**-6387**
Taxation	1070	932	1208	789	950
Reported Net income	**-5411**	**-5339**	**-6504**	**-5657**	**-5437**
Basic EPS (p)	-11.97	-8.92	-9.27	-6.24	-6.00
Diluted EPS (p)	-11.97	-8.92	-9.27	-6.24	-6.00

Source: Company historic data, ED estimates

Balance Sheet & Forecasts					
£'000s, at y/e 31 December	2020A	2021A	2022A	2023A	2024E
Assets					
Non-current assets					
Tangible assets	18	36	25	19	20
Intangible assets	2261	2261	2261	2341	2341
Total non-current assets	2280	2297	2286	2287	2287
Current assets					
Trade and other receivables	1172	992	1410	900	227
Cash and equivalents	9744	4646	4903	6383	2250*
Total current assets	11425	5985	6510	7597	2842
Total assets	13705	8283	8796	9957	5203
Equity and liabilities					
Equity					
Ordinary shares	598	599	733	953	953
Share Premium	27086	27091	33044	39569	39569
Retained earnings	-15247	-20181	-26151	-31332	-35041
Equity attributable to the company	12436	7509	7626	9189	4480
Total equity	12436	7509	7626	9189	4480
Current liabilities					
Trade and other payables	726	218	173	395	349
Total current liabilities	1268	773	1107	768	722
Total non-current liabilities					
Total equity and liabilities	13705	8283	8796	9957	5203

*Source: Company historic data, ED estimates. *including an estimated $1m milestone from XF-73 licensing transaction*

Cash Flow Statements & Forecasts

£'000s, y/e 31 December	2020A	2021A	2022A	2023E	2024E
Profit before taxation	-6481	-6271	-7712	-6446	-6387
Depreciation & amortisation	17	13	12	6	3
Share-based payments	139	406	534	475	475
Movements in working capital	91	-296	411	-428	
Net cash generated by operating activities	-5492	-5090	-5892	-5474	-5150
Investing activities					
CapEx on tangibles & intangibles	-2264	-30	-1	-81	-1
Acquisitions					
Other investing activities	72	16	65	290	191
Net cash used in investing activities	-2192	-15	64	209	191
Financing activities					
Proceeds from issue of shares	9949	7	6086	6745	
Movements in debt					
Net cash from financing activities	9949	7	6086	6745	826*
Cash & equivalents at beginning of year	7480	9744	4646	4903	2250
Cash & equivalents at end of year	**9744**	**4646**	**4903**	**6383**	**2250**

*Source: Company historic data, ED estimates. **Including an estimated $1m milestone from XF-73 licensing transaction.*

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