Destiny Pharma plc

Validation well worth waiting for

27 February 2023

After Destiny's December trading update that led with draft terms and exclusivity being agreed for the licensing of its lead product, NTCD-M3, Destiny has confirmed the signing of the transaction with US gastroenterology (GI) specialist Sebela Pharmaceuticals. In return for the exclusive North American rights, Destiny will receive up to $570m including upfront, development and sales-based milestone payments, plus royalties. This transaction not only provides Destiny significant validation for their lead product, but also helps its potential ex-US partners who should now see M3 as an asset that has been significantly de-risked.

Sebela is the US partner

It has announced an **exclusive US co-development and commercialisation agreement** with a Sebela Pharmaceuticals, a US GI specialty pharmaceutical company, for its lead Phase 3 product, the non-toxigenic *Clostridioides difficile* strain M3 (NTCD-M3) for the prevention of *C.difficile* infections (CDIs). The Sebela deal brings Destiny **significant validation** for M3 over any of M3's competitors that Sebela could have, but chose not to, license. In addition, the transaction also provides some de-risking for those potential yet-to-be signed licensees for ex-US and ex-Chinese rights to M3. The total deal value of $570m includes $1m upfront, $19m in success-based milestones, up to $550m in sales-based milestone payments in addition to tiered double-digit royalties. Destiny has also announced an up to £8m fundraising to support the preparation for M3's Phase 3 study and its other objectives.

Many moving parts

The deal on US co-development and commercialisation M3 rights changes some aspects of our model, which was based a global transaction. For a start, the total deal value is up to $570m (£477m) and above our non-risk-adjusted £169m valuation of M3 globally. Also, our model included a $20m upfront payment as opposed to Sebela's $1m upfront and $19m in development milestones, but we are not going to split hairs. We shall revise our model based on separate valuations for US and ex-US M3 rights (and risks) but the two will remain connected. Firstly, because Sebela has a minority interest in ex-US M3 sales, and also because a single Phase 3 study has already been agreed with the FDA and the EMA that should include some European patients. Therefore, a common technical document can be used to gain approval in the US and Europe. In addition, the UK recently announced moves to harmonise FDA and MHRA approvals which also fits with M3's single Phase 3 study that is applicable to US, UK and European regulators.

Fair Value unchanged

Our fair value for Destiny remains unchanged at £251.2m or 345p per share but we will revise our M3 model, Destiny's financials including cash and share count after the result of the general meeting to approve the fundraising on 16 March 2023 and clarity on the Open Offer take-up**.**

Summary Financials

£'000s, y/e 31 December	2018A	2019A	2020A	2021A	2022E
Revenues					
EBIT	-6,084	-5,585	-6,553	-6.287	-7,008
Basic EPS (p)	-11.9	-10.8	-12.0	-8.9	-8.5
Net Assets	12,257	7,759	12,436	7,509	6.189
Net Cash	12,061	7,480	9,744	4.646	3,416*

*Source: Company historic data, ED estimates. *Including illustrative debt simulating a $10m up-licensing*.

Company Data

EPIC	DEST
Price (last close)	35.25p
52 weeks Hi/Lo	109p / 29p
Market cap	£27.5m
ED Fair Value - per share	£251.2m 345p
Reported cash end H1 22	£8.4m
Avg. daily volume	69k

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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M3 rises to the top

Against the backdrop of a difficult biotech environment that has already seen one of Destiny's competitors – Finch Therapeutics, Inc – stop its Phase 3 study and lay off 95% of its staff, Destiny's securing of a co-development and commercialisation partner for its lead Phase 3-ready product is a major coup. Our profiling of M3 and its competitors has always put M3's target product profile at the top, or close to the top for most attributes but this could not have been said for Finch's lead product for the treatment of CDIs, CP101. CP101 was faecal microbiome-derived product which was placed on clinical hold because of the risk of transferring SARS-CoV-2 to treated patients and is distinct from M3 which is a single strain product.

If investors needed any more validation of M3's potential in the race to develop products to prevent CDIs, it is in the differing fortunes of Destiny and Finch as illustrated by Destiny's transaction with Sebela.

Financing will achieve multiple objectives

Destiny has also announced an up to £8m fundraising to support the preparation for M3's Phase 3 study, the preparation for its second product's (XF-73 for the prevention of post-operative staphylococcal infections) Phase 3 study and general corporate purposes. This strengthening of Destiny's balance sheet (which was a condition of the Sebela agreement), along with the Sebela transaction itself casts Destiny in a whole different light in the UK biotech space with a cash runway until at least late 2024 and a motivated US co-development and commercialisation partner.

While the initial share price reaction to the Sebela announcement may be understandable from a dilution perspective, existing holders will have a chance to participate on identical terms in the Open Offer.

In addition, Destiny's market capitalisation is a tiny fraction of the potential maximum to be received in the Sebela deal and ascribes little value to an ex-US transaction for M3, or a XF-73 licensing transaction, the latter of which we expect this year.

FINANCIALS

Income Statement & Forecasts					
£'000s, y/e 31 December	**2018A**	**2019A**	**2020A**	**2021A**	**2022E**
IFRS Income Statement					
Total revenue					
Administration expenses	-1800	-1887	-1925	-2200	-2100
R&D	-3546	-3800	-4500	-3816	-4366
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**	**-7008**
Reported profit before tax	**-6008**	**-5521**	**-6481**	**-6271**	**-6957**
Taxation	841	813	932	800	800
Reported Net income	**-5167**	**-4708**	**-5411**	**-5339**	**-6157**
Basic EPS (p)	-11.86	-10.75	-11.97	-8.92	-8.46
Diluted EPS (p)	-11.86	-10.75	-11.97	-8.92	-8.46

Source: Company historic data, ED estimates

Balance Sheet & Forecasts					
£'000s, at y/e 31 December	**2018A**	**2019A**	**2020A**	**2021A**	**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	12112*
Total current assets	13028	8525	11425	5985	13452
Total assets	13058	8557	13705	8283	15789
Equity and liabilities					
Equity					
Ordinary shares	436	439	598	599	663
Share Premium	17292	17296	27086	27091	33692
Retained earnings	-5471	-9976	-15247	-20181	-28166
Equity attributable to the company	12257	7759	12436	7509	6189
Total equity	12257	7759	12436	7509	6189
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	15789

*Source: Company historic data, ED estimates, * Illustrative debt re a $10m upfront licensing transaction payment*

Cash Flow Statements & Forecasts

£'000s, y/e 31 December	2018A	2019A	2020A	2021A	2022E
Profit before taxation	-6008	-5521	-6481	-6271	-6957
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	-5996
Investing activities					
CapEx on tangibles & intangibles	-18	-21	-2264	-30	0
Acquisitions					-1739
Other investing activities	76	5063	27	16	51
Net cash used in investing activities	58	5043	-2192	-15	-1689
Financing activities					
Proceeds from issue of shares		7	9949	7	6455
Movements in debt					8696*
Net cash from financing activities		7	9949	7	15150
Cash & equivalents at beginning of year	11724	7061	7480	9744	4646
Cash & equivalents at end of year	**7061**	**7480**	**9744**	**4646**	**12112***

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

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