

## Competition for XF-73 moves aside, issue approved

27 November 2020

One of the original assumptions in our forecast for Destiny's first product, XF-73 for the prevention of post-surgical staphylococcal infections, was that it would share the US market with GlaxoSmithKline's Bactroban Nasal - despite Bactroban Nasal not being approved for this indication. We also referenced Bactroban Nasal's US price in estimating the price for XF-73 in all markets. Bactroban Nasal has now been discontinued in the US, so we adjust some of our modelling for its removal. This has resulted in our valuation increasing.

Bactroban Nasal (mupirocin calcium 2%) has always been seen as a potential competitor for XF-73 once the latter has been approved. This is despite Bactroban Nasal only being approved in the US for the eradication of nasal methicillin-resistant *Staphylococcus aureus* (MRSA) carriage as part of the control of an MRSA outbreak. Bactroban Nasal is also often used in larger US hospitals in XF-73's proposed indication of the prevention of post-surgical staphylococcal infections. Infectious disease specialists have however had concerns because mupirocin's extended use can result in resistance which could reduce the utility of a valuable antibiotic used in outbreak control. Bactroban Nasal's use in the prevention of post-surgical staphylococcal infections has also complicated the recruitment of XF-73's Phase 2b study at US some sites as it comprises an (albeit unapproved) standard of care and some hospital committees were reticent to run placebo-controlled studies.

It appears that Bactroban Nasal has been [discontinued](#) in the US. This removes a potential competitor to XF-73. We have accordingly adjusted some of the variables in our model on the rate of XF-73 uptake, but not its forecasted maximum market share which remains at 60% (because other unapproved options like povidone iodine and chlorhexidine washes exist). We have made no changes to the rate of uptake of XF-73 in non-US markets, where Bactroban Nasal remains available. For now, we have left our assumptions unchanged on the XF-73 Phase 3 study (which should now be easier and cheaper to recruit without Bactroban Nasal) and on our pricing estimates which were linked to the US Bactroban Nasal price.

## EGM approves fund-raising for M3

Our previous note discussed Destiny's acquisition of the Phase 3-ready NTCD M3 product for the prevention of *Clostridioides difficile* infection and the associated fundraising to acquire and develop the asset. All resolutions relating to the acquisition and fundraising have been approved by shareholders and Destiny has successfully raised £10.4m gross, which is now included in our financials (and valuation) below, net of our estimate of costs.

## Valuation updated for market share and issue

Our valuation has been updated for both the increase in the uptake of XF-73 once approved due to the removal of Bactroban Nasal's competition, and the final numbers of the approved fundraising. The fair value of Destiny rises from £138.0m (224p / share) to £156.9m (262p / share).

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

Source: Company historic data, ED estimates

### Company Data

EPIC	DEST
Price (last close)	62p
52 weeks Hi/Lo	115p/29p
Market cap	£27m
ED Fair Value - per share	£156.9m 262p
Est. net cash FY'20*	£10.6m
Avg. daily volume	61,075
*after recent offering	

### 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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### Consolidated Income Statement & Forecasts

£'000s, y/e 31 December	2017A	2018A	2019A	2020E	2021E
<b>IFRS Income Statement</b>					
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
<b>Reported EBIT</b>	<b>-3222</b>	<b>-6084</b>	<b>-5585</b>	<b>-6659</b>	<b>-5944</b>
<b>Reported profit before tax</b>	<b>-3211</b>	<b>-6008</b>	<b>-5521</b>	<b>-6632</b>	<b>-5828</b>
Taxation	234	841	813	839	800
<b>Reported Net income</b>	<b>-2977</b>	<b>-5167</b>	<b>-4708</b>	<b>-5793</b>	<b>-5028</b>
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
<b>Assets</b>					
<b>Non-current assets</b>					
Tangible assets	22	30	33	26	24
Goodwill				2308	2308
Total non-current assets	22	30	33	2333	2332
<b>Current assets</b>					
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
<b>Total assets</b>	<b>17083</b>	<b>13058</b>	<b>8557</b>	<b>13469</b>	<b>15493</b>
<b>Equity and liabilities</b>					
<b>Equity</b>					
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
<b>Current liabilities</b>					
Trade and other payables	152	404	514	818	152
Total current liabilities	397	802	798	1102	436
Total non-current liabilities					-7692
<b>Total equity and liabilities</b>	<b>17083</b>	<b>13058</b>	<b>8557</b>	<b>13469</b>	<b>15493</b>

Source: Company historic data, ED estimates

<b>Consolidated Cash Flow Statements &amp; Forecasts</b>					
<b>£'000s, y/e 31 December</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>
Profit before taxation	-3211	-6008	-5521	-6632	-5828
Adjustment for:					
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
<b>Investing activities</b>					
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
<b>Financing activities</b>					
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
<b>Cash &amp; equivalents at end of year</b>	<b>11724</b>	<b>7061</b>	<b>7480</b>	<b>10559</b>	<b>12868</b>

Source: Company historic data, ED estimates



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