

New dermal collaboration on XF-73

27 September 2021

Destiny Pharma has announced a new clinical programme that is planned to start in China, led by its existing partner China Medical Systems Limited (CMS). Destiny already has an earlier stage (than its two Phase 3-ready programmes) dermal programme on XF-73, but for serious infections of burns and open wounds. This new programme is to be run by CMS for the larger market of the prevention and treatment of superficial bacterial skin infections; and this is the first time that CMS have selected and committed to running an XF programme in China.

XF collaboration with CMS

Destiny's announcement of a new dermal programme on the treatment and prevention of superficial skin infections (usually community-acquired primary and secondary infections that are confined to the surface layers of the skin) is with its existing partner CMS, who initiated a partnership for XF-73 with Destiny soon after its IPO. While investors may have forgotten CMS's involvement, this type of collaboration may have been part of the original deal, hence financial terms were not disclosed. CMS already has a portfolio of dermatology assets which it sells via its sales and marketing infrastructure in China, so knows this therapeutic market in China - and its unmet needs - well.

In addition, the **treatment** of primary skin infections (like impetigo, which is not associated with injury), and secondary superficial skin infections (which are), are **very large markets**. What gives Destiny's XF-73 product an advantage is the potential for the **prevention** of superficial skin infections noted in the announcement. Typically, highly active antimicrobial agents are not used to **prevent skin infections** where there may be evidence of injury or inflammation, but not infection, because of the potential to generate resistance. XF-73 could be used in this topical indication since it has not been associated with resistance and is structurally unrelated to any other antimicrobial agents.

No cost to Destiny

As CMS will be leading and running the programme in China, Destiny will only be contributing scientific advice as required, through a steering committee. We have therefore ascribed no increase in R&D or Administrative costs to Destiny. Destiny is able to use the data generated by CMS in all other territories apart from China and other Asian countries, excluding Japan. This is important since the speed at which clinical programmes can be conducted in China could provide Destiny with additional supporting clinical trial and then in-market data to supplement Destiny's ex-China regulatory applications for its own topical applications of XF-73. In addition, outside CMS's markets, it also gives Destiny another product to license.

Valuation unchanged

We have left our financials and valuation for Destiny unchanged for the moment, despite the recent CMS collaboration. **Our fair value of Destiny Pharma remains at £200.2m or 335p per share.**

Summary Financials					
£'000s, y/e 31 December	2017A	2018A	2019A	2020A	2021E
Revenues					
EBIT	-3,222	-6,084	-5,585	-6,553	-5,947
Basic EPS (p)	-8.5	-11.9	-10.8	-12.0	-8.6
Net Assets	16,686	12,257	7,759	12,436	7,893
Net Cash	16,724	12,061	7,480	9,744	5,329*

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

Company Data

EPIC	DEST
Price (last close)	111p
52 weeks Hi/Lo	189p / 45p
Market cap	£66m
ED Fair Value - per share	£200.2m / 335p
Net cash H1'21	£7.1m
Avg. daily volume	48,828

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 the AIM.

Andy Smith (Analyst)

0207 065 2690
andy.smith@equitydevelopment.co.uk

Hannah Crowe

0207 065 2692
hannah@equitydevelopment.co.uk

Income Statement & Forecasts

£'000s, y/e 31 December	2017A	2018A	2019A	2020A	2021E
IFRS Income Statement					
Total revenue					
Administration expenses	-1011	-1800	-1887	-1925	-2100
R&D	-387	-3546	-3800	-4500	-3816
Other income (expense)	-613		306	12	
Share-base payments & exceptionals	-710	-738	-204	-139	-25
Depreciation & amortisation	-2	-4			-6
Reported EBIT	-3222	-6084	-5585	-6553	-5947
Reported profit before tax	-3211	-6008	-5521	-6481	-5929
Taxation	234	841	813	1070	800
Reported Net income	-2977	-5167	-4708	-5411	-5129
Basic EPS (p)	-8.45	-11.86	-10.75	-11.97	-8.58
Diluted EPS (p)	-8.45	-11.86	-10.75	-11.97	-8.58

Source: Company historic data, ED estimates

Balance Sheet & Forecasts

£'000s, at y/e 31 December	2017A	2018A	2019A	2020A	2021E
Assets					
Non-current assets					
Tangible assets	22	30	33	26	40
Intangible assets				2261	2261
Total non-current assets	22	30	33	2280	2301
Current assets					
Trade and other receivables	277	931	911	1172	547
Cash and equivalents	11724	7061	7480	9744	12524
Total current assets	17061	13028	8525	11425	13678
Total assets	17083	13058	8557	13705	15979
Equity and liabilities					
Equity					
Ordinary shares	436	436	439	598	598
Share Premium	17292	17292	17296	27086	27091
Retained earnings	-1042	-5471	-9976	-15247	-19796
Equity attributable to the company	16686	12257	7759	12436	7893
Total equity	16686	12257	7759	12436	7893
Current liabilities					
Trade and other payables	152	404	514	726	349
Total current liabilities	397	802	798	1268	892
Total non-current liabilities					-7194*
Total equity and liabilities	17083	13058	8557	13705	15979

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

Cash Flow Statements & Forecasts

£'000s, y/e 31 December	2017A	2018A	2019A	2020A	2021E
Profit before taxation	-3211	-6008	-5521	-6481	-5929
Depreciation & amortisation	2	10	18	17	6
Share-based payments	710	738	204	139	211
Movements in working capital	165	381	-83	91	249
Net cash generated by operating activities	-2153	-4721	-4631	-5492	-4411
Investing activities					
CapEx on tangibles & intangibles	-23	-18	-21	-2264	-28
Other investing activities	-4990	76	5063	27	18
Net cash used in investing activities	-5013	58	5043	-2192	-10
Financing activities					
Proceeds from issue of shares	17406		7	9949	6
Movements in debt					7194*
Net cash from financing activities	17409		7	9949	7201
Cash & equivalents at beginning of year	1481	11724	7061	7480	9744
Cash & equivalents at end of year	11724	7061	7480	9744	12524

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



Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Disclaimer

Equity Development Limited ('ED') is retained to act as financial adviser for its corporate clients, some or all of whom may now or in the future have an interest in the contents of this document. ED produces and distributes research for these corporate clients to persons who are not clients of ED. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but makes no guarantee as to the accuracy or completeness of the information or opinions contained herein.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom ('FSMA'). Any reader of this research should not act or rely on this document or any of its contents. This report is being provided by ED to provide background information about the subject of the research to relevant persons, as defined by the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

Research produced and distributed by ED on its client companies is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent as defined by the FCA, but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

ED may in the future provide, or may have in the past provided, investment banking services to the subject of this report. ED, its Directors or persons connected may at some time in the future have, or have had in the past, a material investment in the Company. ED, its affiliates, officers, directors and employees, will not be liable for any loss or damage arising from any use of this document, to the maximum extent that the law permits.

More information is available on our website www.equitydevelopment.co.uk

Equity Development, 15 Eldon Street, London, EC2M 7LD

Contact: info@equitydevelopment.co.uk | 020 7065 2690