

No surprises in results

After the recent excitement on the licensing agreement for its lead Phase 3-ready product and the associated fundraising, Destiny's FY 2022 results announcement was by comparison a more sedate victory lap. While the costs and preparations for the Phase 3 studies on NTCD-M3 and XF-73 will continue over the next year, we expect a transition to a lower cash burn after the first Phase 3 starts in 2024. Before then, we forecast another licensing deal (and modest cash in-flows) for Destiny's second Phase 3-ready product, XF-73.

FY 2022 Results

Destiny's operating expenses excluding share-based payment charges increased to £7.4m from £6.0m in FY 2021. This was largely due to the preparations for the M3 Phase 3 study and a slight increase in employee costs. As this preparation resulted in the **Sebela** transaction, the expenditure **should be seen as a good investment**. Operating expenses included R&D costs of £4.9m, which came in modestly above our £4.4m estimate, and £2.5m in other operating costs (£3.7m and £2.3m in FY 2021, respectively). Destiny's FY 2022 operational cost were tempered by £0.9m in R&D tax credit received (and a total £1.2m expected), and £0.2m in grant income (£1.1m and £0.1m in FY 2021, respectively). Destiny's cash at the end of FY 2022 was £4.9m (vs £4.6m at end FY 2021 and £8.4m at the end of H1 2022), slightly higher than our estimate even before the recent March fundraising that raised £7.3m gross. While Destiny estimates that its cash reach extends to H2 2024, our forecasts include another \$1m upfront payment for the licensing of XF-73 in YE 2023, after which milestones and royalties from both transactions could mean that Destiny avoids returning to the equity markets.

Strong execution of strategy continues

Having successfully executed on the business development front with the licensing of its lead Phase 3-ready product – the non-toxicogenic *Clostridioides difficile* strain M3 (NTCD-M3) for the prevention of *C. difficile* infections – expectations remain two-fold for its second Phase 3-ready product, XF-73 for the prevention of staphylococcal post-operative infections. Firstly, there can be no rest in business development which is hoped to result in an XF-73 licensing transaction in the next year. Secondly, the data package and licensing incentive for a partner will continue to be bolstered by preparations for the US clinical study and publications. A case in point is the recent publication of XF-73's Phase 2 study. Another example of how improving the profile of Destiny's products helps with business development was the recent publication of the landmark study on M3 which we expect will have been available to Sebela as a preprint before M3 was licensed.

Fair value only updated for latest cash balance

Our fair value for Destiny Pharma plc has only modestly changed to £254.7m (or 279 pence per share) from £251.9m (or 267p per share) as a result of the revised cash balance (see overleaf).

Company Data

EPIC	DEST
Price	30p
52 weeks Hi/Lo	62p/27p
Market cap	£28m
ED Fair Value - per share	£254.7m / 279p
Reported cash end H2 22	£4.9m
Avg. daily volume	371k

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.

Summary Financials

£'000s, y/e 31 December	2020A	2021A	2022E	2023E	2024E
Revenues					
EBIT	-6,553	-6,287	-7,776	-7,834	-5,253
Basic EPS (p)	-12.0	-8.9	-9.3	-7.4	-4.5
Net Assets	12,436	7,509	7,626	8,487	4,308
Net Cash	9,744	4,646	4,903	5,941	2,895

Source: Company historic data, ED estimates.

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Only the latest banner year, not the last

Destiny Pharma's FY 2022 financial results were the culmination of a year of execution and the announcement and presentation suggested that there is still more to come.

After all the excitement of the last twelve months, Destiny's financial report was close to our expectations with a slightly higher cash burn – due to the investment in M3 which resulted in the Sebela transaction – and ending the year with slightly higher cash than we had forecast, even before incorporating the recent equity raise. We have adjusted our financials based on Destiny's FY 2022 results and our fair valuation comprised the value of both products (M3 and XF-73), Destiny's YE 2022 cash, the Sebela upfront payment and our estimation of the net equity raise.

Even after such a year, there is still much to look forward from Destiny. The business development function will have its work cut out with at least a licensing transaction on XF-73 in the next twelve months and possibly an ex-US deal on M3. [Our previous note](#) highlighted the latter as being attractive to potential partners because the Sebela transaction enables Destiny to offer ex-US (and ex-Asian) rights to M3 with a complete 'oven ready' registration package without clinical cost. This is because Destiny's preparation on M3 prior to the Sebela transaction included agreeing a single Phase 3 study with the FDA and EMA that included sites that would enable a regulatory submission in both jurisdictions. Sebela will fund and conduct this study in exchange for a minority interest in ex-US M3 sales.

Investors' expectations will now turn to a transaction on XF-73 and just like M3, Destiny has been burnishing its profile to make the asset more attractive to partners. Destiny's prior announcements and the recent publication of the Phase 2 study on XF-73 reinforces the molecule as a highly active fast-acting antimicrobial against sensitive and resistant staphylococcal species. The work Destiny and its CMO have done in defining the Phase 3 program on XF-73 have been inspired and the detail in Destiny's results announcement confirms that the studies will be in two surgical populations – elective mastectomy procedures and orthopedic surgeries. In both cases the patients will be pre-screened for *S.aureus* carriage which enriches the population for those most likely to autoinfect their own surgical wounds.

In addition, the reconstructive breast surgical market is very large, making this study much easier to recruit and demonstrate a lower rate of post-operative infections. Orthopedic surgeries comprise a smaller market but the high unmet need to prevent a post-surgical infection after these invasive surgical procedures and the high costs associated with an infection and perhaps a surgical revision make this an important preventative and cost-effective indication.

Destiny's results announcement also highlights the rising resistance of its approved competitor – mupirocin – which has limited its use in the prevention of post-surgical infections. Infectious disease specialists have acute sensitivities to mupirocin use in this indication because of the problems of mupirocin resistance that occurred in New Zealand. The dermal ointment was made available over the counter (OTC) (without a prescription) in New Zealand in 1991 but high levels of resistance from overuse mandated the OTC product's withdrawal in 2000.

XF-73 has none of this resistance baggage as it has not been associated with resistance in any clinical or laboratory-simulated setting. Thus, the continued burnishing of XF-73's profile can only bode well for a licensing transaction in the next year.

FINANCIALS

Income Statement & Forecasts					
£'000s, y/e 31 December	2020A	2021A	2022E	2023E	2024E
IFRS Income Statement					
Total revenue					
Administration expenses	-1925	-2200	-2497	-2100	-2100
R&D	-4500	-3816	-4900	-5066	-2,900
Other income (expense)		135	154		
Share-based payments & exceptionals	-139	-406	-534	-250	-250
Depreciation & amortisation				-2	-3
Reported EBIT	-6553	-6287	-7776	-7834	-5253
Reported profit before tax	-6481	-6271	-7712	-7686	-5074
Taxation	1070	932	1208	950	950
Reported Net income	-5411	-5339	-6504	-6736	-4124
Basic EPS (p)	-11.97	-8.92	-9.27	-7.39	-4.52
Diluted EPS (p)	-11.97	-8.92	-9.27	-7.39	-4.52

Source: Company historic data, ED estimates

Balance Sheet & Forecasts					
£'000s, at y/e 31 December	2020A	2021A	2022E	2023E	2024E
Assets					
Non-current assets					
Tangible assets	18	36	25	25	26
Intangible assets	2261	2261	2261	2261	2261
Total non-current assets	2280	2297	2286	2287	2287
Current assets					
Trade and other receivables	1172	992	1410	1410	277
Cash and equivalents	9744	4646	4903	5941*	2895**
Total current assets	11425	5985	6501	7547	3368
Total assets	13705	8283	8796	9833	5655
Equity and liabilities					
Equity					
Ordinary shares	598	599	733	943	943
Share Premium	27086	27091	33044	39431	39431
Retained earnings	-15247	-20181	-26151	-31888	-36066
Equity attributable to the company	12436	7509	7626	8487	4308
Total equity	12436	7509	7626	8487	4308
Current liabilities					
Trade and other payables	726	218	173	349	349
Total current liabilities	1268	773	1107	1347	1347
Total non-current liabilities					
Total equity and liabilities	13705	8283	8796	9833	5655

Source: Company historic data, ED estimates. *Including \$1m upfront milestone from M3 licensing transaction.

**including an estimated \$1m milestone from XF-73 licensing transaction

Cash Flow Statements & Forecasts

£'000s, y/e 31 December	2020A	2021A	2022E	2023E	2024E
Profit before taxation	-6481	-6271	-7712	-7686	-5074
Depreciation & amortisation	17	13	12	2	3
Share-based payments	139	406	534	250	250
Movements in working capital	91	-296	411		
Net cash generated by operating activities	-5492	-5090	-5892	-6631	-4050
Investing activities					
CapEx on tangibles & intangibles	-2264	-30	-1		-1
Acquisitions					
Other investing activities	72	16	65	147	178
Net cash used in investing activities	-2192	-15	64	147	178
Financing activities					
Proceeds from issue of shares	9949	7	6086	6737	
Movements in debt					
Net cash from financing activities	9949	7	6086	7522*	826**
Cash & equivalents at beginning of year	7480	9744	4646	4903	5941
Cash & equivalents at end of year	9744	4646	4903	5941	2895

Source: Company historic data, ED estimates. *Including \$1m upfront milestone from M3 licensing transaction.

**Including an estimated \$1m milestone from XF-73 licensing transaction.

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