

Positive update on partner deals

22 December 2022

Destiny have announced a trading update that includes a bolus of progress on the partnering of its two Phase 3-ready products. A transaction for NTCD-M3 has reached the heads of terms and exclusivity stages, while on XF-73 the partnering process is underway and aiming for a 2023 deal. Our fair value has included a NTCD-M3 transaction in 2022 and a XF-73 licensing deal in 2023.

NTCD-M3 transaction close

Destiny have **agreed heads of terms and entered into exclusivity** with a US pharmaceutical company for the funding of the Phase 3 program and commercialization of its lead Phase 3 product, the non-toxicogenic *Clostridioides difficile* strain M3 (NTCD-M3) for the prevention of *C.difficile* infections. The transaction is expected to be announced in early 2023.

While we had a NTCD-M3 transaction in our model for 2022, a recent discussion with an investor that included the phrase “*what’s wrong with Q1?*” left us feeling relaxed. Importantly, investors may wonder why, with a potential partner holding many of the cards, heads of terms were not deferred until 2023 to extract better terms. Those of us who have worked in big pharma will recognise the financial pressures to spend budgets and (for business development directors) execute on transactions *before* the end of the calendar year. Thus, the reason for the commitment by Destiny’s now exclusive counterparty before the year-end 2022 should now be clear.

We are not changing our valuation of the NTCD-M3 product within our financial model since the upfront, milestone payments, and royalties are already in US dollars, however whether the deal is US-only (which comprises 81% of our peak sales estimates) or global, and the assumption of clinical and commercialisation costs by the US pharmaceutical partner will probably necessitate some tweaking of our model when the deal is announced, hopefully in early 2023.

XF-73 partnering advances too

The update also included the detail that an active partnering campaign is now ongoing for Destiny’s second Phase 3-ready product XF-73 nasal gel for the prevention of post-surgical staphylococcal infections. Like NTCD-M3, one of the pieces that needed to be in place before partnering is the US and EU clinical development plans so that potential partners can determine their financial commitment that is governed by the size, duration, and the endpoints of the Phase 3 study. With early discussions underway, **we have not changed our model** that anticipates a transaction in 2023.

Fair Value unchanged

Our valuation remains unchanged: we ascribe a Fair Value to Destiny Pharma of £251.2m or 345p per share.

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	39.5p
52 weeks Hi/Lo	109p / 29p
Market cap	£29m
ED Fair Value	£251.2m
- per share	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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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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