

Encouraging AGM and M3 updates

Destiny's recent announcement on the progress on its lead asset NTCD-M3 maintains the momentum that has built since the acquisition of M3 in 2020. In addition, while the AGM narrative did not promise a licensing transaction on either of Destiny's Phase 3-ready assets, the timelines for partnerships in 2021 and the Phase 3 studies starting in 2022 remain intact. Our forecasts that anticipate one licensing transaction in 2021 are unchanged.

Choosing between children

One of the questions at Destiny's recent AGM was on the prioritisation between its two Phase 3-ready assets; **XF-73** for the prevention of post-operative staphylococcal infections, and non-toxicogenic *Clostridioides difficile* strain **M3 (NTCD-M3)** for the prevention of *C.difficile* infections (CDIs). Although Destiny described NTCD-M3 as its lead asset because the Phase 3 protocol has already been agreed with the FDA, choosing between these two assets is like choosing between your children. Both are viable assets and both could easily be partnered in 2021. Our forecasts only include one up-front payment in respect of a licensing transaction in 2021 and admit that we may be underestimating the demand for Phase 3-ready assets.

Strong competitive position

While [our previous note](#) compared the competition to M3 in the prevention of CDI recurrences, Destiny's CEO presentation at its AGM reinforced the additional attributes of a low cost for a single strain product, the convenience and shelf-life advantages of a solid dose oral format. We were also struck by the potential for multi-organism products derived from the faecal material of healthy volunteers to actually cause CDIs when administered to a susceptible population, unlike M3. This is because toxigenic strains of *C.difficile* are a component of normal bowel flora in healthy individuals and their disease-causing potential is kept in check by the many other components of the bowel microbiome. In contrast, Destiny's M3 product does not have the gene to produce toxin so is firstly a **safer option**, and additionally an **easier product for regulators to assess** since it does not need testing for toxin production.

Valuation unchanged

Our financial forecasts and valuation are unchanged, although there is the potential for more than one partnering transaction in 2021. We have only assumed one such deal. Another AGM question was on Destiny's appetite for fundraising and the dilution that could bring to investors. We would remind investors that licensing transactions can include an equity investment component by the licensee, usually at a premium to the market price. This is also not included in our financials, but could be a possibility in either of the licensing transactions.

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	-5,944
Basic EPS (p)	-8.5	-11.9	-10.8	-12.0	-8.4
Net Assets	16,686	12,257	7,759	12,436	7,425
Net Cash	16,724	12,061	7,480	9,744	5,056*

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

Company Data

EPIC	DEST
Price (last close)	150.5p
52 weeks Hi/Lo	189p / 29p
Market cap	£90m
ED Fair Value - per share	£200.2m / 335p
Net cash FY'20	£9.7m
Avg. daily volume	108,447

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 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.

Destiny's shares are listed on the UK London Stock Exchange's Alternative Investment Market.

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Consolidated 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			-2
Reported EBIT	-3222	-6084	-5585	-6553	-5944
Reported profit before tax	-3211	-6008	-5521	-6481	-5836
Taxation	234	841	813	1070	800
Reported Net income	-2977	-5167	-4708	-5411	-5036
Basic EPS (p)	-8.45	-11.86	-10.75	-11.97	-8.42
Diluted EPS (p)	-8.45	-11.86	-10.75	-11.97	-8.42

Source: Company historic data, ED estimates

Consolidated Balance Sheet & Forecasts

£'000s, at y/e 31 December	2017A	2018A	2019A	2020A	2021E
Assets					
Non-current assets					
Tangible assets	22	30	33	26	16
Intangible assets				2261	2261
Total non-current assets	22	30	33	2280	2278
Current assets					
Trade and other receivables	277	931	911	1172	277
Cash and equivalents	11724	7061	7480	9744	12250
Total current assets	17061	13028	8525	11425	13036
Total assets	17083	13058	8557	13705	15313
Equity and liabilities					
Equity					
Ordinary shares	436	436	439	598	598
Share Premium	17292	17292	17296	27086	27111
Retained earnings	-1042	-5471	-9976	-15247	-20284
Equity attributable to the company	16686	12257	7759	12436	7425
Total equity	16686	12257	7759	12436	7425
Current liabilities					
Trade and other payables	152	404	514	726	152
Total current liabilities	397	802	798	1268	694
Total non-current liabilities					-7194*
Total equity and liabilities	17083	13058	8557	13705	15313

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

Consolidated Cash Flow Statements & Forecasts					
£'000s, y/e 31 December	2017A	2018A	2019A	2020A	2021E
Profit before taxation	-3211	-6008	-5521	-6481	-5836
Depreciation & amortisation	2	10	18	17	2
Share-based payments	710	738	204	139	25
Movements in working capital	165	381	-83	91	321
Net cash generated by operating activities	-2153	-4721	-4631	-5492	-4795
Investing activities					
CapEx on tangibles & intangibles	-23	-18	-21	-2264	
Other investing activities	-4990	76	5063	27	107
Net cash used in investing activities	-5013	58	5043	-2192	107
Financing activities					
Proceeds from issue of shares	17406		7	9949	
Movements in debt					7194
Net cash from financing activities	17409		7	9949	7194
Cash & equivalents at beginning of year	1481	11724	7061	7480	9744
Cash & equivalents at end of year	11724	7061	7480	9744	12250

Source: Company historic data, ED estimates



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