

A glaring differential in validation

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Recent transactions and the introduction of a new Act of the US Congress are further advancing the narratives on both the microbiome and new antimicrobials. These are the two areas where Destiny Pharma is focussed. Deals in the anti-infective space highlight the discrepancy between US and UK valuations for these assets, and it can only be a matter of time before Destiny, with its late-stage assets with better competitive profiles, becomes involved.

More validation of M3

Global nutritional health company **Nestlé** has signed a co-commercialisation and licensing agreement with **Seres Therapeutics** for its microbiome product SER-109. SER-109 is a competitor to Destiny's NTCD-M3 product in the *Clostridioides difficile* infection (CDI) microbiome space. Seres have reported one Phase 3 and expect to complete enrolment in an extension study in Q3 2021. This later study is required to give regulators confidence on the safety SER-109. Destiny's data to date has **no safety concerns** and [our previous note](#) on M3 highlighted its **better efficacy and safety** than SER-109.

The latest transaction between Nestlé and Seres is an extension of an original \$1.9bn partnership and licensing agreement for ex-North American rights to Seres' first four products, including SER-109, that was signed in January 2016 when SER-109 was at the end of Phase 2. Today's extension is for North American rights to SER-109 and involves a **\$175m up-front payment, \$125m on FDA approval and a further \$225m in milestones**. Our current valuation for Destiny's M3 product is based on a \$20m upfront payment, \$18m on FDA approval and a total \$149m plus royalties. In part, the difference in value between the Seres' transaction and our estimate of Destiny's future deal is due to Seres being based in the US. However, the magnitude of the difference is clearly something that must at some point be addressed when Destiny licenses its products.

Pharma and governments are interested in antimicrobials

Pfizer recently invested \$40m in US-based Spero Therapeutics for ex-US and ex-Asian rights to a new antibiotic to treat infections with multi-drug resistant bacteria. In addition, The [Pasteur Act](#) in the US has been proposed to invest **up to \$11bn to develop new antimicrobials**. These recent announcements underline the strong position of Destiny, with its available portfolio of anti-microbial assets.

Valuation unchanged

We have left our financial forecasts and valuation unchanged, but recognise the differential between our valuation of Destiny, with two Phase 3-ready anti-infective and microbiome assets, and Seres' \$2.1bn market capitalisation. We expect this to be narrowed once Destiny starts announcing its own 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	2020E	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)	135p
52 weeks Hi/Lo	189p / 29p
Market cap	£81m
ED Fair Value - per share	£200.2m / 335p
Net cash FY'20	£9.7m
Avg. daily volume	108,447

Share Price, p



Source: LSE

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).

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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

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

Cash Flow Statements & Forecasts

£'000s, y/e 31 December	2017A	2018A	2019A	2020E	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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