

Yet another string to Destiny's bow

7 September 2020

Destiny Pharma have always had a microbiome tilt with their most advanced product, topical XF-73, being developed for the prevention of post-operative infections. But now, with a new collaboration and grant award for the SPOR-COV program, they have taken this even further to encompass the two hot-button issues in anti-infectives: the microbiome and coronavirus infections.

Pipeline expands further

Destiny's lead product, XF-73, has always been sympathetic to the human microbiome, ie the normal balanced bacterial flora, in having a protective effect against pathogen overgrowth and disease. XF-73's short-term preventative indication has shown in healthy volunteers to reduce staphylococcus nasal colonisation to **below detectable levels**, and then for the nasal flora to recover a few days after dosing. Now Destiny's discovery efforts and pipeline have been expanded with the SPOR-COV collaboration and grant award with SporeGen and the University of Liverpool. This allows them to investigate (another) preventative effect of, in this case, a nasally delivered *Bacillus* formulation developed by SporeGen to stimulate **the innate immunity against coronavirus**.

This positive development plays to Destiny's strengths in topical (nasal) administration, preventative indications, as well as the cost-effective management of its earlier-stage pipeline which we described in our recent initiation note. The development of SporeGen's technology as **a preventative therapy for COVID-19** has many advantages over traditional vaccines. In studies done to date on influenza, the product provides an immune response in days (whereas traditional vaccines take weeks or months), is comprised of a cheap to manufacture active ingredient, and can be stored at room temperature almost indefinitely. The coronavirus vaccines in development would need cold chain (or even frozen chain, in the case of mRNA vaccines) storage.

In addition, this approach is different from traditional vaccinations which employ adaptive immunity (and hence take longer) rather than stimulating the innate immune system. The grant-funded program is designed to use influenza infection and new covid-19 animal models to take the product to the brink of Phase 1 studies.

We have used a risk-adjusted NPV model to value Destiny Pharma based only on the costs and revenues for XF-73, and Destiny's cash. It assumes Destiny will license XF-73 in 2021 and the product will launch in 2024. There are no changes to our model arising from the announcement of the SPOR-COV early-stage pipeline development.

We value Destiny Pharma at £86.3m, or 197p per share.

Summary Financials

£'000s, y/e 31 December	2017A	2018A	2019A	2020E	2021E
Revenues			306		
EBIT	-3,222	-6,084	-5,585	-5,927	-2,877
Basic EPS (p)	-8.45	-11.86	-10.75	-11.98	-4.68
Net Assets	16,686	12,257	7,759	2,539	515
Net Cash	16,724	12,061	7,480	2,534	511

Source: Company historic data, ED estimates

EPIC	DEST
Price (last close)	49p
52week Hi/Lo	50p/30p
Market cap	£22m
ED value / share	£86.3m / 197p
Net cash Dec '19	£7.5m
Avg. daily volume	64,418

Share Price, p



Source: ADVFN

Description

Destiny Pharma (Destiny) is a clinical development-stage biotechnology company developing novel anti-infectives to prevent and treat infections caused by sensitive and resistant bacteria.

Destiny's proprietary drug discovery platform has generated a number of active antimicrobials including its lead drug XF-73. XF-73 is currently in 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.

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

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Forecasts

Consolidated Income Statement & Forecasts

£'000s, y/e 31 December	2017A	2018A	2019A	2020E	2021E
IFRS Income Statement					
Total revenue			306		
Administration expenses	-1011	-1800	-1030	-1900	-1900
R&D	-387	-3546	-3800	-4000	-950
Other income (expense)	-613				
Share-based payments & exceptionals	-710	-738	-204	-25	-25
Depreciation & amortisation	-2	-4		-2	-2
Reported EBIT	-3222	-6084	-5585	-5927	-2877
Reported profit before tax	-3211	-6008	-5521	-5845	-2849
Taxation	234	841	813	600	800
Reported Net income	-2977	-5167	-4708	-5245	-2049
Basic EPS (c before 2019, p after 2019)	-8.45	-11.86	-10.75	-11.98	-4.68
Diluted EPS (c before 2019, p after 2019)	-8.45	-11.86	-10.75	-11.98	-4.68

Source: Company historic data, ED estimates

Consolidated Balance sheet & Forecasts

£'000s, at y/e 31 December	2017A	2018A	2019A	2020E	2021E
Assets					
Non-current assets					
Tangible assets	22	30	33	31	29
Intangible assets					
Total non-current assets	22	30	33	31	29
Current assets					
Trade and other receivables	277	931	911	277	277
Cash and equivalents	11724	7061	7480	2534	8511
Total current assets	17061	13028	8525	2944	8922
Total assets	17083	13058	8557	2975	8951
Equity and liabilities					
Equity					
Ordinary shares	436	436	439	439	439
Share Premium	17292	17292	17296	17321	17346
Retained earnings	-1042	-5471	-9976	-15221	-17270
Equity attributable to the company	16686	12257	7759	3139	1361
Total equity	16686	12257	7759	2539	515
Current liabilities					
Trade and other payables	-152	-404	-514	-152	-152
Total current liabilities	-397	-802	-798	-436	-436
Total non-current liabilities					-8000
Total equity and liabilities	17083	13058	8557	2975	8951

Source: Company historic data, ED estimates

Consolidated Cash flow Statement & Forecasts

£'000s, y/e 31 December	2017A	2018A	2019A	2020E	2021E
Profit before taxation	-3211	-6008	-5521	-5845	-2849
Adjustment for:					
Depreciation & amortisation	2	10	18	2	2
Movements in working capital	165	381	-83	272	0
Share-based payments	710	738	204	25	25
Net cash generated by operating activities	-2153	-4721	-4631	-5028	-2050
Investing activities					
Capital expenditure on tangibles	-23	-18	-21		
Other investing activities	-4990	76	5063	82	28
Net cash used in investing activities	-5013	58	5043	82	27
Financing activities					
Net proceeds from issue of shares	17409		7		
Movements in debt					8000
Net cash from financing activities	17409		7		8000
Cash & equivalents at beginning of year	1481	11724	7061	7480	2534
Cash & equivalents at end of year	11724	7061	7480	2534	8511

Source: Company historic data, ED estimates



Investor Access

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