

Destiny Pharma

Porphyrins ring time on antibiotic resistance

Interim results

Pharma & biotech

1 October 2018

Destiny Pharma's H118 financial results were less about the numbers and more about the preparation for XF-73's US Phase IIb study in the prevention of post-surgical infections. Destiny's operating loss was £2.7m, largely due to the build-up to the US Phase IIb study, which is expected to continue into FY19. The net loss was £2.3m. Cash at the end of H118 was £15.1m, which we estimate provides a runway through to 2020.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	0.0	(1.45)	(3.94)	0.0	N/A	N/A
12/17	0.0	(3.21)	(8.45)	0.0	N/A	N/A
12/18e	0.0	(7.32)	(14.28)	0.0	N/A	N/A
12/19e	0.5	(8.26)	(15.29)	0.0	N/A	N/A

Note: *PBT and EPS are on an as-reported basis.

On track, funded through 2020

Destiny's interim results, less than a year after its IPO, confirmed that it is on track with preparations for XF-73's US Phase IIb clinical study and, in addition, a new dermatology programme was announced. The H118 operating loss was £2.7m (vs £1.0m in H117), reflecting increasing expenses for the Phase IIb study. End-June cash was £15.1m (£0.9m at the end of H117), which we forecast gives Destiny a reach past 2020, well before when we expect a licensing transaction on XF-73.

Global need for antimicrobial resistance drugs

The US Centers for Disease Control estimates that at least two million Americans develop serious infections a year caused by bacteria resistant to antibacterial drugs, resulting in c 23,000 deaths annually. Thus, the tempo of public comment and government and industry incentives to combat antimicrobial resistance (AMR) by developing new agents is accelerating. This puts XF-73 and Destiny Pharma front and centre of these efforts. The FDA is currently discussing a range of reimbursement reforms that would incentivise the development of drugs with activity against multi-drug-resistant (MDR) organisms linked to proven clinical outcomes that could almost have been written for Destiny's lead drug – XF-73, for the prevention of *Staphylococcal* post-surgical infections (by either MDR or sensitive bacteria). In addition, the UK government is reviewing push and pull rewards to incentivise AMR drug development, and Novo has set up the REPAIR Impact Fund to help replenish the anti-infective pipeline.

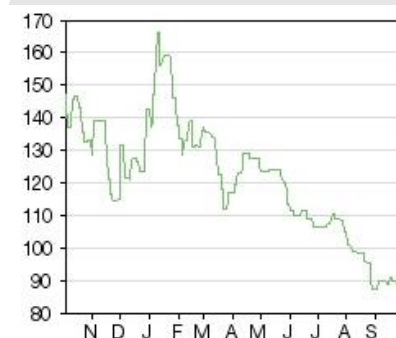
Virtually no change in valuation

We have made no changes to the expected FY18 cash balance and spend in our model. The new XF-73 dermatology programme will not enter Phase I until 2019 and we estimate that it will not have a material impact until 2020. We have made minor changes to working capital and exchange rates carried forward, which had a small negative effect on our valuation. This was balanced by a small revision to our forecasts of the opportunity of XF-73 in China, where peak annual sales move from \$3m in our [initiation](#) to \$24m. The net change to our valuation is minor, moving from £89.1m or £2.04 per share to £86.7m or £1.99 per share.

Price 87p
Market cap £38m

	\$/£1.32
Net cash (£m) at 30 June 30 2018	15.1m
Shares in issue	43.6m
Free float	92.7%
Code	DEST
Primary exchange	LSE AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(2.8)	(18.3)	(45.1)
Rel (local)	(1.2)	(17.1)	(46.5)
52-week high/low		166p	87p

Business description

Destiny Pharma is dedicated to the discovery, development and commercialisation of new antimicrobial agents that have unique properties to improve outcomes for patients. Destiny's first product, XF-73, is about to start a US Phase IIb clinical study.

Next events

FY results	March 2019
US Phase IIb XF-73 study start	Q119
Final US Phase IIb study results	Q419

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[Edison profile page](#)

Destiny Pharma is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

Accounts: IFRS, year-end December (£000s)	2014	2015	2016	2017	2018e	2019e	2020e
Income statement							
Total revenues	-	-	-	-	-	500	-
Cost of sales	-	-	-	-	-	-	-
Gross profit	-	-	-	-	-	500	-
SG&A (expenses)	(441)	(482)	(505)	(1,011)	(2,100)	(1,900)	(1,700)
R&D costs	(1,090)	(274)	(496)	(387)	(4,700)	(6,900)	(1,900)
Other income/(expense)	(176)	(163)	(246)	(613)	-	-	-
Exceptionals and adjustments	(367)	(284)	(201)	(710)	(700)	(85)	(25)
Depreciation and amortisation	(0.8)	(0.8)	(1.3)	(2.1)	(3.9)	(2.3)	(2.3)
Reported EBIT	(2,076)	(1,205)	(1,450)	(3,222)	(7,504)	(8,387)	(3,627)
Finance income/(expense)	10.5	7.7	0.4	10.5	184.0	126.0	49.9
Reported PBT	(2,065)	(1,197)	(1,449)	(3,211)	(7,320)	(8,261)	(3,577)
Income tax expense (includes exceptionals)	303	182	192	234	1,100	1,600	500
Reported net income	(1,762)	(1,015)	(1,258)	(2,977)	(6,220)	(6,661)	(3,077)
Basic average number of shares, m	62	62	62	35,254	43,563	43,563	43,563
Basic EPS	(5.52)	(3.18)	(3.94)	(8.45)	(14.28)	(15.29)	(7.06)
Balance sheet							
Property, plant and equipment	0.6	2.5	1.2	22.3	29.5	27.7	25.9
Goodwill	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-
Other non-current assets	-	-	-	-	-	-	-
Total non-current assets	0.6	2.5	1.2	22.3	29.5	27.7	25.9
Cash and equivalents	2,004	1,119	1,481	11,724	7,457	537	5,148
Other financial assets (term deposits)	0	-	-	5,000	4,000	4,000	4,000
Inventories	-	-	-	-	-	-	-
Trade and other receivables	397	201	217	277	634	466	277
Other current assets	28	23	0	60	38	38	38
Total current assets	2,429	1,343	1,698	17,061	12,129	5,041	9,463
Non-current loans and borrowings	-	-	-	-	-	-	7,576
Other non-current liabilities	-	-	-	-	-	-	-
Total non-current liabilities	-	-	-	-	-	-	7,576
Trade and other payables	302	39	58	152	769	255	152
Current loans and borrowings	-	-	-	-	-	-	-
Other current liabilities	156	55	97	246	246	246	246
Total current liabilities	458	94	155	397	1,015	501	397
Equity attributable to company	1,972	1,251	1,544	16,686	11,166	4,590	1,537
Non-controlling interest	-	-	-	-	-	-	-
Cashflow statement							
Profit for the year	(2,065)	(1,197)	(1,449)	(3,211)	(7,320)	(8,261)	(3,577)
Taxation expenses	-	-	-	-	-	-	-
Profit before tax	(2,065)	(1,197)	(1,449)	(3,211)	(7,320)	(8,261)	(3,577)
Net finance expenses	(11)	(8)	(0)	(10)	(184)	(126)	(50)
EBIT	(2,076)	(1,205)	(1,450)	(3,222)	(7,504)	(8,387)	(3,627)
Depreciation and amortisation	0.8	0.8	1.3	2.1	3.9	2.3	2.3
Share based payments	367	284	201	710	700	85	25
Other adjustments	-	-	-	-	-	-	-
Movements in working capital	(150)	(163)	78	165	260	(346)	85
Interest paid / received	-	-	-	-	-	-	-
Income taxes paid	303	182	182	192	1,100	1,600	500
Cash from operations (CFO)	(1,554)	(901)	(988)	(2,153)	(5,440)	(7,046)	(3,015)
Capex	(0.8)	(2.7)	0.0	(23.2)	(11.1)	(0.5)	(0.5)
Acquisitions & disposals net	-	-	-	-	-	-	-
Other investing activities	11	8	0	(4,990)	1,184	126	50
Cash used in investing activities (CFIA)	9.7	5.1	0.4	(5,013)	1,172.9	125.6	49.4
Net proceeds from issue of shares	3,011	10	1,351	17,409	-	-	-
Movements in debt	-	-	-	-	-	-	7,576
Dividends paid	-	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-	-
Cash from financing activities (CFF)	3,011	10	1,351	17,409	-	0	7,576
Currency translation differences and other	-	-	-	-	-	-	-
Increase/(decrease) in cash and equivalents	1,467	(885)	363	10,243	(4,267)	(6,920)	4,611
Currency translation differences and other	-	-	-	-	-	-	-
Cash and equivalents at end of period	2,004	1,119	1,481	11,724	7,457	537	5,148
Net (debt) cash (includes Term Deposits)	2,004	1,119	1,481	16,724	11,457	4,537	1,572
Movement in net (debt) cash over period	2,004	(885)	363	15,243	(5,267)	(6,920)	(2,965)

Source: Destiny Pharma, Edison Investment Research

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