

# Destiny Pharma

Earnings update

## XF-73 enrolment paused by COVID-19

Pharma &amp; biotech

6 May 2020

Destiny reported an operational loss of £5.58m for 2019 and ended the year with £7.48m in cash and equivalents, which it believes will provide a runway to Q421. We expect costs in 2020 to be lower than initial expectations due to the impact of COVID-19, which has caused the company to pause enrolment in its ongoing Phase IIb study of XF-73.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/18	0.0	(6.0)	(11.9)	0.0	N/A	N/A
12/19	0.3	(5.5)	(10.7)	0.0	N/A	N/A
12/20e	0.0	(4.6)	(8.3)	0.0	N/A	N/A
12/21e	0.0	(6.1)	(12.3)	0.0	N/A	N/A

Note: \*PBT and EPS are as reported.

## XF-73 trial on pause due to COVID-19

The company has enrolled 68 patients to date (out of a target of 200) in its ongoing Phase IIb study of XF-73 nasal gel for the prevention of post-surgical infections. Last year, following slower than expected enrolment in the US, the company added additional sites to expand the European portion of the trial, but this program has subsequently been put on hold on account of the COVID-19 virus. Although the pause will slow the trial, the company does not believe that it will compromise existing patient data, as follow-ups have been able to be performed remotely. As a result of these delays, the interim study update will be delayed from previous Q220 guidance (and future timelines are pending).

## Cash runway to Q421

We assume that the company will be able to restart the Phase IIb study and ramp up to pre COVID-19 enrolment rates in the autumn of 2020 and that the study may provide top-line results in H121. The company's current cash of £7.48m should be sufficient to reach this milestone, which may open partnering opportunities to finance its further development. Otherwise the company will need to seek financing on the capital markets. We include in our model \$10m in additional financing to be incurred in 2021 (delayed from 2020 previously), recorded as £8.07m in illustrative debt.

## Valuation: Lowered to £50.4m or 115p

We have lowered our valuation to £50.4m or 115p per share, from £70.2m or 160p per share. This is driven by delays to the XF-73 development timeline, both those caused by enrolment difficulties and COVID-19. We have pushed back the commercialization date for the US and Europe to 2024 and China to 2025.

**Price** 41p

**Market cap** £18m

US\$1.24/£

Net cash (£m) at 31 December 2019 7.48

Shares in issue 43.9m

Free float 47%

Code DEST

Primary exchange AIM

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs 28.1 9.3 (49.7)

Rel (local) 17.5 41.0 (36.9)

52-week high/low 82p 32p

### Business description

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

### Next events

XF-73 Phase IIb interim results Delayed

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## Trial delays exacerbated by COVID-19

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Destiny Pharma is currently in a Phase IIb study of XF-73 for the prevention of post-surgical infections. XF-73 is a topical formulation of a bactericidal agent designed for nasal application to decolonize the nose of *Staphylococcus aureus* prior to surgery. Nasal *S. aureus* has been cited as a major contributing factor in surgical skin infections, and the hope is that by reducing the presence of this bacteria, downstream complications can be avoided.

The Phase IIb study has to date enrolled 68 of the planned 200 patients in the study. The company reported in its 2019 preliminary results that enrolment in the study has been slow in the US, and that it opened additional European sites to attempt to bridge the gap. However, the COVID-19 pandemic has complicated this plan by forcing the company to pause enrolment altogether. Many other companies in clinical studies are facing the same issues, and we expect widespread disruption to clinical trials as a result. Interim results from the study, which were previously expected in Q220, have also been delayed. The company has not provided a timeline for when it expects to start enrolment again, but we forecast that studies will remain fully closed until June or July, and then have limited enrolment capacity until autumn 2020.

Destiny however should be able to weather such a delay. It stated that its current cash of £7.48m should provide a runway into Q421, which is consistent with our estimates. The completion of the Phase IIb study will be a major inflection point for the company, and we expect it to provide the company with financing opportunities such as partnering to further advance the product.

Management is optimistic that the COVID-19 crisis may increase awareness of methods to manage bacterial infections. Although COVID-19 is a virus, bacterial infection is often an end-stage complication. In one study in Wuhan, 50% of patients who died tested positive for secondary bacterial infections.<sup>1</sup> Antibiotic resistance may further increase the risk in these patients. There are currently no concrete plans to advance XF-73 or any other product of Destiny's for COVID-19 patients, but the unprecedented medical need during this pandemic may highlight the need for improved treatments for bacterial disorders and improved management of antibiotic resistance.

## Valuation

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We have lowered our valuation to £50.4m or 115p per share from £70.2m or 160p per share previously. This is driven by delays to the XF-73 clinical program, both those due to enrolment issues in 2019 and COVID-19. We have delayed the expected launch date for the drug in the US and Europe to 2024 (from 2023) and China to 2025 (from 2024). Japan was on the cusp and is still expected to have approval in 2024 pending completion of a bridging study. Peak sales for the product are lower (\$1.56bn all regions combined, from \$1.89bn previously) because of a shorter runway until patent expiration in 2030. Additionally, we have delayed our schedule for milestones to reflect this timeline. Finally, net cash is lower at £7.5m from £9.1m previously (30 June 2019). These factors are partially offset by rolling forward our NPVs and lower unallocated costs (£9.0m from £10.7m due to some costs being paid).

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<sup>1</sup> Zhou F, et al. (2020) Clinical course and risk factors for mortality of adult patients with COVID-19 in Wuhan, China: a retrospective cohort study. *Lancet* 395, 1054-1062.

**Exhibit 1: Valuation of Destiny**

Product	Jurisdiction	Launch	Peak sales (\$m)	NPV (£m)	NPV/share (£)	Probability	Licensing deal probability	rNPV (£m)	rNPV/share (£)
XF-73	US	2024	1,173						
XF-73	Japan	2024	39						
XF-73	EU5	2024	281						
XF-73	China	2025	62						
XF-73 royalties				211.4	4.8	35%	70%	40.9	0.9
XF-73 milestones				82.3	1.9	35%	70%	18.3	0.4
Unallocated costs				(9.0)	(0.2)	35%	100%	(16.3)	(0.4)
Net cash at 31 Dec. 2019				7.5	0.2	100%	100%	7.5	0.2
Valuation				292.2	6.7			50.4	1.15

Source: Destiny Pharma reports, Edison Investment Research

## Financials

Destiny reported an operational loss of £5.58m for 2019, down from £6.08m for 2018. This is in spite of a small increase in R&D spending (£3.8m compared to £3.5m) and is driven by a reduction in share-based compensation (£0.20m vs £0.73m in 2018) and a grant received for approximately £306,000 in 2019.

On account of the delays to the XF-73 Phase IIb study, we have reduced our expected R&D expenditure in 2020 to £3.0m from £5.0m, but expect increased R&D spending in 2021 (£4.4m) as the company completes the study and prepares for future studies, contingent on financing.

We assume that the company will attempt to partner the product following the release of top-line results. Otherwise, we expect the company to seek financing on the capital markets at that time to continue to advance the product. In lieu of an agreement, we have included \$10m (£8.07m) in illustrative debt in 2021, which is delayed from our previous assumption of £7.8m in 2020. However, the company's cash at the end of 2019 (£7.48m) should be sufficient to reach this inflection point.

**Exhibit 2: Financial summary**

Accounts: IFRS; year-end 31 December; £000s	2018	2019	2020e	2021e
<b>INCOME STATEMENT</b>				
Total revenues	-	306	-	-
Cost of sales	-	-	-	-
Gross profit	-	306	-	-
SG&A (expenses)	(1,863)	(1,869)	(1,700)	(1,700)
R&D costs	(3,474)	(3,800)	(3,000)	(4,400)
Other income/(expense)	-	-	-	-
Exceptionals and adjustments	(738)	(204)	(25)	(25)
Depreciation and amortisation	(9.7)	(18.4)	(2.3)	(2.4)
Reported EBIT	(6,084)	(5,585)	(4,727)	(6,127)
Finance income/(expense)	76.0	63.5	82.3	45.5
Reported PBT	(6,008)	(5,521)	(4,645)	(6,082)
Income tax expense (includes exceptionals)	841	813	1,000	678
Reported net income	(5,167)	(4,708)	(3,645)	(5,404)
Basic average number of shares, m	43,563	43,734	43,865	43,865
Basic EPS (p)	(11.86)	(10.75)	(8.31)	(12.32)
<b>BALANCE SHEET</b>				
Property, plant and equipment	30.4	32.9	31.1	29.2
Goodwill	-	-	-	-
Intangible assets	-	-	-	-
Other non-current assets	-	-	-	-
Total non-current assets	30.4	32.9	31.1	29.2
Cash and equivalents	7,061	7,480	4,134	6,821
Other financial assets (term deposits)	5,000	0	0	0
Inventories	-	-	-	-
Trade and other receivables	931	911	277	277
Other current assets	36	134	134	134
Total current assets	13,028	8,525	4,544	7,232
Non-current loans and borrowings	-	-	0	8,065
Other non-current liabilities	-	-	-	-
Total non-current liabilities	-	-	0	8,065
Trade and other payables	404	514	152	152
Current loans and borrowings	-	-	-	-
Other current liabilities	398	285	285	285
Total current liabilities	802	798	436	436
Equity attributable to company	12,257	7,759	4,139	(1,240)
Non-controlling interest	-	-	-	-
<b>CASH FLOW STATEMENT</b>				
Profit for the year	(6,008)	(5,521)	(4,645)	(6,082)
Taxation expenses	-	-	-	-
Profit before tax	(6,008)	(5,521)	(4,645)	(6,082)
Net finance expenses	(76)	(63)	(82)	(45)
EBIT	(6,084)	(5,585)	(4,727)	(6,127)
Depreciation and amortisation	9.7	18.4	2.3	2.4
Share based payments	738	204	25	25
Other adjustments	-	-	-	-
Movements in working capital	381	(83)	272	-
Interest paid / received	-	-	-	-
Income taxes paid	234	815	1,000	678
Cash from operations (CFO)	(4,721)	(4,631)	(3,428)	(5,422)
Capex	(17.8)	(20.9)	(0.5)	(0.5)
Acquisitions & disposals net	-	-	-	-
Other investing activities	76	5,063	82	45
Cash used in investing activities (CFIA)	58.2	5,042.5	81.8	45.0
Net proceeds from issue of shares	-	7	-	-
Movements in debt	-	-	0	8,065
Dividends paid	-	-	-	-
Other financing activities	-	-	-	-
Cash from financing activities (CFF)	-	7	0	8,065
Currency translation differences and other	-	-	-	-
Increase/(decrease) in cash and equivalents	(4,663)	419	(3,346)	2,687
Currency translation differences and other	-	-	-	-
Cash and equivalents at end of period	7,061	7,480	4,134	6,821
Net (debt)/cash (includes Term Deposits)	12,061	7,480	4,134	(1,243)
Movement in net/(debt) cash over period	(4,663)	(4,581)	(3,346)	(5,377)

Source: Destiny Pharma reports, Edison Investment Research

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