Morning Note

26 July 2018

Destiny Pharma (DEST): Corp

Positive Phase I safety data

The first of two planned Phase I safety studies, agreed with the FDA, before Destiny starts the larger Phase IIb study in the US, confirmed the safety profile seen in all all other XF-73 clinical studies conducted to date. Not only does it de-risk Destiny's lead XF-73 programme (prevention of post-surgical staphylococcal infections) but it supports the potential for the XF platform to be used in treating difficult skin infections, such as XF-70, which is in preclinical development. We await a second safety study, using the planned commercial nasal gel formulation, later in the year. Destiny remains on track to have Phase IIb data in H2 2019. Our risk-adjusted DCF valuation of 250p currently only values the lead clinical programme XF-73.

discoverIE (DSCV): Corp

Positive trading momentum continues

In a positive Q1 trading statement discoverIE has confirmed that the positive trading momentum seen last year has continued, Group sales are up +12% CER (+3% organically) against a strong comparator, orders are up +16% CER (+7% organically) and the order book up +20% CER (+13% organically). With the growth in orders and order book ahead of sales growth the outlook for continued strong trading is very good. We make no changes to our numbers and reiterate our view that discoverIE remains a strong play on technological change, a clear and long-term structural driver.

26 July 2018

Corp

Ticker	**DEST:AIM**
Pharmaceuticals & Biotechnology	
Shares in issue (m)	43.6
Next results	H1 Oct
Price	**109.0p**
Target price	250.0p
Upside	129%
Market cap	**£47.5m**
Net debt/(cash)	-£16.7m
Other EV adjustments	£0.0m
Enterprise value	£30.8m

What's changed?	From	To
Adjusted EPS	-18.2	n/c
Target Price	250.0	n/c

Share price performance

%	1M	3M	12M
Actual	0.0	-14.5	-

Company description

Destiny pharma is a proprietary antimicrobial company whose lead asset XF-73 is in P2b trials

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Destiny Pharma*

Positive Phase I safety data

The first of two planned Phase I safety studies, agreed with the FDA, before Destiny starts the larger Phase IIb study in the US, confirmed the safety profile seen in all all other XF-73 clinical studies conducted to date. Not only does it de-risk Destiny's lead XF-73 programme (prevention of post-surgical staphylococcal infections) but it supports the potential for the XF platform to be used in treating difficult skin infections, such as XF-70, which is in preclinical development. We await a second safety study, using the planned commercial nasal gel formulation, later in the year. Destiny remains on track to have Phase IIb data in H2 2019. Our risk-adjusted DCF valuation of 250p currently only values the lead clinical programme XF-73.

- **Phase I data**, completed in the US in around 25 patients, demonstrated that an aqueous solution of XF-73 (at high concentrations), when applied daily for five days to intact and abraded skin has a similar irritancy potential to water under occluded (covered) conditions in a shorter version of an industry standard cumulative irritancy dermal safety study. The trial was blinded and placebo controlled. Pharmacokinetic sampling showed that XF-73 was not systemically absorbed into the bloodstream.
- **Relevance of this study.** The abraded skin data supports the potential for the XF platform in treating difficult skin infections. Dermatological burns are an area of expansion for the XF platform; eg. XF-70 is currently in preclinical development.
- **Supports existing safety profile.** XF-73 has been evaluated in five clinical trials (Phase I and IIa), involving 216 subjects, 172 of whom received the nasal gel form of the active drug, XF-73, which was shown to be safe and well tolerated by subjects.
- **Second Phase I study to complete later in 2018.** The FDA requires a second Phase I safety study, in up to 30 subjects, to assess the potential skin irritation of a nasal gel formulation of XF-73, before the planned Phase IIb trial can start. We expect data from this study to show a similar tolerability and safety profile.
- **On track for H2 2019 Phase III-ready asset.** The Company is on track to announce Phase IIb results in the second half of 2019, with the aim of delivering a Phase III-ready package at the end of 2019.
- **Valuation.** Our current target price of 250p remains; based on a risk-adjusted DCF valuation, the company is fully funded into 2020, after the completion of the Phase IIb, which is expected to readout in 2019. This excludes any value that could be attributed to the XF platform, which includes its use in potential skin infections.

Key estimates | Year end: Dec		2016A	2017A	2018E	2019E	2020E
Revenue	£m	0.0	0.0	0.0	0.0	0.0
Adj EBITDA	£m	-1.2	-2.5	-10.0	-7.9	-1.5
Adj EBIT	£m	-1.3	-2.5	-10.0	-7.9	-1.5
Adj PBT	£m	-1.2	-2.5	-9.9	-7.8	-1.5
Adj EPS	p	-3.9	-6.4	-18.2	-14.1	-2.6
DPS	p	0.0	0.0	0.0	0.0	0.0

Key valuation metrics		2016A	2017A	2018E	2019E	2020E
EV/EBIT (adj)	x	-24.6	-12.2	-3.1	-3.9	-20.3
P/E (adj)	x	-27.7	-16.9	-6.0	-7.7	-42.7
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-1.7%	-2.6%	-15.3%	-7.9%	0.0%
Pre-tax ROCE	%	-81.0%	-15.1%	-114.4%	-303.0%	-298.7%

finnCap

Morning Note

26 July 2018

Corp

Ticker	**DSCV:MAIN**
Support Services	
Shares in issue (m)	70.8
Next results	FY Jun
Price	**424.0p**
Target price	487.9p
Upside	15%
Market cap	**£300.2m**
Net debt/(cash)	£52.4m
Other EV adjustments	£3.0m
Enterprise value	£355.6m

What's changed?	From	To
Adjusted EPS	27.1	n/c
Target Price	487.9	n/c

Share price performance

%	1M	3M	12M
Actual	-3.4	3.4	31.3

Company description

discoverIE designs, manufactures and distributes innovative electronic products.

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Positive trading momentum continues

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- **Clear and long term structural driver.** With good growth continuing and orders ahead of this growth at a time when macro indicators have softened a touch we view this as evidence that discoverIE is a good play on technological change.
- **Strong order book.** The Group order book rose to a record high of £135m at June. This is up +20% CER and +13% organically. Further over 80% is for delivery over the next 12 months.
- **Further evidence of increasing value add.** In keeping with the theme of providing services for clients to introduce and improve technology in their products, gross margins increased over the prior year.
- **New project design wins.** New project design wins, a key driver of future organic growth, also grew strongly with a number of successes in the group's key target markets, in particular, the renewable energy, transportation and industrial markets.
- **Driven by Design and Manufacturing.** D&M (c.75% of group profits) saw broad-based organic growth with sales up +5% and orders +13% organically. The division continues to benefit from its focus on key structural growth markets and cross-selling. Santon, acquired in February 2018, has won a number of new projects for delivery this year. The Custom Supply division grew Q1 sales +1% organically with project design wins growing strongly as expected.
- **Target price 488p.** With the final results we valued Custom Supply at a 10% discount to Flowtech and TT group and Design & Manufacturing in line with Diploma, Trifast and XP Power on a calendar 2019 EV/EBIT basis. Updating for today's valuations would produce 504p. We will reassess with the next set of results but highlight that the real key to share price potential is further investment in a highly attractive market where growth is driven by technological change. discoverIE's proven strategy will continue to drive upgrades and improve our target price.

Key estimates | Year end: Mar		2017A	2018A	2019E	2020E	2021E
Revenue	£m	338.2	387.9	424.9	435.3	443.4
Adj EBITDA	£m	24.3	29.3	35.4	36.3	36.9
Adj EBIT	£m	20.6	25.2	31.6	32.5	33.1
Adj PBT	£m	17.2	21.8	27.3	28.5	29.5
Adj EPS	p	19.2	22.2	27.1	28.3	29.3
DPS	p	8.5	9.0	9.5	10.1	10.7

Key valuation metrics		2017A	2018A	2019E	2020E	2021E
EV/EBIT (adj)	x	17.3	14.1	11.2	10.9	10.7
P/E (adj)	x	22.1	19.1	15.7	15.0	14.5
Dividend yield	%	2.0%	2.1%	2.3%	2.4%	2.5%
Free cash yield	%	4.4%	3.7%	3.6%	6.0%	6.1%
Pre-tax ROCE	%	11.3%	12.2%	14.8%	15.2%	15.7%

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