

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.

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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

Mark Brewer

Director of Research
 mbrewer@finncap.com
 020 7220 0556

Sales desk 020 7220 0522

Trading desk 020 7220 0533

* denotes corporate client of finncap

► 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%

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.

Guy Hewett

Director of Research
ghewett@finncap.com
020 7220 0549

Sales desk 020 7220 0522

Trading desk 020 7220 0533

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discoverIE*

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.

► **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%

Research

Mark Brewer	020 7220 0556	mbrewer@finncap.com	Guy Hewett	020 7220 0549	ghewett@finncap.com
David Buxton	020 7220 0542	dbuxton@finncap.com	Nik Lysiuk	020 7220 0546	nlysiuk@finncap.com
Lorne Daniel	020 7220 0545	ldaniel@finncap.com	Mark Paddon	020 7220 0541	mpaddon@finncap.com
Andrew Darley	020 7220 0547	adarley@finncap.com	Martin Potts	020 7220 0544	mpotts@finncap.com
Jeremy Grime	020 7220 0550	jgrime@finncap.com	Peter Smedley	020 7220 0548	psmedley@finncap.com
Raymond Greaves	020 7220 0553	rgreaves@finncap.com	Jonathan Wright	020 7220 0543	wright@finncap.com

Corporate Broking

Andrew Burdis	020 7220 0524	aburdis@finncap.com	Alice Lane	020 7220 0523	alane@finncap.com
Richard Chambers	020 7220 0514	rchambers@finncap.com	Tim Redfern	020 7220 0515	tredfern@finncap.com
Camille Gochez	020 7220 0518	cgochez@finncap.com	Abigail Wayne	020 7220 0594	awayne@finncap.com
Nikita Jain	020 3772 4652	njain@finncap.com			

Sales

Stephen Joseph	020 7220 0520	sjoseph@finncap.com	Louise Talbot	020 3772 4651	ltalbot@finncap.com
Sunila de Silva	020 7220 0521	sdesilva@finncap.com	Malar Velaigam	020 7220 0526	mvelaigam@finncap.com
Emily Morris	020 7220 0511	emorris@finncap.com	Rhys Williams	020 7220 0522	rwilliams@finncap.com
Stephen Norcross	020 7220 0513	snorcross@finncap.com			

Investor Relations

Lianne Tucker	020 7220 0527	ltucker@finncap.com	Lisa Welch	020 7220 0519	lwelch@finncap.com
Lucy Nicholls	020 7220 0528	lnicholls@finncap.com			

Sales Trading

Kai Buckle	020 7220 0529	kbuckle@finncap.com	Danny Smith	020 7220 0533	dsmith@finncap.com
Mark Fidgen	020 7220 0536	mfidgen@finncap.com	Oliver Toleman	020 7220 0531	otoleman@finncap.com

Market Makers

Steve Asfour	020 7220 0539	sasfour@finncap.com	James Revell	0207 220 0532	jrevell@finncap.com
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Investment Companies

Johnny Hewitson	020 7220 0558	jhewitson@finncap.com	Mark Whitfeld	020 3772 4697	mwhitfeld@finncap.com
Monica Tepes	020 3772 4698	mtepes@finncap.com			

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The recommendation system used for this research is as follows. We expect the indicated target price to be achieved within 12 months of the date of this publication. A 'Hold' indicates expected share price performance of +/-10%, a 'Buy' indicates an expected increase in share price of more than 10% and a 'Sell' indicates an expected decrease in share price of more than 10%.

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60 New Broad Street
London EC2M 1JJ

Tel 020 7220 0500

Fax 020 7220 0597

Email info@finncap.com

Web www.finncap.com

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