

# SCYNEXIS, Inc. (SCYX)

Scynexis Partners with Waterstone

## MARKET DATA

Price	\$8.07
52-Week Range:	\$5.10 - \$9.89
Shares Out. (M):	8.5
Market Cap (\$M):	\$68.6
Average Daily Vol. (000):	8.0
Cash (M):	\$38
LT Debt (M):	\$0

Source: Thomson Reuters and JMP Securities LLC

**MARKET OUTPERFORM** | Price: \$8.07 | Target Price: \$15.00

## INVESTMENT HIGHLIGHTS

**Scynexis partners with Waterstone Pharmaceuticals, in line with guidance, with a small \$1M upfront payment; reiterate our Market Outperform rating and \$15 price target.** Scynexis announced today that Waterstone Pharmaceuticals in-licensed worldwide rights to develop and commercialize SCYX's SCY-635, a cyclophilin inhibitor for the treatment of hepatitis C; the deal includes an option to license two additional cyclophilin inhibitors from SCYX's platform. Scynexis will receive a \$1M upfront payment for SCY-635 and is eligible for a \$4M registration milestone plus mid-single digit royalties on net sales. The deal is consistent with SCYX's prior guidance to out-license this non-core asset. The upfront payment provides insignificant, although non-dilutive capital to SCYX's balance sheet. SCYX ended 2Q14 with \$38M in cash. Given the rapidly evolving HCV treatment paradigm, we do not believe SCY-635 has a meaningful role in this indication, although it could find home in other viral diseases including hepatitis B. As a reminder, Scynexis is focused on developing SCY-078, its first non-azole compound for the treatment of fungal infections, currently in a Phase 2 study with data expected next year. We continue to recommend shares of Scynexis and arrive at our price target based on a risk-adjusted, discounted cash flow analysis.

FY DEC	2013A	2014E	2015E
Revenue (\$M) 1Q	--	\$4.7A	--
2Q	--	\$4.6A	--
3Q	--	\$3.7	--
4Q	--	\$3.7	--
<b>FY</b>	<b>\$16.9</b>	<b>\$16.8</b>	<b>\$14.8</b>
EPS 1Q	--	(\$6.57)A	--
2Q	--	\$0.38A	--
3Q	--	(\$0.63)	--
4Q	--	(\$0.81)	--
<b>FY</b>	<b>(\$0.14)</b>	<b>(\$1.96)</b>	<b>(\$2.22)</b>

Source: Company reports and JMP Securities LLC

## STOCK PRICE PERFORMANCE



## Company Description

Scynexis is a development-stage pharmaceutical company based in Durham, NC with a focus on anti-infectives. The lead drug candidate for the company is SCY-078, which, if successful, would be the first non-azole anti-fungal with both IV and oral formulations.

## Investment Risks

**Clinical risk.** Although efficacy of SCY-078 has been demonstrated in animal models, it has not yet been proven in humans. There is risk that the proof-of-concept study will not show efficacy compared to other classes of antifungals. It is also possible that the doses chosen for the first study will not be the optimal doses of SCY-078. SCY-078 was well tolerated in healthy volunteers; however, we do not yet know if this will translate to patients, especially with a preclinical signal of degradation of the stomach lining in animals. Scynexis is also preparing an IV form of SCY-078; however, this formulation has not yet been tested in humans and therefore, its viability is not yet known.

**Regulatory risk.** SCY-078 has QIDP status, however, this does not guarantee approval. Changes in FDA guidance could delay the path for SCY-078 to reach the market.

**Commercial risk.** SCY-078 will be launched into the hospital market where formulary access can be slow and launches tend to be sluggish. In the hospital setting, there is competition from other classes of antifungals that are already entrenched. There are many generics available in this setting that can also make it difficult for Scynexis to gain share with SCY-078.

**Sector risk.** Valuation of pharmaceutical stocks is subject to both investor assessments of the prospects of the underlying companies as well as investor tolerance for risk and confidence in the prospects of pharmaceutical stocks as a group. Therefore, Scynexis' stock price may fall, even while the company meets or exceeds investor expectations.

**Patent risk.** SCY-078 is covered by a composition of matter patent and QIDP protection. However, after 10 years exclusivity of QIDP has expired, patents for SCY-078 can be challenged. At this time, there are patent applications pending to strengthen the position of SCY-078; however, they may not be awarded.

## JMP FACTS AND DISCLOSURES

### Analyst Certification:

The research analyst(s) who prepared this report does/do hereby certify that the views presented in this report are in accordance with my/our personal views on the securities and issuers discussed in this report. As mandated by SEC Regulation AC no part of my/our compensation was, is or will be directly or indirectly related to the specific views or recommendations expressed herein. This certification is made under the obligations set forth in SEC Regulation AC. Any other person or entity may not use it for any other purpose. This certification is made based on my/our analysis on the date of this report's publication. I/We assume no obligation to update this certification to reflect any facts, circumstances or events that may subsequently come to my/our attention. Signed Liisa A. Bayko

### JMP Securities Disclosures:

JMP Securities currently makes a market in the security of SCYNEXIS, Inc.

JMP Securities expects to receive OR intends to seek compensation for investment banking services from SCYNEXIS, Inc. in the next 3 months.

JMP Securities was manager or co-manager of a public offering of securities for SCYNEXIS, Inc. (SCYX) in the past 12 months, and received compensation for doing so.

### JMP Securities Investment Opinion Definitions:

Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.

Market Perform (MP): JMP Securities expects the stock price to perform in line with relevant market indices over the next 12 months.

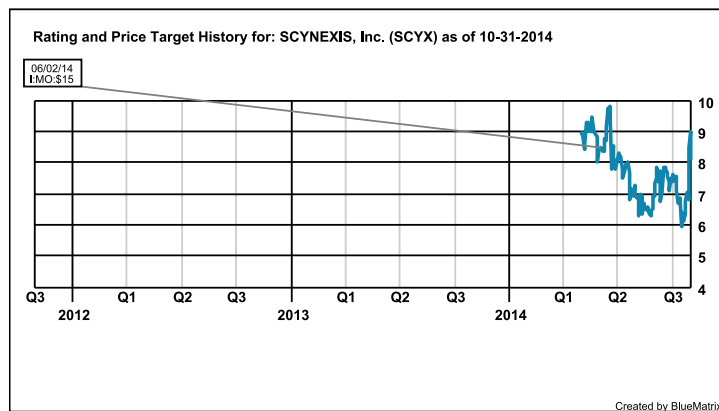
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

### JMP Securities Research Ratings and Investment Banking Services: (as of November 3, 2014)

JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months				
				Regulatory Equivalent	# Co's Under Coverage	% of Total	% of Co's With This Rating	
MARKET OUTPERFORM	Buy	284	60.94%	Buy	284	60.94%	106	37.32%
MARKET PERFORM	Hold	142	30.47%	Hold	142	30.47%	15	10.56%
MARKET UNDERPERFORM	Sell	2	0.43%	Sell	2	0.43%	0	0%
COVERAGE IN TRANSITION		36	7.73%		36	7.73%	0	0%
TOTAL:		466	100%		466	100%	123	26.39%

### Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. In accordance with NASD Rule 2711, the chart(s) below reflect(s) price range and any changes to the rating or price target as of the end of the most recent calendar quarter. The action reflected in this note is not annotated in the stock price chart. Source: JMP Securities.



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