EQUITY RESEARCH

RBC Capital Markets

RBC Capital Markets, LLC
Adnan Butt (Analyst)
(415) 633-8588
adnan.butt@rbccm.com
John Chung (Associate)
(415) 633-8620
john.chung@rbccm.com
Jeffrey Takimoto (Associate)
(415) 633-8538
jeffrey.takimoto@rbccm.com

Sector: Biotechnology

March 30, 2015

SCYNEXIS Inc.

Still on track for first Phase II data in 1H:16

Our view: Timelines stay largely unchanged despite protocol amendments in part to expedite enrollment to the SCY-078 oral Phase II invasive candidiasis study with data expected in 1H:16. Intravenous Phase I data is 1H:16 as well. SCYX remains an underappreciated yet attractive opportunity that benefits from the same regulatory and commercial lifting tide focused on unmet needs that brought antibiotic companies into favor.

Key points:

- **4Q:14 vs. expectations.** Revenues were slightly higher and expenses lower driving an EPS of ($0.36). YE:14 cash was ~$32M.
- **2015 guidance vs. consensus.** No guidance is provided but we estimate sufficient cash into 2016.
- **Changes to our estimates.** We have made modest changes to our forecasts going forward.

Key takeaways:

- **Phase II oral SCH-078 protocol amended to expedite enrollment; data in 1H:16.** SCYX fine-tuned the Phase II protocol and enrolled the first patient in March. We continue to expect data in 1H:16 which could have several interesting reads though the primary endpoint is safety, tolerability, and dose for the next study (target AUC 15 uM.hr in >= 80%). Invasive candidiasis patients will receive intravenous Mycamine (micafungin) for 3-10 days followed by either oral fluconazole or oral SCY-078 (500 mg or 750 mg), an enfumafungin derivative, for at least 14 days. Patient susceptibility would be evaluated prior to getting fluconazole so there is a chance some could continue on i.v. echinocandin or receive a step-down to oral '078.
- **SCY-078 i.v formulation on track for Phase I start in 2H:15.** Once 14-day GLP tox studies are completed, SCYX will file an IND and start the Phase I. We expect data 1H:16. The key here is the ability to start patients on i.v. SCY-078 and transition them to oral SCY-078 to optimize the opportunity for SCY-078.
- **Phase II/ III in treatment resistant systemic fungal infections still possible in 2016/ 2017**. Assuming the oral Phase II and i.v. Phase I SCY-078 studies are successfully completed, the next step for SCYX is regulatory sign off to conduct a Phase II/ III study in patients with invasive candidiasis refractory to azoles or echinocandins, the currently approved drug classes. Data from this Phase II/ III is likely to be supplemented with Phase III studies in invasive candidiasis and/ or invasive aspergillosis to expand the label.
- **Future Phase III studies to expand the label.** SCYX could evaluate i.v./ oral SCY-078 vs. standard of care iv./ oral (echinocandin/ azole) in patients with invasive candidiasis. Another Phase III study could evaluate SCY-078 in invasive aspergillosis vs. voriconazole and/ or SCY-078 as salvage therapy.

Upcoming news flow:

- SCY-078 Phase I i.v data in 1H:16
- SCY-078 Phase II oral data in 1H:16

Outperform

Speculative Risk

NASDAQ: SCYX; USD 7.90

Price Target USD 18.00

WHAT'S INSIDE

☐ Rating/Risk Change	☐ Price Target Change
☐ In-Depth Report	☑ Est. Change
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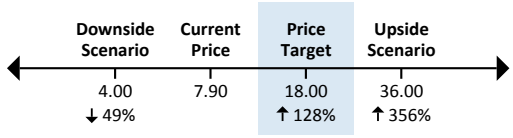
Scenario Analysis*



*Implied Total Returns

Key Statistics

Shares O/S (MM):	9.7	Market Cap (MM):	77
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	4,798

RBC Estimates

FY Dec	2013A	2014A	2015E	2016E
Revenue	16.9	19.0	19.1	19.2
Prev.		18.2	18.0	18.1
EPS, Ops Diluted	(6.84)	(1.04)	(2.64)	(2.14)
Prev.		(3.88)	(2.47)	(2.02)
P/E	NM	NM	NM	NM

Revenue	**Q1**	**Q2**	**Q3**	**Q4**
2014	4.7A	4.6A	4.4A	5.3A
Prev.				4.5E
2015	4.2E	4.6E	5.0E	5.3E
Prev.	4.5E	4.5E	4.5E	4.5E
EPS, Ops Diluted				
2014	(3.65)A	(0.98)A	(0.45)A	(0.36)A
Prev.				(0.58)E
2015	(0.59)E	(0.64)E	(0.69)E	(0.74)E
Prev.	(0.56)E	(0.59)E	(0.62)E	(0.70)E

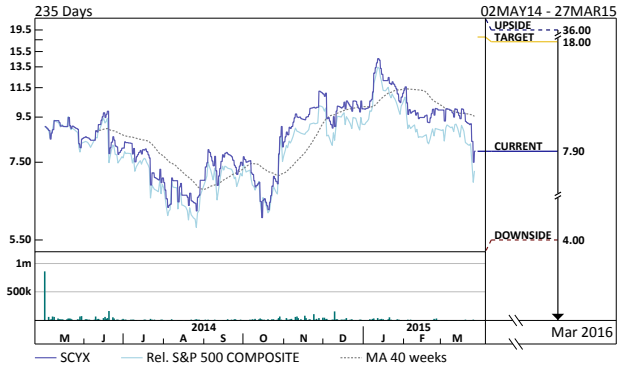
EPS, Ops Diluted: Basic shares used when EPS are negative.
All values in USD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Conflicts Disclosures, see Page 7

Target/Upside/Downside Scenarios

Exhibit 1: SCYNEXIS Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

Target price/base case

We value SCYX at $18 per share, which includes US and ROW sales of SCY-078. We assign a probability of success of 65% and a value of ~$7 per share to the US and $11 per share to the ROW opportunity. We assume a US launch in 2019 and an ROW launch in 2020. Currently, we assume that SCYX will sell SCY-078 in the US and a partner will commercialize these compounds outside the US. We forecast peak SCY-078 sales of $300-400MM in the US and $1.0-1.4B in the ROW

Upside scenario

Our upside scenario at $36 per share (prev. $35), includes ~$17 per share in value for the US opportunity and ~$19 per share in value for the ROW opportunity. We forecast peak SCY-078 sales of $600-700MM in the US and $1.7B-$2B in the ROW. We assign SCY-078 a 65% probability of success, a discount rate of 15%, and use a terminal growth rate of -50%

Downside scenario

Our downside scenario assumes that SCY-078 may not be successful clinically or commercially either because efficacy against resistant organisms was not borne out or it was not long lasting or an unexpected adverse event was seen. Under such a scenario shares would trade at roughly cash per share which is currently ~$4.

Investment summary

Scynexis' (SCYX) SCY-078 treats systemic fungal infections via a new mechanism of action that attacks the fungal cell wall, a validated target. These infections are serious, have high rates of mortality, and rates of resistance to current drugs are rising. All currently available drugs have limitations, which allow SCY-078 to generate an attractive value proposition. The worldwide market for systemic anti-fungals is nearly $4B. Roughly 600,000 patients are identified with invasive fungal infections and an even higher number is treated. Phase I studies are completed for the oral version and in vitro and in vivo data shows activity in organisms both susceptible and resistant to currently approved drugs. Next up is a Phase II for the oral and a Phase I for the intravenous form with data in 2015. A Phase II/III study in resistant patients could start in 2016 and potentially provide a more rapid path to the market. SCYX essentially owns all rights to SCY-078, which is patent protected through 2030, as well as to its anti-fungal pipeline. This leaves SCYX free to commercialize the products itself, partner on a global or regional basis, and/or sell the company.

Potential catalysts for SCYX shares

- **Phase II data for oral SCY-078 in 2015.** Important catalyst as this will be the first time SCY-078 will be used in human patients.
- **Phase I data for intravenous SCY-078 in 2015.** Important as an intravenous does not yet exist and is needed to maximize the value of SCY-078 franchise.
- **Phase II/III trial design in 2015/2016.** A sign off from the FDA could determine the pace and potential path to the market.
- **Phase II/III trial start in 2016 and data by YE:17/ early 2018.** A Phase II/III study in drug resistant patients could be the first proof that SCY-078 can achieve in patients what it is designed to do and has shown in in vitro and in vivo models.
- **Business development activities in 2015.** Non-core pipeline assets and even SCY-078 could be partnered opportunistically raising non-dilutive capital.

Risks to our investment thesis

- **Clinical studies for oral and intravenous SCY-078 could fail**. Expectations are based on pre-clinical and Phase I data and human studies could show a lack of efficacy or emergence of resistance.
- **Merck returned rights for SCY-078 back to SCYX**. This raises the question of whether MRK saw anything in SCY-078's clinical or commercial profile that was lacking.
- **Sales ramp of SCY-078 could lag expectations** unless rates of resistance continue to rise.
- **SCYX could fail to find a partner** outside the US for SCY-078.
- **Timelines are rapid and any delays could disappoint investors**.

Adnan Butt, (415) 633-8588; adnan.butt@rbccm.com

Exhibit 2: 4Q14 actual vs. RBC estimates

(in MM; except per share)	4Q:14A	Est.	Var.
Revenue:			
SCY-078			
Other Revenue	5.3	4.5	0.8
Total Revenue	5.3	4.5	0.8
Operating expenses:	-	-	
Cost of Other Revenue	3.6	4.1	(0.4)
R&D	2.7	3.4	(0.7)
SG&A	2.1	2.0	0.1
Other	-	-	-
Total Expenses	8.4	9.4	(1.1)
Operating Expense (income)	(3.1)	(4.9)	1.9
Other:	-	-	-
Amortization of deferred financing cost and debt discount	-	-	-
Interest expense for beneficial conversion feature	-	-	-
Interest expense-related party	-	-	-
Interest expense	(0.0)	-	(0.0)
Derivative fair value adjustment	-	-	-
Other income	-	(0.1)	0.1
Income before Tax	(3.1)	(5.0)	1.9
Taxes	-	-	-
Net income (loss)	(3.1)	(5.0)	1.9
EPS, Basic (GAAP)	($0.36)	($0.58)	$0.22
EPS, Diluted (GAAP)	($0.35)	($0.53)	$0.18
Shares outstanding, Basic	8.5	8.5	-
Shares outstanding, Diluted	8.8	9.3	(0.5)

Source: Company reports and RBC Capital Markets estimates

Exhibit 3: News flow

Timing	Expected News Flow	Program
2H:15	Initiate Phase I study with i.v. SCY-078	SCY-078
2015	Request QIDP designation for i.v. SCY-078	SCY-078
2015	Potential pipeline related business development	
2015	Phase II update from oral SCY-078 step down study	SCY-078
1H:16	Phase I intravenous SCY-078 results	SCY-078
1H:16	Phase II results from oral SCY-078 step down study	SCY-078
2016	Initiate Phase II/III i.v. to oral SCY-078 in relapsed/ refractory patients	SCY-078
YE:16/ early 2017	Initiate Phase III study for i.v. to oral SCY-078 in 1st line patients	SCY-078
Late 2017/ early 2018	Phase II/III i.v. to oral data	SCY-078
2018	Potential NDA for SCY-078	SCY-078
YE:18/ 2019	Potential accelerated approval	SCY-078

Source: Company reports and RBC Capital Markets estimates

Exhibit 4: Pipeline

Product	Mechanism	Stage	Indication	Partner
SCY-078	1,3 beta fl glucan synthesis inhibitor	Phase II anticipated with oral; Phase I with intravenous anticipated	Invasive fungal infections caused by Candida and Aspergillus species	
SCY-635	Cyclophilin inhibitor	Phase IIa	Hepatitis C Virus (HCV)	Waterstone Pharmaceutical
SCYX-7158	Anti-parasitic	Phase I	Human African Trypanosomiasis (Sleeping sickness)	
SCY-641	Cyclophilin inhibitor	Pre-Clinical	Dry Eye disease	

Source: Company reports

Valuation

We value SCYX at $18 per share, which includes US and ROW sales of SCY-078. We assign a probability of success of 65% and a value of ~$7 per share to the US and $11 per share to the ROW opportunity. We assume a US launch in 2019 and an ROW launch in 2020. Currently, we assume that SCYX will sell SCY-078 in the US and a partner will commercialize these compounds outside the US. We forecast peak SCY-078 sales of $300-400MM in the US and $1.0-1.4B in the ROW. We currently assign no additional value to the earlier stage pipeline. Finally, we assume product sales extend into 2030 and include a terminal value based on a terminal growth rate of -50% and a discount rate of 15%

Price target impediments

Our price target is dependent solely on the clinical, regulatory and commercial success of SCY-078. A Phase II study for SCY-078 is expected in 2015 and data expected in 2016. Failure to demonstrate efficacy or safety in the study would be a significant setback. Furthermore, any setbacks in regulatory approvals in the US or EU, delay in launch, failure to secure a partnership outside the US for SCY-078, increased competition or other limitations to the market potential of these products either due to better efficacy and/or safety outcomes or pricing pressure due to the availability of generic drugs for glaucoma, could negatively impact our valuation.

Company description

SCYNEXIS Inc. (SCYX) SCY-078 treats systemic fungal infections via a new mechanism of action that targets the fungal cell wall. These infections are serious, kill patients, and rates of resistance to current drugs are rising, while all currently available drugs have their limitations, which is the value proposition for SCY-078. The worldwide market for systemic anti-fungals is nearly $4B. Roughly 600,000 patients are identified with invasive fungal infections and an even higher number is treated. Phase I studies are completed for the oral version and in vitro and in vivo data shows activity in organisms both susceptible and resistant to currently approved drugs. Next up is a Phase II for the oral and a Phase I for the intravenous forms with data in 2015. A Phase II/III study in resistant patients could start in 2016 and potentially provide a more rapid path to the market. SCYX essentially owns all rights to SCY-078, which is patent protected through 2030, as well as to its anti-fungal portfolio. This leaves SCYX free to commercialize the products itself, partner on a global or regional basis, and/or sell the company.

Adnan Butt, (415) 633-8588; adnan.butt@rbccm.com

Scynexis - Income Statement
FYE December 31

Adnan Butt (415) 633-8588
Adnan.Butt@rbccm.com

(in MM; except per share)	2013A	1Q:14A	2Q:14A	3Q:14A	4Q:14A	2014E	1Q:15E	2Q:15E	3Q:15E	4Q:15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenue:																			
SCY-078															20.5	41.9	64.1	87.2	111.1
Other Revenue	9.6	4.7	4.6	4.4	5.3	19.0	4.2	4.6	5.0	5.3	19.1	19.2	19.3	19.4	19.5	19.6	19.7	19.8	19.9
Total Revenue	16.9	4.7	4.6	4.4	5.3	19.0	4.2	4.6	5.0	5.3	19.1	19.2	19.3	19.4	40.0	70.0	105.5	142.5	180.8
Operating expenses:																			
Cost of Other Revenue	16.3	4.0	4.2	3.7	3.6	15.4	3.8	4.1	4.5	4.8	17.2	18.6	18.7	18.8	18.9	19.0	19.1	19.2	19.3
R&D	4.4	1.3	1.8	2.5	2.7	8.3	3.3	3.6	3.9	4.2	15.0	20.0	30.0	35.0	25.0	22.5	25.0	27.5	30.0
SG&A	4.4	1.2	2.3	2.0	2.1	7.6	2.2	2.4	2.6	2.8	10.0	10.5	11.0	12.0	22.5	28.8	30.0	32.5	32.2
Other	(1.0)		(0.2)			(0.2)													
Total Expenses	24.1	6.5	8.1	8.2	8.4	31.1	9.3	10.1	11.0	11.8	42.2	49.1	59.7	65.8	68.5	74.4	80.5	87.9	92.6
Operating Expense (income)	(7.2)	(1.8)	(3.5)	(3.8)	(3.1)	(12.1)	(5.1)	(5.5)	(6.0)	(6.5)	(23.1)	(29.9)	(40.4)	(46.4)	(28.4)	(4.4)	25.0	54.5	88.2
Other:																			
Amortization of deferred financing cost and debt discount	3.5	0.5	0.2			0.8													
Interest expense for beneficial conversion feature	10.8		0.0			0.0													
Interest expense-related party	0.9																		
Interest expense	0.2	0.0			(0.0)	0.0													
Derivative fair value adjustment	7.9	(2.8)	(7.3)			(10.1)													
Other income		0.0	1.4			1.4	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.4)	(0.6)	(0.8)
Income before Tax	(30.5)	0.4	2.2	(3.8)	(3.1)	(4.2)	(5.0)	(5.5)	(6.0)	(6.4)	(22.9)	(29.8)	(40.3)	(46.3)	(28.3)	(4.2)	25.4	55.1	89.0
Taxes																	8.6	18.7	30.2
Net income (loss)	(30.5)	0.4	2.2	(3.8)	(3.1)	(4.2)	(5.0)	(5.5)	(6.0)	(6.4)	(22.9)	(29.8)	(40.3)	(46.3)	(28.3)	(4.2)	16.8	36.4	58.7
Net loss to common stockholders	(46.8)	(1.2)	2.0	(3.8)	(3.1)	(5.9)	(5.0)	(5.5)	(6.0)	(6.4)	(22.9)	(29.8)	(40.3)	(46.3)	(28.3)	(4.2)	16.8	36.4	58.7
Derivative fair value adjustment		(2.8)	(7.3)	-	-	(10.1)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net loss to common stockholders (diluted)		(4.0)	(5.3)	(3.8)	(3.1)	(15.9)	(5.0)	(5.5)	(6.0)	(6.4)	(22.9)	(29.8)	(40.3)	(46.3)	(28.3)	(4.2)	16.8	36.4	58.7
EPS, Basic (GAAP)	($6.84)	($3.65)	$0.38	($0.45)	($0.36)	($1.04)	($0.59)	($0.64)	($0.69)	($0.74)	($2.64)	($2.14)	($2.84)	($3.20)	($1.43)	($0.21)	$0.82	$1.74	$2.75
EPS, Diluted (GAAP)	($5.61)	($6.57)	($0.98)	($0.44)	($0.35)	($2.69)	($0.57)	($0.62)	($0.67)	($0.72)	($2.58)	($2.11)	($2.79)	($3.14)	($1.41)	($0.21)	$0.80	$1.70	$2.68
Shares outstanding, Basic	6.8	0.3	5.2	8.5	8.5	5.7	8.6	8.6	8.7	8.7	8.7	13.9	14.2	14.5	19.7	20.1	20.5	21.0	21.4
Shares outstanding, Diluted	8.3	0.6	5.5	8.7	8.8	5.9	8.8	8.9	8.9	9.0	8.9	14.2	14.5	14.8	20.1	20.5	21.0	21.4	21.9
Operating Ratios	2013A	1Q:14A	2Q:14A	3Q:14A	4Q:14A	2014E	1Q:15E	2Q:15E	3Q:15E	4Q:15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
COGS															10.0%	10.0%	10.0%	10.0%	10.0%
Gross Margin	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	90.0%	90.0%	90.0%	90.0%	90.0%
R&D	25.9%	28.1%	39.3%	56.6%	50.3%	43.6%	78.5%	78.5%	78.5%	78.5%	78.5%	104.2%	155.4%	180.4%	62.4%	32.1%	23.7%	19.3%	16.6%
SG&A	26.0%	25.6%	48.6%	46.7%	38.9%	39.8%	52.4%	52.4%	52.4%	52.4%	52.4%	54.7%	57.0%	61.9%	56.2%	41.1%	28.4%	22.8%	17.8%
Operating Margin	-42.7%	-37.9%	-74.3%	-86.8%	-58.1%	-63.7%	-120.9%	-120.9%	-120.9%	-120.9%	-120.9%	-155.7%	-209.3%	-239.2%	-71.0%	-6.3%	23.7%	38.3%	48.8%
Taxes	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%
Net Margin	-180.7%	8.8%	48.1%	-86.8%	-58.1%	-22.3%	-119.7%	-119.8%	-119.9%	-120.0%	-119.8%	-155.2%	-208.8%	-238.7%	-70.7%	-6.0%	15.9%	25.5%	32.5%

Source: Company reports and RBC Capital Markets estimates.

Required disclosures

Conflicts disclosures

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RBC Capital Markets, LLC makes a market in the securities of SCYNEXIS Inc..

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Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

Outperform (O): Expected to materially outperform sector average over 12 months.

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Distribution of ratings
RBC Capital Markets, Equity Research
As of 31-Dec-2014

			Investment Banking Serv./Past 12 Mos.	
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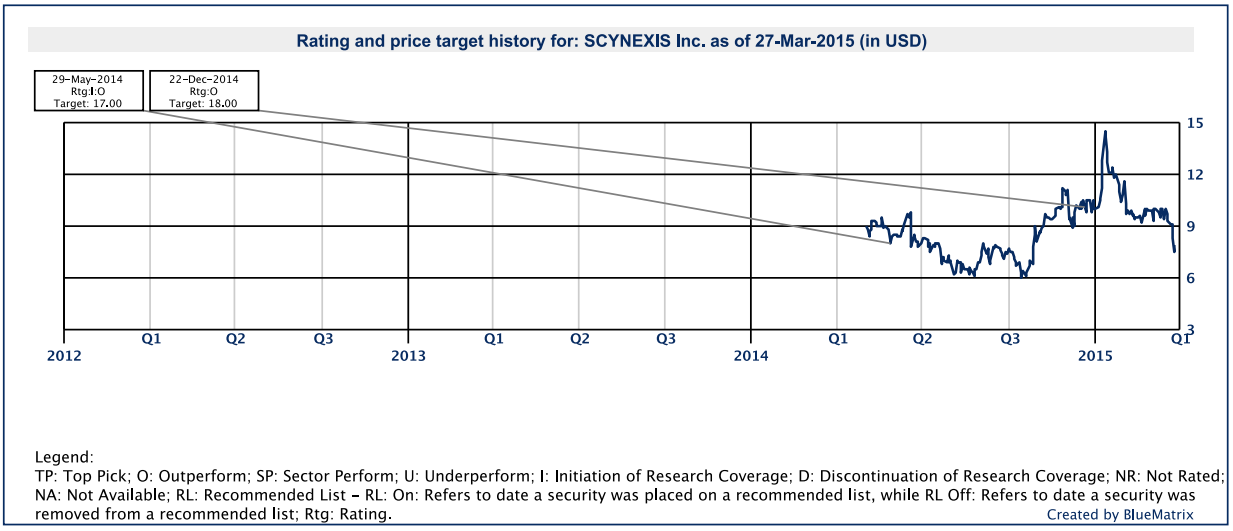
HOLD [Sector Perform]	686	40.47	137	19.97
SELL [Underperform]	112	6.61	6	5.36



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL 9), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

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