SCYNEXIS

Biotechnology

US Equity Research
12 February 2015

BUY
unchanged

PRICE TARGET US$16.00
unchanged

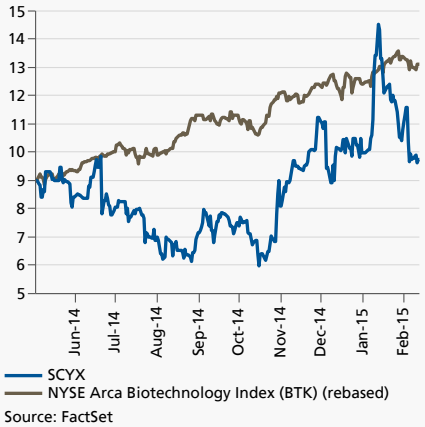
Price (12-Feb)	US$9.74
Ticker	SCYX-NASDAQ

52-Week Range (US$):	5.96 - 14.50
Avg Daily Vol (M) :	0.01
Shares Out. (M) :	8.5
Market Cap (US$M):	82.8
Average Price Target (US$):	16.33
Cash (US$M):	34.04
Net Cash (US$M):	34.0
Short Interest :	9,843
# of analysts :	3

FYE Dec	2013A	2014E	2015E
Sales (US$M)	16.9	18.2	17.5
EPS Adj&Dil (US$)	(0.22)	(7.57)	(1.91)

Quarterly Sales	Q1	Q2	Q3	Q4
2013A	-	-	-	-
2014E	4.7A	4.6A	4.4A	4.5
2015E	4.4	4.4	4.4	4.4

Quarterly EPS Adj&Dil	Q1	Q2	Q3	Q4
2013A	-	-	-	-
2014E	(5.51)A	(0.89)A	(0.39)A	(0.78)
2015E	(0.38)	(0.48)	(0.48)	(0.58)



SCYNEXIS is a pharmaceutical company committed to the discovery, development and commercialization of novel anti-infectives to address significant unmet therapeutic needs.

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Company Update

New CEO a big win

SCYNEXIS recently made some significant changes to its management team – Dr. Marco Taglietti succeeded Dr. Yves Ribeill as the CEO, and Dr. Carole Sable, the current CMO, is stepping down effective February 20, 2015. We believe this is simply an administrative exercise given that oral SCY-078 received Fast Track Designation last month and no changes are expected in the drug's clinical timeline. We have known Dr. Tagletti for years from his days at Forest and are extremely enthusiastic about his addition to the management team. His track record for FDA approvals was one of the most impressive in the industry we have seen, and being an infectious disease specialist is a perfect fit with where SCYNEXIS is heading.

- **SCY-078's high plasma binding isn't an issue.** As with all echinocadins, SCY-078 is highly bound to proteins in the blood (>96%); this has been worrisome to some since it's known that only free drug can be therapeutically effective. While this is true, we note that more important to determining therapeutic effectiveness is a drug's "volume of distribution" (Vd). *The Vd is calculated as the ratio of the dose present in the body and its plasma concentration when the distribution of the drug between the tissues and the plasma is at equilibrium*. With regards to SCY-078, a published preclinical study from 2014 showed that its Vd is very high (3-4L/kg), indicating that the drug dissociates from proteins and reaches the tissue easily.
- **Updates on timeline.** Despite management changes, SCYNEXIS has assured us that enrollment for the Ph2 oral is still on track; the company is expecting to enroll the first patient in Q1, with data available in 1H2016. The IV formulation is still in the selection process and IND-enabling studies are positioned for a 1H2015 start.

Valuation/risks

We use a discounted P/E model to derive our $16 price target; we apply a 30x multiple to our 2023 EPS estimate of $4.39 discounted at 30% for 8 years. Risks include: failure to hit primary endpoint in SCY-078 Ph2 trial, and/or failure to gain FDA approval.

Figure 1: SCYNEXIS summary P&L

($ In millions, except per share amount)

Year End: December 31	2012	2013	1Q14	2Q14	3Q14	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
SCY-078 US Sales	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$2.7	$21.1	$48.2	$78.9	$109.4	$143.0	$176.8	$205.3
SCY-078 EU Royalty	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$2.6	$6.0	$9.9	$13.7	$17.4	$21.5	$25.7
Other	$16.8	$16.9	$4.7	$4.6	$4.4	$4.5	$18.2	$17.5	$17.5	$17.5	$17.5	$17.5	$17.5	$17.5	$17.5	$17.5	$17.5	$17.5	$17.5
Total Revenue	**$16.8**	**$16.9**	**$4.7**	**$4.6**	**$4.4**	**$4.5**	**$18.2**	**$17.5**	**$17.5**	**$17.5**	**$17.5**	**$20.2**	**$41.3**	**$71.8**	**$106.2**	**$140.5**	**$177.9**	**$215.9**	**$248.4**
Gross Profit	$2.5	$0.6	$0.7	$0.5	$0.7	$0.5	$2.4	$1.5	$2.5	$2.5	$2.5	$4.7	$23.1	$49.5	$83.3	$114.6	$148.6	$183.2	$212.9
Gross Margin	*14.7%*	*3.3%*	*15.8%*	*10.0%*	*16.4%*	*11.1%*	*13.3%*	*8.6%*	*14.3%*	*14.3%*	*14.3%*	*23.1%*	*56.0%*	*69.0%*	*78.5%*	*81.5%*	*83.5%*	*84.9%*	*85.7%*
SG&A	$4.7	$4.4	$1.2	$2.3	$2.0	$2.0	$7.5	$10.0	$10.0	$10.0	$18.0	$19.8	$25.0	$26.3	$27.6	$28.9	$30.4	$31.9	$33.5
R&D	8.9	4.4	1.3	1.8	2.5	2.0	7.6	10.0	20.0	25.0	30.0	20.0	22.0	24.2	26.6	29.3	32.2	35.4	39.0
Adj. Operating Income	**(7.8)**	**(7.2)**	**(1.8)**	**(3.5)**	**(3.8)**	**(7.5)**	**(16.5)**	**(18.5)**	**(27.5)**	**(32.5)**	**(45.5)**	**(35.1)**	**(23.9)**	**21.3**	**29.1**	**56.4**	**86.0**	**115.9**	**140.4**
Adj. Operating Margin														*29.7%*	*27.4%*	*40.1%*	*48.3%*	*53.7%*	*56.5%*
Non-Op	(3.7)	(15.3)	(2.2)	(1.9)	0.0	0.0	(4.1)	(0.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Tax Rate																			
Adj. Net Income	(7.6)	(7.2)	(3.4)	(4.8)	(3.3)	(6.7)	(18.2)	(16.5)	(27.5)	(32.0)	(43.7)	(34.2)	(22.2)	23.4	31.6	59.2	89.3	119.6	115.7
Net Margin														*32.6%*	*29.7%*	*42.1%*	*50.2%*	*55.4%*	*46.6%*
GAAP EPS (diluted)	($1.73)	($0.70)	($6.57)	($0.98)	($0.45)	($0.87)	($8.87)	($2.14)	($2.60)	($3.00)	($3.78)	($2.94)	($2.05)	$1.39	$1.96	$3.96	$6.09	$8.20	$8.33
Adjusted EPS (diluted)	**($1.15)**	**($0.22)**	**($5.51)**	**($0.89)**	**($0.39)**	**($0.78)**	**($7.57)**	**($1.91)**	**($2.35)**	**($2.70)**	**($3.40)**	**($2.63)**	**($1.70)**	**$1.77**	**$2.36**	**$4.39**	**$6.55**	**$8.69**	**$8.33**
Diluted Shares (M)	0.0	32.3	0.6	5.5	8.5	8.6	5.8	8.7	11.7	11.8	12.8	13.0	13.1	13.2	13.4	13.5	13.6	13.8	13.9
Year-over-Year Growth																			
Total Revenue												*15%*	*104%*	*74%*	*48%*	*32%*	*27%*	*21%*	*9%*
Gross Profit												*87%*	*395%*	*115%*	*68%*	*38%*	*30%*	*23%*	*16%*
SG&A							*71%*	*33%*	*0%*	*0%*	*80%*	*10%*	*26%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
R&D							*75%*	*31%*	*100%*	*25%*	*20%*	*(33%)*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*
Operating Income													*0%*	*0%*	*0%*	*0%*	*53%*	*35%*	*35%*
Net Income															*35%*	*88%*	*51%*	*34%*	*(3%)*
Adj. EPS															***34%***	***86%***	***49%***	***33%***	***(4%)***

Source: Company Reports, Canaccord Genuity estimates

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Target Price / Valuation Methodology:

SCYNEXIS - SCYX

We use a discounted P/E model to derive our $16 price target; we apply a 30x multiple to our 2023 EPS estimate of $4.39 discounted at 30% for 8 years.

Risks to achieving Target Price / Valuation:

SCYNEXIS - SCYX

Clinical/regulatory risk – Although Scynexis has applied for a QIDP under the GAIN act for the IV form of SCY-078, there is no guarantee that the designation will be granted. However, since it has already been granted for the oral, this risk seems low. Also, if oral SCY-078 fails to demonstrate superiority over the standard of care in the planned Ph2 trial, it could have a negative impact on the stock.

Commercial risk – If approved, SCY-078 will be facing competition from established branded drugs; they include: V-fend, Cancidas, AmBisome, Eraxis, Noxafil, Mycamine, generic voriconazole, fluconazole and itraconazole. Further, there are drug candidates currently in various stages of development; if approved, they would further intensify the competition.

Financing risk – Scynexis ended Q3/14 with $34M in cash and equivalents. Based on our projection, it should be sufficient to fund operations through Q1 2016. Undoubtedly, additional capital will be needed to move the pipeline forward; thus in the event that adequate funds can't be obtained, the company may need to reduce or eliminate R&D activities or commercial efforts.

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Rating	Coverage Universe		IB Clients
	#	%	%
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Hold	322	31.88%	14.60%
Sell	45	4.46%	2.22%
Speculative Buy	54	5.35%	57.41%
	1010*	100.0%	

*Total includes stocks that are Under Review

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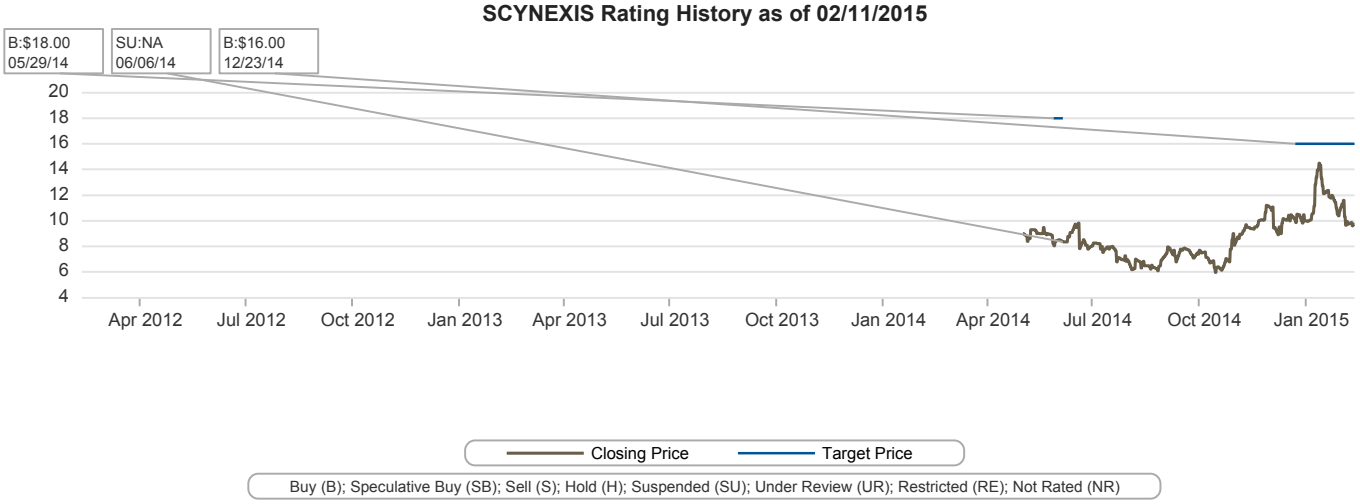

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