EQUITY RESEARCH

RBC Capital Markets

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February 6, 2015

SCYNEXIS Inc.

Spoke to management: SCY-078 timelines unchanged

Our view: Though shares could be pressured the key question is if SCY-078 targeting resistant systemic fungal infections is progressing and that timelines are unchanged. Since data from the i.v. formulation study is due in 2015 and i.v. to oral Phase II in 2016 a pullback could be a buying opportunity.

Key points:

Timeline for data remain unchanged. For SCY-078 to maximize its commercial opportunity the availability of both an oral and i.v. form would be optimal. We should know in 2015 if an intravenous version is feasible and then in 2016 what data from the Phase II study evaluating the switch from i.v. to oral '078 looks like. This would be followed by an i.v. to oral study with both versions of SCY-078 potentially in patients with resistant organisms.

Phase II study is evaluating patients with systemic fungal infections, data in 2016. Patients have invasive candidiasis and will receive intravenous Mycamine (micafungin), an echinocandin, for 5-7 days, followed by either oral fluconazole, an azole, 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. A step-down to i.v. echinocandins and '078 could prove an alternative for those who cannot receive oral fluconazole. Results are likely in 2016 but could be sooner depending on enrollment timelines. The objective is safety, tolerability for a dose that demonstrates a benefit and not necessarily direct differentiation vs. fluconazole, which is unlikely at this stage as most patients would have responded to micafungin.

Management transition was previously contemplated. We spoke to management and understand that SCYX was contemplating a transition from an early, pre-clinical stage to a more clinically experienced team. The new CEO, who will assume the post formally in a few months, has both anti-infectives, anti-fungal, GAIN/ QIDP expertise via the development of cef-avi at Forest Labs so the fit seems reasonable.

Market opportunity remains attractive. SCY-078 has a novel mechanism of action targeting life threatening fungal infections resistant to current drugs. SCYX owns 100% and has IP into 2030. Given the current macro environment for antibiotic and anti-fungal drugs, we believe good assets are fundable. Tailwinds include cooperative regulatory authorities, high unmet need in a life-threatening condition, and consolidation in the industry, which has begun with Actavis buying Durata and now Merck buying Cubist.

Outperform
Speculative Risk
NASDAQ: SCYX; USD 9.94

Price Target USD 18.00

WHAT'S INSIDE

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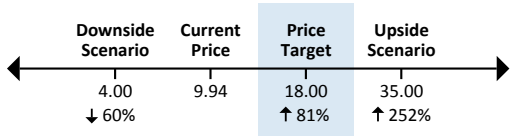
Scenario Analysis*



*Implied Total Returns

Key Statistics

Shares O/S (MM):	9.7	Market Cap (MM):	96
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	12,602

RBC Estimates

FY Dec	2013A	2014E	2015E	2016E
Revenue	16.9	18.2	18.0	18.1
EPS, Ops Diluted	(6.84)	(3.88)	(2.47)	(2.02)
P/E	NM	NM	NM	NM

Revenue	Q1	Q2	Q3	Q4
2014	4.7A	4.6A	4.4A	4.5E
2015	4.5E	4.5E	4.5E	4.5E
EPS, Ops Diluted				
2014	(3.65)A	(0.98)A	(0.45)A	(0.58)E
2015	(0.56)E	(0.59)E	(0.62)E	(0.70)E

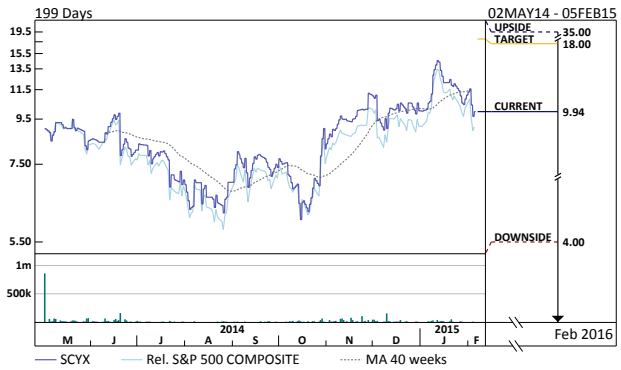
EPS, Ops Diluted: Basic shares used when EPS are negative.
All values in USD unless otherwise noted.

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

For Required Conflicts Disclosures, see Page 6

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 $35 per share, includes ~$17 per share in value for the US opportunity and ~$18 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 2014/2015.** 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**.

Exhibit 2: News flow

Timing	Expected News Flow	Program
Late 2014/ early 2015	Request QIDP designation for i.v. SCY-078	SCY-078
2014/2015	Potential pipeline related business development	
1H:15	Initiate Phase I study with i.v. SCY-078	SCY-078
Mid/ 2H:15	Phase I intravenous SCY-078 results	SCY-078
2015	Phase II update from oral SCY-078 step down study	SCY-078
2H:15/ 1Q: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:2016/ 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 3: Pipeline

Product	Mechanism	Stage	Indication	Partner
Afrezza	Ultra rapid-acting inhaled insulin	Approved	Type 1 and type 2 diabetes	Sanofi
MKC253	Inhaled GLP-1	Phase I completed	Type 2 diabetes	

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 2014 and data expected in 2015. 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.

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Scynexis - Income Statement

FYE December 31

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(in MM; except per share)	2013A	1Q:14A	2Q:14A	3Q:14A	4Q:14E	2014E	1Q:15E	2Q:15E	3Q:15E	4Q:15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenue:																			
SCY-078															24.6	46.1	68.4	91.5	115.6
Other Revenue	9.6	4.7	4.6	4.4	4.5	18.2	4.5	4.5	4.5	4.5	18.0	18.1	18.2	18.3	18.4	18.5	18.6	18.7	18.8
Total Revenue	16.9	4.7	4.6	4.4	4.5	18.2	4.5	4.5	4.5	4.5	18.0	18.1	18.2	18.3	43.0	73.1	108.7	145.7	184.2
Operating expenses:																			
Cost of Other Revenue	16.3	4.0	4.2	3.7	4.1	15.9	4.1	4.1	4.1	4.1	16.2	17.5	17.6	17.7	17.8	17.9	18.0	18.1	18.2
R&D	4.4	1.3	1.8	2.5	3.4	9.0	3.3	3.5	3.8	4.5	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	2.0	7.5	2.0	2.0	2.0	2.0	8.0	8.5	9.0	10.0	22.5	28.8	30.0	32.5	33.1
Other	(1.0)		(0.2)			(0.2)													
Total Expenses	24.1	6.5	8.1	8.2	9.4	32.2	9.3	9.6	9.8	10.6	39.2	46.0	56.6	62.7	67.8	73.8	79.8	87.3	92.9
Operating Expense (income)	(7.2)	(1.8)	(3.5)	(3.8)	(4.9)	(14.0)	(4.8)	(5.1)	(5.3)	(6.1)	(21.2)	(27.9)	(38.4)	(44.4)	(24.7)	(0.7)	28.9	58.5	91.3
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													
Derivative fair value adjustment	7.9	(2.8)	(7.3)			(10.1)													
Other income		0.0	1.4		(0.1)	1.3	(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)	(5.0)	(21.9)	(4.9)	(5.1)	(5.4)	(6.1)	(21.4)	(28.0)	(38.5)	(44.5)	(24.8)	(0.9)	28.5	57.9	90.5
Taxes																	9.7	19.7	30.8
Net income (loss)	(30.5)	0.4	2.2	(3.8)	(5.0)	(21.9)	(4.9)	(5.1)	(5.4)	(6.1)	(21.4)	(28.0)	(38.5)	(44.5)	(24.8)	(0.9)	18.8	38.2	59.7
Net loss to common stockholders	(46.8)	(1.2)	2.0	(3.8)	(5.0)	(21.9)	(4.9)	(5.1)	(5.4)	(6.1)	(21.4)	(28.0)	(38.5)	(44.5)	(24.8)	(0.9)	18.8	38.2	59.7
Derivative fair value adjustment		(2.8)	(7.3)	-	-	(10.1)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net loss to common stockholders (diluted)		(4.0)	(5.3)	(3.8)	(5.0)	(32.0)	(4.9)	(5.1)	(5.4)	(6.1)	(21.4)	(28.0)	(38.5)	(44.5)	(24.8)	(0.9)	18.8	38.2	59.7
EPS, Basic (GAAP)	($6.84)	($3.65)	$0.38	($0.45)	($0.58)	($3.88)	($0.56)	($0.59)	($0.62)	($0.70)	($2.47)	($2.02)	($2.72)	($3.08)	($1.26)	($0.04)	$0.91	$1.82	$2.79
EPS, Diluted (GAAP)	($5.61)	($6.57)	($0.98)	($0.41)	($0.53)	($5.19)	($0.52)	($0.54)	($0.56)	($0.64)	($2.27)	($1.89)	($2.54)	($2.87)	($1.19)	($0.04)	$0.86	$1.70	$2.59
Shares outstanding, Basic	6.8	0.3	5.2	8.5	8.5	5.6	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	9.3	9.3	6.2	9.4	9.4	9.5	9.5	9.4	14.8	15.1	15.5	20.9	21.4	22.0	22.5	23.1
Operating Ratios	2013A	1Q:14A	2Q:14A	3Q:14A	4Q:14E	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%	75.1%	49.4%	72.2%	77.8%	83.3%	100.0%	83.3%	110.5%	164.8%	191.3%	58.1%	30.8%	23.0%	18.9%	16.3%
SG&A	26.0%	25.6%	48.6%	46.7%	44.4%	41.2%	44.4%	44.4%	44.4%	44.4%	44.4%	47.0%	49.5%	54.6%	52.3%	39.3%	27.6%	22.3%	18.0%
Operating Margin	-42.7%	-37.9%	-74.3%	-86.8%	-109.5%	-76.6%	-106.7%	-112.2%	-117.8%	-134.4%	-117.8%	-154.1%	-211.0%	-242.6%	-57.4%	-0.9%	26.6%	40.1%	49.6%
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%	-110.6%	-120.1%	-107.8%	-113.3%	-118.9%	-135.6%	-118.9%	-154.7%	-211.5%	-243.2%	-57.7%	-1.2%	17.3%	26.2%	32.4%

Source: Company reports and RBC Capital Markets estimates.

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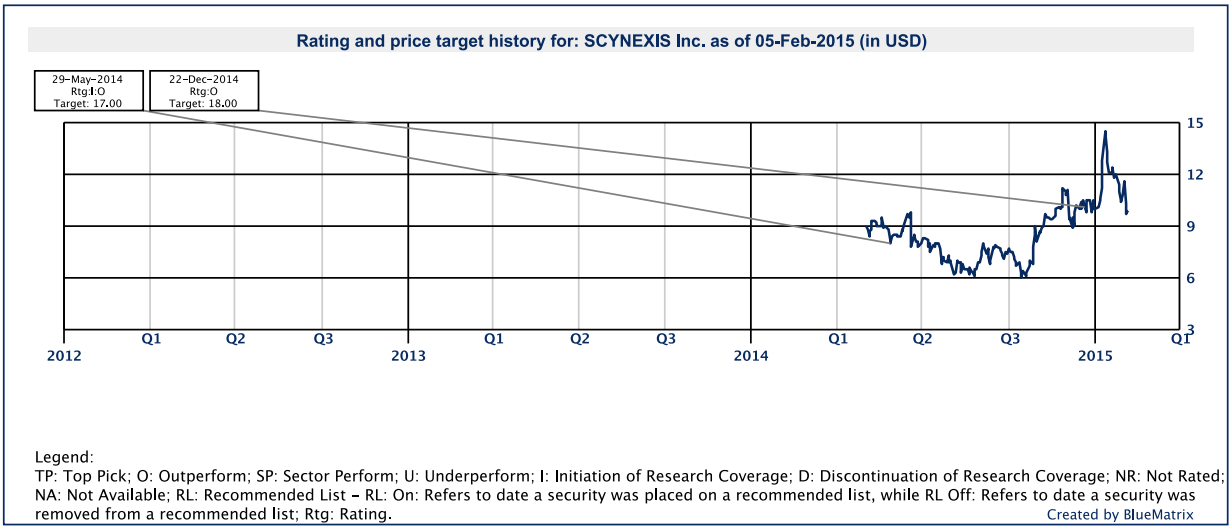

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