

European Specialty Pharma & Biotech

Galapagos NV

Rating

Market-Perform

Target Price


180.00 EUR (160.00 OLD)

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GLPG: Post 4Q19 - Wait for the UC data to pass, negative risk/reward into filigo approval and launch

GLPG reported 4Q19 results last night with their conf. call today. Here we update our model and provide a few comments from the call.

Results (unimportant). Whilst revenues and opex weren't way off expectations, tax / financial expenses were higher than expected, but results do not matter for now. Expectedly, cash burn guidance for 2020 steps up significantly YoY (€420-450M) driven by increases in R&D (~35-40%) and SG&A, significant considering receipt of \$200M filigo approval milestones.


Call tidbits: Filigo: (i) Ahead of p3 SELECTION – no real UC data with filigo specifically, but UC has high unmet need and filigo has strong JAK profile – CD saw positive p2 so can expect a level of efficacy there. (ii) Prelaunch commercial build out is progressing. **Everything else:** (i) Toledo – the big MoA reveal will come in 2H with '3312 data. (ii) IPF / SSc – If '1205 p2 is strong (2H), expect combo trials with '1690. 1690 in SSc (2H) will provide little read across to IPF. By time of futility analysis, ~1/3 pf pts will have had 52wk dosing – no safety signals seen yet. (iii) OA – p2 ROCELLA primary based on structure (cartilage thickness), but regulators will need to see efficacy also in pain / function in p3. (iv) GILD opt ins, filigo and '1690 are already included, '1972 (OA) may be a triggering trial, PINTA isn't but still may lead to opt in, Toledo isn't an opt in now (not until post p2b). (iv) Acquisitions likely to continue to be small bolt-ons.

Investment Implications

GLPG has had an exceptionally strong run YTD (+34%) on top of the +139% move last year. Very simply, current valuations imply high probabilities of success for the pipeline, despite the absence of meaningful data to drive a fundamental change in view. Toledo and IPF could be significant but we have little visibility on either (Toledo no MoA let alone data, IPF is high risk/high reward based only on small p2) and levels suggest some success for both. Wait for the UC p3 data to pass (2Q20), at which point we see downside risk heading into Filgotinib approval and launch. M / P PT €180.

EPS Adjusted	F18A	F19E	F20E	Financials	F18A	F19E	F20E	CAGR	Valuation Metrics	F18A	F19E	F20E
GLPG.NA (EUR)	(0.56)	2.49	0.74	Revenues (M)	318	896	855	64.0%	P/E Adjusted (x)	(445.5)	100.2	336.7
OLD		5.75	2.27	EBIT (M)	(358)	370	70	NA				
MSDLE15	106.22	104.97	114.08	Net Earnings (M)	(342)	150	49	NA				

Close Date	21-Feb-2020			
GLPG.NA Close Price (EUR)	249.50			
Target Price (EUR)	180.00			
Upside/(Downside)	(28)%			
52-Week Low	78.22			
52-Week High	252.90			
MSDLE15	1,727.96			
FYE	Dec			
Indicated Div Yield	NA			
Market Cap (EUR) (M)	16,134			
EV (EUR) (M)	10,559			
Performance	YTD	1M	6M	12M
Absolute (%)	33.8	14.6	62.8	186.1
MSDLE15 (%)	2.5	0.7	10.8	13.0
Relative (%)	31.3	13.8	51.9	173.1


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DETAILS

Model changes: We update for actuals, FX and 2020 guidance, including details of filgo RA approval milestones (\$200M in US, US and Japan), incremental R&D (we assume +40% YoY) and SG&A to bring cash burn into the lower end of the range

EXHIBIT 1: 4Q19 results

4Q19 (EUR millions)	4Q19		Actual vs. Cons.	Bernstein	Actual vs. Bernstein	Actual vs.		Bernstein vs. Cons.	
	Actual	Cons.				Cons. (EUR)	Bernstein (EUR)	EUR	%
Revenues & other income	143	156	-8.1%	194	-26.1%	-13	-51	38	24.3%
Operating expenses	-166	-160	3.9%	-125	32.7%	-6	-41	35	-21.7%
- of which R&D	-129	-127	1.7%	-107	21.0%	-2	-22	20	-15.9%
- of which G&A	-22	-29	-24.4%	-15	52.6%	7	-8	15	-50.5%
- of which S&M	-15	-4	312.1%	-4	272.0%	-11	-11	0	10.8%
Operating profit / (loss)	-23	-5	332.7%	69	-133.1%	-17	-91	74	-1408.6%
Operating profit margin	-15.8%	-3.4%	-1248 bp	35.4%	-5128 bp				3880 bp
Net result	-115	8	-1524.6%	72	-259.8%	-124	-188	64	791.6%
Cash & equivalents*	5,781	5,668	2.0%	5,459	5.9%	113	322	-209	-3.7%

Source: Factset, Bernstein analysis and estimates.

* - Of the cash balance shown, €3,919M is held as short term financial investments

EXHIBIT 2: Catalysts

Timing	Drug/Franchise	Comments
2Q 2020	Filgotinib	Data from SELECTION1 p3 trial in ulcerative colitis - completed recruitment in 1Q19 (NCT02914522, SC Dec-19)
mid 2020	Filgotinib	US approval in RA expected in late May - GILD submitted NDA 19 Dec 2019 and are using Priority Review Voucher
2H 2020	IPF	Data from PINTA P2 trial with GLPG1205 - currently expect recruitment to complete in 2019 (NCT03725852, SC May-20)
2H 2020	Systemic sclerosis (SSc)	Data from PoC p2 NOVESA trial with GLPG1690 in SSc (NCT03798366, SC Aug-20)
2H 2020	GLPG1972 (Osteoarthritis)	Data from ROCCELLA P2 trial in US of GLPG1972 - expect recruitment to complete in 2019 (NCT03595618, Dec-20)
2H20	Toledo	Data from 1st Toledo compound (GLPG3312) to read out p1 (NCT03800472) in healthy volunteers in 2H20 (undisclosed target for use in inflammatory diseases) - will start a PoC in 2H20 in ulcerative colitis. Second compound (GLPG3970) entered the clinic in Sep (NCT04106297, SC Nov-20). GLPG3970 will enter multiple PoC p2 trials in 2020.
2020	Filgotinib	Data from p2 study in lupus membranous nephropathy (LMN)
Late 2020/1H21	IPF	Data from ISABELA P3 trials with GLPG1690. Primary / study completion of both ISABELA 1 (NCT03711162) and ISABELA2 (NCT03733444) is listed as Dec-21, but recruitment faster than expected.
2020/21	Filgotinib	Data from CD sub-studies: small bowel CD (NCT03046056, SC Jul-20) and perianal fistulising CD (NCT03077412, SC Jan-21).
2021/2022	Systemic sclerosis (SSc)	Data from p2 trial with GLPG1690 in SSc evaluating LT safety (NCT003976648, SC Sep-21)
2021/2022	Filgotinib	Data from DIVERSITY1 p3 trial in Crohn's disease - delayed recruitment due to competition (NCT02914561, SC Nov-21)
2022	Filgotinib	Data from p2 study in uveitis (NCT03207815, SC Jul-22)

Source: Company disclosure, clinicaltrials.gov, Bernstein analysis

EXHIBIT 3: **GLPG forecast P&L**

Income Statement €M	Annual FY 2015	Annual FY 2016	Annual FY 2017	Annual FY 2018	Annual FY 2019	Annual FY 2020E	Annual FY 2021E	Annual FY 2022E	Annual FY 2023E	Annual FY 2024E	Annual FY 2025E
Revenue	61	152	156	318	896	855	888	1,064	1,034	1,333	1,336
Research and development expenses	(130)	(140)	(219)	(323)	(427)	(595)	(620)	(650)	(700)	(700)	(700)
General and administrative expenses	(19)	(22)	(24)	(36)	(74)	(100)	(80)	(70)	(60)	(60)	(60)
Sales and marketing expenses	(1)	(2)	(3)	(4)	(25)	(90)	(95)	(100)	(100)	(100)	(100)
Operating Profit	(89)	(11)	(90)	(358)	370	70	93	244	174	473	476
Net financials	0	8	(26)	16	(39)	(19)	(21)	(23)	(24)	(25)	(25)
Profit Before Tax	(120)	54	(116)	(342)	150	51	71	222	150	448	451
Income tax	1	(0)	(0)	(0)	(0)	(2)	(3)	(8)	(6)	(17)	(17)
Net Income	(118)	54	(116)	(342)	150	49	69	213	144	431	434
Basic EPS	-3.32	1.18	-2.34	-0.56	2.60	0.78	1.09	3.33	2.23	6.58	6.54
Diluted EPS	-3.32	1.14	-2.34	-0.56	2.49	0.74	1.04	3.22	2.18	6.51	6.55
Margin analysis (%)											
R&D (of revenue)	-214%	-92%	-140%	-102%	-48%	-70%	-70%	-61%	-68%	-53%	-52%
G&A (of revenue)	-32%	-14%	-16%	-11%	-8%	-12%	-9%	-7%	-6%	-5%	-4%
Operating margin	-148%	-8%	-58%	-113%	41%	8%	10%	23%	17%	35%	36%
Tax rate (of EBT)	-1%	0%	0%	0%	0%	-4%	-4%	-4%	-4%	-4%	-4%

Source: Company disclosure, Bernstein analysis and estimates

DISCLOSURE APPENDIX

BERNSTEIN TICKER TABLE

Ticker	Rating	Feb 21, 2020 Closing Price	Target Price	TTM Rel. Perf.	EPS Adjusted			P/E Adjusted			
					2018A	2019E	2020E	2018A	2019E	2020E	
GLPG.NA	M EUR	249.50	180.00	173.1%	EUR	(0.56)	2.49	0.74	(445.54)	100.2	336.7
<i>OLD</i>			160.00				5.75	2.27			
MSDLE15		1,727.96				106.22	104.97	114.08	16.27	16.46	15.15

O - Outperform, M - Market-Perform, U - Underperform, N - Not Rated

VALUATION METHODOLOGY

Galapagos NV

We set our price target using a DCF SOTP approach

RISKS

Galapagos NV

Downside risks

- + Filgotinib safety profile is undifferentiated vs. JAK peers
- + Later stage IPF pipeline fails to deliver
- + Toledo and the remainder of the pipeline fails to deliver

Upside risks

- + Filgotinib safety profile is differentiated vs. JAK peers
- + Later stage IPF pipeline delivers
- + Toledo value increases ahead of data

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12-Month Bernstein Rating History as of 02/20/2020

Ticker	Rating Changes
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GLPG.NA	M (RC) 10/18/19 O (IC) 09/11/18
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Rating Guide: O - Outperform, M - Market-Perform, U - Underperform, N - Not Rated

Rating Actions: IC - Initiated Coverage, DC - Dropped Coverage, RC - Rating Change

GLPG.NA / Galapagos NV (EUR)

Date	Rating	Target
11-Sep-2018	O(IC)	100.00
18-Sep-2018	O	122.00
03-Jan-2019	O	115.00
22-Feb-2019	O	110.00
12-Apr-2019	O	115.00
26-Apr-2019	O	120.00
15-Jul-2019	O	150.00
29-Jul-2019	O	155.00
18-Oct-2019	M	155.00
06-Jan-2020	M	160.00



Source: Bernstein - As of 20-Feb-2020

O - Outperform
M - Market-Perform
U - Underperform
N - Not Rated
IC - Initiated Coverage

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