

HOLD
COMPANY UPDATE

Financial Summary

Changes	Previous	Current
Rating	—	Hold
Target Price	\$155.00	\$138.00
FY20E Revenue	—	€554.0
FY21E Revenue	€686.0	€552.0

Price (10/15/20):	\$138.50
52-Week Range:	\$274 - \$112
Market Cap.(mm):	\$9,044.1
Shr.O/S-Diluted (mm):	65.3
Avg Daily Vol (3 Mo):	143,805
Dividend / Yield:	\$0.00 / 0.0%
Cash (mm):	€5,567

Revenue	2019A	2020E	2021E
Q1	€40.9	€106.9A	€NE
Q2	€67.6	€117.7A	€NE
Q3	€644.0	€186.0	€NE
Q4	€143.2	€144.0	€NE
FY (Dec)	€895.9A	€554.0	€552.0

EPS IFRS	2019A	2020E	2021E
Q1	(0.89)	(0.78)A	NE
Q2	(0.86)	(1.77)A	NE
Q3	5.83	(0.63)	NE
Q4	(1.82)	(1.81)	NE
EPS IFRS	2.49A	(5.24)	(7.67)

Price Performance



ROCCELLA Fail Likely To Raise More Questions About GLPG's R&D Engine; We're Sticking To The Sidelines

Summary

We are reiterating our Hold rating on GLPG shares after the company reported that its Phase 2b ROCCELLA study evaluating GLPG1972, an ADAMTS5 inhibitor, in knee osteoarthritis failed. While we thought the risk/reward was pretty balanced into the readout +5-10%/-5-10%, we think the outright failure will raise questions about the company's R&D engine which represents the bull thesis. The company is expected to unveil its Toledo program later this month (Oct. 27) which has long been talked about, but the mechanism of action is not validated/known, and they just brought it into Phase 2 trials. For now, we remain on the sidelines and think buying shares here one must truly believe GLPG can deliver on its pipeline and that filgotinib will be competitive in the US - neither of which we have much clarity or confidence in at this point. Our target price moves to \$138 on the news.

Key Points

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Investment Thesis

Our thesis is predicated on: (1) the chance of it receiving a meaningfully differentiated label within the JAK class is low; (2) we are cautious on GILD/GLPG's ability to deliver filgotinib sales ahead of consensus estimates between 2020-2025, which to us seem high; and (3) while we are positive on GLPG's pipeline and its long-term prospects, we don't see any major, near-term catalysts from the pipeline that would sufficiently offset our commercial concerns. While there is a lot to like here, given GLPG's meaningful cash position and robust R&D engine, we would seek a better entry point.

Target Price Methodology/Risks

Our target price for GLPG shares is \$138. This is based on a probability-weighted, risk-adjusted NPV analysis. We assign \$34, \$2, \$1, \$5 for filgotinib, GLPG1690, Other revenue, Other pipeline, respectively. We assign \$96 of value for cash.

Risks: Underperforming filgotinib consensus sales, failures from the pipeline, delays from the pipeline, competition.

Company Description

Galapagos is a clinical-stage biotechnology company specialized in the discovery and development of disease modifying, small molecule medicines with novel mechanisms of action. The pipeline includes clinical candidates focused on rheumatoid arthritis, inflammatory bowel disease, idiopathic pulmonary fibrosis, osteoarthritis, and atopic dermatitis. Lead assets include filgotinib (partnered with Gilead), GLPG1690 in IPF, and GLPG1972 in OA. Galapagos recently signed a transformational deal with Gilead that brought in significant cash and should allow for accelerated R&D. The Galapagos group, including fee-for-service subsidiary Fidelta, has approximately 460 employees, operating from its Mechelen, Belgium headquarters and facilities in The Netherlands, France and Croatia.

GLPG Annual P&L Summary
(figures in €m, except per share data)

	2017	2018	1Q19	2Q19	3Q19	4Q19	2019	1Q20	2Q20	3Q20E	4Q20E	2020E	2021E	2022E	2023E	2024E	2025E
Filgotinib EU Sales (JAKi; RA, UC, CD, AS, PsA)	-	-	-	-	-	-	-	-	-	1	3	4	16	60	176	359	626
GLPG1690 EU Sales (Autotaxin; IPF)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10	31
Total Product Sales	-	-	-	-	-	-	-	-	-	1	3	4	16	60	176	368	657
Filgotinib Royalties	-	-	-	-	-	-	-	-	-	-	-	-	-	3	56	262	558
GLPG1690 Royalties	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11	34
Total Royalties	-	-	-	-	-	-	-	-	-	-	-	-	-	3	56	272	592
Other Revenues (upfronts, milestones, grants, etc.)	156	318	41	68	644	143	896	107	118	185	141	551	536	470	548	435	247
Total Revenues	156	318	41	68	644	143	896	107	118	186	144	554	552	533	779	1,076	1,496
% y/y growth	3%	104%	-9%	19%	524%	27%	182%	161%	74%	-71%	0%	-38%	0%	-3%	46%	38%	39%
COGs	-	-	-	-	-	-	-	-	-	0	0	0	2	6	18	37	66
% of sales	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	2%	3%	4%
Gross Income	156	318	41	68	644	143	896	107	118	186	144	554	551	527	761	1,039	1,430
% gross margin	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	99%	98%	97%	96%
G&A Expense	24	36	11	18	33	37	74	35	55	40	45	174	130	137	147	157	168
% of sales	16%	11%	27%	26%	5%	26%	8%	32%	47%	22%	31%	31%	24%	26%	19%	15%	11%
S&M Expense	3	4	-	-	-	-	25	-	-	23	27	50	135	142	149	156	164
% of sales	2%	1%	0%	0%	0%	0%	3%	0%	0%	12%	19%	9%	24%	27%	19%	15%	11%
R&D Expense	219	323	83	94	121	129	427	117	149	160	174	600	710	732	754	776	800
% of sales	140%	102%	203%	140%	19%	90%	48%	109%	127%	86%	121%	108%	129%	137%	97%	72%	53%
GILD Profit (Loss) Share Expense, net	-	-	-	-	-	-	-	-	-	(1)	16	15	59	85	37	-	-
% of sales	0%	0%	0%	0%	0%	0%	0%	0%	0%	-1%	11%	3%	11%	16%	5%	0%	0%
Operating Income	(90)	(45)	(53)	(44)	491	(23)	370	(45)	(86)	(36)	(118)	(285)	(484)	(569)	(324)	(50)	299
% operating margin	na	na	na	na	76%	na	41%	na	na	na	na	na	na	na	na	na	20%
Total financial income (expense)	(26)	16	5	(3)	(146)	(76)	(220)	(6)	(28)	(6)	(6)	(46)	(15)	(10)	(8)	(8)	(8)
Pre-tax income	(116)	(29)	(49)	(47)	344	(99)	150	(50)	(115)	(42)	(124)	(331)	(499)	(579)	(332)	(58)	291
% pre-trax income margin	na	na	na	na	53%	na	17%	na	na	na	na	na	na	na	na	na	19%
Tax expense (benefit)	0	0	0	0	(17)	17	0	0	0	-	-	-	-	-	-	-	-
% tax rate	na	na	na	na	-3%	na	0%	na	na	na	na	na	na	na	na	na	0%
Net income (loss)	(116)	(29)	(49)	(47)	361	(115)	150	(51)	(115)	(42)	(124)	(331)	(499)	(579)	(332)	(58)	291
% net margin	na	na	na	na	56%	na	17%	na	na	na	na	na	na	na	na	na	19%
IFRS EPS	(2.34)	(0.56)	(0.89)	(0.86)	5.83	(1.82)	2.49	(0.78)	(1.77)	(0.63)	(1.81)	(5.24)	(7.67)	(8.64)	(4.82)	(0.82)	3.97
% y/y growth	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Weighted Average Diluted Shares	49.5	52.1	54.6	54.8	62.0	63.5	60.1	64.8	65.1	66.9	68.6	63.1	65.0	67.0	69.0	71.0	73.2
% y/y growth	5%	5%	7%	7%	14%	17%	15%	19%	19%	8%	8%	5%	3%	3%	3%	3%	3%

Source: Company information and Stifel estimates

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Galapagos NV (GLPG) as of October 14, 2020 (in USD)



*Represents the value(s) that changed.
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For a price chart with our ratings and target price changes for GLPG go to <http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=GLPG>

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