



Galapagos

FY19 first take: not too much in the financials in its last pre-commercial year

Galapagos reported FY19 results this evening, in what is likely the company's last financial year as a pre-commercial biotech. Revenues and operating expenses for FY19 were generally in-line with our expectations, with the primary delta to our forecasts coming from the one-off, non-cash fair value loss on the GILD share subscription agreement when GLPG's stock price rose following the announcement of the transaction but before the equity issues took place (this totals -€182mm, most of which was recognized in 3Q), and -€50mm in FX losses due to the rising USD, -€35mm of which have been realized.)

Operating cash burn for 2019 (which excludes any impact from the GILD deal) was -€334, slightly ahead of our forecasts. For 2020, GLPG expects operating cash burn of €420-440mm. Whilst this is well ahead of our forecast of €309mm, with the benefit of hindsight, we likely should have been modelling a bigger y/y increase, given the advancement of the company's clinical programs. GLPG ended 2019 with €5.8bn in cash.

In terms of allocating the upfront payment, €667mm was immediately recognized for Gilead's opting in for pipeline asset GLPG 1690, €641mm in deferred revenues were recorded for Galapagos' contribution to filgotinib (to be recognized over 4-5 years) and €2.3bn in deferred revenues were recorded for Gilead's obtaining access to Galapagos' R&D platform (to be recognized over the deal's 10-year duration).

The YTD strength in GLPG shares has been a high topic of investor inquiries really since 4Q19 began (see: Christmas comes early for GLPG holders - thoughts on the recent outperformance (13/12/19)). Whilst we can't point to any one reason for the strong performance of shares, the message from the company continues to pitch 2020 as a catalyst-rich year (see: European Mid Cap Pharmaceuticals: Thoughts into 4Q19 earnings: No signs of this bull getting the horns (20/01/20)), with the next catalyst likely being the FDA acceptance of the filgotinib filing, which should be happening any day now.

Galapagos will be hosting its 4Q19 conference call tomorrow (21/02/20) at 1:00pm BST / 8:00am EDT; UK dial-in +44 330 336 9105 / US dial-in +1-323-794-2423; passcode 8371984.

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INDUSTRY UPDATE

Galapagos

Stock Rating/Industry View: Overweight/Positive

Price Target: EUR 225.00

Price (20-Feb.2020): EUR 242.70

**Potential Upside/Downside: -7%
Tickers: GLPG NA / GLPG.AS**

European Mid Cap Pharmaceuticals

Emily Field, CFA
 +44 (0)20 7773 6263
 emily.field@barclays.com
 Barclays, UK

Emmanuel Papadakis, PhD CFA
 +44 (0)20 3134 1246
 emmanuel.papadakis@barclays.com
 Barclays, UK

Jameel Bakhsh, CFA
 +44 (0)20 7116 7038
 jameel.x.bakhsh@barclays.com
 Barclays, UK

Brian Balchin, ACA
 +44 (0)20 3134 0137
 brian.balchin@barclays.com
 Barclays, UK

Sidhartha Modi
 +91 (0)22 6175 1326
 sidhartha.modi@barclays.com
 Barclays, UK

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