

Galapagos NV

Our thoughts post the 4Q19 call: we see early signs of R&D acceleration; but we await evidence of execution

Biotechnology | Increase Target Price

GLPG.AS

Target price (12M, €)
220.00

Neutral

While a relatively quieter 4Q for Galapagos, we are encouraged by early signs of R&D acceleration. We are updating our model to reflect steady progress in the earlier stage pipeline as we await various clinical updates in 2020. Overall, we are beginning to see signs of R&D acceleration with anticipated progress in >80 clinical trials in 2020. We are increasing our TP to € 220 (from € 183) to reflect increasing R&D productivity, giving additional credit to Galapagos' discovery platform, and we are encouraged by the increased R&D investment included in guidance for 2020. We continue to believe that the Gilead collaboration offers Galapagos meaningful resources and expertise, and think it is likely that Galapagos will be successful in developing additional revenue-generating assets over the long term. Despite our more optimistic view on the Galapagos platform, we maintain that near term it is not enough to change our thesis on Galapagos. With >€ 5.5B cash offering downside support and flexibility, and multiple shots on goal in development, we think progress in 2020 is likely to skew positive. On the balance, given the limited visibility into the company's earlier efforts, it is difficult to assign greater value in the absence of data. **We are increasing our TP to €220 (from €183), while maintaining our Neutral rating.**

Filgotinib likely to face commercial headwinds absent a significantly differentiated label. We believe that disrupting AbbVie's first-to-market advantage with Rinvoq coupled with the company's prowess in marketing inflammation therapeutics (Humira, Skyrizi, Rinvoq) will be challenging. In our conversations with investors, we get the sense there is a disconnect between Gilead analysts and Galapagos analysts in the assessment of filgotinib's commercial potential. We think estimates of filgotinib are much higher in GLPG models vs. GILD models.

Model Updates: We've updated our model with 4Q19 actuals and made changes to revenue and cost estimates to reflect company guidance for 2020. We now forecast 2020 GAAP EPS of €(0.78), from €0.67, driven by increased R&D spending per company guidance. Our €220 TP is based on a sum-of-the parts DCF using 4% terminal growth and 8% WACC, reflective of accelerating R&D efforts and the risk mitigation and earlier monetization of assets offered by the Gilead collaboration.

Risks: Clinical, commercial, market and regulatory.

Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
EPS (CS adj.) (€)	2.49	-0.78	-1.02	0.76
Prev. EPS (€)	4.25	0.67	1.59	2.68
Revenue (€ m)	895.9	612.7	667.5	824.0
EBITDA (€ m)	396.2	-15.6	-27.1	84.2
P/OCF (x)	62.3	214.8	389.8	118.1
EV/EBITDA (current)	36.4	-929.0	-533.1	170.2
Net debt (€ m)	-1,292	-1,239	-1,246	-1,369
ROIC (%)	338.68	-43.76	-63.41	27.29
Number of shares (m)	64.67	IC (current, € m)		109.18
Net debt (Next Qtr., € m)	-	Dividend (current, €)		-
Net debt/tot eq (Next Qtr., %)	-			-

Source: Company data, Refinitiv, Credit Suisse estimates

Previous target price (12M, €)	183.00
Price (20 Feb 20, €)	242.70
52-week price range	249.50 - 84.54
Market cap (€ m)	15,694.63
Enterprise value (€ m)	14,455

Research Analysts

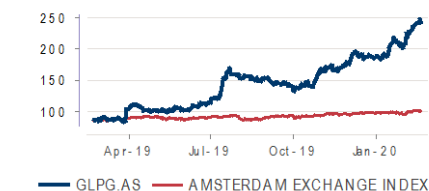
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Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2019A	-0.89	-0.86	6.03	-1.91
2020E	-	-	-	-
2021E	-	-	-	-

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Galapagos NV (GLPG)

Price (20 Feb 2020): €242.7

Target Price: (from 183.00) 220.00

Analyst: Evan Seigerman

Rating: Neutral

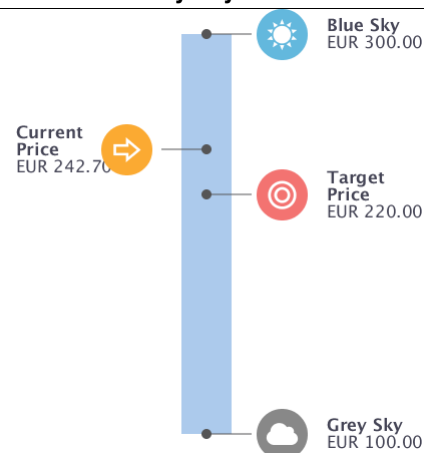
Income Statement	12/19A	12/20E	12/21E	12/22E
Revenue (€ m)	895.9	612.7	667.5	824.0
EBITDA (€ m)	396	(16)	(27)	84
Depr. & amort.	(26)	(56)	(60)	(52)
EBIT (€)	370	(70)	(87)	32
Net interest exp	(220)	22	22	22
PBT (€)	150	(49)	(65)	54
Income taxes	(0)	-0	-0	(1)
Profit after tax	150	(49)	(65)	53
Minorities	-	-	-	-
Net profit (€)	150	(49)	(65)	53
Reported net income (€)	150	(49)	(65)	53
Other NPAT adjustments	0	0	0	0
Adjusted net income	150	(49)	(65)	53
Cash Flow	12/19A	12/20E	12/21E	12/22E
EBIT	370	(70)	(87)	32
Net interest	(220)	22	22	22
Change in working capital	(32)	17	(4)	(10)
Cash flow from operations	180	70	40	144
CAPEX	(179)	(123)	(33)	(21)
Free cashflow to the firm	1	(52)	7	123
Acquisitions	-	-	-	-
Divestments	-	-	-	-
Cash flow from investments	(179)	(123)	(33)	(21)
Net share issue/(repurchase)	0	0	0	0
Dividends paid	0	0	0	0
Changes in Net Cash/Debt	1	(52)	7	123
Balance Sheet (€)	12/19A	12/20E	12/21E	12/22E
Assets				
Cash & cash equivalents	1,292	1,239	1,246	1,369
Account receivables	52	35	38	47
Other current assets	20	20	21	21
Total current assets	1,363	1,295	1,305	1,438
Total fixed assets	176	244	218	186
Investment securities	-	-	-	-
Total assets	1,627	1,627	1,610	1,711
Liabilities				
Total current liabilities	221	221	221	221
Total liabilities	226	227	227	227
Shareholder equity	1,401	1,400	1,383	1,484
Total liabilities and equity	1,627	1,627	1,610	1,711
Net debt	(1,292)	(1,239)	(1,246)	(1,369)
Per share	12/19A	12/20E	12/21E	12/22E
No. of shares (wtd avg)	60	62	64	70
CS adj. EPS	2.49	(0.78)	(1.02)	0.76
Prev. EPS (€)	4.25	0.67	1.59	2.68
Dividend (€)	0.00	0.00	0.00	0.00
Free cash flow per share	0.02	(0.84)	0.10	1.76
Earnings	12/19A	12/20E	12/21E	12/22E
Sales growth (%)	181.9	(31.6)	8.9	23.5
EBIT growth (%)	926.4	(119.0)	(24.1)	136.4
Net profit growth (%)	612.1	(132.4)	(34.4)	181.8
EPS growth (%)	543.5	(131.3)	(30.5)	174.9
EBITDA margin (%)	44.2	(2.5)	(4.1)	10.2
EBIT margin (%)	41.3	(11.5)	(13.1)	3.9
Pretax margin (%)	16.7	(7.9)	(9.8)	6.5
Net margin (%)	16.7	(7.9)	(9.8)	6.5
Valuation	12/19A	12/20E	12/21E	12/22E
EV/Sales (x)	16.08	23.59	21.65	17.38
EV/EBITDA (x)	36.4	(929.0)	(533.1)	170.2
EV/EBIT (x)	38.9	(205.9)	(165.8)	451.2
P/E (x)	97.5	(311.0)	(238.4)	318.4
Price to book (x)	9.4	9.4	9.4	10.0
Asset turnover	0.6	0.4	0.4	0.5
Returns	12/19A	12/20E	12/21E	12/22E
ROE stated-return on (%)	9.8	(3.1)	(4.0)	3.2
ROIC (%)	338.7	(43.8)	(63.4)	27.3
Gearing	12/19A	12/20E	12/21E	12/22E
Net debt/equity (%)	(92.2)	(88.5)	(90.1)	(92.2)
Interest coverage ratio (X)	1.7	3.2	4.0	(1.4)
Quarterly EPS	Q1	Q2	Q3	Q4
2019A	-0.89	-0.86	6.03	-1.91
2020E	-	-	-	-
2021E	-	-	-	-

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

Galapagos is a clinical stage biotech company focused on developing novel treatments for rheumatoid arthritis, inflammatory bowel disease, idiopathic pulmonary fibrosis, and atopic dermatitis.

Blue/Grey Sky Scenario



Our Blue Sky Scenario (€)

(from 225.00) 300.00

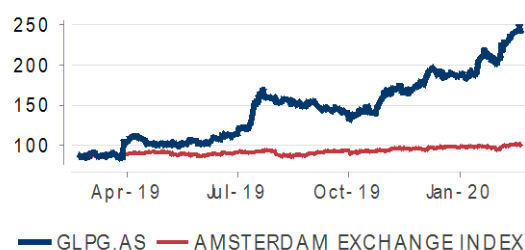
Our blue sky valuation of €300 is based on 100% POS of filgotinib in rheumatoid arthritis, ulcerative colitis and Crohn's disease, as well as better-than-expected data from the pipeline drugs.

Our Grey Sky Scenario (€)

100.00

Our grey sky valuation of €100 is based on clinical failure of the developmental pipeline, but includes EUR >\$5B of value from cash-on-hand adjusted for the Gilead transaction.

Share price performance



On 20-Feb-2020 the AMSTERDAM EXCHANGE INDEX closed at 622.12
Daily Feb21, 2019 - Feb20, 2020, 02/21/19 = €87.22

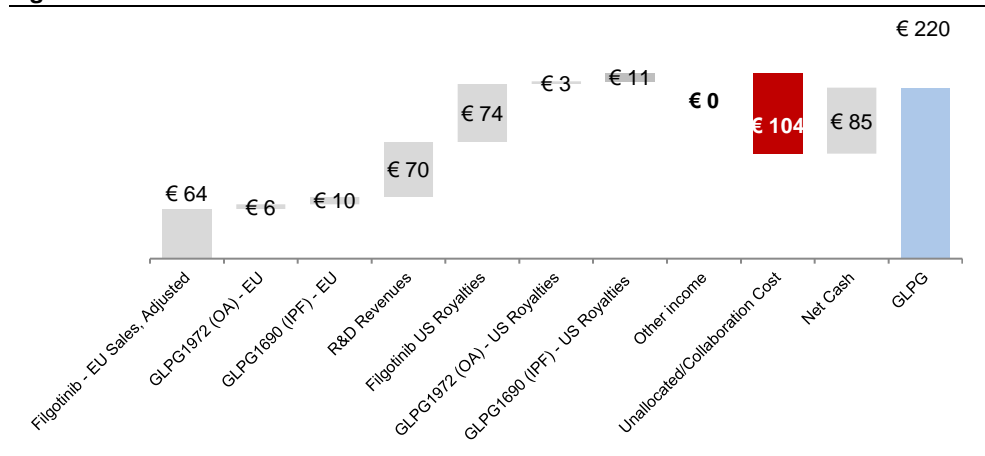
Pipeline updates: Heading into 2020, topline data is expected for filgotinib in ulcerative colitis (ph 3, 1H20), GLPG1205 in idiopathic pulmonary fibrosis (ph 2, 2H20), GLPG1690 in systemic sclerosis (ph 2, 2H20), and GLPG1972 in OA (ph 2b, 2H20). We will also see initial data for the first two assets from the Toledo program as well, and the company is expected to disclose the target and mechanism later this year. On the earlier pipeline, progress is expected in >80 clinical trials along with additional development of pre-clinical candidates. Approval for filgotinib in RA is expected in the US, Europe and Japan.

Figure 1: Model Changes

Galapagos NV (GLPG)	2019A Actual	2020E			Cons
		Prior	CS Current	Change	
Filgotinib - EU Sales, Adjusted	€ 0	€ 10	€ 10	€ 0	€ 7
Total Revenue (CS)	€ 896	€ 512	€ 613	€ 100	€ 607
COGS	€ 0	€ 1	€ 1	€ 0	€ 4
R&D	€ 427	€ 416	€ 577	€ 161	€ 602
SG&A	€ 98	€ 88	€ 101	€ 13	€ 144
Operating Income (GAAP)	€ 370	€ 3	(€ 70)	(€ 73)	(€ 48)
Profit (Loss) before Tax	€ 150	€ 45	(€ 49)	(€ 94)	€ 16
Tax (expense) benefit	(€ 0)	(€ 0)	€ 0	€ 0	€ 0
Net Income (CS - GAAP)	€ 150	€ 45	(€ 49)	(€ 93)	(€ 30)
EPS - Diluted (CS - GAAP)	€ 2.49	€ 0.67	(€ 0.78)	(€ 1.45)	(€ 0.35)

Source: Company data, Credit Suisse estimates, FactSet

Figure 2: Sum-of-the-Parts DCF Valuation



Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 20-Feb-2020)

Galapagos NV (GLPG.AS, €242.7, NEUTRAL, TP €220.0)

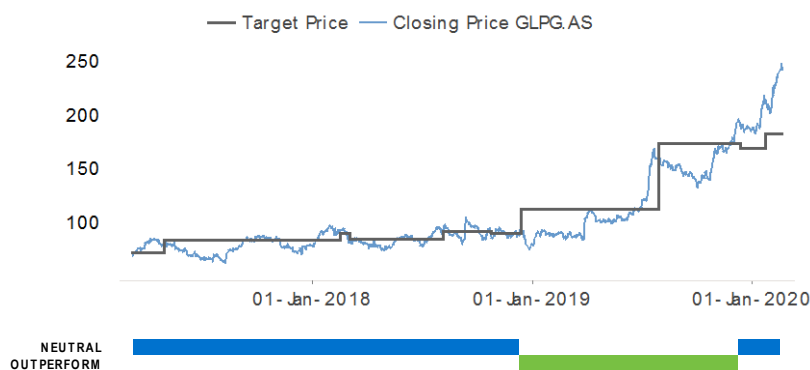
Disclosure Appendix

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3-Year Price and Rating History for Galapagos NV (GLPG.AS)

GLPG.AS	Closing Price	Target Price	
Date	(€)	(€)	Rating
08-Mar-17	69.75	72.00	N
30-Apr-17	80.46	84.00	
16-Feb-18	93.48	90.00	
04-Mar-18	81.84	85.00	
06-Aug-18	94.14	92.00	
25-Oct-18	86.04	90.00	
13-Dec-18	95.88	113.00	O
09-Jul-19	122.15		*
30-Jul-19	158.30	174.00	O
13-Dec-19	188.05	169.00	N
23-Jan-20	211.20	183.00	



* Asterisk signifies initiation or assumption of coverage.

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Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

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Neutral/Hold*	39%	(26% banking clients)
Underperform/Sell*	13%	(22% banking clients)
Restricted	2%	

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Target Price and Rating

Valuation Methodology and Risks: (12 months) for Galapagos NV (GLPG.AS)

Method: Our €220 target price and NEUTRAL rating for Galapagos NV are based on a DCF (discounted cash flow) valuation. We use a 8% WACC (weighted average cost of capital) and forecast discounted cash flows through 2029, with terminal growth rate of 4% thereafter.

Risk: Risk to our €220 target price and NEUTRAL rating: Clinical and developmental: Some of our valuation and share upside potential is based on outcomes from clinical trials. If any of Galapagos' late-stage assets are shown to be clinically ineffective or unsafe, we would expect negative pressure on shares. Regulatory: Food and Drug Administration (FDA), European Medicines Agency (EMA), and other regulatory body approvals are required for Galapagos to market and sell its therapeutics. Any delay or outright rejection of the approval of investigational assets could have a negative impact on the future cash flows and value of Galapagos shares. Furthermore, FDA or EMA could revoke the marketing authorization of any marketed product due to safety or efficacy concerns. Commercial: EU sales and US sales royalties drive the majority of our cash flow and earnings estimates. If sales are worse than our or consensus expectations, we could see a negative impact on shares. External/Market Risk: Biotechnology remains a volatile sector that can be affected by external factors, including drug pricing legislation, intellectual property law, healthcare policy, and the overall economy. Negative policy developments and/or a weakening of the economy could affect Galapagos' share price.

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This research report is authored by:

Credit Suisse Securities (USA) LLC.....Evan Seigerman

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