

## GALAPAGOS

Healthcare  
| Biotech

15th July 2019

**BUY**

**Fair Value** EUR180 vs. EUR140  
(+44%)  
**Share price** EUR125.20  
**EPS 3Y Cagr** NM

### USD5.1bn right of first review on Galapagos existing and future pipeline

#### USD5.1bn upfront for a 10 year R&D collaboration

GLPG and Gilead are strengthening their relationship beyond filgotinib in a USD5.1bn deal including USD3.95bn upfront payment (to be recognised over the period of the agreement) and USD1.1bn equity investment at EUR140.6/share raising Gilead's stake in GLPG from 12.3% to 22%. Of note is that warrants plan (to be voted by GLPG shareholders) should enable Gilead to go as high as 29.9%. A 10 year standstill agreement has been put in place. In a nutshell, Gilead will have a right of first review on every GLPG asset once phase II is completed for a period of 10 years (potential 3 years expansion). During the call, both CEO's mentioned that discussions to expand the initial collaboration prior to Daniel O'Day arrival as CEO of Gilead. We believe that recent news on MANTA provided sufficient relief to catalyse this transaction.

#### Rich deal highlights a very late stage pipeline...

On top of the USD5.1bn deal structured in an upfront payment and equity investment, specific terms have been negotiated for GLPG1690 in IPF, GLPG1972 in OA (detailed review in our note here). 1/ For GLPG1960, currently in phase III (futility analysis in 2020, readout in 2021), GLPG is eligible to USD325m milestone upon FDA approval (EU rights to Servier) and will be reimbursed 50% of the phase III costs. 2/ Turning to GLPG1972 in OA, GLPG is eligible to a USD250m opt-in following phase IIb readout in 2020 (+USD200m should specific secondary endpoint be met) as well as up to USD550m in milestones. GLPG is eligible to royalties in the 20-24% range for both assets.

#### ... and Galapagos' R&D capabilities

While Gilead now has a right of first review on all assets that are to be developed over the next 10 years, GLPG keeps a bit of independence. Indeed, it will have full control on research and early stage development up until phase II with Gilead will having a right of first review once phase II is completed. The opt-in payment price for every asset that would come from GLPG pipeline has been fixed at USD150m. The independence of GLPG will have to be nuanced in our view as Daniel O'Day will join the board of the company.

#### Filgotinib's deal term slightly changed

The terms governing the 2015 filgotinib agreement are slightly amended with 50% of the development costs now incurred to GLPG (vs 20% previously), hereby involving more the company's in the product's development strategy. While the terms states that GLPG will have an expanded commercial role, the rest of the terms from the initial agreement remains unchanged (USD1.27bn milestones, 20-30% royalties, co-commercialisation in Europe Top 5 and exclusive commercial rights in BeNeLux).

#### Fair value up c.30% to EUR180

Adjusting for the upfront and equity investment as well as the detailed structure of the deal per assets in the clinic, our new fair value is EUR180/share. We have assumed the low-end of the achievable milestones ranges and excluded the USD200m milestone based on 2nd endpoints for GLPG1972). EUR5.4bn in cash represents EUR87/share.

#### Market Data

Bloomberg / Reuters	GLPG BB/GLPG.BR
Market Cap.	EUR6,864m
E.V.	EUR5,716m
Free Float	65.6%
Avg. Daily volume (6m)	399.2
12m high / low	EUR125.2 / EUR75.6
Ytd Perf.	55.4%

EURM	12/17	12/18e	12/19e	12/20e
Sales	155.9	317.8	112.9	196.2
% Change			-64.5%	73.8%
EBITDA	NM	NM	NM	NM
% Change		ns	ns	ns
EBIT	-89.8	-44.8	-236.4	-128.7
% Change		50.1%	NS	45.5%
Net Income	-115.7	-29.3	-232.3	-111.8
% Change		74.7%	NS	51.9%
ROE	NM	NM	NM	NM

	12/17	12/18e	12/19e	12/20e
EV/Sales	36.7x	17.5x	13.0x	8.2x
EV/EBITDA	x	x	x	x
EV/EBIT	NS	NS	NS	NS
EPS	-2.33	-0.56	-3.77	-1.82
% change		75.9%	NS	51.9%
P/E	NM	NM	NM	NM
Div Yield	NM	NM	NM	NM

#### Next Catalyst :

#### Last FV Change:

2019-3-29, Filgotinib likely to FINCH a great share of the RA market

#### Last Reports:

2019-7-2, Filgo to be filed in '19 : bullish conclusions from pre-NDA meeting

**Hugo Solvet**

33(0) 1 56 68 75 57

hsolvvet@bryangarnier.com

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