



Healthcare

24th February 2020

GALAPAGOS

- Healthcare
- Biotech

NEUTRAL

Fair Value	EUR235 vs. EUR185 (-6%)
Share price	EUR249.50
EPS 3Y Cagr	-60.6%

Strong momentum likely to continue in 2020

R&D's effort and filgo's launch will drive OPEX this year

Galapagos announced Thursday evening their financial results following a transformational year for the company. Group revenues reached EUR895.9m (cs: EUR825m) while OPEX surged to EUR526m (cs: EUR499m) resulting in an operational cash burn of EUR334m within the guided range. At the end of December 2019, cash and cash equivalents amounted to an impressive EUR5.78bn (cs: EUR5.6bn). For 2020, the co. is expecting a strong increase of its cash burn mainly driven by a significant increase in R&D costs of 35%-40% as well as expenses related to filgotinib's commercial launch costs in EU5 and Benelux. It should lead to an operating cash burn between EUR420m and EUR450m (including filgotinib milestones).

2020 will be filgotinib's year

With its launch this year in Rheumatoid Arthritis (RA), we expect filgotinib to be the fourth JAK inhibitor on the market in this indication. Part of a class of next gen JAKi (compared to Xeljanz, a 1st gen pan-JAKi), we believe that the differentiation will be supported by safety/tolerability, dosing and price. Beyond RA, we are looking forward to the phase III topline data in Ulcerative Colitis expected by mid-year 2020, one of the many additional indications that should support filgo's long-term value creation. Moreover, we are anticipating several other readouts from early and mid-stage assets which could further validate company's platform.

'1972, IPF's assets and TOLEDO will be in the spotlight this year

Starting with '1972 which could become a first-in-class disease-modifying osteoarthritis drug and whose phase IIb topline data are expected in H220. These results are important for several reasons: 1/ with no competition and the market, if approved this asset could become Galapagos' most significant value driver in the near future and 2/ this specific clinical trial could trigger Gilead decision to opt-in or not. Regarding the IPF's portfolio, two clinical updates are anticipated in H220 with topline results of '1205 PINTA phase II and '1690 NOVESA in Systemic Sclerosis (a small exploratory ph II in 30 patients), while '1690 ISABELA next update will be futility analysis in early 2021 and topline data in 2022. Finally, we should get significant updates on the TOLEDO program beginning with targets' disclosure this year.

FV increased to EUR235, Neutral reiterated

While our Galapagos' valuation was supported by a sum-of-the-parts (SOTP) valuation based on a 2020-2035 scenario, it is now backed by a 2020-2030 discounted cash flow (DCF) method making it stand out at EUR235. We believe it better suits the profile of the company now that we are expecting first sales to be booked in the coming months. However, even with a 3% perpetuity growth rate, we are struggling to justify current stock's price of EUR250. Therefore, we are increasing our FV significantly, but reiterating our Neutral reiterating, as the recent stock's rally makes it difficult to justify a Buy rating even if the fundamentals are stronger than ever.

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Market Data

Bloomberg / Reuters	GLPG BB/GLPG.BR
Market Cap.	EUR16,134m
E.V.	EUR14,287m
Free Float	65.6%
Avg. Daily volume (6m)	470.3
12m high / low	EUR249.5 / EUR84.5
Ytd Perf.	33.8%

EURM	12/19	12/20e	12/21e	12/22e
Sales	895.9	758.6	568.8	847.9
% Change		-15.3%	-25.0%	49.1%
EBITDA	NM	NM	NM	NM
% Change		ns	ns	ns
EBIT	370.3	-43.6	-258.7	6.9
% Change			NS	NS
Net Income	150.1	-37.8	-254.3	9.2
% Change			NS	NS
ROE	NM	NM	NM	NM

	12/19	12/20e	12/21e	12/22e
EV/Sales	15.6x	19.0x	26.5x	18.2x
EV/EBITDA	x	x	x	x
EV/EBIT	37.6x	NS	NS	2250.8x
EPS	2.32	-0.58	-3.93	0.14
% change			NS	NS
P/E	NS	NM	NM	NS
Div Yield	NM	NM	NM	NM

Next Catalyst : Q1 results (8th of May)

Last FV Change:

[2019-12-20, Filgotinib filed in the US by Gilead with a priority voucher](#)

Last Reports:

[2020-2-21, GALAPAGOS \(Neutral, FV Under Review\) | Strong momentum likely to continue in 2020](#)

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BUY ratings 45.3%

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