

First Read

Galapagos NV

2Q'21 Results: Cash burn guidance unchanged, clinical progress is what matters

Getting the TYK2 dose right

Galapagos has printed 2Q21 results, with a net result of EUR-55m, against consensus of EUR-45m. Operational cash burn guidance for the year was confirmed: EUR580-620m. Neither of these are the most important things for investors - the company has EUR5b of cash and is in the process of pursuing re-prioritised efforts following several major trial failures. Recently released data for two of these projects GLPG3667 (TYK2) and GLPG3970 (SIK2/3, Toledo programme) - our take [here](#) - meant that there looks to be little incremental in today's release although the company has revealed that 3667 is in an extended dose escalation study in healthy volunteers. We expect there to be differences of opinion on whether this signals problems or reads positively because steps are being taken to make sure the doses taken forward is optimal. Either way a phase IIb dose finding trial in psoriasis is still planned for next year and a phase II study in UC will also commence. GLPG4399 (SIK3) will be tested in healthy volunteers this year and a follow on to 3970 with improved pk characteristics should also be in the clinic next year. Finally, and perhaps most interestingly to us, completion of recruitment for GLPG2737's phase IIa MANGROVE trial in polycystic kidney disease is envisaged this year; we are surprised not to have heard more about this molecule (ex cystic fibrosis where ABBV has rights) so far.

Still a tricky investment case

The Galapagos equity story is notable among our coverage in that the shares trade sub estimated '21 year end cash. We continue to believe that this is not enough reason on its own to turn more positive - spend on trials will continue, and on an end '23 basis we estimate that cash would amount to cEUR47 per share (with the expectation that this will change according to how clinical programmes progress). Galapagos has stated it is looking for business development opportunities both to fill the hole left in its mid stage pipeline by trial failures and for a market-ready asset ex-US, with more importance placed on the former. There does not appear to be anything new to tell investors on this front at the moment and management have said that finding the right projects could take some time, but this is probably the most meaningful source of catalysts in 2H21 if anything happens. Absent deal making, we think investors will more or less by default be focussed on the fortunes of the TYK2 until / unless another exciting pipeline asset emerges. Per above we have one eye on 2737 to see if it could be interesting but it has proved a dark horse so far and we do not expect to hear anything in the near future.

Valuation:

We value Galapagos shares using NPV SOTP and have not changed our estimates.

Equities		
Belgium		
Biotechnology		
12-month rating	Neutral *	
12m price target	€77.00	
Price (05 Aug 2021)	€51.05	
RIC: GLPG.AS	BBG: GLPG NA	
Trading data and key metrics		
52-wk range	€164.50-48.50	
Market cap.	€3.34b/US\$3.95b	
Shares o/s	65.4m (ORD)	
Free float	92%	
Avg. daily volume ('000)	484	
Avg. daily value (m)	€28.1	
Common s/h equity (12/21E)	€2.62b	
P/BV (12/21E)	1.3x	
Net debt to EBITDA (12/21E)	19.5x	
EPS (UBS, diluted) (€)		
	UBS	Cons.
12/21E	(2.61)	(3.18)
12/22E	(2.62)	(3.61)
12/23E	(0.73)	(3.12)

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Highlights (€m)	12/18	12/19	12/20	12/21E	12/22E	12/23E	12/24E	12/25E
Revenues	318	896	530	539	576	764	659	500
EBIT (UBS)	(45)	370	(179)	(123)	(179)	(51)	(182)	(361)
Net earnings (UBS)	(29)	150	(311)	(173)	(179)	(51)	(182)	(361)
EPS (UBS, diluted) (€)	(0.56)	2.42	(4.78)	(2.61)	(2.62)	(0.73)	(2.51)	(4.86)
DPS (net) (€)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net (debt) / cash	1,291	1,836	2,106	2,071	1,997	2,048	1,985	1,857
Profitability/valuation	12/18	12/19	12/20	12/21E	12/22E	12/23E	12/24E	12/25E
EBIT (UBS) margin %	(14.1)	41.3	(33.7)	(22.9)	(31.2)	(6.7)	(27.7)	(72.2)
ROIC (EBIT) %	43.0	76.0	(22.0)	(21.5)	(31.1)	(8.5)	(29.0)	(65.9)
EV/EBITDA (UBS core) x	NM	14.1	NM	NM	NM	NM	NM	NM
P/E (UBS, diluted) x	NM	52.8	(32.8)	(19.6)	(19.5)	(70.1)	(20.3)	(10.5)
Equity FCF (UBS) yield %	(3.5)	45.5	(5.1)	(17.1)	(17.8)	(14.2)	(17.8)	(17.1)
Dividend yield (net) %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of €51.05 on 05-Aug-2021 19:06:01 CEST

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Forecast returns

Forecast price appreciation	+50.8%
Forecast dividend yield	0.0%
Forecast stock return	+50.8%
Market return assumption	4.2%
Forecast excess return	+46.6%

Company Description

Galapagos is a Belgian clinical-stage biotechnology company, focused on the discovery and development of small molecule drugs. Its most advanced asset is filgotinib, a JAK1 inhibitor, partnered with Gilead, in clinical development for several autoimmune diseases, including rheumatoid arthritis and inflammatory bowel disease. Gilead owns c26% of the shares, as the result of a major long-term collaboration.

Valuation Method and Risk Statement

We value Galapagos shares on an NPV sum of the parts basis. The main risks to our Galapagos thesis include: (1) underperformance of filgotinib in major markets, (2) disappointing data for the Toledo programme, or the TYK2. Risks for the pharmaceutical and biotechnology industries generally include political risks, government oversight of the approval and ongoing manufacturing process, discovery bottleneck and pipeline attrition, competitive developments and patent challenges and expiries.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	53%	32%
Neutral	FSR is between -6% and 6% of the MRA.	36%	30%
Sell	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 June 2021.

1:Percentage of companies under coverage globally within the 12-month rating category.

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Company Name	Reuters	12-month rating	Price	Price date
Galapagos NV ^{13,16,20}	GLPG.AS	Neutral (CBE)	€51.05	05 Aug 2021

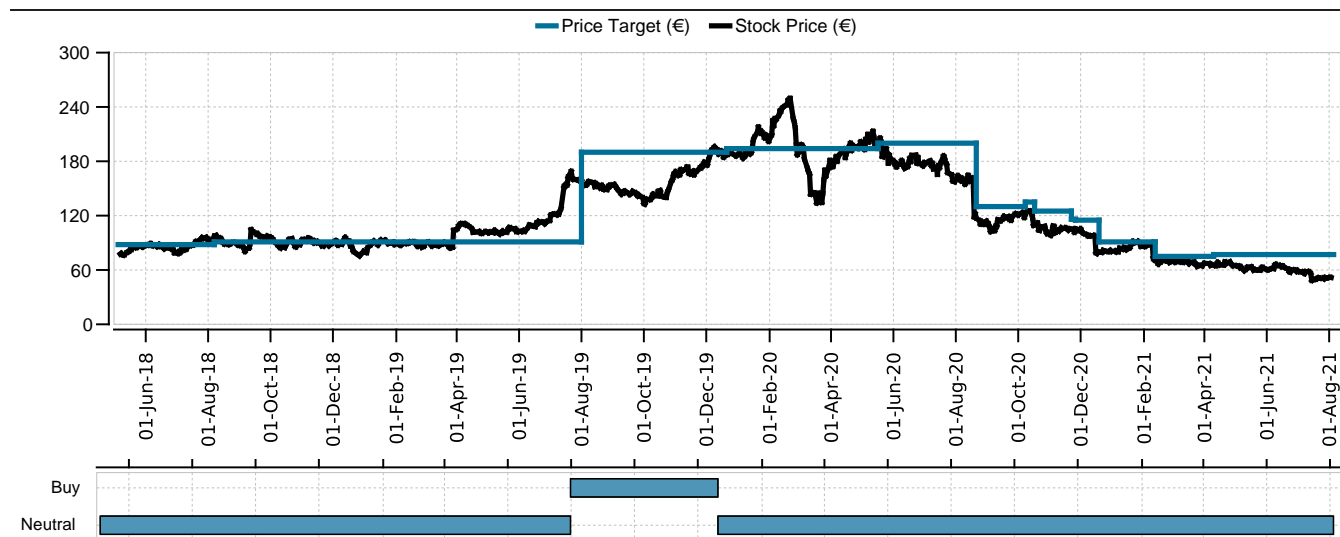
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Galapagos NV (€)



Date	Stock Price (€)	Price Target (€)	Rating
2018-05-04	76.36	88.00	Neutral
2018-08-06	94.14	91.00	Neutral
2019-07-31	157.90	190.00	Buy
2019-12-20	186.60	194.00	Neutral
2020-05-16	200.90	200.00	Neutral
2020-08-20	121.95	130.00	Neutral
2020-10-07	118.00	135.00	Neutral
2020-10-16	109.30	125.00	Neutral
2020-11-21	105.35	116.00	Neutral
2020-11-25	101.65	115.00	Neutral
2020-12-18	80.24	91.00	Neutral
2021-02-11	71.22	75.00	Neutral
2021-04-09	65.55	77.00	Neutral

Source: UBS; as of 04-Aug-2021

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