

# Galapagos NV (GLPG)

## CATALYST ALERT

Rating	<b>NEUTRAL</b>
Price (02-Jan-18, €)	77.88
Target price (€)	84.00
52-week price range (€)	87.90 - 59.95
Market cap(€ m)	3,967

Target price is for 12 months.

### Research Analysts

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## Encouraging Updates Kick Off Pivotal Year for Cystic Fibrosis Franchise

- FLAMINGO Study Data and Execution Should be Viewed Positively:**  
 GLPG released topline results from the FLAMINGO study of their C1 corrector GLP2222 as monotherapy in homozygous Class II F508del patients with cystic fibrosis (CF). The safety data looked especially impressive with only one patient out of 48 having a serious adverse event, and that patient having two pulmonary exacerbations that occurred in the follow up period after stopping study drug. There was a statistically significant benefit seen on sweat chloride in what appears to be the highest-dose treatment arm (Dose C), given the decrease was described by the company as being dose-dependent. While we would like to see more details on the efficacy, even signs of efficacy with monotherapy bode well for the product being able to ultimately show a meaningful benefit as part of a triple combination, although matching the FEV1 improvement that VRTX has shown with its triple may be tough to do. In addition, we are encouraged that GLPG was able to complete the FLAMINGO study in a timely manner given concerns we have had on their ability to compete with VRTX in recruiting studies in the US in this competitive space.
- Focus Remains on Triple Therapy, With Data Expected in the Summer:**  
 GLPG also announced that they have started dosing in a Phase 1 triple combination study in Belgium of the potentiator GLPG3067 plus the C1 corrector GLPG2222 and C2 corrector GLPG2737. Regulatory discussions around the potentiator GLPG 2451 continue, with its triple combination study (2222+2737+2451) now expected to start later this quarter (as opposed to 4Q 2017), although topline data is still expected in the summer. The Phase 2 PELICAN study with the GLPG2737 in combination with Orkambi has also now started, with data expected in 1H 2018, highlighting the extent of near-term newsflow that is expected for the CF franchise.

### Share price performance



On 02-Jan-2018 the AMSTERDAM EXCHANGE INDEX closed at 544.79  
Daily Jan02, 2017 - Jan02, 2018, 01/02/17 = €62.09

Quarterly EPS	Q1	Q2	Q3	Q4
2016A	0.79	-0.08	-0.51	0.96
2017E	-0.28	-0.69	-0.72	-0.78
2018E	0.00	-0.09	-0.51	-0.03

### Financial and valuation metrics

Year	12/16A	12/17E	12/18E	12/19E
EPS (CS adj.) (€)	1.14	-2.56	-0.63	-0.50
Prev. EPS (€)	-	-	-	-
P/E (x)	68.2	-30.4	-124.2	-157.1
P/E rel. (%)	310.2	-166.8	-765.9	n.m
Revenue (€ m)	151.6	123.3	252.1	267.1
EBITDA (€ m)	-6.4	-97.8	-29.0	-21.7
OCFPS (€)	5.06	-3.39	-1.53	-1.81
P/OCF (x)	12.0	-23.0	-51.0	-42.9
EV/EBITDA (current)	-430.6	-28.1	-94.6	-126.4
Net debt (€ m)	-973	-1,157	-1,078	-983
ROIC (%)	5.33	77.73	57.44	-86.37
Number of shares (m)	50.94			
BV/share (Next Qtr., €)	20.1			
Net debt (Next Qtr., € m)	-1,156.8			
Net debt/tot eq (Next Qtr., %)	-113.0			
IC (current, € m)				-214.48
EV/IC (x)				-21.1
Dividend (current, €)				-
Dividend yield (%)				-

Source: Company data, Thomson Reuters, Credit Suisse estimates

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- **As it relates to Vertex, we think Vertex's triple combination has set a very high bar for competition in the CF space.** However we do think investors are watching competition from Galapagos very closely. The progress from Galapagos announced today in our view most importantly sets up for catalysts that will be important to watch for Vertex with GLPG's first triplet data readout now expected in summer 2018. Additionally the company's next generation corrector, GLPG2737, will have data in combination with Orkambi in 1H18. The pushback we get on our bullish Vertex thesis is that Vertex doesn't have enough catalysts in 2018; coupled with this competitive update today, we now think these competitive readouts could be viewed as an overhang to shares to some investors. However, on the other hand we think if the FEV1 improvements from the GLPG program don't measure up to VRTX's results that these readouts could be a positive catalyst for shares. We think Vertex's triplet FEV1 improvement of 10-12% will be hard to match. Vertex plans to move its triple into Phase 3 in 1H18 and so it holds a clear advantage from a timeline perspective. Key to our Outperform thesis is that we think 2018 could be the year where the Vertex story evolves beyond CF, which we think will begin to set up for additional catalysts for the story.

**Figure 1: GLPG Income Statement (2016A - 2024E)**

US\$ in millions, unless otherwise stated

<b>Galapagos Income Statement</b> <i>(Euros in '000s, except per share amounts)</i>	2016A	2017E	Q1 2018E	Q2 2018E	Q3 2018E	Q4 2018E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Royalty/Profit sharing Revenues	0	0	0	0	0	0	0	0	32,133	98,846	205,379	366,599	454,510
Product Revenues	0	0	0	0	0	0	0	0	15,739	76,349	163,839	261,275	325,358
R&D and Other Revenues	151,612	123,261	64,101	64,101	53,226	70,626	252,054	267,098	177,412	47,118	116,590	42,052	46,023
<b>Total Revenues</b>	<b>151,612</b>	<b>123,261</b>	<b>64,101</b>	<b>64,101</b>	<b>53,226</b>	<b>70,626</b>	<b>252,054</b>	<b>267,098</b>	<b>225,284</b>	<b>222,313</b>	<b>485,808</b>	<b>669,925</b>	<b>825,891</b>
Cost of Sales	0	0	0	0	0	0	0	0	0	7,635	14,746	20,902	22,775
<b>Gross Profit</b>	<b>151,612</b>	<b>123,261</b>	<b>64,101</b>	<b>64,101</b>	<b>53,226</b>	<b>70,626</b>	<b>252,054</b>	<b>267,098</b>	<b>225,284</b>	<b>214,678</b>	<b>471,062</b>	<b>649,023</b>	<b>803,116</b>
Research and development expenditure	139,573	199,654	58,031	61,885	72,616	64,790	257,322	257,790	208,689	169,531	154,204	140,490	128,233
SG&A	23,529	27,057	6,931	7,694	7,424	8,176	30,224	37,995	48,344	58,366	59,859	61,397	62,983
Restructuring and integration costs	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Operating Expenses</b>	<b>163,102</b>	<b>226,712</b>	<b>64,962</b>	<b>69,579</b>	<b>80,039</b>	<b>72,966</b>	<b>287,546</b>	<b>295,785</b>	<b>257,033</b>	<b>227,898</b>	<b>214,062</b>	<b>201,887</b>	<b>191,217</b>
<b>Operating Income/(Loss)</b>	<b>(11,490)</b>	<b>(103,450)</b>	<b>(861)</b>	<b>(5,478)</b>	<b>(26,814)</b>	<b>(2,340)</b>	<b>(35,493)</b>	<b>(28,687)</b>	<b>(31,750)</b>	<b>(13,220)</b>	<b>257,000</b>	<b>447,136</b>	<b>611,899</b>
Financial Income	67,429	4,633	869	870	854	821	3,413	3,127	2,954	2,772	2,808	3,670	4,935
Financial Expense	(1,692)	(26,805)	(0)	(0)	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Net Finance Income	65,737	(22,172)	868	870	853	821	3,413	3,126	2,953	2,771	2,808	3,669	4,934
<b>Pre-Tax Profit/(Loss)</b>	<b>54,247</b>	<b>(125,623)</b>	<b>8</b>	<b>(4,608)</b>	<b>(25,960)</b>	<b>(1,519)</b>	<b>(32,080)</b>	<b>(25,561)</b>	<b>(28,797)</b>	<b>(10,448)</b>	<b>259,808</b>	<b>450,805</b>	<b>616,833</b>
Income Tax Expense	235	161	0	0	0	0	0	0	0	0	0	55,510	83,973
Effective Tax Rate	0.4%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	12.3%	13.6%
<b>Net profit/(loss) from continuing operations</b>	<b>54,012</b>	<b>(125,784)</b>	<b>8</b>	<b>(4,608)</b>	<b>(25,960)</b>	<b>(1,519)</b>	<b>(32,080)</b>	<b>(25,561)</b>	<b>(28,797)</b>	<b>(10,448)</b>	<b>259,808</b>	<b>395,295</b>	<b>532,860</b>
Net income from discontinued operations	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Consolidated Net Income/(Loss)</b>	<b>54,012</b>	<b>(125,784)</b>	<b>8</b>	<b>(4,608)</b>	<b>(25,960)</b>	<b>(1,519)</b>	<b>(32,080)</b>	<b>(25,561)</b>	<b>(28,797)</b>	<b>(10,448)</b>	<b>259,808</b>	<b>395,295</b>	<b>532,860</b>
<b>Diluted EPS, Adjusted</b>	<b>1.14</b>	<b>(2.56)</b>	<b>0.00</b>	<b>(0.09)</b>	<b>(0.51)</b>	<b>(0.03)</b>	<b>(0.63)</b>	<b>(0.50)</b>	<b>(0.55)</b>	<b>(0.20)</b>	<b>4.57</b>	<b>6.86</b>	<b>9.14</b>
<b>Diluted EPS, GAAP</b>	<b>1.14</b>	<b>(2.56)</b>	<b>0.00</b>	<b>(0.09)</b>	<b>(0.51)</b>	<b>(0.03)</b>	<b>(0.63)</b>	<b>(0.50)</b>	<b>(0.55)</b>	<b>(0.20)</b>	<b>4.57</b>	<b>6.86</b>	<b>9.14</b>
Basic Shares	45,696	49,481	51,021	51,112	51,204	51,297	51,159	51,555	52,005	52,520	53,111	53,771	54,466
Diluted Shares	47,308	49,170	53,972	51,112	51,204	51,297	51,159	51,555	52,005	52,520	56,875	57,609	58,324

Source: Company data, Credit Suisse estimates

# Galapagos NV GLPG

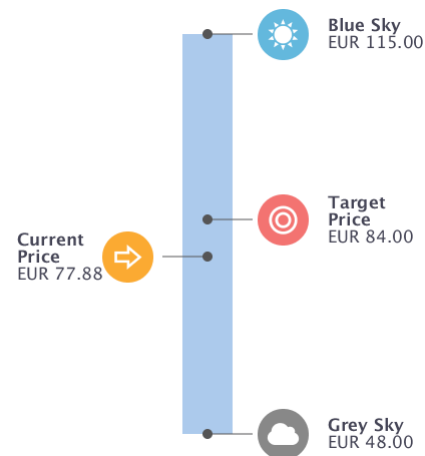
Price (02 Jan 2018): €77.88; Rating: **NEUTRAL**; Target Price: €84.00; Analyst: **Vamil Divan**

Income Statement	12/16A	12/17E	12/18E	12/19E
<b>Revenue (€ m)</b>	<b>151.6</b>	<b>123.3</b>	<b>252.1</b>	<b>267.1</b>
<b>EBITDA</b>	<b>(6)</b>	<b>(98)</b>	<b>(29)</b>	<b>(22)</b>
Depr. & amort.	(5)	(6)	(6)	(7)
<b>EBIT (€)</b>	<b>(11)</b>	<b>(103)</b>	<b>(35)</b>	<b>(29)</b>
Net interest exp	66	(22)	3	3
<b>PBT (€)</b>	<b>54</b>	<b>(22)</b>	<b>(32)</b>	<b>(26)</b>
Income taxes	(0)	(0)	-0	-0
<b>Profit after tax</b>	<b>54</b>	<b>(126)</b>	<b>(32)</b>	<b>(26)</b>
Minorities	-	-	-	-
<b>Reported net income (€)</b>	<b>54</b>	<b>(126)</b>	<b>(32)</b>	<b>(26)</b>
Other NPAT adjustments	0	0	0	0
<b>Adjusted net income</b>	<b>54</b>	<b>(126)</b>	<b>(32)</b>	<b>(26)</b>
Cash Flow	12/16A	12/17E	12/18E	12/19E
EBIT	(11)	(103)	(35)	(29)
Net interest	66	(22)	3	3
Change in working capital	(12)	(37)	23	(0)
<b>Cash flow from operations</b>	<b>239</b>	<b>(166)</b>	<b>(78)</b>	<b>(94)</b>
CAPEX	(4)	(5)	(6)	(7)
<b>Free cashflow to the firm</b>	<b>235</b>	<b>(171)</b>	<b>(84)</b>	<b>(100)</b>
Acquisitions	(3)	0	0	0
Divestments	0	0	0	0
<b>Cash flow from investments</b>	<b>(7)</b>	<b>1</b>	<b>(7)</b>	<b>(7)</b>
Net share issue/repurchase	392	369	6	7
Dividends paid	0	0	0	0
Cashflow from financing activities	396	373	6	7
<b>Changes in Net Cash/Debt</b>	<b>633</b>	<b>184</b>	<b>(79)</b>	<b>(94)</b>
Balance Sheet (€)	12/16A	12/17E	12/18E	12/19E
<b>Assets</b>				
Cash & cash equivalents	973	1,157	1,078	983
Account receivables	20	30	20	20
Other current assets	14	16	6	9
<b>Total current assets</b>	<b>1,007</b>	<b>1,204</b>	<b>1,104</b>	<b>1,013</b>
Total fixed assets	15	16	19	21
Investment securities	-	-	-	-
<b>Total assets</b>	<b>1,083</b>	<b>1,292</b>	<b>1,195</b>	<b>1,107</b>
<b>Liabilities</b>				
<b>Total current liabilities</b>	<b>104</b>	<b>129</b>	<b>128</b>	<b>86</b>
<b>Total liabilities</b>	<b>325</b>	<b>269</b>	<b>180</b>	<b>91</b>
Shareholder equity	759	1,024	1,016	1,017
<b>Total liabilities and equity</b>	<b>1,083</b>	<b>1,292</b>	<b>1,195</b>	<b>1,107</b>
Net debt	(973)	(1,157)	(1,078)	(983)
Per share	12/16A	12/17E	12/18E	12/19E
No. of shares (wtd avg)	47	49	51	52
CS adj. EPS	1.14	(2.56)	(0.63)	(0.50)
Prev. EPS (€)	-	-	-	-
Dividend (€)	0.00	0.00	0.00	0.00
Free cash flow per share	4.97	(3.48)	(1.64)	(1.94)
Earnings	12/16A	12/17E	12/18E	12/19E
Sales growth (%)	150.3	(18.7)	104.5	6.0
EBIT growth (%)	87.2	(800.4)	65.7	19.2
Net profit growth (%)	145.6	(332.9)	74.5	20.3
EPS growth (%)	134.4	(324.1)	75.5	20.9
EBITDA margin (%)	(4.2)	(79.3)	(11.5)	(8.1)
EBIT margin (%)	(7.6)	(83.9)	(14.1)	(10.7)
Pretax margin (%)	35.8	(101.9)	(12.7)	(9.6)
Net margin (%)	35.6	(102.0)	(12.7)	(9.6)
Valuation	12/16A	12/17E	12/18E	12/19E
EV/Sales (x)	19.75	22.80	11.46	11.17
EV/EBITDA (x)	(430.6)	(28.1)	(94.6)	(126.4)
EV/EBIT (x)	(260.6)	(27.2)	(81.4)	(104.0)
P/E (x)	68.2	(30.4)	(124.2)	(157.1)
Price to book (x)	4.8	3.7	3.9	3.9
Asset turnover	0.1	0.1	0.2	0.2
Returns	12/16A	12/17E	12/18E	12/19E
ROE stated-return on (%)	9.6	(14.1)	(3.1)	(2.5)
ROIC (%)	5.3	77.7	57.4	(86.4)
Gearing	12/16A	12/17E	12/18E	12/19E
Net debt/equity (%)	(128.3)	(113.0)	(106.1)	(96.7)
Interest coverage ratio (X)	0.2	(4.7)	10.4	9.2
Quarterly EPS	Q1	Q2	Q3	Q4
2016A	0.79	-0.08	-0.51	0.96
2017E	-0.28	-0.69	-0.72	-0.78
2018E	0.00	-0.09	-0.51	-0.03

Source: Company data, Thomson Reuters, Credit Suisse estimates

**Company Background**  
Galapagos is a clinical stage biotech company focused on developing novel treatments for Rheumatoid arthritis, Inflammatory bowel disease, Cystic fibrosis and Idiopathic pulmonary fibrosis diseases.

## Blue/Grey Sky Scenario



**Our Blue Sky Scenario (€)** **115.00**

Our blue sky valuation of €115 is based on 100% POS of filgotinib and increasing our peak probability adjusted end user sales for the CF franchise to ~\$1.5Bn. Our blue sky valuation is based on a DCF driven by a 10% WACC and discounted cash flows through 2030, with -2% terminal growth rate thereafter.

**Our Grey Sky Scenario (€)** **48.00**

Our grey sky valuation of €48 is based on 50% POS of filgotinib and 0% POS for the CF franchise. Our grey sky valuation is based on a DCF driven by a 10% WACC and discounted cash flows through 2030, with -2% terminal growth rate thereafter.

## Share price performance



On 02-Jan-2018 the AMSTERDAM EXCHANGE INDEX closed at 544.79  
Daily Jan03, 2017 - Jan02, 2018, 01/03/17 = €62.37

**Companies Mentioned** (Price as of 02-Jan-2018)

**Galapagos NV** (GLPG.AS, €77.88, NEUTRAL, TP €84.0)  
**Vertex Pharmaceuticals Incorporated** (VRTX.OQ, \$152.91)

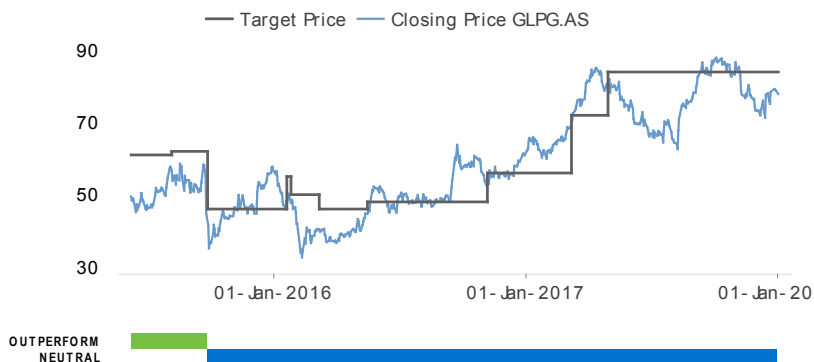
Disclosure Appendix

**Analyst Certification**

I, Vamil Divan, MD, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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

GLPG.AS	Closing Price	Target Price	
Date	(€)	(€)	Rating
08-Jun-15	49.48	61.00	O *
06-Aug-15	56.60	62.00	
27-Sep-15	44.75	46.00	N
20-Jan-16	47.36	55.00	
26-Jan-16	47.70	50.00	
07-Mar-16	40.37	46.00	
16-May-16	44.72	48.00	
06-Nov-16	52.78	56.00	
08-Mar-17	69.75	72.00	
30-Apr-17	80.46	84.00	



\* Asterisk signifies initiation or assumption of coverage.

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

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**Outperform (O)** : The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

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

**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and Asia stocks (excluding Japan and Australia), ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.

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**Overweight** : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight** : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight** : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

Credit Suisse's distribution of stock ratings (and banking clients) is:

### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	45%	(65% banking clients)
Neutral/Hold*	40%	(60% banking clients)
Underperform/Sell*	13%	(54% banking clients)
Restricted	2%	

\*For purposes of the NYSE and FINRA ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

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### Target Price and Rating

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

**Method:** Our €84 target price for Galapagos NV is based on a DCF (discounted cash flow) valuation. We use a 10% WACC (weighted average cost of capital) and forecast discounted cash flows through 2030, with terminal growth rate of -2% thereafter. We maintain our Neutral rating given the uncertainties ahead of the end of Phase 2 meeting with the FDA.

**Risk:** The risks to our rating and €84 target price and Neutral rating for Galapagos NV include: 1. Clinical development setbacks of filgotinib most significant near-term risk 2. Remaining pipeline relatively early in development, providing clinical and commercial risk 3. Manufacturing issues as GLPG does not own or operate manufacturing facilities for the production of product candidates 4. Uptake of Filgotinib and other pipeline assets is lower than we expect and 5. Collaboration issues.

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This research report is authored by:

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