

# Galapagos NV (GLPG)

## CATALYST ALERT

Rating	<b>NEUTRAL</b>
Price (28-Jun-18, €)	82.56
Target price (€)	85.00
52-week price range (€)	97.24 - 62.63
Market cap(€ m)	4,238
Enterprise value (€ m)	3,309

Target price is for 12 months.

### Research Analysts

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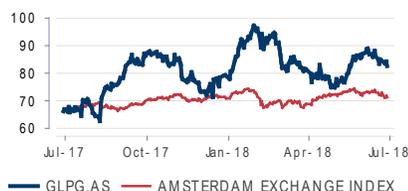
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## PELICAN Disappointment, ABBV Hesitation Raise Questions on Future of CF Franchise

- Disappointing PELICAN Data Puts CF Franchise in Question:** After the close GLPG released disappointing topline data from the Phase 2 PELICAN trial of C2 corrector GLPG2737 + VRTX's Orkambi. Going into the readout, we believe investors were looking for a ppFEV1 difference of close to 10% between the 2737 and placebo arms through day 28 in order to be competitive with what VRTX demonstrated in its triple combo Phase 2 study of VX-445 + tezacaftor + ivacaftor. Instead the data showed a placebo-adjusted ppFEV1 benefit of only 3.4% that failed to hit statistical significance (p=0.08). 2737 is one of two correctors in the FALCON triple combo study (interim data expected in 3Q18); so today's data raises significant concerns about FALCON and the competitiveness of the entire CF franchise.
- AbbVie's Hesitation on Second Triple Combo Trial Raises Further Questions:** GLPG's CF partner ABBV has also decided to not proceed with a second planned triple combo therapy, consisting of the same two correctors as FALCON (2737 and 2222), but a different potentiator. Clearly this is another GLPG/ABBV partnership that is now frayed, and we believe it will likely need to be terminated in the near future.
- Cystic Fibrosis Franchise Is ~€10 to Our GLPG DCF:** GLPG has one triple combination ('3067 + 2222 + 3221) that does not involve 2737, such that there is still some hope for the CF franchise. However, if the franchise were to go away completely, it is worth ~€10 to our DCF (without making any expense adjustments), as we model GLPG CF revenues (via the ABBV partnership) of \$10M in 2021 growing to \$116M in 2030. On the positive, without the CF franchise and ABBV collaboration one could argue GLPG is now a cleaner story for a potential takeout, especially for a company like GILD that is already partnered with GLPG on filgotinib.

### Share price performance



On 28-Jun-2018 the AMSTERDAM EXCHANGE INDEX closed at 547.48  
Daily Jun28, 2017 - Jun28, 2018, 06/28/17 = €66.69

Quarterly EPS	Q1	Q2	Q3	Q4
2017A	-0.29	-0.72	-0.72	-0.59
2018E	-0.73	-0.53	-0.80	-0.94
2019E	-0.62	-0.23	-0.82	-1.18

### Financial and valuation metrics

Year	12/17A	12/18E	12/19E	12/20E
EPS (CS adj.) (€)	-2.34	-2.99	-2.85	-3.19
Prev. EPS (€)	-	-	-	-
P/E rel. (%)	-215.1	-180.6	-203.1	-197.5
Revenue (€ m)	155.9	206.6	247.1	250.3
EBITDA (€ m)	-83.9	-144.2	-143.2	-160.9
OCFPS (€)	-2.97	-4.61	-4.27	-2.84
P/OCF (x)	-26.6	-17.9	-19.3	-29.1
EV/EBITDA (current)	-37.3	-21.7	-21.9	-19.5
EV/EBITDAR (current)	-39.2	-22.3	-22.5	-20.0
Net debt (€ m)	-1,151	-929	-707	-558
ROIC (%)	64.62	140.29	2345.09	-3366.39
Number of shares (m)	51.34	IC (current, € m)		-139.22
BV/share (Next Qtr., €)	17.5	EV/IC (x)		-19.3
Net debt (Next Qtr., € m)	-1,061.5	Dividend (current, €)		-
Net debt/tot eq (Next Qtr., %)	-118.3			

Source: Company data, Thomson Reuters, Credit Suisse estimates

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# Galapagos NV (GLPG)

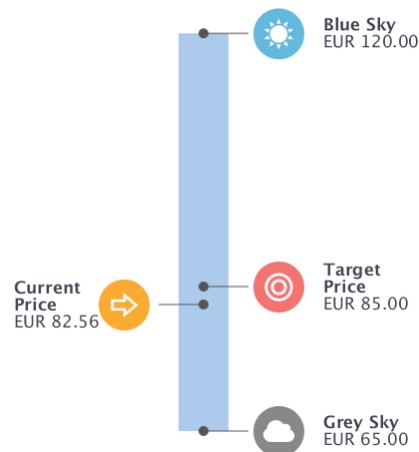
Price (28 Jun 2018): €82.56; Rating: NEUTRAL; Target Price: 85.00; Analyst: Vamil Divan

Income Statement	12/17A	12/18E	12/19E	12/20E
Revenue (€ m)	155.9	206.6	247.1	250.3
EBITDA (€ m)	(84)	(144)	(143)	(161)
Depr. & amort.	(6)	(7)	(7)	(7)
EBIT (€)	(90)	(151)	(150)	(168)
Net interest exp	(26)	(3)	3	2
PBT (€)	(116)	(154)	(148)	(166)
Income taxes	(0)	(0)	-0	-0
Profit after tax	(116)	(154)	(148)	(166)
Minorities	-	-	-	-
Reported net income (€)	(116)	(154)	(148)	(166)
Other NPAT adjustments	0	0	0	0
Adjusted net income	(116)	(154)	(148)	(166)
Cash Flow	12/17A	12/18E	12/19E	12/20E
EBIT	(90)	(151)	(150)	(168)
Net interest	(26)	(3)	3	2
Change in working capital	(12)	(4)	(1)	29
Cash flow from operations	(147)	(237)	(221)	(148)
CAPEX	(5)	(6)	(7)	(7)
Free cashflow to the firm	(152)	(243)	(228)	(155)
Acquisitions	0	0	0	0
Divestments	0	0	0	0
Cash flow from investments	(1)	(7)	(7)	(8)
Net share issue/(repurchase)	348	27	6	7
Dividends paid	0	0	0	0
Changes in Net Cash/Debt	178	(222)	(222)	(149)
Balance Sheet (€)	12/17A	12/18E	12/19E	12/20E
Assets				
Cash & cash equivalents	1,151	929	707	558
Account receivables	40	26	28	30
Other current assets	6	13	15	13
Total current assets	1,198	969	750	601
Total fixed assets	17	19	22	24
Investment securities	-	-	-	-
Total assets	1,286	1,065	849	702
Liabilities				
Total current liabilities	172	208	143	134
Total liabilities	274	243	148	139
Shareholder equity	1,012	822	701	563
Total liabilities and equity	1,286	1,065	849	702
Net debt	(1,151)	(929)	(707)	(558)
Per share	12/17A	12/18E	12/19E	12/20E
No. of shares (wtd avg)	49	51	52	52
CS adj. EPS	(2.34)	(2.99)	(2.85)	(3.19)
Prev. EPS (€)	-	-	-	-
Dividend (€)	0.00	0.00	0.00	0.00
Free cash flow per share	(3.08)	(4.73)	(4.40)	(2.98)
Earnings	12/17A	12/18E	12/19E	12/20E
Sales growth (%)	2.8	32.5	19.6	1.3
EBIT growth (%)	(681.6)	(67.9)	0.4	(12.0)
Net profit growth (%)	(314.2)	(32.8)	3.9	(12.6)
EPS growth (%)	(304.8)	(28.0)	4.7	(11.7)
EBITDA margin (%)	(53.8)	(69.8)	(57.9)	(64.3)
EBIT margin (%)	(57.6)	(73.0)	(60.8)	(67.3)
Pretax margin (%)	(74.1)	(74.4)	(59.8)	(66.4)
Net margin (%)	(74.2)	(74.4)	(59.8)	(66.4)
Valuation	12/17A	12/18E	12/19E	12/20E
EV/Sales (x)	19.80	16.02	14.29	14.70
EV/EBITDA (x)	(37.3)	(21.7)	(21.9)	(19.5)
EV/EBIT (x)	(34.4)	(21.9)	(23.5)	(21.9)
P/E (x)	(35.3)	(27.6)	(28.9)	(25.9)
Price to book (x)	4.0	5.1	6.1	7.6
Asset turnover	0.1	0.2	0.3	0.4
Returns	12/17A	12/18E	12/19E	12/20E
ROE stated-return on (%)	(13.0)	(16.7)	(19.3)	(26.2)
ROIC (%)	64.6	140.3	2345.1	(3366.4)
Gearing	12/17A	12/18E	12/19E	12/20E
Net debt/equity (%)	(113.8)	(113.1)	(100.9)	(99.1)
Interest coverage ratio (X)	(3.5)	(53.8)	58.0	79.2
Quarterly EPS	Q1	Q2	Q3	Q4
2017A	-0.29	-0.72	-0.72	-0.59
2018E	-0.73	-0.53	-0.80	-0.94
2019E	-0.62	-0.23	-0.82	-1.18

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 (€)** 120.00

Our blue sky valuation of €120 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 0% terminal growth rate thereafter.

**Our Grey Sky Scenario (€)** 65.00

Our grey sky valuation of €65 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 0% terminal growth rate thereafter.

## Share price performance



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**Companies Mentioned** (Price as of 28-Jun-2018)

**AbbVie Inc.** (ABBV.N, \$92.43)  
**Galapagos NV** (GLPG.AS, €82.56, NEUTRAL, TP €85.0)  
**Gilead Sciences, Incorporated** (GILD.OQ, \$70.33)  
**Vertex Pharmaceuticals Incorporated** (VRTX.OQ, \$147.59)

**Disclosure Appendix**

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**3-Year Price and Rating History for AbbVie Inc. (ABBV.N)**

ABBV.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
20-Jul-15	70.80	72.00	O
03-Aug-15	69.73	77.00	
01-Nov-15	59.55	78.00	
10-Dec-15	55.78	75.00	
16-Dec-15	57.63	69.00	
04-Feb-16	56.76	67.00	
31-Jul-16	66.23	70.00	
31-Oct-16	55.78	60.00	N
19-Dec-16	62.22	61.00	
29-Jan-17	60.00	60.00	
01-May-17	66.48	65.00	
20-Jul-17	74.01	74.00	
28-Sep-17	88.96	94.00	
29-Oct-17	91.93	95.00	
18-Dec-17	98.19	98.00	
28-Jan-18	123.21	135.00	
22-Mar-18	98.10	109.00	
26-Apr-18	97.44	104.00	
29-May-18	99.47	89.00	U



\* Asterisk signifies initiation or assumption of coverage.

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

GLPG.AS	Closing Price	Target Price	
Date	(€)	(€)	Rating
29-Jul-15	51.90	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	
16-Feb-18	93.48	90.00	
04-Mar-18	81.84	85.00	



\* Asterisk signifies initiation or assumption of coverage.

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**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.

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Underperform/Sell*	13%	(52% 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 €85 target price and Neutral rating for Galapagos NV are 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 0% thereafter. We rate Galapagos NV Neutral given the uncertainties ahead of the end of Phase 2 meeting with the FDA.

**Risk:** Risks to our €85 target price and Neutral rating for Galapagos NV are: 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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See the Companies Mentioned section for full company names

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This research report is authored by:

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