

First Read

Galapagos NV

Healing the SIK? Toledo target reveal does not change the investment case

Galapagos have revealed the target of the Toledo program as SIK

In an R+D meeting for analysts and investors today, Galapagos made the long-awaited reveal of the target of the Toledo program – disclosing it as the salt-inducible kinase (SIK). Despite today's status as a "reveal" we do not think this will come as a surprise to most. The SIK family mediate their effects via a dual mechanism of action - both decreasing pro-inflammatory cytokines (e.g. TNF- α , IL-12, IL-1 β), whilst increasing anti-inflammatory cytokines (e.g. IL-10) with the effect of restoring a healthy balance to the immune system, and eliminating some of the side effects seen with existing anti-inflammatory drugs. The compounds discussed on today's call target various combinations of SIK isotypes: GLPG3970 (SIK2+3); '4605 (SIK2+3); '4399 (SIK3).

GLPG3970 is being expedited in psoriatic arthritis

GLPG3970 has shown promising in vivo efficacy across a number of inflammatory and fibrotic diseases (e.g. inflammatory bowel disease, psoriatic arthritis, rheumatoid arthritis, and lupus). The company highlighted that they plan to expedite '3970 in psoriatic arthritis (dose finding phase II planned for 2021 off the back of the existing psoriasis phase I). Five parallel proof-of-concept trials are in the works (three ongoing in psoriasis, ulcerative colitis, and rheumatoid arthritis, as previously announced; two additional trials in lupus and Sjogren's are being prepared) with topline data expected from mid-2021.

We think investors will continue to treat Toledo as early stage research

On the call, the company acknowledged that the barrier to entry in a number of its target indications (e.g. PsA) is high, – but equally, major unmet need remains in others. They are confident that the dual MoA can potentially give them an edge over competition, coupled with a head start on the SIK class. Galapagos also states that partner Gilead have confirmed their ongoing interest in the inflammation space (even after the recent filgotinib CRL) and would expect the costs of late-stage development to be shared if the company opted in post-phase II. Despite this reassurance, we think investors will continue to treat the Toledo programme for what it is – promising research in the early stages. Target therapy areas are competitive and we think longer term plans to look at fibrotic indications such as IPF could possibly raise questions around how this programme now sits next to the existing IPF work (phase III ISABELA I and II interims for GLPG1690 are due next year).

Equities

Belgium

Biotechnology

12-month rating **Neutral**
12m price target **€125.00**
Price (27 Oct 2020) **€108.40**
RIC: GLPG.AS **BBG:** GLPG NA

Trading data and key metrics

52-wk range €249.50-102.45

Market cap. €7.01bn/US\$8.28bn

Shares o/s 64.7m (ORD)

Free float 92%

Avg. daily volume ('000) 493

Avg. daily value (m) €60.5

Common s/h equity (12/20E) €2.87bn

P/BV (12/20E) 2.4x

Net debt / EBITDA (12/20E) 8.6x

EPS (UBS, diluted) (€)

	UBS	Cons.
12/20E	(2.99)	(3.36)
12/21E	(3.28)	(3.44)
12/22E	(2.22)	(1.79)

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Highlights (€m)	12/17	12/18	12/19	12/20E	12/21E	12/22E	12/23E	12/24E
Revenues	156	318	896	499	569	677	718	578
EBIT (UBS)	(90)	(45)	370	(226)	(276)	(259)	(263)	(431)
Net earnings (UBS)	(116)	(29)	150	(196)	(221)	(154)	(155)	(315)
EPS (UBS, diluted) (€)	(2.34)	(0.56)	2.42	(2.99)	(3.28)	(2.22)	(2.17)	(4.28)
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net (debt) / cash	1,151	1,291	1,836	1,851	1,817	1,873	1,938	1,858
Profitability/valuation	12/17	12/18	12/19	12/20E	12/21E	12/22E	12/23E	12/24E
EBIT margin %	-57.6	-14.1	41.3	-45.2	-48.5	-38.2	-36.7	-74.6
ROIC (EBIT) %	50.9	43.0	76.0	(21.8)	(26.8)	(25.1)	(25.8)	(42.7)
EV/EBITDA (core) x	-30.7	-81.6	14.1	-24.1	-19.5	-20.7	-20.1	-12.1
P/E (UBS, diluted) x	(31.9)	NM	52.8	(36.2)	(33.0)	(48.9)	(49.9)	(25.3)
Equity FCF (UBS) yield %	(4.2)	(3.5)	45.5	(8.1)	(8.9)	(7.7)	(7.7)	(9.9)
Net dividend yield %	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 €108.40 on 27 Oct 2020 16:35 GMT

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Forecast returns

Forecast price appreciation	+15.3%
Forecast dividend yield	0.0%
Forecast stock return	+15.3%
Market return assumption	4.3%
Forecast excess return	+11.0%

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) substantial delay to failure to gain approval for filgotinib in major markets, (2) disappointing early stage data for the Toledo programme (3) failure to commercialise GLPG1690 effectively.

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.	50%	31%
Neutral	FSR is between -6% and 6% of the MRA.	38%	29%
Sell	FSR is > 6% below the MRA.	12%	19%
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 September 2020.

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

2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3: Percentage of companies under coverage globally within the Short-Term rating category.

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UBS AG London Branch: Laura Sutcliffe, PhD; Michael Leuchten; Andrew Frost.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Galapagos NV ¹⁶	GLPG.AS	Neutral	N/A	€108.00	26 Oct 2020

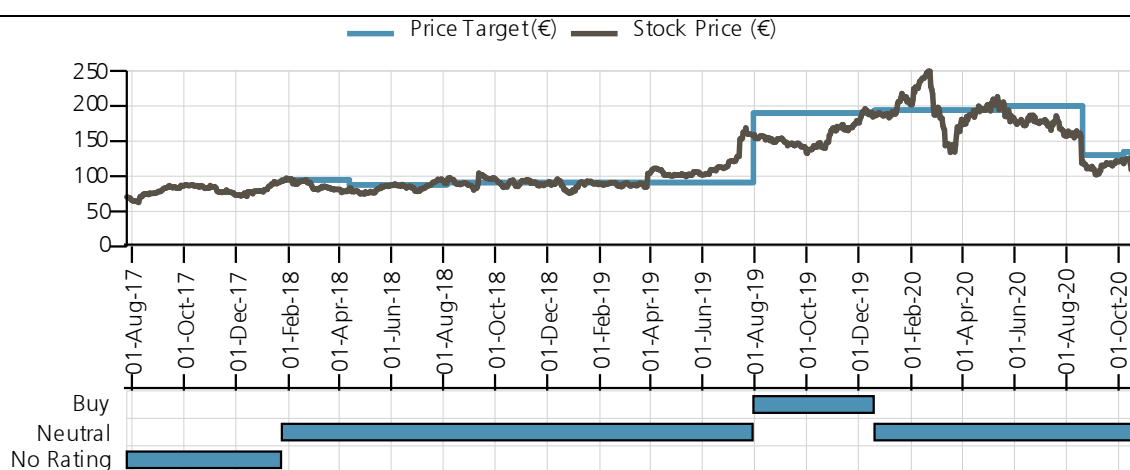
Source: UBS. All prices as of local market close.

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Galapagos NV (€)



Date	Stock Price (€)	Price Target (€)	Rating
2017-07-26	70.6	-	No Rating
2018-01-24	92.72	95.0	Neutral
2018-04-13	83.0	88.0	Neutral
2018-08-06	94.14	91.0	Neutral
2019-07-31	157.9	190.0	Buy
2019-12-20	186.6	194.0	Neutral
2020-05-16	200.9	200.0	Neutral
2020-08-20	121.95	130.0	Neutral
2020-10-07	118.0	135.0	Neutral
2020-10-16	109.3	125.0	Neutral

Source: UBS; as of 26 Oct 2020

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