13th October 2015

Healthcare

Galapagos

Price EUR38.68

Feedback from Roadshow with CEO

Fair Value EUR52 (+34%) **BUY**

Bloomberg	GLPG BB
Reuters	GLPG.BR
12-month High / Low (EUR)	58.5 / 10.2
Market Cap (EUR)	1,509
Ev (BG Estimates) (EUR)	2
Avg. 6m daily volume (000)	380.2
3y EPS CAGR	

	1 M	3 M	6 M	31/12/14
Absolute perf.	-25.8%	-17.9%	68.2%	149.7%
Healthcare	-3.0%	-8.9%	-13.7%	8.8%
DJ Stoxx 600	1.7%	-6.9%	-12.4%	5.6%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	90.0	31.7	58.0	
% change		*-64.8%*	*83.0%*	
EBITDA	NM	NM	NM	
EBIT	-36.6	25.1	-42.3	
% change		*NS*	*NM*	
Net income	-37.3	17.8	-32.7	
% change		*NS*	*NM*	

	2014	2015e	2016e	2017e
Operating margin	-40.7	79.3	-73.0	
Net margin	-41.4	56.1	-56.4	
ROE	-18.1	4.0	-7.9	
ROCE	-17.8	4.0	-7.9	
Gearing	0.0	0.0	0.0	

(EUR)	2014	2015e	2016e	2017e
EPS	-1.24	0.47	-0.86	
% change	-	*NS*	*NM*	
P/E	NS	82.8x	NS	
FCF yield (%)	NM	NM	NM	
Dividends (EUR)	0.00	0.00	0.00	
Div yield (%)	NM	NM	NM	
EV/Sales	0.0x	0.0x	0.0x	
EV/EBITDA	x	x	x	
EV/EBIT	NS	0.1x	NS	

We hosted GLPG with the CEO, the main topic being the ability of the company to ink in a deal by the year end. While it is more than clear now that ABBV's decision has been economically driven and that a new partner will not face the same issues the big pharma raised, we reiterate our BUY rating ahead of major catalysts. The latters might be the opportunity for GLPG to partner its leading product with better economics but mainly for the development of the CF franchise with several compounds expected to reach the clinic by the end of 2016.

ANALYSIS

- **Next partner not likely to face ABBV's issues.** Although we believe that ABBV's decision has been economically-driven (please see our previous report here), the CEO provided more clarity on its former partner's statement, i.e. "ABT-494" offers a faster path to phase III development". Anti-trust issues (hardly receivable?) would have triggered +/-6 months of discussion with regulators to be cleared, freezing the development of filgotinib.
- **Future partner: how fast can you go into phase III?** The company expects the end of phase II meeting to be schedule in January 2016. Galapagos has already run additional preclinical studies as requested by the FDA which it believes provide a good safety margin for the highest dose (200mg QD) to be studied more than 3 months in phase III. The CEO, Onno Van de Stolpe, reiterated his ambition to ink in a deal in late 2015 to have its future partner onboard for the end of phase II meeting which might ease interactions with regulators. A new partner implies a new deal… While we have modelled a partnership agreement with a minimum royalty rate of 20%, the CEO's comment that "potential future partners are opened to co-developement/co-promotion and profit-sharing deal" which would lead to strong value creation (e.g. JNJ/PCYC deal's metrics of 40/60 and 50/50 development expenses and profit sharing split respectively). To note is that more than 10 companies have shown interest in filgotinib so far. We believe phase III is likely to enroll more than 3,000 patients with a pharma partner as the latter might decide to include several arms to obtain a better label (anti-TNF non-responder and superiority against anti-IL6 arms could potentially be on the table). As a reminder, baricitinib's fourth phase III study powered to show non-inferiority vs. Humira will readout by the end of the year and could lead to an increased adoption of the JAK inhibitor class. Crohn's disease data, expected in December, will be included to the negotiations. GLPG is the most advanced biotech with a JAK in CD indication.
- **Standalone phase III strategy if no partners show up?** The phase III study initiated on a standalone basis will enrol approx 2,500-3,000 patients for a cost of about EUR 150-200m. The design will be similar to DARWIN-1 (add-on to MTX). However, we believe that the path to approval could be more challenging as the company might need to recruit an additional operational team to run PhIII.
- **CF: "business as usual".** Interactions between GLPG and ABBV's teams working on the CF project have not been affected by the big pharma's recent decision to opt-out from the filgotinib partnership and the two companies remain committed in advancing the CF project further (ABBV does not have an in-house CF compound). Newsflow should be dense with the CF pipeline as, toward the end of 2016, GLPG should have several molecules in the clinic (GLPG1837, GLPG2222 and its back-up compounds as well as correctors from different series). Recruitment is not anticipated to be difficult as VRTX should not be in phase II with its triple combo yet and physicians are looking forward to new treatment opportunities. GLPG's phase Ia/b and phase II will imply a switch from Kalydeco/Orkambi. Cost is expected to be ~USD5m/phase I. Following last week's announcement from VRTX, which would put GLPG 6 months behind VRTX, O. Van de Stolpe pointed to superior results from its molecules in highly predictive pre-clinical models.

VALUATION

- We reiterate our BUY rating and EUR52 fair value. Company remains vulnerable to M&A in the ST.

NEXT CATALYSTS

- Q4 2014: Corrector 2 in PCC and filgotinib CD data

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BUY ratings 64,7% NEUTRAL ratings 31% SELL ratings 4,3%

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