

4th March 2016

Healthcare

Galapagos

Price EUR40.07

With EUR1bn in cash, the pipeline looks undervalued

Fair Value EUR63 (+57%)

BUY

Bloomberg	GLPG.BB
Reuters	GLPG.BR
12-month High / Low (EUR)	58.5 / 19.8
Market Cap (EUR)	1,566
Avg. 6m daily volume (000)	295.1

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.5%	-12.3%	-24.8%	-29.4%
Healthcare	-1.7%	-10.4%	-10.5%	-11.2%
DJ Stoxx 600	3.0%	-8.8%	-6.3%	-7.2%

	2014	2015e	2016e	2017e
P/E	NS	85.8x	NS	NS
Div yield (%)	NM	NM	NM	NM

ANALYSIS

- Galapagos has reported 2015 numbers with revenues standing at EUR60.6m, derived from recognition of upfront and milestone payments. R&D expenses increased to EUR129.7m year over year compared to EUR111.1m in 2014, reflecting increased activities from both mature products as well as an acceleration in the CF pipeline with several compounds now either about to reach or already in the clinic. The increase in SG&A from EUR14.9m to EUR20.3m at end-2015 was due to non-cash items related to management's incentive plan linked to share price changes over the course of the year. The operating loss stood at EUR89.4m. Down the PnL statement, Galapagos recorded a EUR30.6m non cash adjustment on financial assets. While EUR39m reflecting the premium Gilead agreed to pay on GLPG's share price at the date of signature was booked under deferred income in the balance sheet, the EUR30.6m negative impact in the PnL reflected the decrease in Fair Value of the financial asset following appreciation in the company's share price. Likewise, a EUR57.5m non cash-adjustment should positively impact Q1 2016 financial results as a result of the decrease in the share price between 1st and 19th January (closing of the deal). The net loss was EUR118.4m.
- Cash and cash equivalents at year end totalled EUR348.2m, primarily driven by the USD275m NASDAQ IPO in Q3 2016. Note that following closing of the deal with Gilead which now has a 14.75% stake, the biotech enters 2016 with a EUR1.02bn cash position. Cash burn guidance comes at EUR100-120m, below expectations.
- The next major readout is expected in April with 20-week data for filgotinib in Crohn's disease. As a reminder, filgotinib is the most advanced JAK1 inhibitor developed in this indication and might offer an interesting lifecycle management opportunity to Gilead.
- Cystic fibrosis opportunity not taken into account in current share price! Although several phase I trials should report results throughout the year, the main update from the programme should be the SAPHIRA phase II results expected before the year-end.

VALUATION

- With market cap of EUR1.8bn and EUR1.02bn in cash, current share price does not take into account the full value of both filgotinib and the CF program.
- We reiterate our BUY recommendation and EUR63 Fair Value.

NEXT CATALYSTS

- Today 2.00pmCET: conference call on FY2015 results
- April 2016: filgotinib 20w data in Crohn's disease

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BUY ratings 63,4%

NEUTRAL ratings 29,1%

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