

## Galapagos

Price EUR39.70

EUR1bn cash as of Q1 and renegotiation of the Cystic Fibrosis deal as a cherry on the cake

Fair Value EUR64 vs. EUR62 (+61%)

BUY

Bloomberg	GLPG BB
Reuters	GLPG.BR
12-month High / Low (EUR)	58.5 / 32.7
Market Cap (EURm)	1,557
Ev (BG Estimates) (EURm)	0
Avg. 6m daily volume (000)	215.9
3y EPS CAGR	

Galapagos reported Q1 results which came in-line with our estimates, the biotech having EUR988m in hands. Cash burn guidance of EUR100-120m reiterated. Alongside this release, Galapagos announces the renegotiation of the CF deal with ABBV and is now eligible to up to USD600m in milestones payments. Lastly, Gilead which has full hands on filgotinib's development announces during its earnings call that two Ph III trials and one Ph II should be initiated in Q3 2016 in RA, CD and UC respectively.

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.4%	-17.3%	-8.5%	-30.1%
Healthcare	5.6%	0.2%	-9.1%	-8.3%
DJ Stoxx 600	4.1%	4.2%	-7.2%	-4.6%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	90.0	31.7	28.0	19.6
% change		-64.8%	-11.7%	-30.0%
EBITDA	NM	NM	NM	NM
EBIT	-36.6	-78.5	-20.4	-2.1
% change		-114.3%	74.0%	89.9%
Net income	-37.3	-13.1	30.8	45.5
% change		64.9%	NS	47.7%

	2014	2015e	2016e	2017e
Operating margin	-40.7	-247.7	-73.0	-10.5
Net margin	-41.4	-41.3	110.0	232.2
ROE	-18.1	-3.2	3.5	5.0
ROCE	-17.8	-2.8	3.1	4.2
Gearing	0.0	0.0	0.0	0.0

(EUR)	2014	2015e	2016e	2017e
EPS	-1.24	-0.34	0.81	1.19
% change	-	72.3%	NS	47.7%
P/E	NS	NS	49.1x	33.2x
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	0.0x	0.0x	0.0x	0.0x
EV/EBITDA	x	x	x	x
EV/EBIT	0.0x	0.0x	0.0x	0.0x

## ANALYSIS

- Galapagos released Q1 results which came broadly in-line with our estimates. Revenues from recognition of upfront and milestones payments amounted to EUR14.8m. While EUR10m triggered by the initiation of phase I for GLPG222 has been received from ABBV, the upfront has not been booked as revenue during Q1 as the amendment of the deal was not yet announced, but which is done today alongside Q1 publication. R&D and SG&A expenses stands at EUR27.8m and 4.4m respectively. Bottom line, the financial result is positively impacted by a EUR57.5m non-cash adjustment from the decrease in share price between 1<sup>st</sup> and 19<sup>th</sup> of January. Hence group net profit stands at EUR35.9m (diluted earnings per share stand at EUR0.79). Cash burn guidance for the year is maintained within the EUR100-120m range.
- Main update issued alongside Q1 results' publication is the amendment of the cystic fibrosis deal with AbbVie. As a reminder, the deal initially inked in 2013 did not take into account the triple combination which is expected to reach the clinic by mid-2017. Under the new terms, potential milestones payments to Galapagos have been increased from USD350m to USD600. We believe that the additional amount mainly consists of sales milestones as the triple combination should enable both groups to significantly broaden the addressable population. As a result, we have increased our milestones based on sales thresholds (total amount now standing slightly below USD600m) which adds EUR2 to our fair value. Other terms of the deal remained unchanged (royalties ranging from mid-teens to twenty percent and Galapagos retaining rights for China, South Korea and BeNeLux). SAPHIRA phase II results with GLPG1837 is well on track with Galapagos having no difficulties in recruiting patients either naive or on Kalydeco.
- Gilead which now has full hands on filgotinib's development timeline published yesterday an update on the latter alongside its Q1 results. In Q3 2016, two phase III are expected to be initiated in RA (Rheumatoid Arthritis) and CD (Crohn's disease) respectively while a phase II is expected to start in UC (Ulcerative Colitis).

## VALUATION

- We reiterate our BUY rating. Integration of the new terms on the CF deal with AbbVie adds EUR2 to our fair value, which is up from EUR62 to EUR64.

## NEXT CATALYSTS

- Today 02:00pmCET : conference call on Q1 results. (US +1 718 354 1357, UK +44 20 7136 2056, FR +33 1 7048 0166; Access code 6420003)

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BUY ratings 72%

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