15th July 2016

Healthcare

Galapagos

Price EUR48.25

Feedback from roadshow

Fair Value EUR64 (+33%) **BUY**

Bloomberg	GLPG BB
Reuters	GLPG.BR
12-month High / Low (EUR)	58.5 / 32.7
Market Cap (EURm)	2,225
Ev (BG Estimates) (EURm)	0
Avg. 6m daily volume (000)	225.2
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.0%	23.9%	0.6%	-15.0%
Healthcare	8.9%	4.4%	1.9%	-4.6%
DJ Stoxx 600	5.6%	-1.6%	-0.3%	-7.5%

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	59.7x	40.4x
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

We hosted Galapagos' roadshow in Paris with CFO, Bart Filius and reiterate our confidence in clinical prospects. Investor interest is increasingly directed towards 1/ commercial opportunities and positioning of filgotinib (safety overhang now behind) with Gilead eager to develop the compound in a wide range of indications not included in current expectations and 2/ the CF program with several readouts expected towards the end of the year and a phase II to be initiated in H1 2017

ANALYSIS

- Filgotinib phase III initiation this quarter. Galapagos should finance around USD200m of the program, which is expected to be spread over ~4 years (20% financed by GLPG). Three indications have already been included in the development program (RA, CD and UC) and should represent the majority of filgotinib's revenue stream, in our view. Note that at this stage, we only include revenues from RA and CD. Bart Filius was confident on the ability of both companies to offer the first JAK1 inhibitor as a therapeutic alternative to IL-6 and TNF in CD patients. Turning to RA, JAK inhibitors have a strong onset of action, while baricitinib might well benefit from a 1L label, it might take some time before the 1L market effectively opens for small oral molecules as 1/ prescribers are more used to biologics and 2/ the impact of biosimilar for both anti-TNF and IL-6 (Actemra) is likely to maintain these two class of drugs as a preferred 1L option. Hence we would anticipate that sales of anti-TNFs indicated in a 2L or 3L setting to be pressured by the JAK class. Bottom line, we believe that our EUR1.5bn in sales at peak (BGe RA and CD) for filgotinib leaves room for upward revision with the inclusion of new indications.

  New indications (exc. the three above mentionned) in which we would likely see filgotinib to be developed includes PsA (among other) with tofacitinib having recently released positive phase III results in this indication. Note that combination strategies have also been mentioned by Gilead as key (SYK and MMP9) with filgotinib as a backbone. Seen as a challenger in the auto-immune space, filgotinib has all Gilead's attention and is a strategic component of what is expected to become a strong growth leg of the US biotech. Regarding the co-commercialisation strategy, we would expect GLPG to exercise its option in 2017. This should be followed by gradual ramp-up of the sales force. First newsflow regarding the later development should be the appointment a director of commercial activities by the joint steering commercialisation committee.

- CF should be in the spotlight from H2 2016 onwards. While GLPG is 6 months behind Vertex, which should initiate phase II study with its triple combo this semester, the race is ongoing. Although not running its multiple trials in the US, GLPG has no difficulties in either switching patients from Orkambi (despite 7 days washout period) or recruiting naïve ones for its SAPHIRA phase II trial. This underlines 1/ physicians interest in having multiple therapeutic options and 2/ attractive profile of the biotech compounds which features benign safety profile. It might be too early to differentiate the efficacy profile of the two triple combo has all components on both VRTX or GLPG's side have not been clearly identified yet. However, we do not believe at the moment that a H2H phase III trials would be necessary as GLPG is not lagging enough behind VRTX. On the latter point, strong cash situation comes as a support to increase either the ability to screen more patients (keep up with fast recruitment pace) or help to get ahead in terms of superiority of triple combo with external development (bolt-on acquisition).

  We have identified below four biotech companies with compound that should be ready for phase IIb in H2 2016/H1 2017. We do not rule out that they could be a strategic fit into ABBV/GLPG's portfolio of candidate molecules.

Company	MCAP	Drug Name	Ph	Readout	Comment(s)
Proteostasis	USD230m	PTI-428	I	H2 2016	F508del; phase IIa results H1 2017
ProQR	USD110m	QR-010	Ib	H2 2016	F508del; inhalation
Nivalis	USD70m	N91115/cavosonstat	II	late 2016	F508del; evaluated on top of Orkambi
Concert Pharma	USD260m	CTP-656	II	H2 2017	G551D; deuterium ivacaftor for improved

Source : StreetAccount; Bryan Garnier & Co. ests.

- GLPG1690 in IPF could well prompt GLPG to opt for its first full standalone strategy. While the primary endpoint of the phase IIa trial aims at assessing the safety/tolerability and PK/PD of the product candidate, 12 week treatment course might be too short to start seeing an improvement in lung function as it took a 52w study to pirfenidone (Roche Esbret) too show meaningful clinical improvement (efficacy trend emerged at week 24). 75k patients diagnosed with IPF allows for a standalone strategy with GLPG capitalizing on first direct sales experience in the fibrosis space (CF).

- GLPG1972 could trigger pharma's interest. The product has shown preclinical efficacy in OA of the knee with both effect on serum biomarker at 14 days (~60% decrease in residual for cartilage destruction found in blood.

VALUATION

- We reiterate our BUY rating and EUR64 fair value.
- EUR64 fair value includes EUR21 of cash/share, enabling GLPG to bridge the gap until first filgotinib's sales while ramping up sales capabilities and advancing its pipeline. Note that more than 20 programs are currently being evaluated at all preclinical stages
- Cash burn guidance of EUR100-120m. We do not rule out that GLPG might recognised milestones from Gilead should an additional clinical trial be initiated with filgotinib in indications that are not yet disclosed.

NEXT CATALYSTS

- July 21st: HY results
- Q3 2016: filgotinib phase II program, first patient in (RA and Crohn's). phase II/III start in UC
- H2 2016: CF program (GLPG1837 phase 2 results, GLPG2451 phase I results)

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