

Credit Suisse 13 december 2019

Galapagos NV

Downgrading on lower estimates for filgotinib and slowly developing pipeline

Target price: 169.00

Neutral

We are reducing our Target Price to €169 (from €174) and downgrading Galapagos to Neutral (from Outperform).

On a relative basis to peers, we believe it may be challenging for the company to deliver above market returns given the large cash balance, looming competition for filgotinib, and a pipeline with either challenging indications to develop (e.g. IPF) or low visibility into assets (e.g. Toledo). While the company's substantial cash reserves (>5B EUR) provide down-side valuation support, the cash on the balance sheet contributes >50% of our valuation.

In the absence of more concrete plans to convert cash to revenues (via B&D or expanded R&D), we do not expect significant upside from current trading prices. We continue to believe filgotinib has best-in-class potential for a variety of indications, however, we are reducing our estimates to reflect competition with AbbVie's Rinvoq, given Rinvoq's 1-year lead to market and first-mover advantage. We also have lower expectations for '1690 in idiopathic pulmonary fibrosis (IPF) given the challenges in developing drugs for this indication, while '1972 in osteoarthritis (OA) is a highly competitive space. We await for key data updates in 2020 for both '1972 and '1690 before being more constructive.

Following Galapagos' R&D day in November, we believe acceleration of the pipeline is likely to take some time.

We are encouraged by the Toledo franchise plans for multiple study initiations slated for 2020, but find it challenging to value the potential opportunity given the lack of visibility into the program. The latest update at the R&D day lacked the granularity that would help us better value Toledo. The presentation suggests that data updates are more likely towards YE20 into 2021 (given the plans to initiate trials in 2020). Absent data or definite timelines for Toledo, we remain conservative in our view of the program as we need to see evidence of execution before we adjust our long-term growth assumptions.

Model changes: We lowered estimates for filgotinib to account for increased competition, which brings our peak adjusted estimates <3B.

Valuation/risks: Our €169 TP is based on a sum of the parts DCF analysis. 2020 non-GAAP diluted EPS changed to -€2.24 (from -€1.58) due to changing market assumptions. Risks: commercial, market, pricing, and regulatory.

Valuation

Our one-year TP of €169 TP is based on a sum-of-the-parts DCF valuation. We forecast cash flows through 2029 to account for known or anticipated competition and patent expirations. Beyond 2029, we apply a 2% terminal growth rate to Galapagos cash flows. Galapagos is discovery-focused biotech company, and we expect that the company will be able to accelerate its R&D efforts, replacing cash flows at a rate faster than what is lost to erosion. The collaboration with Gilead allows the company to monetize assets earlier than it would otherwise be able to, via opt-in payments and milestones, while allowing it to share phase 3 clinical risk and ex-EU commercialization risk with an experienced partner. We account for the risk- mitigation of the collaboration via a 10% discount rate.

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Galapagos NV (GLPG.AS)

3-Year Price and Rating History for Galapagos NV (GLPG.AS)



* Asterisk signifies initiation or assumption of coverage.

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