



Galapagos

Taking the road less traveled

We belatedly update our model following the close of the expanded deal with Gilead (not covered; see: *Brief takes on today's news (15/07/19)*), 2Q19 earnings (see: *Narrower than expected loss (25/07/19)*) and approval for competitor JAKi Rinvoq (see: *Rinvoq label initial thoughts (18/08/19)*). Whilst GLPG shares have given back some of their post-deal gains, shares remain +20% vs. SXDP +6%. We suspect that some of the post-deal movement in the shares was more supply/demand driven (i.e. short covering; feedback had been that GLPG was a "safe" short going into YE19 with few catalysts and already having been up +59% YTD). Now over a month post-deal, we believe most of this has been flushed out and that GLPG trading has returned to fundamentals... regarding which (after updating our model) we remain positively inclined. We've changed very little regarding our underlying assumptions for sales of GLPG's products (only increasing our POS for filgotinib to 90% from 80%); most of our increased NPV for GLPG is driven by incorporating GILD's payments, which is offset by higher opex. We suspect that GILD ideally would have wanted to acquire the entire GLPG asset, but as CEO van de Stolpe noted on the deal call, an acquisition proposal "would not have been accepted." Thus, whilst the path of least resistance (and likely the most lucrative) would have been to sell the company, we think the deal's structure is indicative of strong confidence (by both parties) in the GLPG innovative pipeline; we reiterate our OW rating and increase our PT to €170.

Key takes from recent conf. calls/our discussions with management (+ questions inside): Most of the dialog with GLPG has centered around the GILD deal and how to model it, given the (many) moving parts; i.e. higher R&D for filgotinib offset by lower costs for GLPG 1690, increased SG&A in EU5 for filgotinib vs. no need for a US commercial, how to model GILD's ~\$4bn upfront. GLPG will be able to provide specifics on its 3Q19 call).

Model changes: Most of our model changes result from incorporating GILD's payments and amending the US sales of products to a royalty stream; see inside for more details.

GLPG.AS: Financial and Valuation Metrics EPS EUR

FY Dec	2017	2018	2019	2020	2021
EPS	-2.34A	-0.56A	3.33E	0.76E	-0.97E
Previous EPS	-2.34A	-0.56A	-4.33E	-4.37E	-5.12E
Consensus EPS	-2.34A	-0.56A	-4.37E	-2.78E	-2.89E
P/E	N/A	N/A	44.8	N/A	N/A

Source: Barclays Research.

Consensus numbers are from Refinitiv received on 23-Aug-2019; 13:35 GMT

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 14.

Equity Research

Healthcare | European Mid Cap
Pharmaceuticals
26 August 2019

Stock Rating **OVERWEIGHT**
Unchanged

Industry View **POSITIVE**
Unchanged

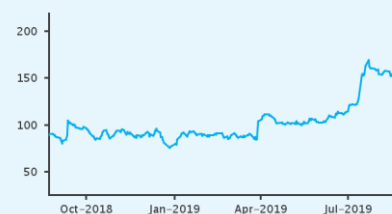
Price Target **EUR 170.00**
raised 21% from EUR 140.00

Price (23-Aug-2019) EUR 148.90
Potential +14.2%
Upside/Downside
Tickers GLPG NA / GLPG.AS

Market Cap (EUR mn) 8163
Shares Outstanding (mn) 54.82
Free Float (%) 87.67
52 Wk Avg Daily Volume (mn) 0.4
52 Wk Avg Daily Value (EUR mn) 45.94
Dividend Yield (%) N/A
Return on Equity TTM (%) -6.52
Current BVPS (EUR) 20.86

Source: Refinitiv

Price Performance Exchange-AEX
52 Week range EUR 171.20-74.48



[Link to Barclays Live for interactive charting](#)

European Mid Cap Pharmaceuticals

Emily Field, CFA

+44 (0)20 7773 6263
emily.field@barclays.com
Barclays, UK

Emmanuel Papadakis, PhD CFA

+44 (0)20 3134 1246
emmanuel.papadakis@barclays.com
Barclays, UK

Jameel Bakhsh

+44 (0)20 7116 7038
jameel.x.bakhsh@barclays.com
Barclays, UK

Brian Balchin, ACA

+44 (0)20 3134 0137
brian.balchin@barclays.com
Barclays, UK

European Mid Cap Pharmaceuticals

Industry View: POSITIVE

Galapagos (GLPG.AS)

Stock Rating: OVERWEIGHT

Income statement (€mn)	2018A	2019E	2020E	2021E	CAGR
Revenue	318	650	598	527	18.3%
Gross profit	318	650	598	527	18.3%
EBITDA (adj)	-38	216	62	-54	N/A
EBIT (adj)	-45	187	36	-77	N/A
Pre-tax income (adj)	-29	194	48	-64	N/A
Net income (adj)	-29	194	48	-64	N/A
EPS (adj) (€)	-0.56	3.33	0.76	-0.97	N/A
Diluted shares (mn)	52.2	58.3	63.5	65.4	7.7%
DPS (€)	0.00	0.00	0.00	0.00	N/A

Price (23-Aug-2019) EUR 148.90
 Price Target EUR 170.00

Why Overweight? We believe that GLPG's proprietary drug discovery platform is being validated as the pivotal studies read out for its lead asset, JAK inhibitor filgotinib. We believe filgotinib has the potential to be a best-in-class asset for the treatment of autoimmune diseases such as rheumatoid arthritis and inflammatory bowel disease.

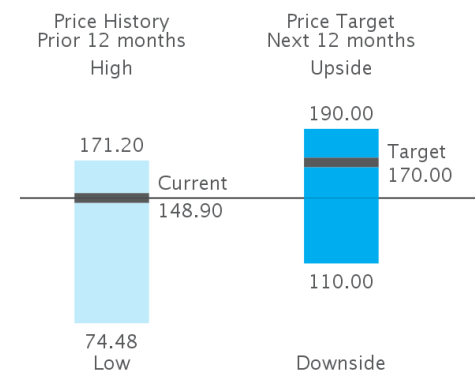
Upside case EUR 190.00

Should the MANTA safety study read out positively, it would likely mean filgotinib would be the best-in-class JAK and we would increase our peak share assumptions. Success in the phase 3 trials for IPF asset GLPG 1690 would also result in us raising our NPV.

Downside case EUR 110.00

Any safety signals for filgotinib in MANTA or failure of the asset in the IBD ph. 3 trials. Inability of GLPG 1690 to show disease modification in IPF would also lower our peak sales estimates.

Upside/Downside scenarios



Margin and return data	Average				
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
EBIT (adj) margin (%)	-14.1	28.8	6.0	-14.6	1.5
Pre-tax (adj) margin (%)	-9.2	29.9	8.1	-12.1	4.2
Net (adj) margin (%)	-9.2	29.8	8.1	-12.1	4.2
ROCE (%)	-4.0	15.3	1.4	-2.7	2.5
ROE (%)	-2.9	16.0	2.0	-2.3	3.2

Cash flow and balance sheet (€mn)	CAGR				
Change in working capital	-133	-124	22	-29	N/A
Cash flow from operations	-142	117	96	-70	N/A
Capital expenditure	-10	-34	-32	-28	N/A
Free cash flow	-153	83	64	-98	N/A
Tangible fixed assets	23	80	112	139	82.0%
Intangible fixed assets	4	7	7	7	25.6%
Cash and equivalents	1,291	2,333	2,684	2,586	26.1%
Total assets	1,440	2,548	2,941	2,857	25.7%
Short and long-term debt	0	0	0	0	N/A
Other long-term liabilities	2	1	1	1	-4.5%
Total liabilities	225	90	123	79	-29.4%
Total invested capital	-77	125	135	192	N/A
Net debt/(funds)	-1,291	-2,333	-2,684	-2,586	N/A
Provisions	0	0	0	0	N/A
Minorities	N/A	N/A	N/A	N/A	N/A
Shareholders' equity	1,214	2,458	2,819	2,778	31.8%

Valuation and leverage metrics	Average				
P/E (adj) (x)	N/A	44.8	N/A	N/A	44.8
EV/sales (x)	23.3	9.8	10.0	11.6	13.7
EV/EBITDA (adj) (x)	-194.6	29.4	97.5	-111.9	-44.9
Equity FCF yield (%)	-2.0	1.0	0.7	-1.0	-0.3
P/FCF (x)	-50.9	104.8	147.4	-99.0	25.6
P/BV (x)	6.4	3.5	3.4	3.5	4.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Total debt/capital (%)	0.0	0.0	0.0	0.0	0.0
Net debt/equity (%)	-106.3	-94.9	-95.2	-93.1	-97.4

Selected operating metrics	Average				
SG&A/sales (%)	12.5	11.3	17.2	25.4	16.6
R&D/sales (%)	101.6	59.9	78.2	97.6	84.3
R&D growth (%)	47.8	20.6	20.0	10.0	24.6
SG&A growth (%)	46.1	84.9	40.0	30.0	50.3

Source: Company data, Barclays Research
 Note: FY End Dec

PT change

Given that Galapagos has no commercial assets at the moment, and that we do not expect the company to become EPS-positive ex-GILD payments until 2022, we use a DCF approach in valuing Galapagos. In our NPV valuation for GLPG, we use a 10.0% WACC, considerably higher than our average WACC across our coverage universe, but a value we believe to be appropriate given the inherently more speculative nature of investing in a pre-commercial company. We use a -1% terminal growth rate, as we believe the filgotinib IP is likely to lapse in the early years beyond our modelling horizon (our full financial model extends to 2030). This generates our NPV-derived price target of €170/share, up from our previous €140/share.

Gilead deal mechanics/changes to our model

Below we summarize the terms of the GILD agreement (announced on 14/07/19) and how we have accordingly updated our model.

FIGURE 1
GILD deal; financial terms

Financial terms	
Upfront payment	\$3.95bn in cash
Initial Equity investment	GILD stake up to 20.1% from 12.3% at purchase price of €140.59 (20% premium to 30-day VWAP)
First Warrant	Confers right to take ownership to 25.1% at price/sh of €140.59; expires 1 year post issue date
Second Warrant	Confers right to take ownership to 29.9% at a price/sh the greater of: 120% x arithmetic mean of 30-day VWAP preceding date of exercise notice and €140.59; expires 5 years post issue date
Standstill agreement	10 years duration prevents GILD from seeking to acquire GLPG or taking its share ownership >29.9%
Expected close	Late 3Q19

Source: Company reports, Barclays Research

FIGURE 2
GILD deal; terms by individual asset

	filgotinib	GLPG 1690	GLPG 1972	All other clinical programs
Prior Status	<ul style="list-style-type: none"> GILD commercializes in US/EU5 with GLPG receiving a 50% profit share from EU5. GLPG commercializes in Benelux. GILD/GLPG share development costs 80/20 	<ul style="list-style-type: none"> wholly owned by GLPG 	<ul style="list-style-type: none"> Agreement signed in 2010; option to co-develop asset signed in 2017 GLPG eligible for €290mm in milestones from collaboration GLPG has full commercial rights in the US; entitled to royalty on ex-US sales 	<ul style="list-style-type: none"> n/a
Revised agreement	<ul style="list-style-type: none"> GILD/GLPG will co-commercialize in EU5 and retain 50/50 profit share. GILD/GLPG share development costs 50/50 \$1.27bn in potential milestones remain as does 20-30% tiered royalties on sales ex-EU5 & Benelux 	<ul style="list-style-type: none"> GILD pays \$325mm upon US approval GILD/GLPG share development costs 50/50 	<ul style="list-style-type: none"> GILD may in-license US rights post ongoing phase 2b ROCELLA trial for \$250mm If certain efficacy endpoints are met, GILD pays up to add'l \$200mm Post opt-in GLPG eligible for \$500mm milestones 	<ul style="list-style-type: none"> GILD can pay \$150mm opt-in for ex-US rights after ph. 2 50/50 global dev. cost split post opt-in GLPG entitled to 20-24% tiered royalties

Source: Company reports, Barclays Research

- GILD equity stake: we've increased the number of shares outstanding by 6.8mm and increased cash by €955mm a/o 3Q19. Given that the first warrant is well in the money, we include this in our model (taking GILD up to 25.1% ownership) with an 80% risk adjustment a/o 3Q20. We have not yet included the second warrant (which would take GILD's ownership up to 29.9%).
- GILD upfront payment: we've assumed that 12.5% (\$494mm) of the GILD upfront payment is opting-in for US rights for GLPG 1690; we spread the remainder out on a straight-line basis for 10 years (\$346mm per annum).
- Operating expenses: we've increased our y/y SG&A increase for 2019 to +85% from +26% and in 2020 to +40% from +10% to account for the co-promote in EU5 for filgotinib. We've only modestly increased our R&D assumptions as the increased spend from GLPG on filgotinib programmes will be offset by lower spending on the ISABELA trials for GLPG 1690.
- Filgotinib: following the Rinvoq approval, we've increased our POS in RA from 80% to 90%. We have not amended our share/sales projections.
- GLPG 1690: we've kept our 40% POS the same (and include the US approval milestone in 2022 using this same risk-adjustment). We assume GLPG receives a 22% royalty on US sales.
- GLPG 1972: whilst our prior model held a €1bn peak sales placeholder (with a 20% POS), we've added a market model to try to have a more accurate projection of potential sales. This generates a similar peak sales number, but we now use a 25% POS and assume GLPG receives a 22% royalty on US sales from GILD and on ex-US sales from Servier.
- We continue to not include any contribution from the TOLEDO programme in our financial model.

Notes from recent conference calls/discussions with mgmt.

Filgotinib

- The GILD expanded agreement has not changed the economics of the filgotinib deal structure aside from the development cost share. R&D costs will increase gradually over the next couple of years.
- GILD/GLPG had had pre-filing discussions with the FDA, which included all of the FINCH data and the available MANTA data (which was blinded). This formed the basis of the discussion that GILD will move forward with filing in RA, regardless of the MANTA study. The company does not expect filing based on the SELECTION data in UC will be treated any differently.
- In 2H19, the company intends to commence a phase 3 trial in psoriatic arthritis.

GLPG 1690 / fibrosis

- With 1690, GLPG has not seen any compound-specific toxicity (whereas Bristol Myers has with their compound). GILD has seen the blinded data thus far for this asset.
- The 1690 futility analysis will be done after 25% of the patients have concluded one year treatment, so that is "more than a year away."
- The PINTA study of GLPG 1205 is expected to be fully recruited by YE19.

GLPG 1972

- The phase 2B ROCELLA trial has completed enrolment (6 months ahead of scheduled). The primary endpoint is a reduction in cartilage loss as measured by MRI.

Other pipeline/Toledo

- Topline results from the 1st generation Toledo asset ('3312) are expected in 2H19 whilst the company intends to start phase 2 testing of the second generation asset ('3970) in 2H19.
- The target of the Toledo program will likely be disclosed sometime next year.
- The company is expecting a meaningful increase in development costs due to advancing the Toledo program in 2020, which currently remains outside the scope of the Gilead agreement.

Corporate/Financial

- GLPG will be focusing commercially on Europe and leave the rest of the world to Gilead, which will lead not only to the acceleration of current programs, but also new programs.
- GLPG plans to double its R&D efforts and intends to come up with new modes of action to improve the lives of patients.
- Of the proceeds received from Gilead from the upfront payment and equity investment, the decision on how to deploy this capital is solely up to the GLPG board (GILD will have 2 members on the GLPG board). GLPG has nominated GILD CEO Dan O'Day for one of the two board seats.
- Initially, the company will be looking for assets that will complement GLPG's current portfolio (i.e. in fibrosis and inflammation). However, large acquisitions are not to be expected in the near future.
- 2019 guidance for operating cash burn of €320-340mm has not yet been updated for the GILD transaction.
- GLPG plans to double the number of FTEs from ~500 to ~1,000.
- In terms of the upfront payment from GILD, most of this will be realized over the course of the 10-year period of the agreement.

Questions for Management

- How likely is it that the company will be able to have an advisory committee meeting for filgotinib in RA? If filgotinib is not granted such a meeting, should we assume the drug is likely to have a boxed warning for thrombosis?
- What are the factors that the company believes influenced the FDA to give a boxed warning for Rinvoq for thrombosis? Based on your discussions with KOLs, is this impacting clinicians' views of the JAKi class?
- Does the company expect that it would be able to price filgotinib at a premium to Rinvoq, given filgotinib's safety profile?
- Surveys taken of clinicians in the US indicate a relatively low awareness of second generation JAKs and expected usage to be in later line populations? How does the company expect to change those opinions amongst rheumatologists?
- How much of the value of the GILD upfront payment is tied directly to opt-ing into the GLPG 1690 program?

- How long after the September enrolment update should we expect the futility analysis of GLPG 1690 to be released?
- Given the size of the OA population, how large would a potential phase 3 study of GLPG 1972 need to be to ensure a representative patient sample is included? Would the company strategy be by any relevant sub-populations?
- How is GLPG thinking about the use of proceeds from the GILD deal; if the company is expecting to deploy this on external assets, what type of assets is the company looking for?

FORECASTS & CHANGES

Forecasts & changes

FIGURE 3
Galapagos – forecasts & changes

EURm	2019E	2020E	2021E	2022E	2023E
Sales OLD	190	264	209	420	609
Sales NEW	650	598	527	887	964
CHANGE	242%	126%	152%	111%	58%
OLD sales growth	-40%	39%	-21%	101%	45%
NEW sales growth	105%	-8%	-12%	69%	9%
Recurring EBIT OLD	(253)	(255)	(298)	(63)	104
Recurring EBIT NEW	187	36	(77)	287	350
CHANGE	-174%	-114%	-74%	-558%	236%
OLD growth	464%	1%	17%	-79%	-266%
NEW growth	-517%	-81%	-315%	-473%	22%
OLD margin	-132.9%	-96.4%	-143.1%	-14.9%	17.1%
NEW margin	28.8%	6.0%	-14.6%	32.4%	36.3%
Adj EPS OLD	(4.33)	(4.37)	(5.13)	(0.50)	2.98
Adj EPS NEW	3.33	0.76	(0.97)	4.99	6.39
CHANGE	-177%	-117%	-81%	-1107%	115%
OLD EPS growth	673%	1%	17%	-90%	-701%
NEW EPS growth	-694%	-77%	-228%	-613%	28%
FCF OLD	(324)	(214)	(330)	61	263
FCF NEW	83	64	(98)	369	464
CHANGE	-126%	-130%	-70%	0%	0%
Net (debt)/cash OLD	973	761	431	491	755
Net (debt)/cash NEW	2,333	2,684	2,586	2,955	3,418
CHANGE	140%	253%	500%	501%	353%
NPV old	140.09				
NPV new	170.68				
CHANGE	22%				
PT old	140				
PT new	170				
CHANGE	21%				

Source: Barclays Research Estimates

NPV output

FIGURE 4

Galapagos – Barclays NPV output

NPV Summary (EUR)			
	Risk Weight	PV/ share EUR	PV bn EUR
In-line disclosed assets		-	-
filgotinib - RA	90%	53.36	3.11
filgotinib - CD	65%	11.69	0.68
filgotinib - UC	65%	12.78	0.75
GLPG 1690	40%	40.77	2.38
GLPG 1972	25%	6.74	0.39
MOR 106	35%	2.80	0.16
Pipeline		128.15	7.47
Other & R&D terminal		88.56	5.16
Total portfolio		216.71	12.64
Restructuring (net)		-	-
R&D (net)		(70.89)	(4.13)
Capex		(15.14)	(0.88)
EV (Healthcare)		130.68	7.62
Associates & Investments			
Net cash position		40.00	2.33
Pensions		-	-
Minorities		-	-
Debt and other		40.00	2.33
Group MV		170.68	9.95

WACC: 10.0%

Terminal growth: -1.0%

Source: Barclays Research Estimates

BARCLAYS VS. CONSENSUS

Barclays vs. consensus

FIGURE 5

Barclays vs. consensus

18/08/2019	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenue CONS	451	451	495	802	879	1,163	1,358
Revenue BARC	650	598	527	887	964	1,232	1,585
VAR	44%	33%	6%	11%	10%	6%	17%
EBIT CONS	(17)	(87)	(96)	113	247	540	579
EBIT BARC	187	36	(77)	287	350	612	946
VAR	-1211%	-141%	-20%	154%	42%	13%	63%
EBIT Margin CONS	-3.7%	-19.3%	-19.3%	14.1%	28.1%	46.5%	42.6%
EBIT Margin BARC	28.8%	6.0%	-14.6%	32.4%	36.3%	49.7%	59.6%
VAR	-871%	-131%	-24%	130%	29%	7%	40%
EBITDA CONS	44	(3)	(24)	185	264	535	711
EBITDA BARC	216	62	(54)	325	391	665	1,013
VAR	394%	-2184%	131%	76%	48%	24%	43%
EBITDA Margin CONS	9.7%	-0.7%	-4.8%	23.0%	30.0%	46.0%	52.3%
EBITDA Margin BARC	33.2%	10.3%	-10.3%	36.7%	40.6%	53.9%	63.9%
VAR	243%	-1670%	117%	59%	35%	17%	22%
Net Profit CONS	42	(74)	(62)	111	251	534	612
Net Profit BARC	194	48	(64)	330	428	716	1,077
VAR	361%	-165%	3%	0%	0%	0%	0%
Core EPS CONS	(0.16)	(1.18)	(1.31)	1.52	3.48	7.02	7.28
Core EPS BARC	3.33	0.76	(0.97)	4.99	6.39	10.57	15.71
VAR	-2212%	-164%	-26%	229%	84%	50%	116%
PIPELINE PHARMA	2019E	2020E	2021E	2022E	2023E	2024E	2025E
filgotinib in market CONS (€)	-	46	206	520	935	1,399	1,856
filgotinib in market BARC (€)	-	72	456	947	1,276	1,786	2,198
VAR	-	59%	121%	82%	37%	28%	18%
filgotinib in market CONS* (\$)	-	26	252	586	920	1,213	1,485
filgotinib in market BARC (\$)	-	81	511	1,063	1,433	2,005	2,467
VAR	-	214%	103%	81%	56%	65%	66%
GLPG 1690 CONS	-	-	26	91	240	396	542
GLPG 1690 BARC	-	-	-	237	260	357	548
VAR	-	-	-100%	161%	8%	-10%	1%

*GILD analysts

Source: Bloomberg consensus, Barclays Research estimates

DETAILED FORECASTS

Revenue model

FIGURE 6

Revenue model

Revenues	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E
filgotinib - sales booked by GLPG	0.0	0.0	2.1	11.5	27.7	36.7	50.2	64.7
filgotinib - royalties from GLD	0.0	0.0	14.0	93.3	202.2	285.1	416.6	533.3
filgotinib - milestones								
Total filgotinib	0.0	0.0	16.2	104.7	229.9	321.8	466.8	598.1
GLPG 1690 US	0.0	0.0	0.0	0.0	76.5	170.2	236.7	368.6
GLPG 1690 ex US	0.0	0.0	0.0	0.0	41.9	89.7	119.9	179.4
GLPG 1690 - milestones					118.4			
Total GLPG 1690	0.0	0.0	0.0	0.0	236.9	259.9	356.5	548.0
CF triple - royalties from ABBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total CF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GLPG 1972 - US/int'l royalty		0.0	0.0	0.0	7.7	24.8	44.3	66.4
Total GLPG 1972	0.0	0.0	0.0	0.0	7.7	24.8	44.3	66.4
MOR 106 - royalty	0.0	0.0	0.0	0.0	2.5	6.8	11.8	17.7
Total MOR 106	0.0	0.0	0.0	0.0	2.5	6.8	11.8	17.7
GILEAD UPFRONT PAYMENT	0.0	439.9	307.9	307.9	307.9	307.9	307.9	307.9
Novartis payment	47.5		0.0	0.0	0.0	0.0	0.0	0.0
Third Party Revenues	241.3	176.6	211.9	0.0	0.0	0.0	0.0	0.0
Third Party Revenues	288.8	616.4	519.8	307.9	307.9	307.9	307.9	307.9
Growth Rates								
filgotinib - sales booked by GLPG					141.6%	32.5%	36.8%	29.0%
filgotinib - royalties from GLD					116.8%	41.0%	46.1%	28.0%
filgotinib - milestones								
Total filgotinib Growth	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	548.4%	119.5%	40.0%	45.1%	28.1%
GLPG 1690 US					<i>n/a</i>	122.5%	39.1%	55.7%
GLPG 1690 ex US					<i>n/a</i>	113.8%	33.7%	49.7%
Total GLPG 1690 Growth	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	9.7%	37.2%	53.7%
CF triple - royalties from ABBV								
Total CF Growth	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
GLPG 1972 - US sales / int'l royalty						221.0%	78.4%	49.9%
Total GLPG 1972 Growth	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	221.0%	78.4%	49.9%
MOR 106 - royalty						170.4%	74.4%	49.7%
Total MOR 106 Growth	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	170.4%	74.4%	49.7%
Third Party Revenues	89.9%	-26.8%	20.0%	-100.0%	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Third Party Revenues Growth	127.3%	113.4%	-15.7%	-40.8%	0.0%	0.0%	0.0%	0.0%
Total Revenue	288.8	616.4	535.9	412.6	785.0	921.2	1,187.4	1,538.0
Organic Growth	127%	113%	-13%	-23%	90%	17%	29%	30%

Source: Company reports, Barclays Research estimates

Income Statement

FIGURE 7

Income statement

	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E
INCOME STATEMENT									
Revenue	155.9	317.8	650.1	597.9	526.5	887.3	964.1	1,232.3	1,585.2
Growth (% yoy)	2.8%	103.9%	104.5%	-8.0%	-11.9%	68.5%	8.6%	27.8%	28.6%
COGS	-	-	-	-	-	(37.3)	(39.0)	(53.5)	(82.2)
Gross Profit	156	317.8	650.1	597.9	526.5	850.1	925.1	1,178.9	1,503.0
Growth (% yoy)	2.8%	103.9%	104.5%	-8.0%	-11.9%	61.5%	8.8%	27.4%	27.5%
Gross margin (%)	100.0%	100.0%	100.0%	100.0%	100.0%	95.8%	96.0%	95.7%	94.8%
SG&A	(27.2)	(39.8)	(73.6)	(103.0)	(133.9)	(140.6)	(161.6)	(177.8)	(195.6)
Growth (% yoy)	15.7%	46.1%	84.9%	40.0%	30.0%	5.0%	15.0%	10.0%	10.0%
% of sales	17.5%	12.5%	11.3%	17.2%	25.4%	15.8%	16.8%	14.4%	12.3%
R&D	(218.5)	(322.9)	(389.5)	(467.4)	(514.1)	(529.6)	(556.0)	(583.8)	(613.0)
Growth (% yoy)	56.6%	47.8%	20.6%	20.0%	10.0%	3.0%	5.0%	5.0%	5.0%
% of sales	140.1%	101.6%	59.9%	78.2%	97.6%	59.7%	57.7%	47.4%	38.7%
Combined SG&A & R&D	(245.7)	(362.7)	(463.0)	(570.4)	(648.0)	(670.1)	(717.7)	(761.6)	(808.6)
Growth	50.65%	47.59%	27.68%	23.18%	13.61%	3.41%	7.10%	6.13%	6.17%
IFRS EBIT	(89.8)	(44.8)	187.0	35.9	(77.0)	287.4	349.8	611.9	945.5
Growth (% yoy)	681.6%	-50.1%	-517.4%	-80.8%	-314.6%	-473.1%	21.7%	74.9%	54.5%
Other (income)/deductions--net	(25.7)	15.6	7.1	12.3	13.4	14.1	15.7	18.4	-
Growth (% yoy)	-139.1%	-160.7%	-54.6%						
Income before provision for taxes	(115.5)	(29.2)	194.1	48.2	(63.6)	329.9	427.8	715.9	1,077.0
Income Tax Expense	(0.2)	(0.0)	(0.1)	-	-	-	-	-	-
Tax rate	-0.2%	-0.2%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Minority Interest	-	-	-	-	-	-	-	-	-
Reported Net Profit	(115.7)	(29.3)	194.0	48.2	(63.6)	329.9	427.8	715.9	1,077.0
Shares outstanding -- diluted	49.5	52.2	58.3	63.5	65.4	66.2	67.0	67.8	68.6
Growth (% yoy)	4.6%	5.6%	11.6%	9.0%	2.9%	1.2%	1.2%	1.2%	1.2%
Reported EPS (diluted)	(2.34)	(0.56)	3.33	0.76	(0.97)	4.99	6.39	10.57	15.71
Growth (% yoy)	-304.8%	-76.1%	-694.0%	-77.2%	-228.1%	-612.6%	28.1%	65.4%	48.7%
Shares outstanding -- basic	49.5	52.2	58.3	63.5	65.4	66.2	67.0	67.8	68.6
Growth (% yoy)									
Regular D&A	4.3	6.8	28.8	25.6	22.6	38.0	41.3	52.8	67.9
% of sales	2.7%	2.1%	4.4%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
EBITDA	(85.5)	(38.0)	215.9	61.5	(54.5)	325.4	391.1	664.7	1,013.4
Growth (% yoy)	1070.2%	-55.6%	-668.2%	-71.5%	-188.6%	-697.3%	20.2%	70.0%	52.5%
% of sales	-54.8%	-12.0%	33.2%	10.3%	-10.3%	36.7%	40.6%	53.9%	63.9%

Source: Company reports, Barclays Research estimates

Balance Sheet

FIGURE 8

Balance sheet

	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Growth (% yoy)	2.8%	103.9%	104.5%	-8.0%	-11.9%	68.5%	8.6%	27.8%	28.6%
BALANCE SHEET									
Assets									
Cash and Cash Equivalents	1,151.2	1,290.8	2,332.9	2,683.9	2,585.6	2,954.6	3,418.2	4,175.3	5,299.4
Inventories	0.3	-	-	-	-	13.8	30.2	41.4	63.7
Accounts Receivable	28.0	18.6	18.8	29.3	15.3	44.7	74.3	105.2	145.9
R&D incentive receivables	11.8	11.2	11.6	11.6	11.6	11.6	11.6	11.6	11.6
Restricted Cash	-	-	-	-	-	-	-	-	-
Other current assets	6.4	8.2	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Total Current Assets	1,197.6	1,328.9	2,370.3	2,731.8	2,619.5	3,031.7	3,541.4	4,340.6	5,527.6
Intangible Assets	2.5	3.6	7.2	7.2	7.2	7.2	7.2	7.2	7.2
Property, Plant & Equipment, net	16.7	23.1	79.9	111.6	139.5	186.5	237.6	302.9	386.9
Deferred Tax Assets	2.0	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Non-current R&D incentive receivables	64.0	73.4	82.6	82.6	82.6	82.6	82.6	82.6	82.6
Non-current restricted cash	1.2	-	-	-	-	-	-	-	-
Other non-current assets	2.3	7.9	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Total Assets	1,286.3	1,439.5	2,548.2	2,941.4	2,857.0	3,316.3	3,877.1	4,741.6	6,012.6
Liabilities									
Provisions	-	-	-	-	-	-	-	-	-
Finance Lease Liabilities	0.0	-	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Accounts Payable	47.1	68.9	58.1	90.7	47.3	138.7	230.3	326.1	452.2
Current Tax Payable	0.9	1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Accrued Charges	1.2	-	-	-	-	-	-	-	-
Deferred Income	122.5	149.8	-	-	-	-	-	-	-
Current Financial liabilities	-	-	-	-	-	-	-	-	-
Other current	-	-	-	-	-	-	-	-	-
Current liabilities	171.7	219.9	64.3	96.8	53.5	144.8	236.5	332.3	458.4
Pension Liabilities	3.6	3.8	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Provisions	0.1	-	-	-	-	-	-	-	-
Finance Lease Liabilities	-	-	20.5	20.5	20.5	20.5	20.5	20.5	20.5
Other non-current liabilities	1.6	1.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Non-current deferred income	97.3	-	-	-	-	-	-	-	-
Non-current financial liabilities	-	-	-	-	-	-	-	-	-
Total Liabilities	274.3	225.2	90.1	122.6	79.2	170.6	262.3	358.1	484.2
Equity capital	233.4	236.5	235.7	236.5	235.7	236.5	235.7	236.5	235.7
Share Premium	993.0	1,277.8	1,283.7	1,283.7	1,283.7	1,283.7	1,283.7	1,283.7	1,283.7
Other reserves	(1.3)	(0.7)	1,261.8	1,597.9	1,581.5	1,924.8	2,418.5	3,162.6	4,332.1
Treasury Stock	-	-	-	-	-	-	-	-	-
Translation differences	(1.8)	(1.6)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Accumulated losses	(211.4)	(297.8)	(321.5)	(297.8)	(321.5)	(297.8)	(321.5)	(297.8)	(321.5)
Total Shareholders' Equity	1,012.0	1,214.2	2,458.1	2,818.8	2,777.8	3,145.7	3,614.8	4,383.5	5,528.4
Total Liabilities and Shareholders'	1,286.3	1,439.5	2,548.2	2,941.4	2,857.0	3,316.3	3,877.1	4,741.6	6,012.6

Source: Company reports, Barclays Research estimates

Statement of Cash Flows

FIGURE 9

Cash flow statement

	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E
CASH FLOW STATEMENT									
Operating Activities									
Net income / loss	-115.7	-29.3	194.0	48.2	-63.6	329.9	427.8	715.9	1,077.0
Tax Expense	0.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other net financial expenses	25.7	-9.0	-2.9	0.0	0.0	0.0	0.0	0.0	0.0
FV re-measurement of subscription sha	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	3.6	3.8	28.8	25.6	22.6	38.0	41.3	52.8	67.9
Amortization and Inventories write-off	0.7	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net realized loss on FX	-0.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share based comp.	16.5	19.4	16.8	0.0	0.0	0.0	0.0	0.0	0.0
Decrease in provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in pension liabilities	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Unrealized exchange gains/losses		0.0	-1.4						
Fair value adjustment		0.0	2.1						
Gain on sale of business/ fixed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustmetrn for itnesm under investing/financing CF		0.0	0.0						
Interest paid	-0.3	-1.1	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Interest received	1.3	4.6	3.9	0.0	0.0	0.0	0.0	0.0	0.0
Taxes paid	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Working capital									
Inventory	0.0	0.0	0.0	0.0	0.0	-13.8	-16.4	-11.2	-22.3
Accounts receivable	-27.7	-20.0	-9.6	-10.5	14.0	-29.5	-29.6	-30.9	-40.7
Trade & Other Payables	14.8	39.9	-11.1	32.5	-43.4	91.4	91.7	95.8	126.1
Deferred Income and Others	-65.7	-153.3	-103.5	0.0					
Total change in working capital	-78.6	-133.4	-124.2	22.0	-29.4	48.1	45.7	53.7	63.1
Net cash from operations	-147.0	-142.463	116.6	95.9	-70.4	416.0	514.8	822.4	1,208.1
From Investing Activity									
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchases of PP&E	-5.3	-10.4	-33.7	-31.7	-27.9	-47.0	-51.1	-65.3	-84.0
Disposals of PP&E	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
R&D and other intangibles	-2.1	-3.3	-3.5	0.0	0.0	0.0	0.0	0.0	0.0
Decrease in restricted cash	6.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisition/Proceeds - financial assets	0.4	-2.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash from Investing	-0.5	-15.914	-37.4	-31.7	-27.9	-47.0	-51.1	-65.3	-84.0
From Financing Activity									
Net change in financial liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from capital increases	353.4	296.2	963.2	286.8	0.0	0.0	0.0	0.0	0.0
Repayment of obligations under leases	-0.1	-0.1	-2.1	0.0	0.0	0.0	0.0	0.0	0.0
Dividend (paid)/ received	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	-8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash from Financing	353.4	287.9	961.0	286.8	0.0	0.0	0.0	0.0	0.0
Other cash flow s	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exchange	-27.8	10.1	1.9	0.0	0.0	0.0	0.0	0.0	0.0
Cash/Equiv Balance (BOY)	973.2	1,151.2	1,290.8	2,332.9	2,683.9	2,585.6	2,954.6	3,418.2	4,175.3
Net Cash Flow	178.0	139.6	1,042.1	351.0	-98.3	369.0	463.7	757.1	1,124.1
Cash/Equiv Balance (EOY)	1,151.2	1,290.8	2,332.9	2,683.9	2,585.6	2,954.6	3,418.2	4,175.3	5,299.4
Free Cash Flow									
Grow th (% yoy)	-164.8%	0.3%	-154.2%	-22.5%	-253.2%	-475.3%	25.7%	63.3%	48.5%
Per share	(3.08)	(2.93)	1.42	1.01	(1.50)	5.58	6.92	11.17	16.40
% of NI	132%	522%	43%	133%	155%	112%	108%	106%	104%

Source: Company reports, Barclays Research estimates

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Primary Stocks (Ticker, Date, Price)

Galapagos (GLPG.AS, 23-Aug-2019, EUR 148.90), Overweight/Positive, J

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Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity in a merger or strategic transaction involving the company.

Industry View

Positive - industry coverage universe fundamentals/valuations are improving.

Neutral - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

Negative - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

European Mid Cap Pharmaceuticals

argenx (ARGX.BR)	Galapagos (GLPG.AS)	Genmab A/S (GEN.CO)
Grifols SA (GRLS.MC)	H Lundbeck A/S (LUN.CO)	Hikma Pharmaceuticals PLC (HIK.L)
Ipsen SA (IPN.PA)	Merck KGaA (MRCG.DE)	UCB SA (UCB.BR)
Vifor Pharma AG (VIFN.S)		

Distribution of Ratings:

Barclays Equity Research has 1522 companies under coverage.

44% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 54% of

IMPORTANT DISCLOSURES CONTINUED

companies with this rating are investment banking clients of the Firm; 76% of the issuers with this rating have received financial services from the Firm.

39% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 49% of companies with this rating are investment banking clients of the Firm; 68% of the issuers with this rating have received financial services from the Firm.

15% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 35% of companies with this rating are investment banking clients of the Firm; 65% of the issuers with this rating have received financial services from the Firm.

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Top Picks:

Barclays Equity Research's "Top Picks" represent the single best alpha-generating investment idea within each industry (as defined by the relevant "industry coverage universe"), taken from among the Overweight-rated stocks within that industry. Barclays Equity Research publishes "Top Picks" reports every quarter and analysts may also publish intra-quarter changes to their Top Picks, as necessary. While analysts may highlight other Overweight-rated stocks in their published research in addition to their Top Pick, there can only be one "Top Pick" for each industry. To view the current list of Top Picks, go to the Top Picks page on Barclays Live (<https://live.barcap.com/go/keyword/TopPicks>).

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IMPORTANT DISCLOSURES CONTINUED

Galapagos (GLPG NA / GLPG.AS)

EUR 148.90 (23-Aug-2019)

Stock Rating

OVERWEIGHT

Industry View

POSITIVE

Rating and Price Target Chart - EUR (as of 23-Aug-2019)

Currency=EUR



Publication Date	Closing Price	Rating	Adjusted Price Target
01-Apr-2019	104.95		140.00
30-Jul-2018	96.00	Overweight	130.00

Source: Refinitiv, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

J: Barclays Bank PLC and/or an affiliate is a liquidity provider and/or trades regularly in the securities by Galapagos and/or in any related derivatives.

Valuation Methodology: Given that we do not expect Galapagos to be profitable until 2022, we employ an NPV-based methodology to derive our price target. Using a 10% WACC and -1% terminal growth rate, we arrive at a price target for GLPG of EUR 170.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: MANTA study showing a safety signal. FDA ruling class effect for safety for JAKs that limits uptake for the class. Failure of filgotinib in ph. 3 IBD trials. Failure of GLPG 1690 to show disease modification in IPF.

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European Mid Cap Pharmaceuticals (Cont'd)

Sidhartha Modi

+91 (0)22 6175 1326

sidhartha.modi@barclays.com

Barclays, UK