

7th April 2016

Healthcare

## Galapagos

Price EUR38.98

GLPG1690 in IPF in phase IIa, development can be fast

Fair Value EUR62 (+59%)

BUY

|                            |             |
|----------------------------|-------------|
| Bloomberg                  | GLPG.BB     |
| Reuters                    | GLPG.BR     |
| 12-month High / Low (EUR)  | 58.5 / 22.7 |
| Market Cap (EURm)          | 1,528       |
| Avg. 6m daily volume (000) | 232.5       |

### ANALYSIS

- Galapagos has announced the initiation of a Phase IIa trial, FLORA, for oral GLPG1690 in Idiopathic Pulmonary Fibrosis (IPF), a rare disease with ~30,000 newly diagnosed patients in Europe per year (slightly less in the US). We are pleased to see GLPG1690 advancing in GLPG's pipeline as the biotech gained back the rights from Jansen in May 2015, which might have cast doubts on the future of the product candidate.
- The study should evaluate safety and tolerability as the primary endpoint in 24 patients over a 12-week treatment course. While good target engagement was seen in phase I alongside no particular safety concerns, we would pay attention to secondary measures, namely the evaluation of lung function and quality of life as GLPG1690 features a new mode of action which inhibits autotaxin. Within the IPF space, GLPG1690 could benefit from a differentiated safety profile as Esbriet could induce both liver and GI toxicity issues. To keep in mind that Esbriet was granted orphan drug, fast track and breakthrough therapy designation and benefitted from a priority review. Topline results are expected in Q2 2017.
- The product is already integrated into our valuation and the latter news does not change the 20% probability of success we had already attached to it (EUR2/share) as well as its EUR1.3bn peak sales potential (non risk-adjusted). So far, we have modelled a partnership agreement with upfront and milestones of up to EUR350 alongside a 15% royalty rate. This was motivated by the fact that both Roche (InterMune) and Boehringer Ingelheim have launched costly supportive campaigns for Esbriet and Ofev respectively with BI engaged in a co-financing programme of up to EUR25k per year for patients who do not have adequate financial resources. However, one could argue that Roche valued InterMune at USD8.4bn and that GLPG might decide to opt for a standalone basis, at least in some European countries, to leverage its cystic fibrosis sales force. Before having more detailed data, we would stick to our scenario which leaves significant room for upside potential in our view.

|                | 1 M   | 3 M    | 6 M   | 31/12/15 |
|----------------|-------|--------|-------|----------|
| Absolute perf. | -3.8% | -29.2% | -6.4% | -31.3%   |
| Healthcare     | 0.3%  | -9.4%  | -7.5% | -10.6%   |
| DJ Stoxx 600   | -3.3% | -6.7%  | -8.3% | -9.6%    |

|               | 2014 | 2015e | 2016e | 2017e |
|---------------|------|-------|-------|-------|
| P/E           | NS   | 83.5x | NS    | NS    |
| Div yield (%) | NM   | NM    | NM    | NM    |

### VALUATION

- We are sticking to our EUR62 Fair Value and reiterate our BUY rating.
- With EUR21 cash/share i.e. more than half of the current share price, GLPG's pipeline is significantly undervalued.

### NEXT CATALYSTS

- Q2 2016: filgotinib's 20w data in Crohn's disease

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|         |   |
|---------|---|
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## Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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