16th June 2016

Healthcare

Galapagos

Price EUR46.83

Feedback R&D day: Confidence and supportive Newsflow to come despite lack of numbers

Fair Value EUR64 (+37%) **BUY**

Bloomberg	GLPG BB
Reuters	GLPG.BR
12-month High / Low (EUR)	58.5 / 32.7
Market Cap (EURm)	2,159
Ev (BG Estimates) (EURm)	0
Avg. 6m daily volume (000)	218.9
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.7%	15.7%	-9.3%	-17.5%
Healthcare	-1.7%	-3.0%	-7.3%	-12.4%
DJ Stoxx 600	-4.2%	-7.0%	-8.3%	-12.4%

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	57.9x	39.2x
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

Galapagos hosted its annual R&D day which in our view highlighted the management's confidence in keeping up with its timeline for the CF program (phase II for the x3 combo towards mid-2017). While investors and us might have expected more direct comparison with Vertex' product, we acknowledge that it might be a bit early. Focus has also been put on other early/mid-stage assets and especially two developed in Osteoarthritis and IPF. Sitting on a ~EUR1bn cash pile, the future of the company will involve in and out-licensing deals to 1/ keep-up with ambitious and appreciated development plan and 2/ evolve towards an integrated biopharma company.

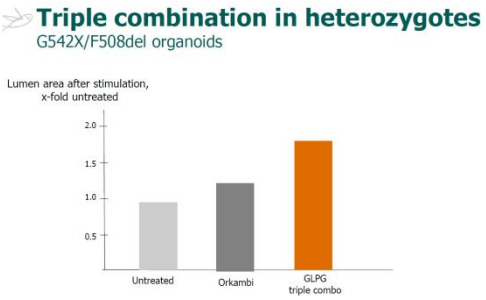
ANALYSIS

- **Cystic Fibrosis Program (partnered with AbbVie) well on track with confidence despite lack of numbers to fine tune our model yet.** Strategy of the management to accelerate CF program last year proven right with back-up compound being more appropriate to the development of a combination therapy. Indeed, corrector 2 back-up compound GLPG2737 has been prioritised over GLPG2665 as it features a higher lung penetration and affect less the binding of other compounds (potentiator and C1). In the heterozygote population as well as in the homozygotes F508del populations (previously communicated), early results show higher efficacy of GLPG molecules over Orkambi.

  Regarding SAPHIRA phase II program for GLPG222 alone, we see slighty higher efficacy over lumacaftor. Remind that efficacy is augmented when molecules are in combination. The company has no difficulties in switching patients from Kalydeco to GLPG222. We do not rule out that Fev improvement

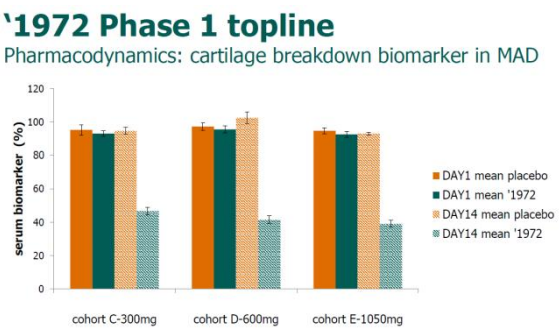
  might been hard to see with two dose excalation in the SAPHIRA 2 trial (G551D mutation; n=30). While VRTX is faced some safety issues (deaths) with its 2nd generation corrector, GLPG did not raised any safety issues in extensive preclinical toxicity testing conducted at high dose and management mentionned the front-end loaded testing strategy pursued to minimize such effects.

  Discussions with the FDA are ongoing to determine the next necessary steps to be taken ahead of opening US centers. We believe that this would be mandatory for the triple combination phase II trial. CSO, Piet Wigerinck, was confident on the ability of its team to bring the x3 combo in phase II towards mid -2017. Timeline reiterated with IND expected later this year. The CF program should be the main value creating opportunity within the next 12-18months. As a reminder, we expect a ~EUR8bn peak sales for the product which should address both F508del heterozygotes and homozygotes populations (to be put in the light of a combined USD7bn estimated peak sales for Orkambi and VX-661/VX-770).



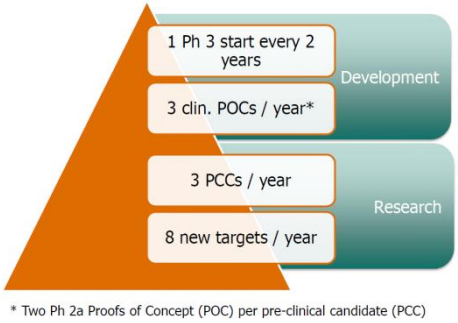
- **Focus on early/mid-stage assets**. While the investing community has been focused on filgotinib in 2015 and should have all eyes on the CF program in 2016e/2017e, early/mid stage assets should not be overlooked. Recall that the development target that Galapagos communicated at the R&D day (i.e. one phase III program every two years alongside three PoC per year) implies a dense pipeline (…as well as in-licensing deals, cf. below).

  Alongside late-stage filgotinib (phase III program to start in Q3), Galapagos management put emphasis on GLPG1972 within its inflammation portfolio. Developed in osteoarthritis (OA), this molecule showed strong efficacy on cartilage breakdown biomarkers as soon as day 14 and inhibited cartilage breakdown in healthy volunteers. Developping molecules in OA is challenging as highlighted by a high failure rate. Hence, we believe this could be a good candidate for a partnering in the US (Servier retains European rights).



Within its Fibrosis portfolio, GLGP1690 FLORA phase II trial is on track with results expected in H1 2017 in IPF. We previously mentionned that this molecule, which features a novel mode of action (autotaxin inhibitor), could be a good partnered program too (please see our note here).

- **In and out-licensing will be key for GLPG in its goal to evolve towards an integrated biopharmaceutical company**. Out-licensing has been mentionned by management as an option, for molecules that would not fit within what should become the company's "core marketing" area i.e. Inflamation and orphan/niche fibrosis indication in our view. On the other hand, keeping up with the ambitious development targets implies in-licensing. With EUR1bn in cash and cash equivalent, GLPG should hence engage into in-licensing deals.



* Two Ph 2a Proofs of Concept (POC) per pre-clinical candidate (PCC)

Preclinical	Ph 1	Ph 2	Ph 3	Status	
Filgotinib RA				Ph 3 start:	Q3 '16
Filgotinib Crohn's				Ph 3 start:	Q3 '16
Filgotinib UC				Ph 2 start:	Q3 '16
'1972 Osteoarthritis				Ph 1 topline:	H1 '16
'2534 Atopic D				Ph 1 start:	2017

Preclinical	Ph 1	Ph 2	Status	
Potentiator '1837			Ph 2 results:	H2 '16
Backup Pot. '2451			Ph 1 results:	H2 '16
C1 '2222			Ph 1 results:	H1 '16
BU C1 '2851			Ph 1 start:	H2 '16
C2 '2737			Ph 1 start:	H2 '16

Preclinical	Ph 1	Ph 2	Status	
'1690 in IPF			Ph 2 results:	H1 '17
'2938 in IPF			Ph 1 start:	H2 '17

VALUATION

- We reiterate our BUY rating and EUR64 fair value
- Filgotinib EUR32/share; Cash EUR21/share; CF program EUR9/share; GLPG1972+GLPG1690 EUR2/share

NEXT CATALYSTS

- July 13th: Paris Roadshow with CFO and Dir. Business Development
- July 29th: HY results

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BUY ratings 72% NEUTRAL ratings 0% SELL ratings 28%

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