



31st July 2020

GALAPAGOS

| Healthcare
| Biotech

BUY

Fair Value EUR215 vs. EUR230 (+36%)
Share price EUR157.85
EPS 3Y Cagr NM

Some reasons to be cautious, but current valuation is hard to justify anyway

FDA labelling to filgotinib may hold some surprises

Let's start with the most obvious reason to be supportive: we are expecting an FDA decision for filgotinib (now Jyseleca) in rheumatoid arthritis soon and we believe it will be positive. Back in December 2019, Galapagos and its partner Gilead indeed announced the submission of a New Drug Application to the FDA under priority review, which should theoretically lead to a decision in the coming weeks. Even though approval is very likely, we believe that one of investors' concerns is labelling. While the drug received CHMP backing last week for both its 100mg and 200mg doses (final decision should follow within 60 days), there is a risk that FDA would take a conservative approach and approve only the lower dose as adverse events were dose-dependent. On top of that, a black box warning for thrombosis is likely given that Abbvie's Rinvoq got one last year when approved. Even though thrombosis/pulmonary embolism events are less frequent for Jyseleca (with usual caveats for cross-trial comparison), we believe that it should likely get a black box warning as well. If not, we would see that development as positive for sure.

Commercial launch should be affected by Covid

Beyond regulatory, we believe that investors are worried that the ongoing pandemic situation all over the world could affect the launch of Jyseleca. It could indeed prevent sales forces to fully support the drug in a very competitive market. Even though Jyseleca should differentiate itself thanks to its oral formulation and its safety profile, we acknowledge that current situation could significantly impact commercial ramp-up. Therefore, we have decided to update our time to peak sales from seven years to eight years to reflect a slower uptake than initially expected leading us to decrease our FV from EUR230 to EUR215.

Next clinical read-outs in OA and IPF are not straightforward

A few days ago, GLPG1972's phase IIb (ROCELLA) status was updated on clinicaltrials.gov and now appears as "completed", meaning that we should get top-line results in the coming months. If Gilead decides to opt-in, it could lead to a USD250m payment and USD200m additional milestones if certain clinical objectives are met. However, early data have only demonstrated its potential to inhibit a particular biomarker correlated to cartilage degradation, we are still lacking data on clinical outcomes such as pain symptoms to be more confident. Finally, we should also get top-line results from '1690 in SSc in H2. While it is not part of our valuation for now, if negative we cannot rule out that it will affect sentiment about the lead indication (IPF) currently in phase III (12% of our FV) among investors.

Buy reiterated, FV now set at EUR215

Overall, we believe current valuation is hard to justify, even by taking the most bearish scenario. Therefore, we reiterate our Buy rating while reducing our FV to EUR215.

Victor Floc'h

33(0) 1 70 36 57 01
vfloch@bryangarnier.com

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Market Data

Bloomberg / Reuters	GLPG BB/GLPG.BR
Market Cap.	EUR10,301m
E.V.	EUR8,453m
Free Float	65.6%
Avg. Daily volume (6m)	550.9
12m high / low	EUR249.5 / EUR132.7
Ytd Perf.	-15.4%

EURM	12/19	12/20e	12/21e	12/22e
Sales	895.9	754.8	543.0	803.7
% Change		-15.7%	-28.1%	48.0%
EBITDA	NM	NM	NM	NM
% Change		ns	ns	ns
EBIT	370.3	-47.4	-284.5	-37.3
% Change			NS	86.9%
Net Income	150.1	-41.6	-280.1	-35.0
% Change			NS	87.5%
ROE	NM	NM	NM	NM

	12/19	12/20e	12/21e	12/22e
EV/Sales	9.4x	11.8x	17.7x	12.5x
EV/EBITDA	x	x	x	x
EV/EBIT	22.8x	NS	NS	NS
EPS	2.32	-0.64	-4.33	-0.54
% change			NS	87.5%
P/E	68.0x	NM	NM	NM
Div Yield	NM	NM	NM	NM

Next Catalyst: 07/08/2020 HY results

Last FV Change:

[2020-2-24, Strong momentum likely to continue in 2020](#)

Last Reports:

[2020-5-21, Positive results in UC but additional data needed to get a clearer view](#)

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SELL ratings 17.5%

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BRYAN, GARNIER & CO

London Bryan, Garnier & Co Ltd Beaufort House 15 St. Botolph Street London EC3A 7BB United Kingdom +44 207 332 2500	Paris Bryan, Garnier & Co Ltd 26 Avenue des Champs-Elysées 75008 Paris France +33 1 56 68 75 20	Munich Bryan, Garnier & Co. GmbH Widenmayerstrasse 29 80538 Munich Germany +49 89 2422 62 11	New York Bryan Garnier Securities LLC 750 Lexington Avenue 16th floor New York, NY 10022 United States +1 212 337 7000
Oslo Beringer Finance AS Beddingen 8, Aker Brygge Postbox: 0117 Oslo Oslo 0250 Norway +47 908 45 025	Stockholm Beringer Finance Malmskillnadsgatan 32, 6th Floor 111 51 Stockholm Sweden +46 722 401 080	Reykjavik Höfðatorg, Katrínartún 2 105 Reykjavik Iceland +354 554 78 00	Palo Alto 394 University Avenue Palo Alto California (CA) 94301 USA +1 650 283 18 34

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