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.

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

Victor Floc'h
33(0) 1 70 36 57 01
vfloch@bryangarnier.com

Click here to download

BRYAN, GARNIER & CO

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

NEUTRAL Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

SELL Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 46.2% NEUTRAL ratings 36.2% SELL ratings 17.5%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	**YES**
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	**YES**
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	**YES**
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

BRYAN, GARNIER & CO

London	Paris	Munich	New York
Bryan, Garnier & Co Ltd	Bryan, Garnier & Co Ltd	Bryan, Garnier & Co. GmbH	Bryan Garnier Securities LLC
Beaufort House 15 St. Botolph Street London EC3A 7BB United Kingdom	26 Avenue des Champs-Elysées 75008 Paris France	Widenmayerstrasse 29 80538 Munich Germany	750 Lexington Avenue 16th floor New York, NY 10022 United States
+44 207 332 2500	+33 1 56 68 75 20	+49 89 2422 62 11	+1 212 337 7000

Oslo	Stockholm	Reykjavik	Palo Alto
Beringer Finance AS	Beringer Finance		
Beddingen 8, Aker Brygge Postbox: 0117 Oslo Oslo 0250 Norway	Malmskillandsgatan 32, 6th Floor 111 51 Stockholm Sweden	Höfðatorg, Katrínartún 2 105 Reykjavik Iceland	394 University Avenue Palo Alto California (CA) 94301 USA
+47 908 45 025	+46 722 401 080	+354 554 78 00	+1 650 283 18 34

IMPORTANT INFORMATION