

HOLD (vs. UNDER REVIEW)

Price (16/12/2020)	EUR 79.12
Target price	90.00
Risk	High
Reuters	GLPG AS
Bloomberg	GLPG NA
Shares number (m)	65.25
Market cap. (m)	5,163
Cash Position 12/20e (m)	5,003
1 year price perf.	-58.6%
Diff. with Euro Stoxx	-55.9%
Volume (sh./day)	514,437
Free Float	65.1%
H/L 1 year	249.50 - 79.12

Company description

Galapagos is a biotech company focused on small molecules in inflammatory and fibrotic indications. The company is supported by strong partnerships and has a broad and mature pipeline. Its lead product has completed Ph3.


Analyst:
Benoit Louage, PhD

+32 2 662 89 55

b.louage@degroofpetercam.com

Galapagos
Downside risk materially reduced, but patience prevails

- Yesterday, Galapagos announced its renegotiated filgotinib deal with Gilead.
- As we gathered more input during the conference call, we finetuned our rNPV model accordingly and we arrive at a TP of EUR 90.
- Investors will need to have patience in our view considering the low visibility on MANTA outcomes and most crucial catalysts expected beyond 2021. We reiterate our Hold rating.

Key highlights from the conference call

- Gilead will not pursue Jyseleca launch in RA in the US and the Ph3 trials in psoriatic arthritis (PsA) and ankylosing spondylitis (AS) will also be discontinued.
- Gilead remains on board for ulcerative colitis (UC) and Crohn's Disease (CD). Submission in Japan and positive CHMP opinion for UC are expected in H1 2021, whilst the Ph3 DIVERSITY readout in CD is anticipated for H1 2022.
- Positive MANTA readouts will be crucial for any Jyseleca US approval. Week 26-data are expected in H1 2021. However, the FDA indicated that patients who experienced more than 50% sperm count reduction and have not recovered by week 26 will need to be followed up to 52 weeks.
- As of 2022, Galapagos will regain full rights for filgotinib in Europe for all indications, in line with the company's other drug candidates partnered with Gilead. The company indicated that yesterday's announcement does not alter the broader Gilead collaboration deal closed in 2019.
- There will be a 1-year transition period until end of 2021, during which Galapagos aims to transfer roughly 100 salespeople from Gilead to further accelerate the commercial ramp-up of Jyseleca in Europe and during which the 50:50 profit split for Jyseleca in Europe still stands.
- To further support business transfer and development costs, Gilead will pay Galapagos EUR 160m to Galapagos in the course of 2021 and 2022. No further milestones will be paid.
- In exchange for the European rights, Galapagos will pay 8% to 15% royalties to Gilead, but only as of 2024, by which Galapagos believes to be break-even regarding filgotinib.
- The company for the first time guided on its Jyseleca sales ambitions in Europe, aiming at roughly EUR 0.5bn European revenues in rheumatoid arthritis (RA), ulcerative colitis (UC) and Crohn's Disease (CD) combined.

EUR	12/16	12/17	12/18	12/19	12/20e	12/21e	12/22e
Revenues	151.6	155.9	317.8	895.9	432.4	148.5	201.8
R & D	140	219	323	427	556	667	767
EBIT	-11.5	-89.8	-44.8	370.3	-284.6	-724.2	-822.7
Decl. profit	54.0	-116	-29.3	150	-337	-730	-843
EPS	1.17	-2.27	-0.57	2.49	-5.17	-11.19	-12.92
EV/Revenues	12.1	18.4	8.9	6.1	0.4	9.2	13.2
EV/R & D	13.2	13.1	8.8	12.7	0.3	2.0	3.5
P/E	52.2	nm	nm	74.9	nm	nm	nm
Net Cash	980	1,151	1,291	5,775	4,998	3,801	2,489

Our view

Based on the input that was provided, we now have made several adjustments:

- We carved out the RA indication in the US from our SOTP model, as well as the PsA and AS indications, which previously contributed EUR 12, EUR 2 and EUR 1 per share, respectively.
- We implemented the full European commercial rights on filgotinib for Galapagos in RA, UC and CD as of 2022, along with Gilead's 8% to 15% royalty claim on European net sales as of 2024, as well as the EUR 160m payment by Gilead to Galapagos.
- We aligned our European filgotinib peak sales estimates with company guidance, with European Jyseleca peak sales of EUR 557m in RA, UC and CD combined (guidance EUR 0.5bn).
- Following the update on CD, we pushed the potential approval date from 2022E to 2023E.
- We took the liberty to roll over our DCF into 2021.
- We also implemented a 12 months net cash estimate of EUR 4.7bn rather than the company's latest reported Q3 2020 EUR 5.3bn cash position, as the latter contributes significantly to the valuation of Galapagos but is likely to drop further in the near term (cash burn of EUR 0.6bn to EUR 0.7bn per annum over 2021-2023E on average according to our estimates).

Investment conclusion

Following these adjustments, we arrive at a TP of EUR 90. We value Galapagos using an rNPV (WACC: 12%). The massive hit on the stock yesterday has materially reduced the near-term downside risk in our view. In view of upside potential, however, we believe that investors still have to be patient. In our view, a substantial catalyst seems more likely beyond 2021E. We also have no visibility on how the MANTA trials will read out. If 52-week follow up sperm count data are required after all, it can further delay US filings and scrutinize both US and ex-US regulators regarding filgotinib's safety profile. We hence reiterated our Hold rating.

Exhibit 1 Key model assumptions

Drug	Indication	Stage	Geography	Success rate	Launch	Peak sales (EUR m)	rNPV (EUR m)	rNPV/share (EUR)	% of SOTP
Filgotinib	RA	Approved	US	NA	NA	0	0	0	0%
			EU	100%	2020	328	984	15	17%
			JP	100%	2020	172	164	3	3%
Subtotal						500	1,148	18	20%
Filgotinib	UC	Ph3	US	90%	2022	147	106	2	2%
			EU	90%	2021	79	179	3	3%
			JP	90%	2022	46	33	1	1%
Subtotal						272	317	5	5%
Filgotinib	CD	Ph3	US	57%	2023	260	58	1	1%
			EU	57%	2023	150	105	2	2%
			JP	57%	2023	20	4	0	0%
Subtotal						430	168	3	3%
Filgotinib total						1,202	1,633	25	28%
Ziritaxestat	IPF	Ph3	Global	42%	2023	1,682	994	15	17%
GLPG1205	IPF	Ph2	Global	23%	2026	1,262	160	2	3%
Ziritaxestat	SSc	Ph2	Global	21%	2024	715	111	2	2%
Net cash							4,700	72	80%
Overhead							-1,740	-27	-30%
Valuation							5,858	90	100%

Source: Degroof Petercam estimates

Degroof Petercam Global Markets

www.degroofpetercam.com

Nijverheidsstraat / Rue de l'Industrie 44 – 1040 Brussels

De Entrée 238 A 7th floor – 1101 EE Amsterdam

Benoît Mortelmans +32 2 662 82 93

Equity Research / Analysts

Fernand de Boer	Retail/Food & Beverages	+31 20 573 5417
Kris Kippers	Consumer Goods/Holdings	+32 2 287 9259
Frank Claassen	Industrials	+31 20 573 5409
Thomas Guillot, PharmD	Biotech/Healthcare	+32 2 287 8906
Benoit Louage, PhD	Biotech/Healthcare	+32 2 662 8955
Vivien Maquet	Telecom/Utilities/Real Estate	+32 2 662 8446
Inna Maslova	Real Estate	+32 2 662 8644
Michael Roeg	Technology	+31 20 573 5422
Luuk van Beek	Energy/Engineering/Construction	+31 20 573 5471
Herman van der Loos, CFA	Real Estate	+32 2 662 8304

Miet Coppens	Support & Editing	+32 2 287 9582
Christel De Clerck	Support & Editing	+32 2 662 8302

Corporate Brokerage & Syndication

Gert Potvlieghe		+32 2 662 8289
Raymond de Wolff		+31 20 573 5414
Tineke Hosselaer	Corporate access	+32 2 662 8290
Charlotte Mertens	Corporate access	+31 20 573 5416

Sales

Anthony della Faille	+32 2 662 8724
Laurent Pierret	+32 2 662 8654

Equity Sales

Simon Vlamincx	+32 2 662 8291
Damien Fontaine	+32 2 662 8287
Assia Adanouj	+32 2 662 8768
Victor van Eijk	+31 20 573 5436
Beatrice Leysens - Assistant	+32 2 662 8262

Sales Trading

Veronique De Schoemaeker	+32 2 662 8280
Pascal Burm	+32 2 662 8283
Frédéric Lebrun	+32 2 287 9190

Fixed Income Sales

Peter Oscé	+32 2 287 9862
Sandra Timmermans	+32 2 662 8852
Olivier Gigounon	+32 2 287 9184

Derivatives

Karim Marrakchi	+32 2 662 8940
Eric Debeaud	+32 2 287 98 27
Thierry De Wispelaere	+32 2 662 8674

Applicable disclosures

- Degroof Petercam acts as a liquidity provider for this company and is paid for these services.
- Degroof Petercam has provided corporate finance services in the past 12 months for this company.

Investment rating system: The Degroof Petercam stock ratings are based on the estimated performance relative to the Degroof Petercam Benelux coverage universe. The total return required for a given rating depends on the risk profile relative to this universe. This risk profile is represented by the Beta, as estimated by the analyst. Low risk stocks have an estimated Beta below or equal to 0.9, Medium risk stocks have a Beta between 0.9 and 1.3 and High risk stocks have a Beta equal to or above 1.3. The required relative performance for a given rating is indicated below. The price targets given and the expected relative performance are always based on a 12 month time horizon.

	SELL	REDUCE	HOLD	ADD	BUY
High Beta >= 1.3	RP < -15%	-15% <= RP < -6%	-6% <= RP < +6%	+6% <= RP < +15%	RP >= 15%
Medium 0.9 < Beta > 1.3	RP < -10%	-10% <= RP < -4%	-4% <= RP < +4%	+4% <= RP < +10%	RP >= 10%
Low Beta <= 0.9	RP < -6%	-6% <= RP < -2%	-2% <= RP < +2%	+2% <= RP < +6%	RP >= 6%

RP : Relative Performance against Degroof Petercam coverage universe

This document was prepared by Bank Degroof Petercam, S.A. ("BDP"), a company authorized in Belgium to engage in securities activities, under regulatory supervision of the Belgian Financial Services and Markets Authority ("FSMA"). Although the information contained in this report has been obtained from sources considered to be reliable, BDP guarantees neither its accuracy nor its completeness. The Managing Director of BDP Institutional Research & Sales bears final responsibility of this report. This document may not be reproduced in whole or in part or communicated in any other way without BDP's written consent.

Neither this report, nor any information or opinion contained herein, constitutes investment advice, or a solicitation or offer by BDP or its affiliates to buy or sell any security or other financial instrument, nor shall any such security be offered or sold to any person in any jurisdiction in which such offer, solicitation, purchase, or sale would be unlawful under the securities laws of such jurisdiction. BDP may make markets or specialize in, have positions in and effect transactions in securities of companies mentioned and may also perform or seek to perform investment banking services for those companies.

The analyst(s) claim(s) not to have any meaningful financial interest in one of the above mentioned companies nor to have any conflict of interest.

In connection with its dissemination outside the United States, this document is intended for the benefit of institutional and professional investors and is sent for information only. BDP is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended, and may not be provided or redistributed to any other person without the express permission of BDP. BDP has entered into an agreement pursuant to Rule 15a-6 with Global Alliance Securities, LLC ("Global Alliance") a broker-dealer registered with the U.S. Securities and Exchange Commission with offices at 2464 Darts Cove Way Charleston, South Carolina 29466, and member of the Financial Industry Regulatory Authority ("FINRA") member (web: www.globalalliancesecurities.com). Any U.S. recipient of this research report wishing to effect a transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so through Global Alliance. The analyst whose name appears in this research report is not registered or qualified as a research analyst with the FINRA and is not an associated person of Global Alliance and, therefore, may not be subject to applicable restrictions under FINRA rules on communications with a subject company, public appearances, and trading securities held by a research analyst account.

This email and any attachment are confidential. They may contain privileged information and are exclusively intended for the named addressee (s) only. If you are not authorised, you are notified that no part of this page or any attachment may be disclosed, copied or distributed, and that any other action related to this page or attachment is strictly prohibited, and may be unlawful. The Degroof Petercam group shall not be liable for the incorrect or incomplete transmission of this page nor responsible for any delay in receipt. The Degroof Petercam group accepts no liability for any damage resulting from the use and/or acceptance of the content of this page. The Degroof Petercam group reserves the right to monitor all page access through our network.