BUY

Price (20/06/2017)	EUR 70.66
Target price	96.00
Risk	High
Reuters	GLPG AS
Bloomberg	GLPG NA
Shares number (m)	46.26
Market cap. (m)	3,268
Cash Position 12/17e (m)	1,190
1 year price perf.	50.3%
Diff. with Euro Stoxx	27.6%
Volume (sh./day)	335,777
H/L 1 year	85.10 - 45.05
Free Float	63.0%
FMR	10.0%
Gilead	14.6%
Van Herk	8.5%
Insiders	1.5%
J&J	1.3%
GSK	1.1%

Company description

Galapagos is a biotech company focused mainly on small molecules in inflammatory and fibrotic indications. The company has a broad and mature pipeline, its lead product is in Ph3. In addition Galapagos is supported by strong partnerships.

Analyst:

Stéphanie Put, PhD
+32 2 287 91 92
s.put@degroofpetercam.com

Galapagos

R&D day – Update on pipeline progress

Filgotinib – Long-term data show durability of efficacy and good safety profile

- The company zoomed in on the DARWIN 3 data that were presented at the EULAR conference last week. Main focus points are the durable efficacy results and differentiating factors of filgotinib in comparison to other JAK-inhibitors, where safety readouts are likely most essential. The selectivity for JAK1 over JAK2 is important here, as inhibition of JAK2 causes anaemia and low platelets. While filgotinib shows a 27x JAK1/JAK2 selectivity, tofacitinib (Pfizer) and upadacitinib (AbbVie) show a 10x selectivity and baricitinib 2x (Eli Lilly).
- Filgotinib shows:
    - A favourable safety profile up to 96 weeks.
    - Improvement of haemoglobin: filgotinib shows a dose-dependent increase in haemoglobin, while this has not been shown with other JAK-inhibitors (upadacitinib causes a decrease in haemoglobin at high doses). This is important and medically significant as RA patients already tend to be anaemic.
    - Improvement of lipid profile: LDL/HDL ratio increases with filgotinib, while this is not apparent or the opposite with competitors.
    - Improvement in platelet count and no impact on NK cells (which could explain the lower infection rate).
    - Finally, the long-term data show a decrease and levelling off of infection rates over time, indicating a low risk of infection during chronic treatment.
- DARWIN 3 furthermore demonstrates the durability of efficacy up to 60 weeks (84-week efficacy results are expected to be presented at the ACR conference in November), while remission rates continue to increase up to this time point.
- It will be important to determine the right balance of efficacy vs safety. As such, Galapagos is running all studies with two doses (100 mg & 200 mg). The authorities in fact recommend the use of lower doses when efficacy allows, as a safety measure (remember that this concerns a chronic treatment).
- Currently, proof-of-concept studies are ongoing to evaluate filgotinib in six additional indications.

Cystic fibrosis program – Discussions with regulatory authorities on triple trial ongoing

- Delay in timelines to initiate triple combination seems to be the result of complex regulatory discussions associated with the development of a triple combination therapy. As the triple combination trial involved multiple countries, the company decided to submit its dossier first to the UK authorities to avoid mixed feedback from the different countries. The patient trial is now expected to be initiated in 4Q17.
- Phase I safety studies were completed successfully without flagging any safety issues or dose-limiting toxicity.
    - One element that popped up in the Phase I studies was the fact that for '2451 an active metabolite with a half-life of ca. 1 month

(comparable to antibody half-life) was detected. As a result, an extended period of follow-up has to be included.

- FLAMINGO and ALBATROSS studies are ongoing:
  - FLAMINGO (readout early 2018): evaluates C1 corrector GLPG2222 in homozygous F508del patients. The trial is designed to assess safety and tolerability of the compound. Limited efficacy is to be expected, as it only concerns one corrector (without potentiator).
  - ALBATROSS (readout end 2017): evaluates GLPG2222 as add-on to ivacaftor, which should give a firs indication of the potential of the corrector.
- The company outlines the timelines for its CF program and indicates the three triple combinations that will move into the clinic:
  - '2737 add-on Orkambi: start 4Q17
  - '2451 + '2222 + '2737: start 4Q17
  - '3067 + '2222 + '2737: start early 2018
  - '3067 + '2222 + '3221: start mid-2018
- The triple combination trials will enroll homozygous F508del patients as well as heterozygous patients. The focus goes first to 508del homozygous patients (where we should expect FEV improvements >8%), secondly to heterozygous patients (FEV improvements of 5%-8% should suffice for approval in this population without other treatment options), thirdly to the residual function mutation patients.
- For more info on Galapagos' cystic fibrosis program, see also our note of 23 May 2017: "Triple or nothing".

Rest of pipeline will continue to generate a stream of results

- Idiopathic pulmonary fibrosis (IPF):
  - An orphan indication with high unmet need as life expectancy of IPF patients is limited; current therapies only slow down progression without stabilizing the disease.
  - '1690 (autotaxin inhibitor) provides a novel mode of action.
  - Galapagos is currently gathering data of its Phase IIa study (FLORA), results are expected in 3Q17.
- Osteoarthritis (OA):
  - Program in collaboration with Servier that has an option to license in '1972 for the all regions, except the US.
  - The company is targeting ADAMTS5, one of the most validated target in OA, which degrades one of the two components in cartilage, proteoglycan.
  - First-in-human study showed that '1972 inhibits cartilage breakdown markers in healthy volunteers. A Phase Ib study is ongoing to confirm the biomarker signal in patients. Results are expected early 2018.
- Atopic dermatitis (AD):
  - Program in collaboration (50/50) with Morphosys.
  - Topline results Phase I expected in 2H17.

Investment conclusion – Strong filgotinib data, impressive pipeline

Galapagos' broad pipeline will continue to generate a stream of results in the second half of the year and in 2018. While the initiation of the triple combination in patients shows some delay, this does not seem to be the result of any safety issues of the compounds. These all passed Phase I safety evaluations. Filgotinib demonstrates strong long-term data and seems to show a superior safety profile compared to competitors. This confirms the feedback we also get from recent meetings with specialists. We maintain our Buy recommendation and TP of EUR 96.

Profit & Loss (EUR m)	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Revenues	**159.5**	**90.0**	**60.6**	**151.6**	**133.2**	**145.1**	**170.3**
(of which Sales)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(of which Other revenues)	159.5	90.0	60.6	151.6	133.2	145.1	170.3
Gross profit	**118.3**	**90.0**	**60.6**	**151.6**	**133.2**	**145.1**	**170.3**
Operating costs	-129.3	-126.6	-150.0	-163.1	-193.1	-211.6	-221.4
(of which R & D)	-99.4	-111.1	-129.7	-139.6	-167.5	-184.2	-193.4
EBIT	**-11.0**	**-36.6**	**-89.4**	**-11.5**	**-60.0**	**-66.5**	**-51.0**
Net Financial Result	-0.2	1.4	-30.2	65.7	0.0	2.6	1.6
Pre-tax result	**-11.2**	**-35.2**	**-119.6**	**54.2**	**-60.0**	**-63.9**	**-49.4**
Taxes	3.1	-2.1	1.2	-0.2	-0.2	-0.2	-0.2
Except. / Discont. operations	-	67.5	-	-	-	-	-
Associates	-	-	-	-	-	-	-
Minorities	-	-	-	-	-	-	-
Net declared earnings	**-8.1**	**30.2**	**-118.4**	**54.0**	**-60.2**	**-64.1**	**-49.6**

Cash Flow (EUR m)	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
EBIT	-11.0	-36.6	-89.4	-11.5	-60.0	-66.5	-51.0
Depreciation	6.0	3.6	2.4	3.3	3.3	3.3	3.3
Amortization	2.1	0.0	1.0	0.9	0.9	0.9	0.9
Impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in provision	0.0	0.0	-0.1	0.0	0.0	0.0	0.0
Changes in working capital	2.0	-54.5	-34.0	-10.9	-81.3	-100.8	-43.0
Others	5.3	3.2	4.6	12.5	11.2	11.2	11.2
Operational Cash Flow	**4.4**	**-84.4**	**-115.5**	**-5.7**	**-125.8**	**-151.9**	**-78.6**
Tax expenses	-3.1	0.0	0.0	0.0	0.0	0.0	0.0
Dividends from associates	-	-	-	-	-	-	-
Net interest charges	-0.2	8.8	1.0	-0.7	0.0	2.6	1.6
Others	-	-	-	-	-	-	-
CF from operating activities	**1.1**	**-75.6**	**-114.6**	**-6.4**	**-125.8**	**-149.3**	**-77.0**
CAPEX	-7.3	-2.1	-6.1	-4.5	-5.3	-5.8	-6.8
Investments in intangibles	-0.5	-0.7	-0.5	-0.3	-0.7	-0.5	-0.4
Acquisitions	-1.2	130.8	0.0	0.0	0.0	0.0	0.0
Divestments	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	-7.4	2.3	0.2	0.0	0.0	0.0
CF from investing activities	**-9.0**	**120.6**	**-4.3**	**-4.5**	**-6.0**	**-6.3**	**-7.2**
Dividend payment	-	-	-	-	-	-	-
Minor. & pref. dividends	-	-	-	-	-	-	-
Equity financing	56.1	4.4	271.4	396.0	348.0	0.0	0.0
Others	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
CF from financing activities	**55.8**	**4.4**	**271.4**	**396.0**	**348.0**	**0.0**	**0.0**
Changes in consolidation scope	-	-	-	-	-	-	-
Exchange rate impact	0.0	0.0	0.0	4.8	0.0	0.0	0.0
Net debt/cash change	**48.0**	**49.5**	**152.5**	**385.1**	**216.1**	**-155.6**	**-84.2**

Notes Company reports and Petercam estimates

Balance Sheet (EUR m)	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Fixed assets	**110.7**	**12.4**	**68.0**	**76.1**	**78.2**	**80.5**	**83.8**
Tangible fixed assets	19.5	10.1	13.8	15.0	17.0	19.4	22.9
Goodwill	39.2	0.0	0.0	0.0	0.0	0.0	0.0
Other intang. assets	7.8	2.0	1.6	1.0	0.9	0.5	0.0
Financial fixed assets	44.1	0.3	52.7	60.1	60.4	60.6	60.8
Other fixed assets	-	-	-	-	-	-	-
Current assets	**171.6**	**208.7**	**360.6**	**1,000.0**	**1,200.2**	**1,044.6**	**961.3**
Inventories	0.2	0.3	0.3	0.3	0.0	0.0	0.0
Trade receivables	29.8	10.6	13.1	19.9	9.7	9.7	9.7
Other current assets	-	-	-	-	-	-	-
Cash & Equivalents	141.5	197.8	347.2	979.8	1,190.5	1,034.9	951.6
Discontinued assets	-	-	-	-	-	-	-
Total assets	**317.2**	**270.2**	**442.5**	**1,083.3**	**1,278.4**	**1,152.0**	**1,057.5**
Total Equity	**167.1**	**206.1**	**365.0**	**758.7**	**1,046.5**	**982.4**	**932.7**
Equity	167.1	206.1	365.0	758.7	1,046.5	982.4	932.7
Minorities & preferred	-	-	-	-	-	-	-
Provisions	5.0	2.9	2.7	3.6	3.8	4.0	4.2
Provisions for pensions	2.2	2.9	2.7	3.5	3.7	3.9	4.1
Deferred taxes	2.2	0.0	0.0	0.0	0.0	0.0	0.0
Other provisions	0.7	0.1	0.1	0.1	0.1	0.1	0.1
Other LT liabilities	2.5	0.9	2.3	2.5	2.5	2.5	2.5
LT interest bearing debt	0.2	0.1	0.1	214.8	114.0	70.0	30.0
Current liabilities	**112.5**	**32.7**	**30.0**	**103.8**	**111.7**	**93.2**	**88.2**
ST interest bearing debt	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Accounts payables	112.3	32.6	30.0	103.7	111.6	93.1	88.1
Other ST liabilities	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Discontinued liabilities	-	-	-	-	-	-	-
Total liabilities	**317.2**	**270.2**	**442.5**	**1,083.3**	**1,278.4**	**1,152.0**	**1,057.5**

EV and CE details (EUR m)	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Market cap.	**453.9**	**459.5**	**2,218.0**	**2,818.8**	**3,590.6**	**3,590.6**	**3,590.6**
+ Net financial debt	-141.1	-197.7	-347.1	-979.8	-1,190.4	-1,034.8	-951.6
(of which LT debt)	0.2	0.1	0.1	214.8	114.0	70.0	30.0
(of which ST debt)	0.2	0.1	0.1	0.1	0.1	0.1	0.1
(of which Cash position)	141.5	197.8	347.2	979.8	1,190.5	1,034.9	951.6
+ Provisions (pension)	-	-	-	-	-	-	-
+ Minorities (MV)	-	-	-	-	-	-	-
- Peripheral assets (MV)	-	-	-	-	-	-	-
+ Others	-	-	-	-	-	-	-
Enterprise Value	**312.8**	**261.8**	**1,870.9**	**1,839.1**	**2,400.2**	**2,555.8**	**2,639.1**
Equity (group share)	**167.1**	**206.1**	**365.0**	**758.7**	**1,046.5**	**982.4**	**932.7**
+ Net financial debt	-141.1	-197.7	-347.1	-979.8	-1,190.4	-1,034.8	-951.6
+ Provisions (pension)	2.2	2.9	2.7	3.5	3.7	3.9	4.1
+ Minorities	-	-	-	-	-	-	-
- Peripheral assets	-	-	-	-	-	-	-
+ Others	-	-	-	-	-	-	-
Capital employed (for ROCE)	**28.2**	**11.3**	**20.6**	**-217.5**	**-140.2**	**-48.5**	**-14.7**
+ Accumulated goodwill amortiz.	-	-	-	-	-	-	-
CE (for ROCE grossed gdwll)	**-11.0**	**11.3**	**20.6**	**-217.5**	**-140.2**	**-48.5**	**-14.7**

Notes Company reports and Petercam estimates

Per Common Share (EUR)	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Declared EPS	**-0.27**	**1.02**	**-3.03**	**1.17**	**-1.18**	**-1.26**	**-0.98**
Declared EPS (fully diluted)	-0.27	1.02	-3.03	1.17	-1.18	-1.26	-0.98
CFS	-	-	-	-	-	-	-
Dividend	-	-	-	-	-	-	-
Book Value	5.63	6.95	9.34	16.40	20.59	19.33	18.35
Shares (m)							
At the end of F.Y.	29.665	29.665	39.076	46.256	50.816	50.816	50.816
Average number	29.665	29.665	39.076	46.256	50.816	50.816	50.816
Fully diluted Average number	29.665	29.665	39.076	46.256	50.816	50.816	50.816
Ratios	**12/13**	**12/14**	**12/15**	**12/16**	**12/17e**	**12/18e**	**12/19e**
P/E	nm	15.2	nm	52.2	nm	nm	nm
P/CF	-	-	-	-	-	-	-
P/BV	2.7	2.2	6.1	3.7	3.4	3.7	3.8
EV/Revenues	2.0	2.9	30.9	12.1	18.0	17.6	15.5
EV/R & D	3.1	2.4	14.4	13.2	14.3	13.9	13.6
EV/EBIT	-28.4	-7.1	-20.9	-160.1	-40.0	-38.4	-51.7
EV/CE	11.1	23.1	90.7	-8.5	-17.1	-52.7	-179.2
Dividend yield	-	-	-	-	-	-	-

Notes Company reports and Petercam estimates

Degroof Petercam Financial Markets

www.degroofpetercam.com

Rue de l'Industrie 44 – 1040 Brussels
De Entrée 238 A 7th floor – 1101 EE Amsterdam

Gautier Bataille - Managing Director - +32 2 287 9705

Analysts		
Stefaan Genoe	Telecom/Technology	+32 2 662 8299
Head of Research		
Amal Aboulkhouatem	Real Estate	+32 2 662 8303
Marcel Achterberg	Technology/Services	+31 20 573 5463
Ricky Bhajun, PhD	Biotech/Healthcare	+32 2 287 9906
Jean-Marie Caucheteux	Real Estate	+32 2 287 9920
Frank Claassen	Industrials	+31 20 573 5409
Fernand de Boer	Retail/Food & Bev.	+31 20 573 5417
Nathalie Debruyne, CFA	Chemicals	+32 2 662 8308
Thijs Hoste	Holdings	+32 2 287 9385
Bart Jooris, CFA	Financials	+32 2 287 9279
Stéphanie Put, PhD	Biotech/Healthcare	+32 2 287 9192
Michael Roeg	Media	+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

Middle Office		
Christophe Swinnen		+32 2 662 8298
Katia Foy		+32 2 662 8296
Antoine Miest		+32 2 662 8294

Administration		
Christel De Clerck		+32 2 662 8302
Monique Gérard		+32 2 662 8301
Tineke Hosselaer		+32 2 662 8290
Alexandra Krauss		+32 2 287 9797
Charlotte Mertens	Roadshow Coordinator	+31 20 573 5416

Sales	
Gert Potvlieghe	+32 2 662 8289
Head of Sales	
Sandra Aznar y Gil (RE)	+32 2 662 8291
Damien Crispiels (RE)	+32 2 287 9697
Quentin De Decker	+32 2 287 9287
Raymond de Wolff	+31 20 573 5414
Damien Fontaine	+32 2 662 8287
Laurent Goethals	+32 2 287 9185
Jurgen Smits van Oyen	+31 20 573 5413
Jochen Vercauteren	+32 2 662 8288

Sales Trading	
Hans de Jonge	+31 20 573 5404
Head of Sales Trading	
Pascal Burm	+32 2 662 8283
Veronique De Schoemaecker	+32 2 662 8280
Kristof Joos	+32 2 662 8284
Pascal Magis	+32 2 287 9781
Christian Saint-Jean	+32 2 287 9780
Frans van Wakeren	+31 20 573 5407

Syndication	
Erik De Clippel	+32 2 287 9534

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

Information about rating distribution and analyst remuneration system can be found at: https://www.petercam.com/indexen.cfm?act=petercam.ssresearch
Additional company related disclosures, including any potential conflicts of interest, and recommendation history can be found at (password protected): https://www.petercam.com/indexen.cfm?act=petercam.isrmifid