

Galapagos (Hold from Buy) - Valuation update: fairly valued until further catalyst conversions (EUR 188.4 / TP EUR 185 from EUR 181)

Value of filgotinib in rheumatoid arthritis rightfully reflected in share price

GLPG stock price experienced a substantial upward surge, which started from the positive 3Q19 financial update onwards, and continued after Gilead's notice to exercise the Initial Warrant A, thereby subscribing 2,617,791 new shares at EUR 140.59 p/s, increasing its ownership to 25.1%. Within this period however, no additional, unexpected newsflow occurred related to the company's clinical activities. At current price levels, the market is fairly recognizing the value of filgotinib in rheumatoid arthritis (RA), along with the substantial, positive cash impact stemming from the Gilead deal, in our view.

Intrinsic risk of the several potential value-drivers not to be neglected

We firmly acknowledge that Galapagos holds several potential catalysts up its sleeve, including multiple label expansions of filgotinib, GLPG1690 in idiopathic pulmonary fibrosis (IPF) and GLPG1972 in osteoarthritis (OA). However, we do want to point out that successful conversion of all these catalysts should not be taken for granted. As for all investigational new drugs, Galapagos' clinical candidates still hold intrinsic, technical risk of not achieving a positive clinical outcome. This was demonstrated in 2H19 for filgotinib by the failure to meet primary endpoints in Phase II for Sjögren's and cutaneous lupus, and for MOR106 by the negative futility analysis in Phase II in atopic dermatitis (AtD).

Investment conclusion – Target price of EUR 185, rating altered to Hold

We continue to recognize the value in each of Galapagos' mid-to-late-stage clinical programs. Our updated SOTP valuation model arrives at a TP of EUR 185. Based on the current market value, we alter our rating to Hold while awaiting future clinical updates on Phase II and Phase III drug candidates, as the latter currently hold the highest potential to further drive company value in the upcoming years. That being said, the substantial cash buffer puts the company in a comfortable position to expand and accelerate clinical development and to boost drug discovery efforts in the future. As this can lead to potential new clinical drug candidates, this further supports our recommendation to Hold the stock in the anticipation of long-term value creation.

Degroof Petercam Financial Markets

www.degroofpetercam.com

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

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

RP : Relative Performance against Degroof Petercam coverage universe

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