Belgium | Healthcare | www.glpg.com

HOLD

Price (14/10/2020)	EUR 122.35
Target price	115.00
Risk	High
Reuters	GLPG AS
Bloomberg	GLPG NA
Shares number (m)	65.25
Market cap. (m)	7,984
Cash Position 12/18 (m)	1,291
1 year price perf.	-13.8%
Diff. with Euro Stoxx	-9.0%
Volume (sh./day)	548,886
Free Float	49.2%
H/L 1 year	249.50 - 102.45

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.

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Galapagos

ROCCELLA Phase 2b failed meeting its primary endpoint

- The company today announced the failure of the ROCCELLA Ph2b trial
- Today's news has an impact on valuation

Facts:

- The ROCCELLA trial is a global, double-blind, placebo-controlled, dose ranging trial evaluating the efficacy and safety of three different once-daily oral doses of ADAMTS-5 inhibitor GLPG1972 in 932 patients with knee osteoarthritis (OA) over 52 weeks of treatment.
- The primary objective of the trial was to demonstrate a significant reduction in cartilage loss versus placebo. The trial failed to meet this objective. The change from baseline to week 52 in cartilage thickness, in mm (SD) was -0.116 (0.27) for the placebo group and -0.068 (0.20), -0.097 (0.27) and -0.085 (0.22), for the low, medium and high dose, respectively. Statistically significant difference versus placebo was not reached in any of the treated groups.
- There was also no significant difference compared to placebo observed on secondary endpoints, including clinical outcomes.
- GLPG1972 was generally well-tolerated by patients.

Our View:

- Today's announcement is an unfortunate setback, given the high unmet need and substantial market opportunity for novel, disease-modifying drug candidates in OA.
- Prior to today's news, we attributed a 26% success rate to the GLPG1972 program and projected potential peak sales of EUR 2bn. This contributed EUR 292m or EUR 5 per share to our SOTP.

Investment conclusion:

We cut our TP from EUR 120 per share to EUR 115 per share following the exclusion of the GLPG1972 program from our SOTP. We value Galapagos using an rNPV model (WACC: 12%; **Exhibit 1**). The main contributors are the strong cash position and the filgotinib programs. With relatively light newsflow expected near-term, we recommend Holding the stock and await US regulatory feedback on filgotinib and readouts of more advanced programs, such as the Phase 3 of ziritaxestat in idiopathic pulmonary fibrosis (IPF), expected in 2022.

EUR	12/16	12/17	12/18	12/19	12/20e	12/21e	12/22e
Revenues	151.6	155.9	317.8	895.9	496.6	911.2	669.9
R & D	140	219	323	427	556	667	767
EBIT	-11.5	-89.8	-44.8	370.3	-218.8	15.2	-403.8
Decl. profit	54.0	-116	-29.3	150	-272	-2.6	-418
EPS	1.17	-2.27	-0.57	2.49	-4.18	-0.04	-6.41
EV/Revenues	12.1	18.4	8.9	6.1	5.9	3.7	6.4
EV/R & D	13.2	13.1	8.8	12.7	5.3	5.1	5.6
P/E	52.2	nm	nm	74.9	nm	nm	nm
Net Cash	980	1,151	1,291	5,775	5,062	4,593	3,706

Exhibit 1

Drug	Indication	Stage	Success rate	Launch	Peak sales (EUR m)	rNPV (EUR m)	rNPV/share (EUR)	% of SOTP
Filgotinib	RA	NDA	90% (US) - 100% (EU/JP)	2020 (EU/JP) - 2022 (US)	1,836	2,266	35	30%
Filgotinib	UC	PhIII	50%	2021	284	153	2	2%
Filgotinib	CD	PhIII	57%	2022	403	218	3	3%
Filgotinib	PsA	PhIII	57%	2023	350	132	2	2%
Filgotinib	AS	PhII	57%	2023	232	68	1	1%
Filgotinib total					3,105	2,836	43	38%
ziritaxestat+GLPG1205	IPF	PhIII	42%	2023	1,682	856	13	11%
ziritaxestat	SSc	PhII	21%	2024	715	73	1	1%
Net cash						5,566	85	74%
Overhead						-1,798	-28	-24%
Valuation						**7,533**	**115**	**100%**

Source: Degroof Petercam estimates

Degroof Petercam Financial Markets

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Applicable disclosures

1. Degroof Petercam acts as a liquidity provider for this company and is paid for these services.
2. 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

Information about rating distribution can be found here.

Additional company related disclosures, including any potential conflicts of interest, recommendation history and analyst remuneration can be found at (password protected): https://research.degroofpetercam.com/