

Galapagos NV (GLPG)

Rating	NEUTRAL [V]
Price (09-Aug-17, €)	62.63
Target price (€)	84.00
52-week price range (€)	85.10 - 46.72
Market cap(€ m)	3,186

Target price is for 12 months.

[V] = Stock Considered Volatile (see Disclosure Appendix)

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CATALYST ALERT

FLORA Data Encouraging, But We Hold Our Breath For Clarity From Larger Trials

- Bottom Line:** GLPG presented more detailed data this morning from the FLORA trial for GLPG1690 for idiopathic pulmonary fibrosis (IPF). The additional data provides some more details on the patient demographics, efficacy time points and biomarker detection that raised some questions for us and investors, although overall we remain optimistic on the product's potential. Our probability of success for the product is 40%, which we think is appropriate given we only have data from 17 patients. We wait to see the full FLORA data next year at the American Thoracic Society Meeting next May and to better understand the future development plans for the product before further adjusting our views and estimates for the product.

Financial and valuation metrics

Year	12/16A	12/17E	12/18E	12/19E
EPS (CS adj.) (€)	1.14	-1.77	0.96	-1.20
Prev. EPS (€)	-	-	-	-
P/E (x)	54.9	-35.4	65.2	-52.1
P/E rel. (%)	265.6	-211.2	433.8	-387.7
Revenue (€ m)	151.6	143.8	322.5	217.6
EBITDA (€ m)	-6.2	-66.6	54.8	-58.4
OCFPS (€)	5.06	-2.86	0.18	-2.59
P/OCF (x)	12.0	-21.9	355.9	-24.2
EV/EBITDA (current)	-308.0	-28.9	35.1	-33.0
Net debt (€ m)	-973	-1,190	-1,198	-1,064
ROIC (%)	5.33	56.15	-75.58	-203.28
Number of shares (m)	50.87	IC (current, € m)		-214.48
BV/share (Next Qtr., €)	21.3	EV/IC (x)		-14.4
Net debt (Next Qtr., € m)	-1,215.8	Dividend (current, €)		-
Net debt/tot eq (Next Qtr., %)	-112.6	Dividend yield (%)		-

Source: Company data, Thomson Reuters, Credit Suisse estimates

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- **GLPG1690 shows promise:** Patients treated with GLPG1690 showed a small increase in FVC (8mL) after 12 weeks, as compared to an 87mL decline for patients on placebo. Much of the difference appears to be due to a strong improvement in FVC for the treatment group and a relatively rapid decline in the placebo group that was seen during the first four weeks of the study. The difference between the two groups was significant at 8 weeks but not at 12 weeks, due to both the very small number of patients in the placebo group and a modest recovery in FVC that was seen in the placebo group between weeks 8 and 12. We wonder about the impact some imbalances in baseline demographics between the treatment and placebo group (specifically in terms of the percentage of males, percentage of smokers and duration of disease in each arm) may have had on the results. Despite these questions, we are encouraged by the overall results, including data on functional respiratory imaging parameters and biomarkers such as LPA18:2, suggesting GLPG1690 is achieving the level of autotaxin inhibition necessary to deliver strong efficacy. The safety and tolerability profile also appears favorable as compared to both Esbriet and Ovef, with almost all strong/severe treatment-emergent adverse events resulting from a single patient that was diagnosed with cancer and removed from the study. Finally, though there was another trial in IPF that read out this week (FGEN's CTGF inhibitor), due to the difference in study size (103 patients vs. FLORA's 23) and time-point of FVC data readouts (48 weeks vs. 4, 8, and 12 weeks), there is simply no reasonable conclusion that can be drawn from comparing the results of these trials with each other.
- **Stock response looks appropriate:** GLPG was up over 20% pre-market but then faded after the conference call to finish up ~8% on the day. We think the final reaction was more appropriate as the market digested the fact that this was encouraging early data from a small study but data that does still need to be confirmed in larger trials. That said, the positive data to date for GLPG1690 does help support the strength of the GLPG drug discovery platform, affirming the company's ability to develop wholly-owned assets and potentially driving increased M&A interest in GLPG.

Companies Mentioned (Price as of 09-Aug-2017)

FibroGen, Inc (FGEN.OQ, \$43.65)
Galapagos NV (GLPG.AS, €62.63, NEUTRAL[V], TP €84.0)

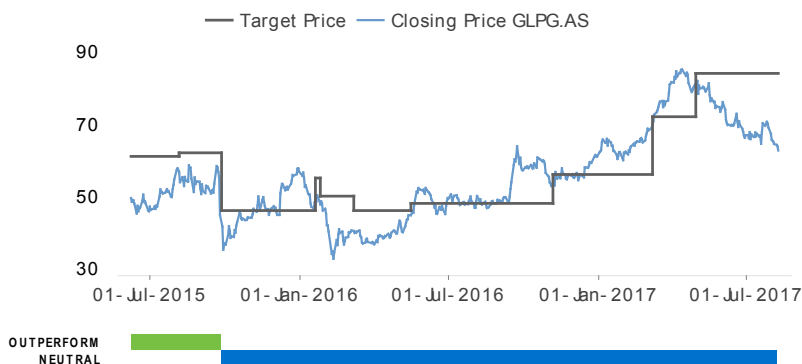
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3-Year Price and Rating History for Galapagos NV (GLPG.AS)

GLPG.AS	Closing Price	Target Price	
Date	(€)	(€)	Rating
08-Jun-15	49.48	61.00	O *
06-Aug-15	56.60	62.00	
27-Sep-15	44.75	46.00	N
20-Jan-16	47.36	55.00	
26-Jan-16	47.70	50.00	
07-Mar-16	40.37	46.00	
16-May-16	44.72	48.00	
06-Nov-16	52.78	56.00	
08-Mar-17	69.75	72.00	
30-Apr-17	80.46	84.00	



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Target Price and Rating

Valuation Methodology and Risks: (12 months) for Galapagos NV (GLPG.AS)

Method: Our €84 target price for Galapagos NV is based on a DCF (discounted cash flow) valuation. We use a 10% WACC (weighted average cost of capital) and forecast discounted cash flows through 2030, with terminal growth rate of -2% thereafter. We maintain our Neutral rating given the uncertainties ahead of the end of Phase 2 meeting with the FDA.

Risk: The risks to our rating and €84 target price and Neutral rating for Galapagos NV include: 1. Clinical development setbacks of filgotinib most significant near-term risk 2. Remaining pipeline relatively early in development, providing clinical and commercial risk 3. Manufacturing issues as GLPG does not own or operate manufacturing facilities for the production of product candidates 4. Uptake of Filgotinib and other pipeline assets is lower than we expect 5. Collaboration issues

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This research report is authored by:

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