



30th October 2019

## GALAPAGOS

| Healthcare  
| Biotech

## BUY - TOP PICKS

**Fair Value** EUR175 vs. EUR180 (+10%)  
**Share price** EUR159.70  
**EPS 3Y Cagr** NM

## MOR106 stopped on lack of efficacy, marginal impact to our FV

## Discontinuation of MOR106 in atopic dermatitis

On Monday, Galapagos (along with its two other partners, Novartis and MorphoSys) announced that the clinical development of MOR106 in Atopic Dermatitis has been stopped for futility. This decision was based on an interim analysis that was performed on the ongoing phase II IGUANA trial. The analysis detected a low probability to meet the primary endpoint of the study, defined as the percentage change in the eczema area and severity index (EASI) score. Beyond the IGUANA trial, the whole MOR106 clinical program in AD will be ended. It included another phase II trial (GECKO), a phase I study for SC formulation as well as a Japanese ethno-bridging study.

## The end of a collaboration with MorphoSys and Novartis

Jointly discovered with MorphoSys, MOR106 is an anti-IL-17C antibody which was believed to be of interest in atopic dermatitis where expression of IL-17C was elevated. Results from a small phase Ib trial of 25 adult patients compared favourably with the phase III data of Dupixent (Sanofi), the only approved drug for atopic dermatitis to date. Back in July 2018, Novartis partnered with Galapagos and MorphoSys to further develop the asset through a licensing deal for atopic dermatitis and all other indications. Galapagos and MorphoSys shared all potential royalties and milestone payments on a 50/50 basis (EUR95m upfront, potential milestones of EUR850m and tiered double-digit royalties).

## Marginal contribution of MOR106 to the equity story and our FV

We are removing MOR106 which accounted for EUR1.5 (c.1%) from our valuation. Since the beginning we were cautious on this asset as it was not clear to us how could MOR106 generate meaningful sales while coming to the market 6-7 years after Dupixent, all the more with only comparable efficacy data. To reflect this cautiousness, we had not taken into account all of the EUR370m of milestones to be shared upon successful development and had a probability of success of 40%.

## Model adjustments following Q3 results

We are taking the opportunity of this news to update our model following the publication of the Q3 results. Based on the management's comments, we increase or R&D expenses for the upcoming year from to c.EUR450m which has an impact of EUR3 per share on our Fair Value. We also remove the Sjogren's syndrome indication from our estimates for filgotinib following the failure of the phase II trial (EUR0.5 per share impact). Of note is that we did not included the lupus indication in our model, hence no impact of the failure of the phase II trial on our fair value.

Taking into account all of the above mentioned modification to our model, our fair value decreases by EUR5 from EUR180 to EUR175.

Next catalysts for GLPG includes 1/ R&D day on Nov. 14<sup>th</sup>, updates on the 2/ TOLEDO program and 3/ recruitment status for the ISABELA phase III programme for GLPG1690 in IPF by year-end, as well as 4/ filgotinib phase III results in UC in H1 2020.

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## Market Data

Bloomberg / Reuters	GLPG BB/GLPG.BR
Market Cap.	EUR9,894m
E.V.	EUR8.607m
Free Float	65,6%
Avg. Daily volume (6m)	373.8
12m high / low	EUR168.9 / EUR75.6
Ytd Perf.	98.2%

EURM	12/18	12/19e	12/20e	12/21e
Sales	317.8	1,246	586.2	559.5
% Change			-52.9%	-4.5%
EBITDA	NM	NM	NM	NM
% Change		ns	ns	ns
EBIT	-44.8	781.6	69.1	20.8
% Change		NS	-91.2%	-69.9%
Net Income	-29.3	785.7	87.9	38.4
% Change		NS	-88.8%	-56.3%
ROE	NM	NM	NM	NM

	12/18	12/19e	12/20e	12/21e
EV/Sales	27.1x	3.1x	7.3x	8.3x
EV/EBITDA	x	x	x	x
EV/EBIT	NS	5.0x	61.6x	222.6x
EPS	-0.56	12.68	1.42	0.62
% change		NS	-88.8%	-56.3%
P/E	NM	12.6x	NS	NS
Div Yield	NM	NM	NM	NM

Next Catalyst : CMD on November 14<sup>th</sup> (NYC)

## Last FV Change:

[2019-7-15, USD5.1bn right of first review on Galapagos existing and future pipeline](#)

## Last Reports:

[2019-10-25, GALAPAGOS \(BUY - Top Picks, FV EUR180\) | Galapagos Q3 results driven by the Gilead transaction](#)



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Morning Text

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