

GALAPAGOS (GLPG NA)

RATING HOLD	PRICE €183.40[^]	MARKET CAP €11.9B / \$13.2B
PRICE TARGET (PT) €170.00	UPSIDE SCENARIO PT €195.00	DOWNSIDE SCENARIO PT €100.00

[^]Prior trading day's closing price unless otherwise noted.

GALAPAGOS (GLPG)

RATING HOLD	PRICE \$206.26[^]	MARKET CAP €12.0B / \$13.3B
PRICE TARGET (PT) \$190.00 (FROM \$187.00)	UPSIDE SCENARIO PT \$218.00	DOWNSIDE SCENARIO PT \$112.00

[^]Prior trading day's closing price unless otherwise noted.

Estimates				
€	2018A	2019E	2020E	2021E
Rev. (MM)	317.8	916.3	645.7	601.7
<i>Previous</i>			648.3	604.0
EBIT (MM)	(44.8)	373.2	(115.3)	(257.0)
<i>Previous</i>			(113.1)	(254.6)
Cash Position	1,290.8	5,922.3	5,503.8	4,955.8
<i>Previous</i>		5,924.2	5,502.6	4,950.7
EPS	(0.56)	6.87	(1.33)	(3.33)
<i>Previous</i>			(1.29)	(3.29)

Valuation				
	2018A	2019E	2020E	2021E
P/Rev	37.3x	12.9x	18.4x	19.7x
EV/Rev	19.8x	6.9x	9.7x	10.5x
EV/EBIT	NM	16.9x	NM	NM
FY P/E	NM	26.7x	NM	NM

The Long View

Scenarios

Base Case

- Lead product filgotinib underpins much of our valuation and remains the focus. We are encouraged by its competitive profile in the Phase III FINCH RA programme and Phase II FITZROY Crohn's trial. Partner Gilead should be well-placed to maximise its commercial potential.
- Numerous other pipeline programmes could also crystallise value via possible milestones from the broad R&D opt-in alliance with Gilead, in particular in lung fibrosis (IPF) and osteoarthritis. However, we find insufficient upside at the current share price, which along with a lack of significant near-term stock-moving catalysts, dictates our Hold.
- Price Target €170/\$190 per share/ADS largely comprising filgotinib, GLPG1690, and GLPG1972 NPVs plus Net Cash.

Upside Scenario

- Filgotinib approvals in the US, Europe and Japan during 2020E could add around c.€8/share
- Positive filgotinib data in ulcerative colitis and Crohn's during 1H20E and 1H21E, respectively, could potentially add at least c.€3.5/share
- Positive initial Toledo proof-of-concept data during 2020E could add c.€2.5/share
- Positive Phase III ISABELA results for GLPG1690 in idiopathic pulmonary fibrosis during 1Q21E could add around €9/share
- Over a 12 month period, these potential catalysts could boost our NPV derived Price Target to c.€195/\$218 per share/ADS

Downside Scenario

- Safety concerns for filgotinib during 2020E could remove around €50/share from our valuation
- Efficacy and/or safety concerns in the filgotinib Phase III Crohn's or ulcerative colitis during 2020-21E trials could remove up to €11.5/share
- Efficacy or safety concerns for GLPG1690 in IPF during 1Q21E could remove at least €9/share
- Over a 12 month period, these setbacks could reduce our NPV derived Price Target to c.€100/\$112 per share/ADS

Investment Thesis / Where We Differ

- The c.€5.6bn Cash at 30 September 2019, including the c.\$5bn proceeds from the Gilead deal, should be more than sufficient to fund operations for the foreseeable future.
- If successfully developed, Galapagos could commercialise GLPG1690 itself in Europe for the Orphan Disease IPF, which could provide a potentially lucrative long-term opportunity.

Catalysts

- GLPG1205 Phase IIa PINTA IPF data 1Q20E
- Toledo first-gen GLPG3312 Phase I data 1Q20E
- Filgotinib Phase IIb/III SELECTION ulcerative colitis data in 2Q20E for potential filings during 2H20E
- Filgotinib RA approvals and launches across US, EU and Japan from 2H20E
- GLPG1690 Phase IIa NOVESA systemic sclerosis data 3Q20E
- Phase IIb ROCCELLA GLPG1972 osteoarthritis data YE20E
- GLPG1690 Phase III IPF futility analysis 1Q21E

Exhibit 21 - Galapagos catalysts

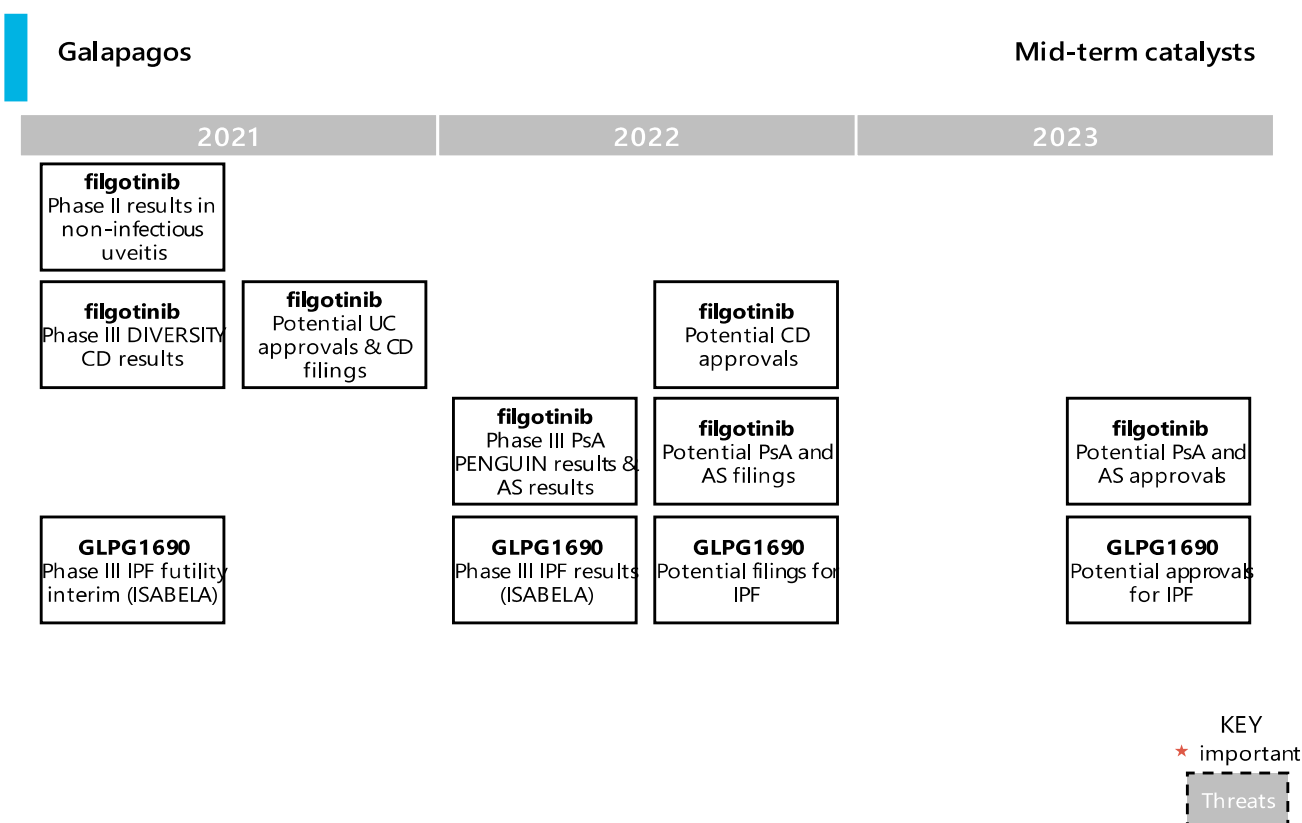
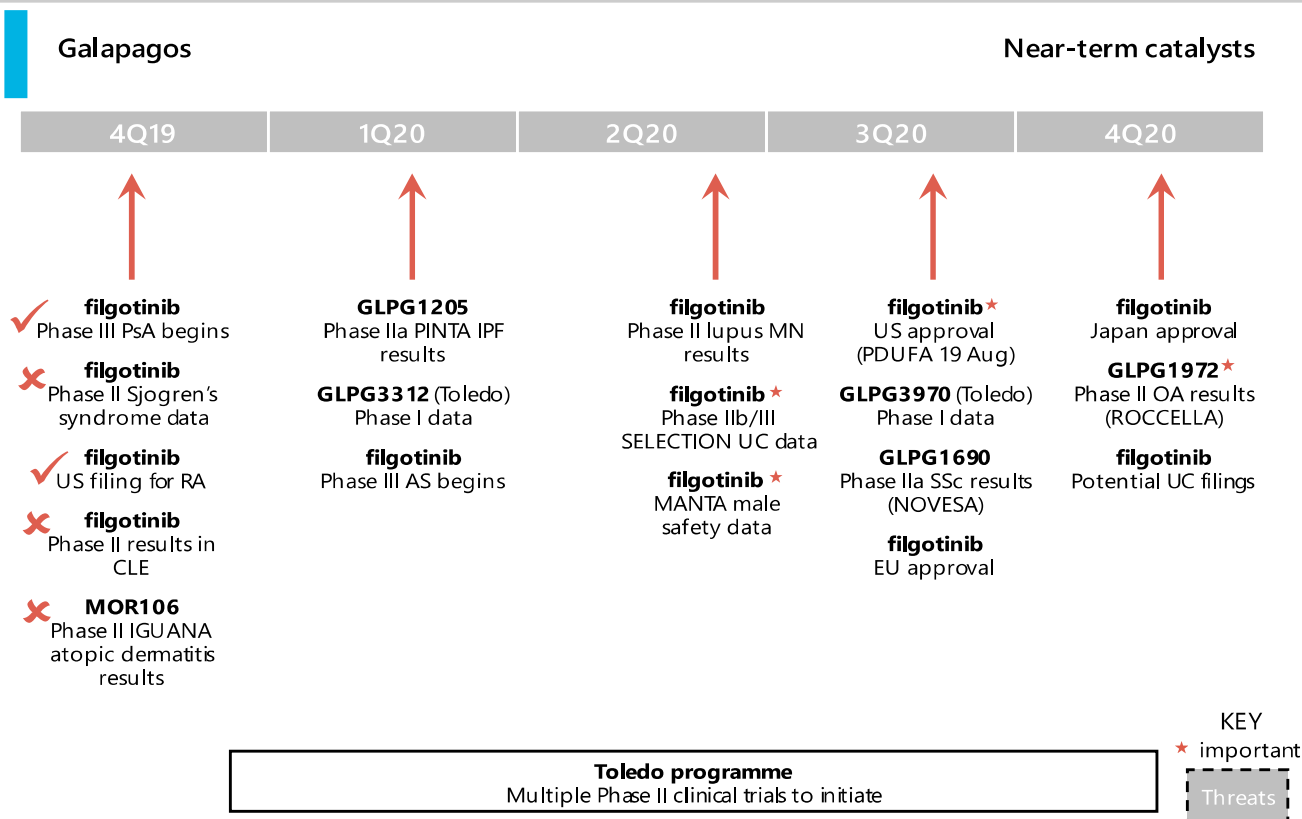


Exhibit 44 - Galapagos Profit and Loss Model

(EUR millions except EPS Dec YE)	2019E									
	2018A	1Q19A	2Q19A	3Q19A	4Q19E	2019E	2020E	2021E	2022E	2023E
Revenue	317.8	40.9	67.6	644.0	163.8	916.3	645.7	601.7	849.4	804.8
Cost of Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Profit	317.8	40.9	67.6	644.0	163.8	916.3	645.7	601.7	849.4	804.8
Total Operating Expenses	(362.7)	(94.2)	(112.0)	(153.3)	(176.8)	(536.2)	(747.8)	(849.8)	(831.5)	(886.1)
Sales & Marketing Expenses	(4.1)	(1.7)	(3.9)	(4.1)	(4.5)	(14.2)	(27.8)	(33.0)	(34.0)	(35.1)
General & Admin. Expenses	(35.6)	(9.2)	(13.7)	(28.6)	(33.5)	(85.0)	(140.0)	(156.8)	(172.5)	(186.3)
R&D Expenses	(322.9)	(83.2)	(94.4)	(120.7)	(138.8)	(437.0)	(580.0)	(660.0)	(625.0)	(664.8)
o/w Acquisition-related Amortisation/Write-down	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Operating Income	0.0	0.0	0.0	0.0	(6.8)	(6.8)	(13.2)	(9.0)	0.0	0.0
Operating Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Income	(44.8)	(53.2)	(44.4)	490.6	(19.8)	373.2	(115.3)	(257.0)	17.9	(81.3)
Adjusted Operating Income	(44.8)	(53.2)	(44.4)	490.6	(19.8)	373.2	(115.3)	(257.0)	17.9	(81.3)
EBITDA	(38.6)	(50.5)	(41.5)	493.8	(16.5)	385.4	(101.6)	(241.9)	35.8	(60.3)
Adjusted EBITDA	(38.6)	(50.5)	(41.5)	493.8	(16.5)	385.4	(101.6)	(241.9)	35.8	(60.3)
Net Financial Income	15.6	4.7	(2.8)	(3.9)	7.0	5.0	29.0	39.0	39.0	39.0
Exceptionals	0.0	0.0	0.0	(142.3)	0.0	(142.3)	0.0	0.0	0.0	0.0
Income from Associates & JVs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Profit	(29.2)	(48.6)	(47.2)	344.4	(12.8)	235.9	(86.3)	(218.0)	56.9	(42.3)
Adjusted Pretax Profit	(29.2)	(48.6)	(47.2)	486.8	(12.8)	378.2	(86.3)	(218.0)	56.9	(42.3)
Taxation	(0.1)	(0.1)	(0.1)	16.8	(0.1)	16.6	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income from Continuing Operations	(29.3)	(48.7)	(47.3)	361.2	(12.9)	252.5	(86.3)	(218.0)	56.9	(42.3)
Net Income from Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	(29.3)	(48.7)	(47.3)	361.2	(12.9)	252.5	(86.3)	(218.0)	56.9	(42.3)
Adjusted Net Income	(29.3)	(48.7)	(47.3)	503.6	(12.9)	394.8	(86.3)	(218.0)	56.9	(42.3)
WA Basic Shares (mn)	52.1	54.5	54.7	57.7	63.3	57.4	65.0	65.5	66.0	66.5
WA Shares Diluted (mn)	52.1	54.5	54.7	59.9	63.3	59.0	65.0	65.5	67.6	66.5
EPS (EUR)	(0.6)	(0.9)	(0.9)	6.3	(0.2)	4.4	(1.3)	(3.3)	0.9	(0.6)
Adjusted EPS (EUR)	(0.6)	(0.9)	(0.9)	8.7	(0.2)	6.9	(1.3)	(3.3)	0.9	(0.6)
Diluted EPS (EUR)	(0.6)	(0.9)	(0.9)	6.0	(0.2)	4.3	(1.3)	(3.3)	0.8	(0.6)
Diluted Adjusted EPS (EUR)	(0.6)	(0.9)	(0.9)	8.7	(0.2)	6.7	(1.3)	(3.3)	0.8	(0.6)
Adjusted ADR EPS (\$)	(0.7)	(1.0)	(1.0)	9.7	(0.2)	7.7	(1.5)	(3.7)	1.0	(0.7)
% Change Year over Year										
Revenue	103.9%	(8.7%)	18.5%	523.9%	45.3%	188.3%	(29.5%)	(6.8%)	41.2%	(5.3%)
Cost of Sales	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Gross Profit	103.9%	(8.7%)	18.5%	523.9%	45.3%	188.3%	(29.5%)	(6.8%)	41.2%	(5.3%)
Total Operating Expenses	47.6%	22.5%	23.3%	68.6%	69.9%	47.9%	39.5%	13.6%	(2.2%)	6.6%
Sales & Marketing Expenses	47.9%	322.8%	543.7%	354.1%	101.6%	242.5%	96.0%	18.5%	3.2%	3.2%
General & Admin. Expenses	45.9%	37.7%	61.2%	193.7%	212.9%	138.6%	64.7%	12.0%	10.0%	8.0%
R&D Expenses	47.8%	19.3%	15.5%	50.3%	52.3%	35.4%	32.7%	13.8%	(5.3%)	6.4%
Operating Income	50.1%	(66.2%)	(31.5%)	3898.3%	(327.4%)	932.9%	(130.9%)	(122.8%)	107.0%	(554.1%)
Adjusted Operating Income	50.1%	(66.2%)	(31.5%)	3898.3%	(327.4%)	932.9%	(130.9%)	(122.8%)	107.0%	(554.1%)
Pretax Profit	74.7%	(30.5%)	(117.5%)	2298.0%	(183.1%)	907.5%	(136.6%)	(152.5%)	126.1%	(174.4%)
Adjusted Pretax Profit	74.7%	(30.5%)	(117.5%)	3289.2%	(183.1%)	1394.9%	(122.8%)	(152.5%)	126.1%	(174.4%)
Net Income	74.7%	(30.5%)	(117.0%)	2333.9%	(186.0%)	962.9%	(134.2%)	(152.5%)	126.1%	(174.4%)
Adjusted Net Income	74.7%	(30.5%)	(117.0%)	3293.0%	(186.0%)	1449.4%	(121.9%)	(152.5%)	126.1%	(174.4%)
EPS (EUR)	76.0%	(22.0%)	(102.9%)	2093.4%	(173.8%)	882.8%	(130.2%)	(150.6%)	125.9%	(173.8%)
Adjusted EPS (EUR)	76.0%	(22.0%)	(102.9%)	2957.8%	(173.8%)	1324.1%	(119.3%)	(150.6%)	125.9%	(173.8%)

Source: Jefferies estimates, company data

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