COMPANY NOTE

Target | Estimate Change

Netherlands | Healthcare | Biotechnology

2 May 2017

Jefferies

Galapagos (GLPG NA)

CF Triple On-track & Filgotinib Expanding; Boosting PT to €110

Key Takeaway

Catalysts this year hinge on cystic fibrosis alliance and early-stage pipeline, notably GLPG1690 Phase IIa lung fibrosis (IPF) data in early-3Q. We understand all CF Phase I data are now in-house to move a triple combo into the clinic, initially in volunteers and then patients around 3Q17E. We still view the current share price to be a compelling entry point given filgotinib blockbuster potential and CF optionality; reiterate Buy with PT hiked to €110/$120.

Confident in filgotinib blockbuster potential: Impressive Phase IIb DARWIN rheumatoid arthritis (RA) data and positive Phase II FITZROY Crohn's data support our confidence in $6bn WW peak sales with partner Gilead (GILD, Buy). These sales include $3bn in RA, $600m in Crohn's, $400m in ulcerative colitis, and now $2bn in other indications given the multiple proof-of-concept studies initiated. We assume launch by 2H20E. We estimate 20-30% tiered royalties but anticipate a 50:50 profit-share on co-promotion in EU5 and Benelux. GLPG could still receive up to c.$1.3bn milestones and funds only 20% of R&D. AbbVie (ABBV, Buy) remains the most significant competitive threat, in our view, with its own once-daily JAK1 inhibitor ABT-494 in Phase III, potentially with data by YE17E.

Cystic fibrosis momentum: Management remains committed to the broad AbbVie CF alliance successfully moving the commercially important triple combination into the clinic around mid-17E for the most common class II ΔF508 cohort. Galapagos/AbbVie are likely lagging behind market incumbent Vertex (VRTX, Buy), with four combos in Phase II, hence superior proof-of-concept in Phase I-II may be critical to expedite pivotal trial enrolment, and ultimately gain share. Importantly, completing Phase I dosing trials of C1 corrector '2222 combined with potentiator '2451, and C2 corrector '2737 alone, suggest all are well tolerated to-date. We understand sufficient data are in-house to advance a triple combo into the clinic. Our sum-of-the-parts includes c.€12/share NPV for the CF alliance assuming a 20% likelihood of $3bn peak sales.

Well funded to execute: c.€1bn Net Cash at 31 March is more than sufficient to fund pipeline plans and consider potential bolt-on acquisitions, in our view.

Valuation/Risks

Our €110/$120 PT is based on a SOTP valuation comprising a 65% probability-adjusted NPV for filgotinib plus Net Cash. Risks include: (1) efficacy, safety, or regulatory setbacks; (2) need to execute future out-licensing and alliances; and (3) clinical trial failures.

EUR	Prev.	2016A	Prev.	2017E	Prev.	2018E	Prev.	2019E
Rev. (MM)	--	151.6	*175.2*	171.5	*136.8*	158.5	*155.0*	120.3
EV/Rev		20.5x		18.2x		19.6x		25.9x
EBIT (MM)	--	(11.5)	*(36.0)*	(64.4)	*(59.2)*	(70.8)	*(63.8)*	(142.4)
EV/EBIT		NM		NM		NM		NM
Cash Position	--	973.2	*841.0*	1,190.2	*729.8*	1,075.5	*649.2*	920.1
EPS								
FY Dec	--	(0.08)	*(0.62)*	(1.35)	*(1.09)*	(1.30)	*(1.15)*	(2.57)
FY P/E		NM		NM		NM		NM
USD	*Prev.*	**2016A**	*Prev.*	**2017E**	*Prev.*	**2018E**	*Prev.*	**2019E**
FY Dec	--	(0.08)	--	(1.47)	--	(1.41)	--	(2.80)

BUY

Price target €110.00
(from €80.00)
Price €80.46^
ADR Price target $120.00
ADR Price $86.86^

Bloomberg BRU: GLPG NA
Bloomberg NASDAQ: GLPG

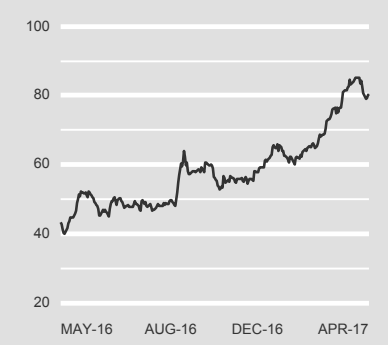
EQUITY RESEARCH EUROPE

Financial Summary	
Net Debt (MM):	**(€973.2)**
Long-Term Debt (MM):	**€0.0**
Cash & ST Invest. (MM):	**€973.2**

Market Data	
52 Week Range:	**€89.75 - €39.20**
Total Entprs. Value (MM):	**€3,114.2**
Market Cap. (MM):	**€4,087.4**
Shares Out. (MM):	**50.8**
Float (MM):	**38.8**
Avg. Daily Vol.:	**378,952**

Peter Welford, CFA *
Equity Analyst
44 (0) 20 7029 8668 pwelford@jefferies.com
Lucy Codrington *
Equity Analyst
+44 (0) 20 7029 8570 lcodrington@jefferies.com
* Jefferies International Limited

Price Performance



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

Galapagos

Buy: €110/$120 Price Target

THE LONG VIEW

Scenarios

Target Investment Thesis

- Lead product filgotinib underpins much of our valuation and remains the focus. We are encouraged by its competitive profile in the Phase IIb DARWIN RA studies and Phase II FITZROY Crohn's trial. Partner Gilead should maximise its potential.
- Numerous other pipeline programmes could also crystallise value via possible milestones from existing alliances or new deals, in particular in cystic fibrosis.
- Price Target €110/$120 per share/ADS largely comprising filgotinib and cystic fibrosis NPVs plus Net Cash.

Upside Scenario

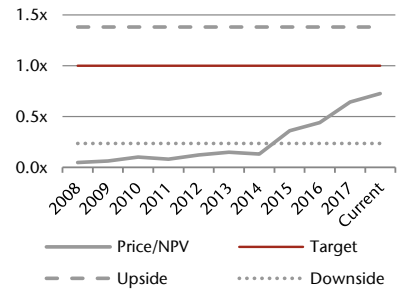
- Successful Phase III trials for filgotinib in RA could add at least €16/share
- Successful clinical progress with both the CF potentiator and correctors could add €12/share.
- Positive Phase IIa results for GLPG1690 in idiopathic pulmonary fibrosis could add around €3/share.
- These potential catalysts could boost our NPV derived Price Target to c.€150/$163 per share/ADS. Incremental pharma deals or alliances could provide further upside.

Downside Scenario

- Efficacy and/or safety concerns in the filgotinib Phase III RA trial could remove at least €55/share from our valuation.
- Efficacy and/or safety concerns in the filgotinib Phase III Crohn's or ulcerative colitis trials could remove at least €17/share from our valuation.
- Clinical setbacks or delays in cystic fibrosis could remove €12/share.
- These setbacks could reduce our NPV derived Price Target to c.€26/$28 per share/ADS.

Long Term Analysis

Price vs NPV SOTP valuation



Source: FactSet, Jefferies estimates

Long Term Financial Model Drivers

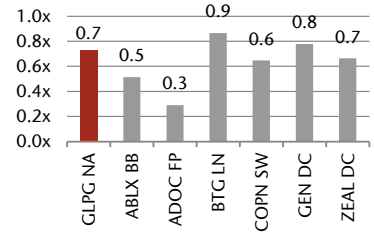
2016-21E Revenue CAGR	**+23%**
2016 Net Cash (€m)	973
2017E Net Cash (€m)	1,190
2018E Net Cash (€m)	1,076

Other Considerations

The nearly €1bn Cash at end-March 2017 plus the c.€348m net proceeds from the recent capital increase should be more than sufficient to fund operations for the foreseeable future. Our cash burn forecasts exclude potential upsides from incremental deals.

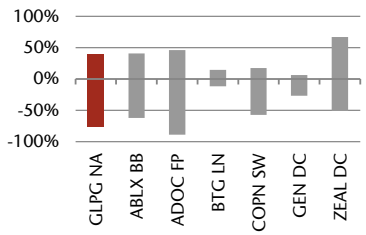
Peer Group

Group Price/NPV



Source: FactSet, Jefferies estimates

Upside/Downside to base case NPV



Source: Jefferies estimates

Recommendation / Price Target

Ticker	**Rec.**	**PT**
GLPG NA	**Buy**	**€110**
ABLX BB	Buy	€21
ADOC FP	Buy	€60
BTG LN	Buy	775p
COPN SW	Buy	CHF 245
GEN DC	Buy	DKK 1750
ZEAL DC	Buy	DKK 190

Catalysts

- Start of CF triple combination Phase IIa in healthy volunteers in 2Q17E, to enable start of Phase IIa in CF patients by 3Q17E
- Phase IIa FLORA IPF data for GLPG1690 during 3Q17E
- Start of US Phase Ib for GLPG1972 in osteoarthritis during 2Q17E
- Phase Ib data for MOR106 for atopic dermatitis in 4Q17E

Company Description

Galapagos is a Belgian biotech company focusing on drug discovery using cells taken from patients with diseases of interest; typically musculoskeletal, CNS and inflammatory disorders plus orphan indications. The company's most advanced product is filgotinib (GLPG0634 a JAK1 inhibitor) in Phase III for rheumatoid arthritis and Crohn's disease and Phase II/III for ulcerative colitis partnered with Gilead. Galapagos also has a global alliance with AbbVie in cystic fibrosis. The company has active collaborations with GSK, Servier and MorphoSys.

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com

Reiterate Buy with PT +38% to €110

Lead product filgotinib (GLPG0634) underpins the majority of our €110/share sum-of-the-parts valuation and remains the focus for investors. Gilead (GILD, $69, Buy) licensed global rights in December 2015 providing a partner to maximise the drug's commercial potential, after AbbVie (ABBV, $66, Buy) elected to opt-out in favour of prioritising its own JAK inhibitor ABT-494. We are encouraged by filgotinib's competitive profile based on the Phase IIb DARWIN rheumatoid arthritis (RA) clinical data, with results from the Phase II FITZROY trial also suggesting the drug is effective for inflammatory bowel disease (IBD). We forecast $6bn global blockbuster potential largely comprising $3bn in RA. The cystic fibrosis collaboration with AbbVie should provide an abundance of catalysts for the stock as the portfolio of potentiators and correctors complete Phase I-IIa trials. Recent progress bolsters our confidence that the ambitious target of advancing a triple combo into the clinic around mid-2017E is achievable. Numerous other pipeline programmes could also crystallise value via possible milestones from existing alliances or new deals, and potentially drive positive share price momentum.

Filgotinib Phase IIIs underway

Selective JAK1 inhibitor filgotinib promises to be a safe and convenient oral treatment for rheumatoid arthritis. Encouraging Phase II data in Crohn's disease suggest the drug could also have potential in IBD, perhaps a greater unmet medical need albeit a smaller eligible patient population. Multiple proof-of-concept studies in other indications are being initiated this year.

- **Peak sales forecast:** $6bn from $4bn WW, with $3bn in RA, $600m in CD, $400m in ulcerative colitis (UC), and now also a $2bn cumulative contribution for other indications
- **Valuation:** c.€70 per share with a 65% probability of success
- **Next news flow:** Proof-of-concept Phase II studies initiated in other diseases during 2017E. Futility analysis of the Phase IIb/III SELECTION study in UC around YE17E. Results from the Phase III FINCH programme in RA during YE18-1H20E, and pivotal Phase III DIVERSITY data in Crohn's around YE19E

We understand Gilead and Galapagos aim to pursue development of filgotinib in 10 to 14 indications, not including the Crohn's sub-populations. Given this extensive programme we now include a $2bn WW peak sales contribution reflecting filgotinib's potential use in other indications beyond RA and IBD. We note Humira was not the first anti-TNFα biologic to be approved but it is now the most commercially successful, in part due to its regulatory approvals for numerous indications. Currently we believe 35%-40% of Humira's global sales are from its use in indications other than RA and IBD, hence we estimate a 30%-35% contribution from these diseases for filgotinib representing around $2bn at peak.

We estimate 20%-30% tiered royalties on sales to Galapagos from partner Gilead, but anticipate a 50:50 profit-share on co-promotion in EU5 and Benelux. Galapagos is still eligible to receive up to $1.285bn in milestones, of which $600m are dependent on achieving sales targets, and is responsible for funding 20% of R&D spend.

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com

Phase III programmes on-track

The global filgotinib Phase III FINCH programme evaluates two doses of filgotinib, 100 mg/day and 200 mg/day, across three studies in a broad RA population comprising over 3,200 patients. FDA accepting inclusion of the highest 200 mg/day dose was an important positive, as this was excluded from US sites in the Phase IIb DARWIN trial on the basis of regulatory concerns on the male reproductive system based on rat/dog toxicology studies. We understand the DARWIN trials confirmed no clinically meaningful changes in male hormone levels, including at the 200 mg/day in ex-US patients. The FINCH programme also includes a dedicated male patient testicular safety study, which could finally lay safety concerns to rest, in our view.

The Phase III DIVERSITY study investigates 100 mg/day or 200 mg/day filgotinib in over 1,300 moderate-severe Crohn's disease patients. The Phase IIb/III SELECTION trial uses the same regimen in 1,300 moderate-severe ulcerative colitis patients. Both studies are recruiting patients who are naïve to and treatment experienced with biologics. US males enrolled in the trials are only eligible to receive the higher 200 mg/day dose if they have failed at least one prior biologic (an anti-TNFα and/or vedolizumab).

We assume filgotinib filings during 2H19E for launch by 2H20E. We note that the Phase III RA programme for AbbVie's once-daily JAK-1 inhibitor ABT-494, which AbbVie chose to prioritise when returning filgotinib rights to Galapagos, is more advanced, with initial data potentially available during 2017E, perhaps for potential approval around 2H18E. Given the size of the market opportunity, we do not view its earlier launch to be significantly detrimental to filgotinib achieving blockbuster sales. Filgotinib's impressive Phase IIb RA efficacy data, when compared across trials of both other oral JAK inhibitors and marketed biologics, together with its clean tolerability profile, drive confidence in our forecast $3bn WW peak sales in RA alone.

We highlight the recently issued FDA Complete Response Letter (CRL) for Eli Lilly's (LLY, $81, Buy) JAK 1/2 inhibitor, baricitinib, for the treatment of RA (approved in Europe as Olumiant). Detailed reasons for the CRL have not yet been disclosed, however we understand FDA indicated that additional clinical data are needed to determine the most appropriate doses and also stated that additional data are necessary to further characterise safety concerns across treatment arms. Clinical trials to-date suggest that filgotinib's safety profile may be superior to baricitinib's (Table 1).

The Phase II Crohn's FITZROY trial provided the first positive data for a JAK inhibitor in this indication, with Xeljanz discontinued after failing in Phase II, and the ABT-494 Phase II (Celest) study ongoing. Hence, filgotinib could be the first to market in Crohn's disease. We believe there is a reasonable likelihood filgotinib may also be efficacious in ulcerative colitis, particularly given JAK inhibitor Xeljanz successfully improved remission rates in its Phase III OCTAVE trials, which are still ongoing to investigate maintenance of effect. A potential caveat from closer inspection of the FITZROY results is that filgotinib likely did not significantly improve remission rates until at least 6-weeks of treatment, whereas competing parenteral drugs have demonstrated an effect as early as weeks 4-6. On the other hand, a potential benefit of filgotinib for IBD is the lack of adverse effect on haemoglobin levels demonstrated in the DARWIN trial, with an actual increase in levels of up to 4%, and the FITZROY trial. This compares favourably to Xeljanz, which carries a warning requiring haemoglobin monitoring and dose-adjustment depending on levels. This is particularly important for IBD, with up to one-third of patients suffering from recurrent anaemia, and could potentially be a differentiating factor for filgotinib, in our view.

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com

Table 1: Comparison of the safety profiles for the oral JAK inhibitors

Source: Target:	Xeljanz (tofacitinib) US FDA Label JAK-3, -1 & -2	Olumiant (baricitinib) EU Label & Phase III JAK-1 & -2	filgotinib Phase IIb (DARWIN) JAK-1	ABT-494 Phase IIb (BALANCE) JAK-1
Serious infections	Boxed warning (1.7 events/100 pt-yrs)	Warning TB precautions Herpes/zoster risks	<1% (6 cases overall) No opportunistic	0 vs. 1 case placebo
Lymphoma & other malignancies	Boxed warning (0.3% solid cancers) (0.03% lymphomas)	3 non-melanoma skin cancers	None	1 skin cancer
GI perforations	Warning (Caution in patients at increased risk)	None	None	None
Lymphocytes	Warning (0.04% <500 cells/mm3)	Minimal change	Minimal change	Minimal change
Neutrophils	Warning (0.07% <1000 cells/mm3)	Dec with 2-10% Grade 2 & 1-2% Grade 3	Modest dec	Modest dec
Haemoglobin	Warning (Monitor & dose-adjust)	Min change wks 0-12 8-12% Grade 2 to wks 24	Increase up to 4%	Remained within normal range
Liver enzymes	Warning (>3x ULN observed but similar % to placebo)	Warning; checks Inc ALT in 2% (1 SAE inc ALT by wk 52)	Creatinine inc up to 13%; No ALT CTCAE Gr3-4	Inc ALT Grade 2+ in 6% vs. 7%
Lipids	Warning (Mean LDL +15%) (Mean HDL +10%)	Warning; checks (Mean LDL +8-16%) (Mean HDL +6-19%)	Inc LDL (up to 23%) & HDL (up to 24%) but lower atherogenic index	Inc LDL & HDL but ratio constant
Adverse Event Discontinuations	4% vs. 3% placebo	c.2%	3.9% vs. 3.6% placebo	5% vs. 4% placebo

Source: Jefferies research from: Xeljanz FDA approved package insert and FDA Briefing Documents for tofacitinib Advisory Committee meeting; Olumiant EU package insert, ACR 2012 Incyte presentation and EULAR 2015 abstracts; ACR 2012 presentation by F. Vanhoutte et al.; AbbVie press release 25 September 2015 and ACR 2015 poster

Numerous POC studies initiated and planned to expand potential

Four new Phase II proof-of-concept (POC) studies for filgotinib have been announced. We understand that POC trials could be initiated in a further four additional indications during 2017E, with Gilead likely to lead most of these programmes.

- **Sjögren's syndrome:** Gilead-led global placebo-controlled study in c.140 adult patients with active Sjögren's syndrome. Patients will be randomised to receive either filgotinib 200 mg, placebo, or one of two other investigational regimens (the Syk inhibitor GS-9876 and the BTK inhibitor tirabrutinib) administered once daily for up to 48 weeks. The study is not yet recruiting. Data are expected during 2H18E.

- **Ankylosing spondylitis:** Galapagos-led European placebo-controlled study (TORTUGA) in c.100 adult patients with moderate to severe active ankylosing spondylitis. Patients will be randomised 1:1 to receive filgotinib 200 mg or placebo once daily for 12 weeks. The trial is currently recruiting, with initial data expected around mid-2018E.

- **Psoriatic arthritis:** Galapagos-led European placebo-controlled study (EQUATOR) in c.124 adult patients with moderately to severely active psoriatic arthritis. Patients will be randomised 1:1 ratio to receive filgotinib 200 mg or placebo once daily for 16 weeks. The first patient has been dosed, with initial data expected around mid-2018E.

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com

- **Cutaneous lupus erythematosus:** Gilead-led North American placebo-controlled study in c.50 adult female patients with active cutaneous lupus erythematosus (CLE). The trial has not yet been posted on clinicaltrials.gov, however we understand that patients will be randomised to receive either filgotinib, another investigational drug or placebo, administered once daily.

Gilead is also conducting two global Phase II studies evaluating filgotinib in small bowel Crohn's disease and in fistulising Crohn's disease.

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com

Please see important disclosure information on pages 17 - 21 of this report.

Filgotinib global sales and Gilead partnership model

Table 2: Filgotinib global sales and Gilead partnership model

(EUR millions Dec YE)	2016A	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
US DMARD-IR RA Patients on Biologics (000s)	434	447	461	474	489	503	518	534	550	567
% Moderate-Severe DMARD-IR Patients on Biologics	*34%*	*34%*	*35%*	*35%*	*35%*	*35%*	*35%*	*36%*	*36%*	*36%*
% Patients Unable/Ineligible to Receive a Biologic	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*
US DMARD-IR RA Patients Not Receiving Biologics (000s)	77	79	81	84	86	89	91	94	97	100
Filgotinib Penetration of Patients on Biologics				*0.0%*	*0.4%*	*1.0%*	*2.1%*	*3.4%*	*4.3%*	*4.8%*
Filgotinib Penetration of Patients Not on Biologics				*0.0%*	*1.5%*	*3.7%*	*7.4%*	*12.3%*	*15.4%*	*17.1%*
Filgotinib Patients (000s)				0	3	8	17	30	38	44
Average Revenue per Patient p.a.				$28,000	$28,560	$29,131	$29,714	$30,308	$30,914	$31,533
US Filgotinib RA Sales ($mn)				**0.0**	**93.7**	**246.0**	**516.9**	**905.2**	**1,188.7**	**1,387.6**
Ex-US DMARD-IR RA Patients on Biologics (000s)	776	811	848	886	926	967	1,011	1,056	1,104	1,154
% Moderate-Severe DMARD-IR Patients on Biologics	*32%*	*32%*	*33%*	*33%*	*34%*	*34%*	*35%*	*35%*	*36%*	*36%*
% Patients Unable/Ineligible to Receive a Biologic	*20%*	*20%*	*20%*	*20%*	*20%*	*20%*	*20%*	*20%*	*20%*	*20%*
Ex-US DMARD-IR RA Patients Not Receiving Biologics (000s)	194	203	212	221	231	242	253	264	276	288
Filgotinib Penetration of Patients on Biologics				*0.0%*	*0.2%*	*0.9%*	*1.9%*	*2.9%*	*3.8%*	*4.5%*
Filgotinib Penetration of Patients Not on Biologics				*0.0%*	*0.7%*	*3.4%*	*6.7%*	*10.3%*	*13.8%*	*16.2%*
Filgotinib Patients (000s)				0	3	17	36	58	80	99
Average Revenue per Patient p.a. (EUR)				12,500	12,500	12,500	12,500	12,500	12,500	12,500
Ex-US Filgotinib RA Sales (EURmn)				**0.0**	**41.0**	**214.2**	**447.7**	**719.7**	**1,002.8**	**1,232.9**
Ex-US Filgotinib RA Sales ($mn)				**0.0**	**38.0**	**198.3**	**414.5**	**666.4**	**928.6**	**1,141.6**
WW Filgotinib RA Sales ($mn)				**0.0**	**131.6**	**444.4**	**931.5**	**1,571.6**	**2,117.3**	**2,529.2**
US Moderate-Severe CD Patients (000s)	155.6	158.7	161.8	165.1	168.4	171.7	175.2	178.7	182.3	185.9
US Mod-Sev CD Patients Eligible for Biologics (000s)	124.1	126.6	129.1	131.7	134.3	137.0	139.8	142.6	145.4	148.3
% Moderate-Severe CD Patients on Biologics	*80%*	*80%*	*80%*	*80%*	*80%*	*80%*	*80%*	*80%*	*80%*	*80%*
% Patients Unable/Ineligible to Receive a Biologic	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*
US Mod-Sev CD Patients Not Receiving Biologics (000s)	21.9	22.3	22.8	23.2	23.7	24.2	24.7	25.2	25.7	26.2
Filgotinib Penetration of Patients on Biologics				*0.0%*	*0.4%*	*0.9%*	*1.8%*	*3.0%*	*4.3%*	*5.4%*
Filgotinib Penetration of Patients Not on Biologics				*0.0%*	*0.6%*	*1.5%*	*3.0%*	*5.0%*	*7.2%*	*9.0%*
Filgotinib Patients (000s)				0.0	0.6	1.6	3.3	5.6	8.1	10.4
Average Revenue per Patient p.a.				$28,000	$28,560	$29,131	$29,714	$30,308	$30,914	$31,533
US Filgotinib CD Sales ($mn)				**0.0**	**18.0**	**46.9**	**97.5**	**169.1**	**251.3**	**326.9**
Ex-US Moderate-Severe CD Patients (000s)	235.4	240.1	244.9	249.8	254.8	259.9	265.1	270.4	275.8	281.3
Ex-US Mod-Sev CD Patients Eligible for Biologics (000s)	169.5	174.6	179.8	185.2	190.8	196.5	202.4	208.5	214.7	221.2
% Moderate-Severe CD Patients on Biologics	*72%*	*73%*	*73%*	*74%*	*75%*	*76%*	*76%*	*77%*	*78%*	*79%*
% Patients Unable/Ineligible to Receive a Biologic	*20%*	*20%*	*20%*	*20%*	*20%*	*20%*	*20%*	*20%*	*20%*	*20%*
Ex-US Mod-Sev CD Patients Not Receiving Biologics (000s)	42.4	43.6	45.0	46.3	47.7	49.1	50.6	52.1	53.7	55.3
Filgotinib Penetration of Patients on Biologics				*0.0%*	*0.3%*	*0.9%*	*1.8%*	*3.0%*	*4.3%*	*5.4%*
Filgotinib Penetration of Patients Not on Biologics				*0.0%*	*0.5%*	*1.5%*	*3.0%*	*5.0%*	*7.2%*	*9.0%*
Filgotinib Patients (000s)				0.0	0.7	2.5	5.2	8.9	13.1	16.9
Average Revenue per Patient p.a. (EUR)				12,500	12,500	12,500	12,500	12,500	12,500	12,500
Ex-US Filgotinib CD Sales (EURmn)				**0.0**	**9.2**	**31.6**	**65.0**	**111.6**	**164.3**	**211.5**
Ex-US Filgotinib CD Sales ($mn)				**0.0**	**8.5**	**29.2**	**60.2**	**103.4**	**152.1**	**195.8**
WW Filgotinib CD Sales ($mn)				**0.0**	**26.5**	**76.1**	**157.7**	**272.5**	**403.4**	**522.7**
US Moderate-Severe UC Patients (000s)	387.6	395.4	403.3	411.3	419.6	427.9	436.5	445.2	454.1	463.2
US Mod-Sev UC Patients on Biologics (000s)	52.0	54.1	56.2	58.5	60.8	63.3	65.8	68.4	71.2	74.0
% Moderate-Severe UC Patients on Biologics	*13%*	*14%*	*14%*	*14%*	*14%*	*15%*	*15%*	*15%*	*16%*	*16%*
Filgotinib Penetration of Patients on Biologics				*0.0%*	*0.7%*	*1.8%*	*3.6%*	*6.0%*	*8.6%*	*10.8%*
Filgotinib Penetration of Patients Not on Biologics				*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Filgotinib Patients (000s)				0.0	0.4	1.1	2.4	4.1	6.1	8.0
Average Revenue per Patient p.a.				$28,000	$28,560	$29,131	$29,714	$30,308	$30,914	$31,533
US Filgotinib UC Sales ($mn)				**0.0**	**12.6**	**33.4**	**70.9**	**125.4**	**190.1**	**252.0**
Ex-US Moderate-Severe UC Patients (000s)	586.5	598.2	610.2	622.4	634.8	647.5	660.5	673.7	687.2	700.9
Ex-US Mod-Sev UC Patients on Biologics (000s)	53.8	56.0	58.2	60.5	63.0	65.5	68.1	70.8	73.7	76.6
% Moderate-Severe UC Patients on Biologics	*9%*	*9%*	*10%*	*10%*	*10%*	*10%*	*10%*	*11%*	*11%*	*11%*
Filgotinib Penetration of Patients on Biologics				*0.0%*	*0.5%*	*1.8%*	*3.6%*	*6.0%*	*8.6%*	*10.8%*
Filgotinib Penetration of Patients Not on Biologics				*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Filgotinib Patients (000s)				0.0	0.3	1.2	2.5	4.3	6.4	8.3
Average Revenue per Patient p.a. (EUR)				12,500	12,500	12,500	12,500	12,500	12,500	12,500
Ex-US Filgotinib UC Sales (EURmn)				**0.0**	**4.3**	**14.9**	**30.9**	**53.5**	**79.5**	**103.4**
Ex-US Filgotinib UC Sales ($mn)				**0.0**	**4.0**	**13.8**	**28.6**	**49.6**	**73.7**	**95.8**
WW Filgotinib UC Sales ($mn)				**0.0**	**16.6**	**47.2**	**99.5**	**175.0**	**263.7**	**347.8**
WW Filgotinib Other Indication Sales ($mn)				**0.0**	**0.0**	**0.0**	**58.6**	**209.5**	**519.3**	**988.9**
Gilead Collaboration										
Galapagos Revenue for Profit Share in RA (EURmn)			**0.0**	**(17.0)**	**(41.8)**	**3.5**	**51.8**	**93.4**	**157.8**	**209.9**
% RA Sales in Other Territories Received as Royalties			*0.0%*	*0.0%*	*20.0%*	*20.0%*	*20.0%*	*20.4%*	*20.9%*	*21.1%*
Galapagos Royalties in RA (EURmn)			**0.0**	**0.0**	**18.0**	**52.9**	**118.8**	**221.0**	**301.9**	**361.1**
Galapagos Revenue for Profit Share in CD (EURmn)			**(6.9)**	**(23.1)**	**(24.6)**	**(20.3)**	**(13.9)**	**(6.3)**	**5.3**	**15.5**
% CD Sales in Other Territories Received as Royalties			*0.0%*	*0.0%*	*20.0%*	*20.0%*	*20.0%*	*22.5%*	*22.5%*	*24.0%*
Galapagos Royalties in CD (EURmn)			**0.0**	**0.0**	**3.5**	**9.8**	**21.4**	**43.8**	**65.0**	**90.2**
Galapagos Revenue for Profit Share in UC (EURmn)			**(3.5)**	**(11.6)**	**(12.4)**	**(10.4)**	**(7.4)**	**(3.7)**	**2.0**	**7.2**
% UC Sales in Other Territories Received as Royalties			*0.0%*	*0.0%*	*20.0%*	*20.0%*	*20.0%*	*22.5%*	*23.5%*	*25.0%*
Galapagos Royalties in UC (EURmn)			**0.0**	**0.0**	**2.4**	**6.7**	**14.7**	**30.3**	**47.9**	**67.2**
Galapagos Revenue for Profit Share in Other Indications (EURmn)			**0.0**	**0.0**	**0.0**	**(30.0)**	**(60.2)**	**(43.6)**	**(8.2)**	**35.3**
% Other Indications Sales in Other Territories Received as Royalties			*0.0%*	*0.0%*	*0.0%*	*0.0%*	*20.0%*	*22.5%*	*25.0%*	*25.9%*
Galapagos Royalties in Other Indications (EURmn)			**0.0**	**0.0**	**0.0**	**0.0**	**6.5**	**28.7**	**83.1**	**172.8**
Galapagos Revenue for Profit Share (EURmn)			(10.4)	(51.8)	(78.8)	(57.2)	(29.8)	39.9	156.9	268.0
Galapagos Royalties (EURmn)			0.0	0.0	24.0	69.4	161.4	323.7	497.9	691.3
Galapagos Total Revenue (EURmn)			**(10.4)**	**(51.8)**	**(54.8)**	**12.2**	**131.6**	**363.7**	**654.8**	**959.3**
Sales-related Milestones ($mn)			0.0	0.0	0.0	0.0	150.0	150.0	150.0	150.0
Filgotinib Development Milestones ($mn)	360.0	10.0	25.0	100.0	425.0	0.0	75.0	0.0	0.0	0.0
Galapagos Milestones (EURmn)	**325.5**	**9.3**	**23.1**	**92.6**	**393.5**	**0.0**	**208.3**	**138.9**	**138.9**	**138.9**

Source: Jefferies estimates

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com

Cystic Fibrosis: Likely the Story for 2017

Beyond filgotinib, Galapagos has identified a series of compounds for cystic fibrosis (CF) and is exploring combinations with the goal of developing a "triple" of a potentiator plus two correctors. These products are partnered with AbbVie after a global alliance was signed in September 2013. Importantly, all subjects have been dosed in both the Phase I study of the dual combination of lead C1 corrector GLPG2222 and potentiator GLPG2451, and the Phase I study of C2 corrector GLPG2737. This paves the way for moving the commercially important triple combination of a potentiator and two correctors into a safety study during 2Q17E for Phase IIa treating CF patients in 3Q17E. We believe cystic fibrosis could be an incremental share price driver for Galapagos over the next 12 months.

- **Peak sales forecast:** $3bn worldwide assuming launch in 2020E
- **Valuation:** €12 per share with a 20% probability of success
- **Next news flow:** Multiple clinical data read-outs in 1H17E for candidate correctors and potentiators before the start of the triple combination Phase IIa in Class II CF patients around mid-2017E

The goal is to develop a regimen that can improve the electrical current across the lung's epithelial layer to at least 50% of the level observed in wild-type ΔF508/ΔF508 patients, the most common genetic mutation in CF. The c.20% of wild-type current levels achieved in this population with Vertex's (VRTX, $117, Buy) Orkambi (a combination of potentiator ivacaftor/Kalydeco and corrector lumacaftor) are likely suboptimal, with Galapagos' preclinical studies suggesting two of its corrector series in combination together could provide around 65%. We note Orkambi is approved to treat ΔF508 mutation in the CFTR gene, accounting for c.70% of CF patients. We believe the vast majority of eligible CF patients in the US and Europe with at least one copy of the G551D or non-G551D CFTR gating mutation, are now receiving Kalydeco (ivacaftor), representing c.3% and <1% of the disease population.

Phase II dependent upon multiple data readouts

Galapagos currently has five CF clinical trials ongoing with many more planned, aiming to advance more than one triple combination into Phase II over the next 12-18 months, although the focus remains the lead combination of GLPG2222, GLPG2451 and GLPG2737. Since all three drugs bind to the same target, the challenge in developing a combination is avoiding the individual drugs interfering with the binding of the others, which has led to the discontinuation of a number of C2 correctors in preclinical development, including GLPG2665. The key candidates in development are:

- **GLPG2222 (C1 corrector):** The lead C1 corrector is the cornerstone of the triple combination strategy. It was found to be safe and well tolerated in a Phase I trial in healthy volunteers announced June 2016, with PK data supporting once daily dosing. The Phase IIa ALBATROSS trial was recently initiated investigating GLPG2222 with Kalydeco in adult CF patients with a ΔF508 and gating mutation. Results are anticipated by YE17E but we understand an undisclosed interim analysis is planned to provide a guide on GLPG2222's PK and dose response to benefit the triple combo. Importantly, all healthy volunteers have now been dosed in the Phase I study of GLPG2222 in combination with the novel potentiator GLPG2451, a key step toward moving the triple combination into the clinic. The study is evaluating the safety, tolerability and PK of 14 days combination treatment in at least 40 healthy volunteers. Finally, the Phase IIa FLAMINGO trial evaluating four doses of GLPG2222 in c.50 adult CF patients homozygous for the ΔF508 mutation has been initiated, for which top-line data are expected in 1H18E. The primary endpoint is safety and tolerability, with secondary endpoints including efficacy measures.

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com

- **GLPG2451 (potentiator):** Phase I study initiated in healthy subjects during May 2016, initially evaluating multiple-ascending doses (MAD) of GLPG2451 alone and subsequently multiple doses of GLPG2451 in combination with corrector GLPG2222. All patients have now been dosed in the combination phase, suggesting GLPG2451 itself is well tolerated. Given its once daily dosing this is the preferred lead potentiator to advance into the triple combo.

- **GLPG2737 (C2 corrector):** Now considered the lead C2 corrector having been identified as having superior lung penetration and more favourable interaction with other compounds in a potential triple combination than GLPG2665, which was discontinued. We understand that dosing has completed in the single-ascending dose (SAD) and MAD cohorts, with the dose range extended from the initial plan on the basis of a promising safety and tolerability profile. We had viewed completion of this trial as the key rate-limiting step to moving the triple combination into the clinic, and thus view this as encouraging.

- **GLPG3067 (potentiator):** In March, a Phase I study evaluating safety, tolerability and PK of single and multiple ascending doses of GLPG3067 was initiated in c.48 healthy volunteers. The trial will also evaluate the safety and tolerability of the combination of GLPG3067 and GLPG2222. Top-line results from the study are expected to be disclosed at a future medical conference.

- **GLPG2851 (C1 corrector):** Potentially due to commence Phase I in 2H17E.

- **GLPG3221 (C2 corrector):** Phase I could be initiated around 2H17E.

- **GLPG1837 (potentiator):** Found to be safe and well tolerated in a Phase I trial in healthy subjects. PK data suggest twice daily dosing. The Phase II SAPHIRA programme evaluated GLPG1837 in CF patients with G551D or S1251N mutations, demonstrating clinical activity possibly comparable to that of incumbent competitor Kalydeco. Importantly these data boosted our belief in the predictive platform pursued by Galapagos/AbbVie, but given the somewhat undifferentiated clinical profile and twice daily dosing, '1837 is not likely to be included in the triple combo provided there are no issues with '2451.

Timeline could be ambitious but management remains positive

The completion of dosing in the Phase I of GLPG2222 combined with GLPG2451, and in the monotherapy trial of GLPG2737, together bolsters our confidence in management's reiterated timelines for the triple combination. Pending finalisation of the trial designs, a study of the triple combination in healthy patients is on-track to be initiated in 2Q17E before a Phase IIa in ΔF508 patients begins around mid-2017E, for data by end-2017E/early-2018E. There remain risks to meeting this perhaps aggressive goal, in our view, including potential unexpected safety findings, lower than anticipated potency, and the need to determine optimal dosing regimens for a combination based on relatively limited monotherapy Phase I-II data.

Even if this timeline is achieved, it is likely that Galapagos will still be behind market incumbent Vertex's triple combination which advanced into Phase II in late-2016 with two next-generation C2 correctors, '440 and '152, in combination with the backbone of next-generation C1 corrector VX-661 and Kalydeco. Proof-of-concept data are expected during 2H17E. We note that the findings of teratogenic signals preclinically and CYP induction in Phase I with '440, and the potentially narrow therapeutic window of '152, suggest that there remains room for correctors with improved profiles, in our view. Furthermore, whilst the recent positive data from two Phase III trials of the dual combination of VX-661and Kalydeco suggest efficacy marginally better than historically with Orkambi and a better safety and tolerability profile, Galapagos is confident it can improve upon the potentiator profile of Kalydeco. We believe Galapagos achieving superior proof-of-concept in Phase I-II may be critical to expedite pivotal trial enrolment, and ultimately gain share.

We see the start of the triple therapy Phase II as the key value inflection point for the AbbVie alliance. In recognition of the expanded CF programme, AbbVie and Galapagos

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com

revised the initial deal agreement in April 2016, with Galapagos eligible for potential milestones up to $600m (from $360m originally), inclusive of an additional $250m for Phase I and II events, and tiered double-digit royalties on sales. These are attractive terms for such an early-stage programme and underscore the potential of these products, in our view.

Boosting PT +38% to €110

Our €110 per share Price Target is based on a sum-of-the-parts valuation comprising probability-adjusted NPVs for filgotinib and the cystic fibrosis collaboration, together with around €26 Net Cash per share.

Table 3: Galapagos sum-of-the-parts valuation

	Indication	Peak Sales ($mn)	Value (EURmn)	Prob.	Adj. Value (EURmn)	EUR per share
filgotinib (GLPG0634)	RA, Crohn's, Ulcerative Colitis & Others	6,000	5,583	65%	3,629	71.4
CF Collaboration	Cystic fibrosis	3,000	3,075	20%	615	12.1
GLPG1690	Idiopathic pulmonary fibrosis	600	640	0%	0	0.0
Net Cash/(Debt)			1,324	100%	1,324	26.1
Valuation			**10,622**		**5,568**	**109.6**
Potential Dilution for Funding	Min. Yrs of Cash	3.0		0%	0	0.0
Potential Diluted Valuation						**109.6**

Source: Jefferies estimates

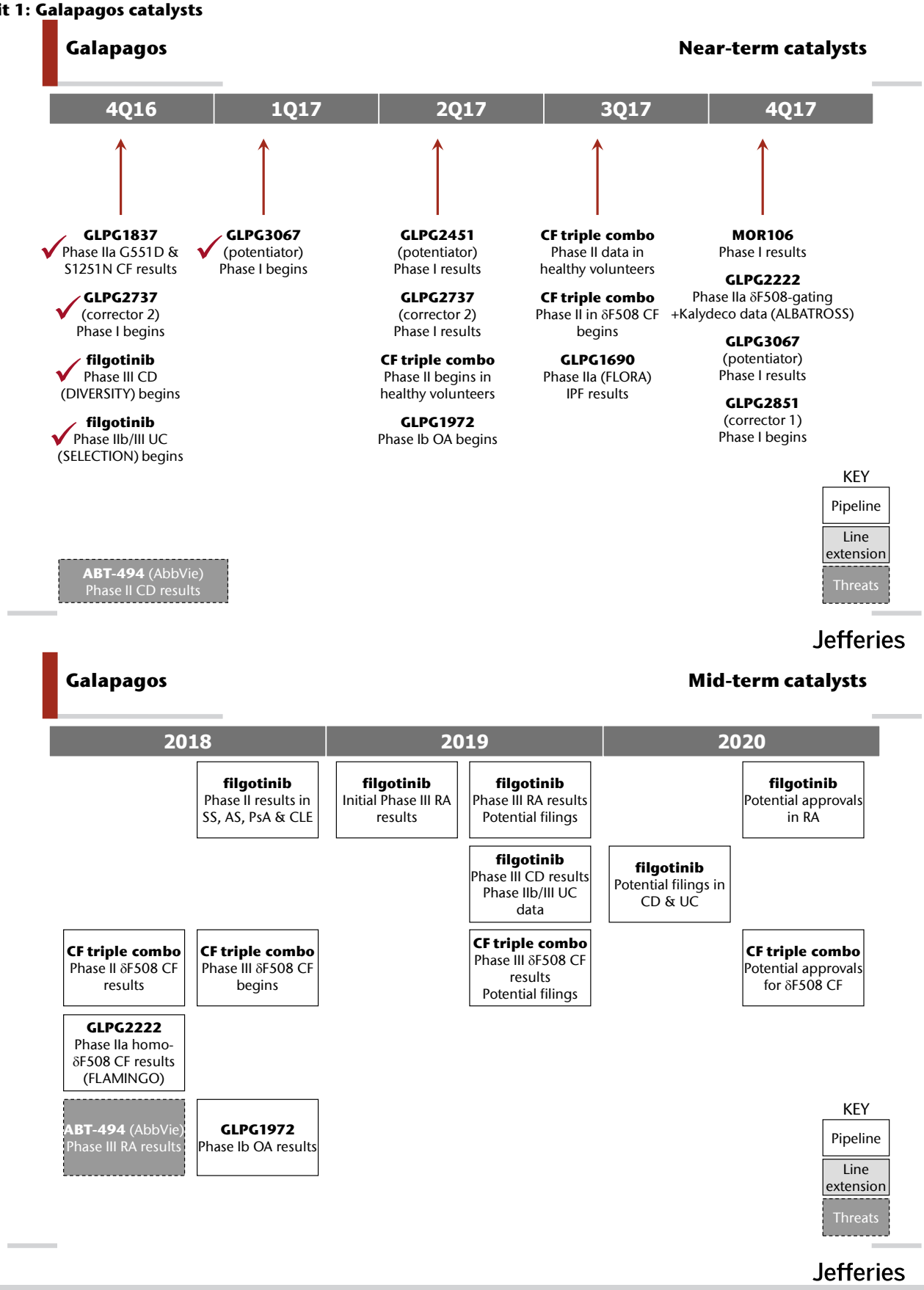
Table 4: Sources of upside potential and downside risk

	Upside	EUR per share	Downside	EUR per share
filgotinib Phase III in RA	Positive data confirm profile	16.5	Efficacy and/or safety concerns	(54.9)
filgotinib Phase III in Crohn's & Ulcerative colitis	Positive data confirm profile	11.0	Efficacy and/or safety concerns	(16.5)
Clinical progress with CF potentiators & correctors	Encouraging Phase I data	12.1	Discontinued or delayed	(12.1)
GLPG1690 Phase IIa in IPF	Positive results	2.5	Discontinued or delayed	0.0
Potential Upside/(Downside)		**42.1**		**(83.5)**
Potential Valuation		**151.7**		**26.1**

Source: Jefferies estimates

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com

Exhibit 1: Galapagos catalysts



Source: Jefferies

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com

Updated financial models

Table 5: Galapagos Revenue Model

(EUR millions Dec YE)	2016A	2017E 1H17E	2017E 2H17E	2017E 2017E	2018E	2019E	2020E	2021E	2022E
R&D Revenue	129.5	71.0	77.5	148.5	148.2	153.4	461.4	0.0	208.3
Other Income	22.1	12.2	10.8	23.0	20.7	18.6	16.8	15.1	13.6
filgotinib Royalties	0.0	0.0	0.0	0.0	0.0	0.0	24.0	69.4	154.9
filgotinib Revenues for EU5-Benelux Profit Share	0.0	0.0	0.0	0.0	(10.4)	(51.8)	(78.8)	(27.2)	30.5
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Group Revenue (Prob. Adjusted)	**151.6**	**83.2**	**88.3**	**171.5**	**158.5**	**120.3**	**423.4**	**57.3**	**407.3**
% Change Year over Year									
R&D Revenue	227.4%	83.0%	(14.6%)	14.6%	(0.2%)	3.5%	200.8%	(100.0%)	n/a
Other Income	5.1%	22.3%	(10.8%)	4.1%	(10.0%)	(10.0%)	(10.0%)	(10.0%)	(10.0%)
filgotinib Royalties	n/a	n/a	n/a	n/a	n/a	n/a	n/a	189.6%	123.3%
Total Group Revenue (Prob. Adjusted)	150.3%	70.6%	(14.2%)	13.1%	(7.6%)	(24.1%)	252.1%	(86.5%)	610.7%

Source: Jefferies estimates, company data

Table 6: Galapagos Margin Analysis

	2016A	2017E 1H17E	2017E 2H17E	2017E 2017E	2018E	2019E	2020E	2021E	2022E
Gross Margin	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Sales & Marketing Expenses	1.2%	1.1%	1.1%	1.1%	4.1%	18.4%	6.4%	56.4%	8.2%
General & Admin. Expenses	14.3%	14.1%	15.0%	14.6%	16.9%	23.6%	7.0%	54.6%	8.1%
R&D Expenses	92.1%	113.0%	130.3%	121.9%	123.7%	176.5%	57.5%	464.1%	72.2%
Operating Income	(7.6%)	(28.3%)	(46.4%)	(37.6%)	(44.7%)	(118.4%)	29.0%	(475.0%)	11.5%
Pretax Profit	35.8%	(30.7%)	(45.8%)	(38.5%)	(42.1%)	(111.0%)	31.4%	(454.1%)	14.7%
Net Income	35.6%	(30.7%)	(45.8%)	(38.5%)	(42.1%)	(111.0%)	31.4%	(454.1%)	14.7%

Source: Jefferies estimates, company data

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com

Table 7: Galapagos Profit and Loss Model

(EUR millions except EPS Dec YE)	2016A	2017E 1H17E	2017E 2H17E	2017E	2018E	2019E	2020E	2021E	2022E
Revenue	151.6	83.2	88.3	171.5	158.5	120.3	423.4	57.3	407.3
Cost of Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Profit	151.6	83.2	88.3	171.5	158.5	120.3	423.4	57.3	407.3
Total Operating Expenses	(163.1)	(106.7)	(129.2)	(235.9)	(229.2)	(262.7)	(300.5)	(329.5)	(360.2)
Sales & Marketing Expenses	(1.8)	(1.0)	(1.0)	(1.9)	(6.5)	(22.1)	(27.2)	(32.3)	(33.3)
General & Admin. Expenses	(21.7)	(11.8)	(13.3)	(25.0)	(26.8)	(28.4)	(29.8)	(31.3)	(32.8)
R&D Expenses	(139.6)	(94.0)	(115.0)	(209.0)	(196.0)	(212.3)	(243.6)	(265.9)	(294.1)
o/w Acquisition-related Amortisation/Write-dow	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	0.0	0.0	0.0	0.0	0.0
Operating Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Income	***(11.5)***	***(23.5)***	***(40.9)***	***(64.4)***	***(70.8)***	***(142.4)***	***122.8***	***(272.2)***	***47.0***
Adjusted Operating Income	**(11.5)**	**(23.5)**	**(40.9)**	**(64.4)**	**(70.8)**	**(142.4)**	**122.8**	**(272.2)**	**47.0**
EBITDA	***(7.3)***	***(21.5)***	***(38.9)***	***(60.4)***	***(67.0)***	***(138.8)***	***127.1***	***(267.3)***	***52.5***
Adjusted EBITDA	*(7.3)*	*(21.5)*	*(38.9)*	*(60.4)*	*(67.0)*	*(138.8)*	*127.1*	*(267.3)*	*52.5*
Net Financial Income	8.3	(2.0)	0.5	(1.5)	4.0	9.0	10.0	12.0	13.0
Exceptionals	57.5	0.0	0.0	0.0	0.0	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
Pretax Profit	***54.2***	***(25.5)***	***(40.4)***	***(65.9)***	***(66.8)***	***(133.4)***	***132.8***	***(260.2)***	***60.0***
Adjusted Pretax Profit	**(3.2)**	**(25.5)**	**(40.4)**	**(65.9)**	**(66.8)**	**(133.4)**	**132.8**	**(260.2)**	**60.0**
Taxation	(0.2)	0.0	0.0	0.0	0.0	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
Net Income from Continuing Operations	**54.0**	**(25.5)**	**(40.4)**	**(65.9)**	**(66.8)**	**(133.4)**	**132.8**	**(260.2)**	**60.0**
Net Income from Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	***54.0***	***(25.5)***	***(40.4)***	***(65.9)***	***(66.8)***	***(133.4)***	***132.8***	***(260.2)***	***60.0***
Adjusted Net Income	**(3.5)**	**(25.5)**	**(40.4)**	**(65.9)**	**(66.8)**	**(133.4)**	**132.8**	**(260.2)**	**60.0**
WA Basic Shares (mn)	45.7	48.7	48.7	48.7	51.4	51.9	52.4	52.9	53.4
WA Shares Diluted (mn)	47.3	48.7	48.7	48.7	51.4	51.9	54.0	52.9	55.0
EPS (EUR)	***1.2***	***(0.5)***	***(0.8)***	***(1.4)***	***(1.3)***	***(2.6)***	***2.5***	***(4.9)***	***1.1***
Adjusted EPS (EUR)	**(0.1)**	**(0.5)**	**(0.8)**	**(1.4)**	**(1.3)**	**(2.6)**	**2.5**	**(4.9)**	**1.1**
Diluted EPS (EUR)	1.1	(0.5)	(0.8)	(1.4)	(1.3)	(2.6)	2.5	(4.9)	1.1
Diluted Adjusted EPS (EUR)	**(0.1)**	**(0.5)**	**(0.8)**	**(1.4)**	**(1.3)**	**(2.6)**	**2.5**	**(4.9)**	**1.1**
% Change Year over Year									
Revenue	150.3%	70.6%	(14.2%)	13.1%	(7.6%)	(24.1%)	252.1%	(86.5%)	610.7%
Cost of Sales	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Gross Profit	150.3%	70.6%	(14.2%)	13.1%	(7.6%)	(24.1%)	252.1%	(86.5%)	610.7%
Total Operating Expenses	8.7%	45.9%	43.6%	44.6%	(2.8%)	14.6%	14.4%	9.6%	9.3%
Sales & Marketing Expenses	51.0%	8.4%	4.5%	6.4%	241.8%	240.2%	23.1%	18.8%	3.1%
General & Admin. Expenses	13.7%	19.6%	11.2%	15.0%	7.0%	6.0%	5.0%	5.0%	5.0%
R&D Expenses	7.6%	50.6%	49.0%	49.7%	(6.2%)	8.3%	14.8%	9.2%	10.6%
Operating Income	87.2%	3.4%	(418.2%)	(460.8%)	(9.9%)	(101.2%)	186.2%	(321.6%)	117.3%
Adjusted Operating Income	87.2%	3.4%	(418.2%)	(460.8%)	(9.9%)	(101.2%)	186.2%	(321.6%)	117.3%
Pretax Profit	145.3%	(179.2%)	(283.4%)	(221.5%)	(1.3%)	(99.8%)	199.6%	(295.9%)	123.1%
Adjusted Pretax Profit	96.4%	(0.9%)	(283.4%)	(1939.9%)	(1.3%)	(99.8%)	199.6%	(295.9%)	123.1%
Net Income	145.6%	(179.2%)	(285.6%)	(222.1%)	(1.3%)	(99.8%)	199.6%	(295.9%)	123.1%
Adjusted Net Income	96.1%	(1.0%)	(285.6%)	(1801.7%)	(1.3%)	(99.8%)	199.6%	(295.9%)	123.1%
EPS (EUR)	135.6%	(173.5%)	(274.2%)	(214.6%)	4.0%	(97.9%)	198.6%	(294.0%)	122.9%
Adjusted EPS (EUR)	96.9%	6.1%	(274.2%)	(1684.9%)	4.0%	(97.9%)	198.6%	(294.0%)	122.9%

Source: Jefferies estimates, company data

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com

Table 8: Galapagos Cash Flow Model

(EUR millions Dec YE)	2016A	2017E	2018E	2019E	2020E	2021E	2022E
Operating Income	(11.5)	(64.4)	(70.8)	(142.4)	122.8	(272.2)	47.0
Depreciation and Amortisation	4.2	4.1	3.8	3.6	4.3	4.9	5.4
EBITDA	**(7.3)**	**(60.4)**	**(67.0)**	**(138.8)**	**127.1**	**(267.3)**	**52.5**
Other Adjustments and Exceptionals	12.5	14.5	16.0	17.1	18.1	19.1	20.0
Decrease/(Increase) in Inventories	0.0	0.1	0.2	0.0	0.0	0.0	0.0
Decrease/(Increase) in Receivables	(13.0)	1.9	(8.3)	3.1	(24.9)	30.1	(28.8)
Increase/(Decrease) in Payables	2.1	4.5	2.9	5.0	10.3	(0.3)	9.8
Increase/(Decrease) in Deferred Income	245.8	(89.7)	(68.1)	(59.8)	(67.7)	0.0	0.0
Change in WC	235.0	(83.2)	(73.3)	(51.7)	(82.4)	29.7	(19.0)
Taxation Paid	(1.8)	(0.1)	0.0	0.0	0.0	0.0	0.0
Interest Paid	1.0	(4.5)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Net Cash Flow from Operating Activities	**239.4**	**(133.6)**	**(125.4)**	**(174.4)**	**61.9**	**(219.5)**	**52.5**
Purchase of Tangible Fixed Assets	(4.5)	(6.5)	(5.5)	(4.2)	(14.8)	(2.0)	(14.3)
Proceeds from Sale of PP&E	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of Intangible Assets	(0.3)	0.0	0.0	0.0	0.0	0.0	0.0
(Purchase)/Sale of Investments	(2.8)	0.0	0.0	0.0	0.0	0.0	0.0
(Acquisitions)/Disposals of Subsidiaries	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends Received from Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest Received	0.0	3.0	5.0	10.0	11.0	13.0	14.0
Net Cash Flow from Investing Activities	**(7.5)**	**(6.5)**	**(5.5)**	**(4.2)**	**(14.8)**	**(2.0)**	**(14.3)**
Management of Liquid Resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Changes	396.0	354.2	11.3	13.1	13.1	13.1	13.1
Debt Changes	(0.0)	(0.1)	(0.0)	0.0	0.0	0.0	0.0
Equity Dividends Paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Financing Cash Flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flow from Financing Activities	**396.0**	**357.1**	**16.2**	**23.1**	**24.1**	**26.1**	**27.1**
Effect of FX on Cash and Cash Equivalents	4.8	0.0	0.0	0.0	0.0	0.0	0.0
Increase in Cash	**632.7**	**217.0**	**(114.7)**	**(155.4)**	**71.2**	**(195.4)**	**65.3**
Change in Net Debt	**(627.9)**	**(214.0)**	**119.7**	**165.4**	**(60.2)**	**208.4**	**(51.3)**
(Cash Burn)	**231.9**	**(140.1)**	**(130.9)**	**(178.6)**	**47.1**	**(221.5)**	**38.2**

Source: Jefferies estimates, company data

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com

Table 9: Galapagos Balance Sheet Model

(EUR millions Dec YE)	2016A	2017E	2018E	2019E	2020E	2021E	2022E
Non-current Assets	**76.1**	**78.5**	**80.3**	**80.9**	**91.5**	**88.6**	**97.4**
Intangible Assets	1.0	0.2	0.0	0.0	0.0	0.0	0.0
Property, Plant and Equipment	15.0	18.2	20.2	20.8	31.3	28.5	37.3
Investments	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Other Long-term Assets	57.2	57.2	57.2	57.2	57.2	57.2	57.2
Current Assets	**1,007.2**	**1,222.2**	**1,115.6**	**957.0**	**1,053.2**	**827.7**	**921.8**
Inventories	0.3	0.2	0.0	0.0	0.0	0.0	0.0
Trade Accounts Receivable	6.6	4.7	13.0	9.9	34.8	4.7	33.5
Other Current Assets	27.1	27.1	27.1	27.1	27.1	27.1	27.1
Cash and Cash Equivalents	973.2	1,190.2	1,075.5	920.1	991.3	795.9	861.2
Total Assets	**1,083.3**	**1,300.7**	**1,196.0**	**1,038.0**	**1,144.6**	**916.3**	**1,019.2**
Current Liabilities	**103.8**	**105.4**	**100.0**	**112.9**	**55.5**	**55.1**	**64.9**
Trade Accounts Payable	31.3	34.9	37.1	42.6	48.7	53.4	58.3
Other Current Liabilities	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Accrued Expenses	0.6	1.4	2.2	1.6	5.8	0.8	5.6
Deferred Income	70.8	68.1	59.8	67.7	0.0	0.0	0.0
Short-term Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Leasing Obligations	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Non-current Liabilities	**220.8**	**133.9**	**74.1**	**6.4**	**6.4**	**6.4**	**6.4**
Long-term Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Leasing Obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Tax Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Income	214.8	127.8	68.0	0.3	0.3	0.3	0.3
Long-term Provisions	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Total Shareholders' Equity	**758.7**	**1,061.4**	**1,021.9**	**918.7**	**1,082.8**	**854.8**	**948.0**
Share Capital	223.9	223.9	223.9	223.9	223.9	223.9	223.9
Share Premium Account	649.1	1,003.3	1,014.5	1,027.7	1,040.8	1,053.9	1,067.0
Other Reserves and Adjustments	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)
Retained Earnings	(112.3)	(163.7)	(214.5)	(330.8)	(179.8)	(421.0)	(340.9)
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities and Shareholders' Equity	**1,083.3**	**1,300.7**	**1,196.0**	**1,038.0**	**1,144.6**	**916.3**	**1,019.2**

Source: Jefferies estimates, company data

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com

Key changes to forecasts

Table 10: Summary estimates changes for Galapagos

Forecasts (EURm)	2017E New	2017E Old	% Chg	2018E New	2018E Old	% Chg
Sales	171.5	175.2	-2%	158.5	136.8	+16%
Adj. EBIT	(64.4)	(36.0)	+79%	(70.8)	(59.2)	+20%
Adj. EPS	(1.35)	(0.62)	+118%	(1.30)	(1.09)	+20%
Net Cash/(Debt)	1,190.2	841.0	+42%	1,075.5	729.8	+47%
Drivers of Change	Revised Revenue recognition of milestones and upfront payments under the collaborations with Gilead and AbbVie. Hiked R&D spend to reflect the expanded development programmes for filgotinib.					

Source: Jefferies estimates

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com

Company Description

Galapagos is a Belgian biotech company focusing on drug discovery using cells taken from patients with diseases of interest; typically musculoskeletal, CNS and inflammatory disorders plus orphan indications. The company's most advanced product is filgotinib (GLPG0634 a JAK1 inhibitor) entering Phase III for rheumatoid arthritis and in Phase II for Crohn's disease partnered with Gilead. Galapagos also has a global alliance with AbbVie in cystic fibrosis. The company has active collaborations with GSK, Servier and MorphoSys.

Analyst Certification:

I, Peter Welford, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Lucy Codrington, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Registration of non-US analysts: Peter Welford, CFA is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2241 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

Registration of non-US analysts: Lucy Codrington is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2241 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

As is the case with all Jefferies employees, the analyst(s) responsible for the coverage of the financial instruments discussed in this report receives compensation based in part on the overall performance of the firm, including investment banking income. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Aside from certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgement.

Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

Recommendation Published	, 12:38 ET. May 1, 2017
Recommendation Distributed	, 00:00 ET. May 2, 2017

Company Specific Disclosures

For Important Disclosure information on companies recommended in this report, please visit our website at https://javatar.bluematrix.com/sellside/Disclosures.action or call 212.284.2300.

Explanation of Jefferies Ratings

Buy - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below $10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.

CS - Coverage Suspended. Jefferies has suspended coverage of this company.

NC - Not covered. Jefferies does not cover this company.

Restricted - Describes issuers where, in conjunction with Jefferies engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

Monitor - Describes securities whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Valuation Methodology

Jefferies' methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Jefferies Franchise Picks

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com

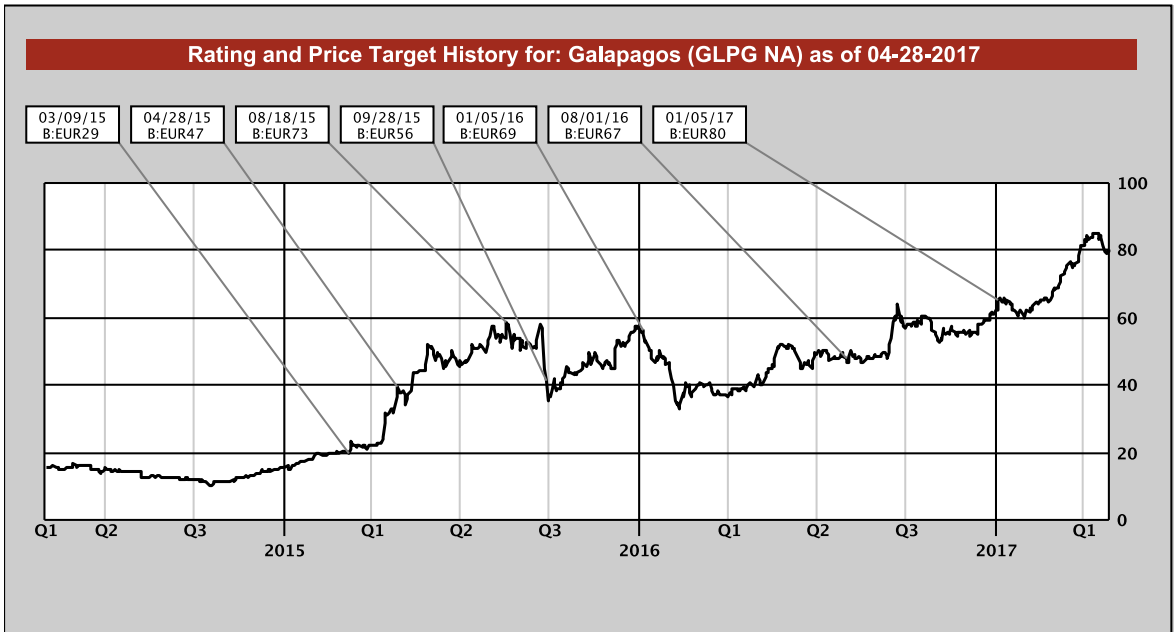
Jefferies Franchise Picks include stock selections from among the best stock ideas from our equity analysts over a 12 month period. Stock selection is based on fundamental analysis and may take into account other factors such as analyst conviction, differentiated analysis, a favorable risk/reward ratio and investment themes that Jefferies analysts are recommending. Jefferies Franchise Picks will include only Buy rated stocks and the number can vary depending on analyst recommendations for inclusion. Stocks will be added as new opportunities arise and removed when the reason for inclusion changes, the stock has met its desired return, if it is no longer rated Buy and/or if it triggers a stop loss. Stocks having 120 day volatility in the bottom quartile of S&P stocks will continue to have a 15% stop loss, and the remainder will have a 20% stop. Franchise Picks are not intended to represent a recommended portfolio of stocks and is not sector based, but we may note where we believe a Pick falls within an investment style such as growth or value.

Risks which may impede the achievement of our Price Target

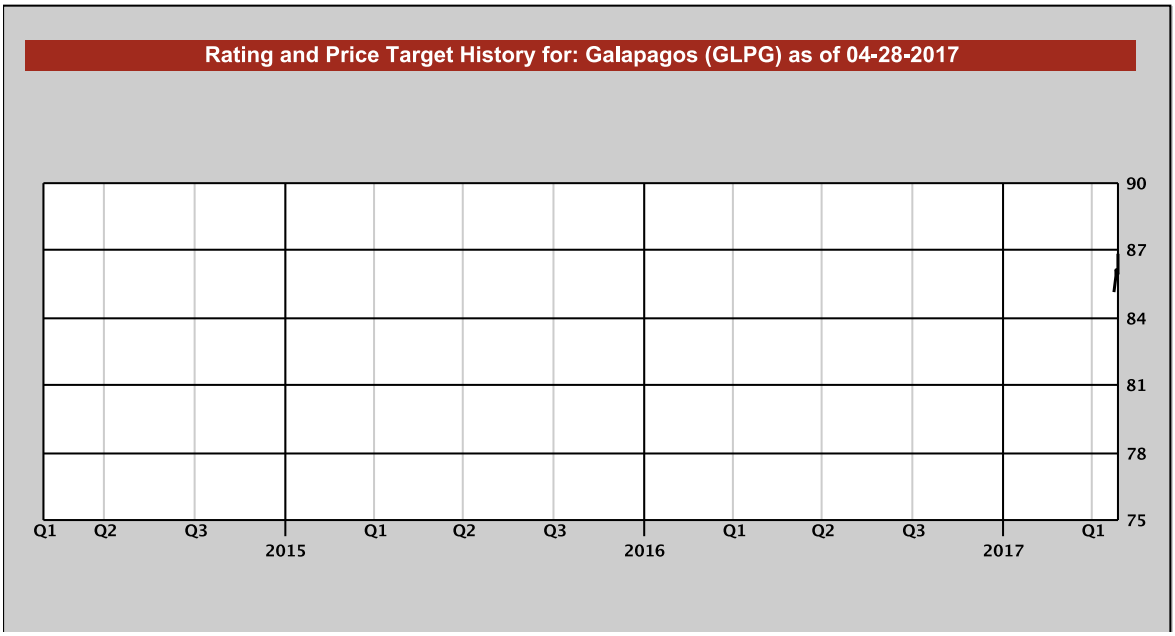
This report was prepared for general circulation and does not provide investment recommendations specific to individual investors. As such, the financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions based upon their specific investment objectives and financial situation utilizing their own financial advisors as they deem necessary. Past performance of the financial instruments recommended in this report should not be taken as an indication or guarantee of future results. The price, value of, and income from, any of the financial instruments mentioned in this report can rise as well as fall and may be affected by changes in economic, financial and political factors. If a financial instrument is denominated in a currency other than the investor's home currency, a change in exchange rates may adversely affect the price of, value of, or income derived from the financial instrument described in this report. In addition, investors in securities such as ADRs, whose values are affected by the currency of the underlying security, effectively assume currency risk.

Other Companies Mentioned in This Report

- AbbVie (ABBV: $65.94, BUY)
- Ablynx (ABLX BB: €10.80, BUY)
- Adocia (ADOC FP: €19.23, BUY)
- BTG (BTG LN: p680.50, BUY)
- Cosmo (COPN SW: CHF161.40, BUY)
- Eli Lilly & Co. (LLY: $82.06, BUY)
- Genmab A/S (GEN DC: DKK1,358.00, BUY)
- Gilead Sciences, Inc. (GILD: $68.55, BUY)
- GlaxoSmithKline Plc (GSK LN: p1,550.00, BUY)
- Vertex Pharmaceuticals Incorporated (VRTX: $118.30, BUY)
- Zealand Pharma A/S (ZEAL DC: DKK122.00, BUY)



Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com



Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

For Important Disclosure information on companies recommended in this report, please visit our website at https://javatar.bluematrix.com/sellside/Disclosures.action or call 212.284.2300.

Distribution of Ratings

			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY	1101	50.76%	335	30.43%
HOLD	894	41.22%	178	19.91%
UNDERPERFORM	174	8.02%	13	7.47%

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com

Other Important Disclosures

Jefferies does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that Jefferies may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Jefferies Equity Research refers to research reports produced by analysts employed by one of the following Jefferies Group LLC ("Jefferies") group companies:

United States: Jefferies LLC which is an SEC registered firm and a member of FINRA.

United Kingdom: Jefferies International Limited, which is authorized and regulated by the Financial Conduct Authority; registered in England and Wales No. 1978621; registered office: Vintners Place, 68 Upper Thames Street, London EC4V 3BJ; telephone +44 (0)20 7029 8000; facsimile +44 (0)20 7029 8010.

Hong Kong: Jefferies Hong Kong Limited, which is licensed by the Securities and Futures Commission of Hong Kong with CE number ATS546; located at Suite 2201, 22nd Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

Singapore: Jefferies Singapore Limited, which is licensed by the Monetary Authority of Singapore; located at 80 Raffles Place #15-20, UOB Plaza 2, Singapore 048624, telephone: +65 6551 3950.

Japan: Jefferies (Japan) Limited, Tokyo Branch, which is a securities company registered by the Financial Services Agency of Japan and is a member of the Japan Securities Dealers Association; located at Hibiya Marine Bldg, 3F, 1-5-1 Yuraku-cho, Chiyoda-ku, Tokyo 100-0006; telephone +813 5251 6100; facsimile +813 5251 6101.

India: Jefferies India Private Limited (CIN - U74140MH2007PTC200509), which is licensed by the Securities and Exchange Board of India as a Merchant Banker (INM000011443), Research Analyst (INH000000701) and a Stock Broker with Bombay Stock Exchange Limited (INB011491033) and National Stock Exchange of India Limited (INB231491037) in the Capital Market Segment; located at 42/43, 2 North Avenue, Maker Maxity, Bandra-Kurla Complex, Bandra (East) Mumbai 400 051, India; Tel +91 22 4356 6000.

This material has been prepared by Jefferies employing appropriate expertise, and in the belief that it is fair and not misleading. The information set forth herein was obtained from sources believed to be reliable, but has not been independently verified by Jefferies. Therefore, except for any obligation under applicable rules we do not guarantee its accuracy. Additional and supporting information is available upon request. Unless prohibited by the provisions of Regulation S of the U.S. Securities Act of 1933, this material is distributed in the United States ("US"), by Jefferies LLC, a US-registered broker-dealer, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6, under the US Securities Exchange Act of 1934. Transactions by or on behalf of any US person may only be effected through Jefferies LLC. In the United Kingdom and European Economic Area this report is issued and/or approved for distribution by Jefferies International Limited and is intended for use only by persons who have, or have been assessed as having, suitable professional experience and expertise, or by persons to whom it can be otherwise lawfully distributed. Jefferies International Limited Equity Research personnel are separated from other business groups and are not under their supervision or control. Jefferies International Limited has implemented policies to (i) address conflicts of interest related to the preparation, content and distribution of research reports, public appearances, and interactions between research analysts and those outside of the research department; (ii) ensure that research analysts are insulated from the review, pressure, or oversight by persons engaged in investment banking services activities or other persons who might be biased in their judgment or supervision; and (iii) promote objective and reliable research that reflects the truly held opinions of research analysts and prevents the use of research reports or research analysts to manipulate or condition the market or improperly favor the interests of the Jefferies International Limited or a current or prospective customer or class of customers. Jefferies International Limited may allow its analysts to undertake private consultancy work. Jefferies International Limited's conflicts management policy sets out the arrangements Jefferies International Limited employs to manage any potential conflicts of interest that may arise as a result of such consultancy work. Jefferies International Ltd, its affiliates or subsidiaries, may make a market or provide liquidity in the financial instruments referred to in this investment recommendation. For Canadian investors, this material is intended for use only by professional or institutional investors. None of the investments or investment services mentioned or described herein is available to other persons or to anyone in Canada who is not a "Designated Institution" as defined by the Securities Act (Ontario). In Singapore, Jefferies Singapore Limited is regulated by the Monetary Authority of Singapore. For investors in the Republic of Singapore, this material is provided by Jefferies Singapore Limited pursuant to Regulation 32C of the Financial Advisers Regulations. The material contained in this document is intended solely for accredited, expert or institutional investors, as defined under the Securities and Futures Act (Cap. 289 of Singapore). If there are any matters arising from, or in connection with this material, please contact Jefferies Singapore Limited, located at 80 Raffles Place #15-20, UOB Plaza 2, Singapore 048624, telephone: +65 6551 3950. In Japan this material is issued and distributed by Jefferies (Japan) Limited to institutional investors only. In Hong Kong, this report is issued and approved by Jefferies Hong Kong Limited and is intended for use only by professional investors as defined in the Hong Kong Securities and Futures Ordinance and its subsidiary legislation. In the Republic of China (Taiwan), this report should not be distributed. The research in relation to this report is conducted outside the PRC. This report does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves. In India this report is made available by Jefferies India Private Limited. In Australia this information is issued solely by Jefferies International Limited and is directed solely at wholesale clients within the meaning of the Corporations Act 2001 of Australia (the "Act") in connection with their consideration of any investment or investment service that is the subject of this document. Any offer or issue that is the subject of this document does not require, and this document is not, a disclosure document or product disclosure statement within the meaning of the Act. Jefferies International Limited is authorised and regulated by the Financial Conduct Authority under the laws of the United Kingdom, which differ from Australian laws. Jefferies International Limited has obtained relief under Australian Securities and Investments Commission Class Order 03/1099, which conditionally exempts it from holding an Australian financial services licence under the Act in respect of the provision of certain financial services to wholesale clients. Recipients of this document in any other jurisdictions should inform themselves about and observe any applicable legal requirements in relation to the receipt of this document.

This report is not an offer or solicitation of an offer to buy or sell any security or derivative instrument, or to make any investment. Any opinion or estimate constitutes the preparer's best judgment as of the date of preparation, and is subject to change without notice. Jefferies assumes no obligation to maintain or update this report based on subsequent information and events. Jefferies, its associates or affiliates, and its respective officers, directors, and employees may have long or short positions in, or may buy or sell any of the securities, derivative instruments or other investments mentioned or described herein, either as agent or as principal for their own account. Upon request Jefferies may provide specialized research products or services to certain customers focusing on the prospects for individual covered stocks as compared to other covered stocks over varying time horizons or under differing market conditions. While the views expressed in these situations may not always be directionally consistent with the long-term views expressed in the analyst's published research, the analyst has a reasonable basis and any inconsistencies can be reasonably explained. This material does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of the investments referred to herein and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com

rates could have adverse effects on the value or price of, or income derived from, certain investments. This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of securities. None of Jefferies, any of its affiliates or its research analysts has any authority whatsoever to make any representations or warranty on behalf of the issuer(s). Jefferies policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis. Any comments or statements made herein are those of the author(s) and may differ from the views of Jefferies.

This report may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Jefferies research reports are disseminated and available primarily electronically, and, in some cases, in printed form. Electronic research is simultaneously available to all clients. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Jefferies. Neither Jefferies nor any officer nor employee of Jefferies accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.

For Important Disclosure information, please visit our website at https://javatar.bluematrix.com/sellside/Disclosures.action or call 1.888.JEFFERIES

Peter Welford, CFA, Equity Analyst, 44 (0) 20 7029 8668, pwelford@jefferies.com