

Galapagos (GLPG NA)

Cash Burn Aim Unchanged at 1Q; Pipeline On-track; Call to Focus on CF Specifics

Key Takeaway

1Q cash burn is as expected and 2018 outlook reiterated with no pipeline updates. Focus on the call will be further insights into the FALCON study of the first CF triple initiated earlier this week. We eagerly await key filgotinib read-outs and see '1690 IPF and '1972 osteoarthritis gaining focus as late-stage trials commence. We view the current share price to be a compelling entry point given filgotinib blockbuster potential plus broad pipeline optionality.

1Q financials not material: €44.8m 1Q18 Revenues are boosted c.€10m by adoption of IFRS 15 as milestones previously recognised from Gilead and AbbVie, plus the upfront fee from the latter, are reclassified from equity and recorded as income from 1 Jan. OpEx €77m is as expected versus our €313m 2018 forecast. Management reiterates its €220-240m 2018 cash burn outlook, similar to our current €228m estimate. Net Cash c.€1.11bn at 31 March is more than sufficient to fund pipeline plans, in our view.

CF remains acutely in focus: A little later than anticipated, the first triple combo entered the clinic earlier this week, initially in the UK but other EU sites are planned, with data from the low dose part 1 of the study due 3Q18E. As expected the trial will treat homo and hetero ΔF508 patients, first with 2 weeks of potentiator '2451 and corrector 1 '2222 as a fixed dose combo (low dose in part 1 and higher dose in part 2), before than adding corrector 2 '2737 for 2 weeks. No further details on dose regimens (we assume a '2451 loading dose on day-1) or future EU sites are disclosed. We understand the second triple '3067+'2222+'2737 is likely to enter the clinic in the near future as Phase I has been completed. We still believe GLPG and partner AbbVie (ABBV, \$92, Buy) are lagging at least two years behind market incumbent Vertex (VRTX, \$155, Buy), with its first triple starting Phase III. We ascribe €14/share NPV to CF at 30% probability of \$3bn peak sales and 2023E first launch assuming the GLPG/AbbVie combo captures perhaps 20%-30% patient share but can't displace Vertex given the likely high bar set for efficacy/safety.

Pipeline rightfully gaining attention: The Phase III ISABELA studies of GLPG1690 in lung fibrosis (IPF) are expected to begin 2H18E. We expect results around 2020E and see the value of GLPG's IPF assets gaining recognition as wholly owned for this Orphan disease. We forecast \$850m WW '1690 peak sales after 2022E launch, for €11/share NPV at 30% probability. Recent GLPG1972 Phase Ib US data again confirmed robust biomarker responses, suggesting potential as a unique MoA for the unmet need in osteoarthritis. We ascribe a €5/share NPV assuming 20% probability of \$3bn WW peak sales with partner Servier (private), noting GLPG still has all US rights. The '1972 Phase IIb trial is on-track to commence later this year.

Filgotinib catalysts coming: 2H18E Phase III FINCH-2 arthritis (RA) data in patients post-biologics, 2Q18E Phase II EQUATOR psoriatic arthritis data, and 4Q18E Phase II TORTUGA ankylosing spondylitis results, with the latter two key to confirm our view of the broad commercial potential. FINCH-1 and -3 data by YE19E could enable RA launches by YE20E with partner Gilead (GILD, \$73, Buy). Phase III Crohn's and ulcerative colitis trials could read-out from YE20E, with an interim futility analysis in UC upcoming shortly, for IBD launches around 2022E.

Conference call: 1 pm BST (8am EDT); +44 330 336 9105 / +1 323 794 2093; code 5747918

BUY

Bloomberg BRU: GLPG NA
Price target €115.00
Price €76.10[^]

BUY

Bloomberg NASDAQ: GLPG
ADR Price target \$142.00
ADR Price \$92.78[^]

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

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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.

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Investment Recommendation Record

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

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Company Specific Disclosures

Steven DeSanctis owns shares of AbbVie Inc. common shares.

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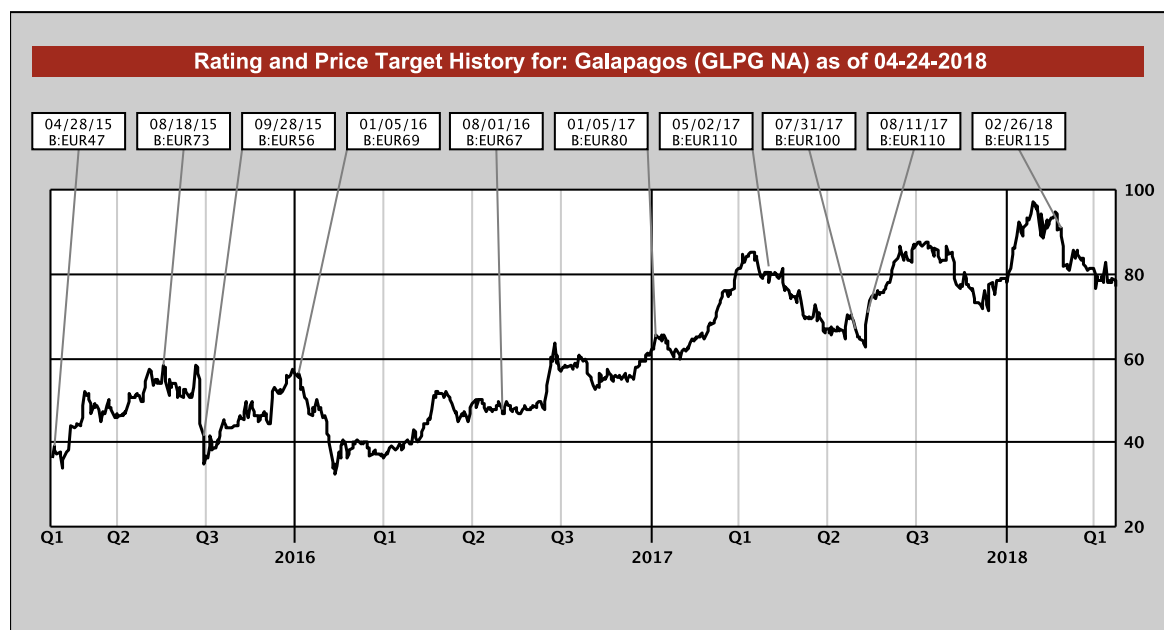
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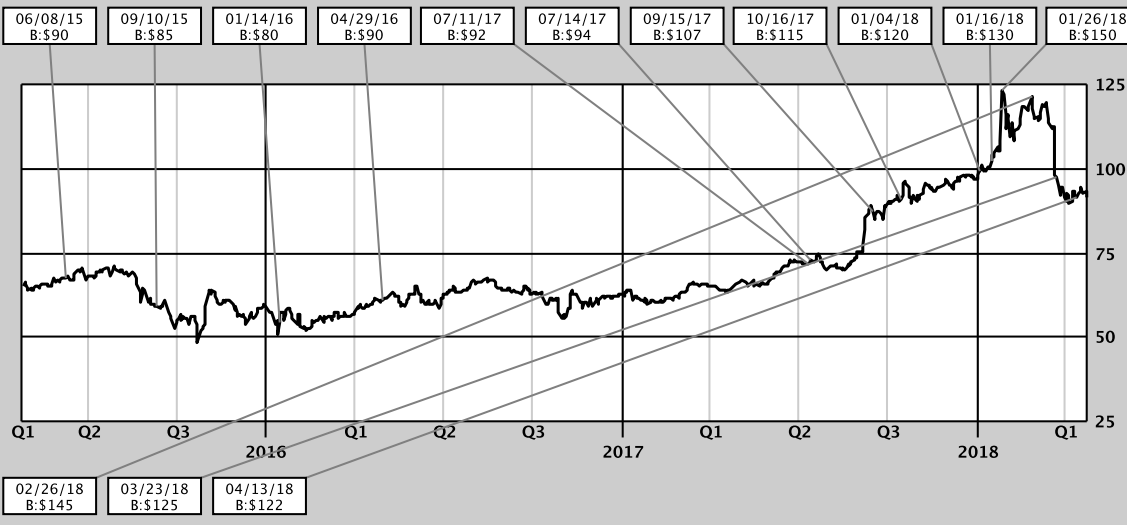
- AbbVie (ABBV: \$91.36, BUY)
- Gilead Sciences, Inc. (GILD: \$72.72, BUY)
- Vertex Pharmaceuticals Incorporated (VRTX: \$155.67, BUY)

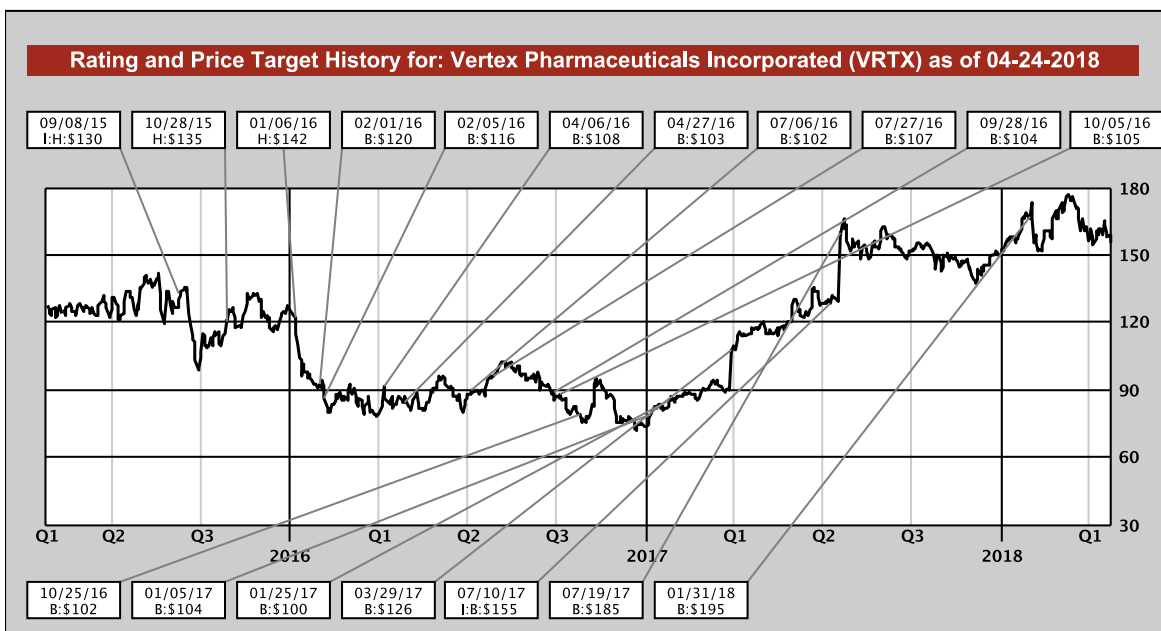
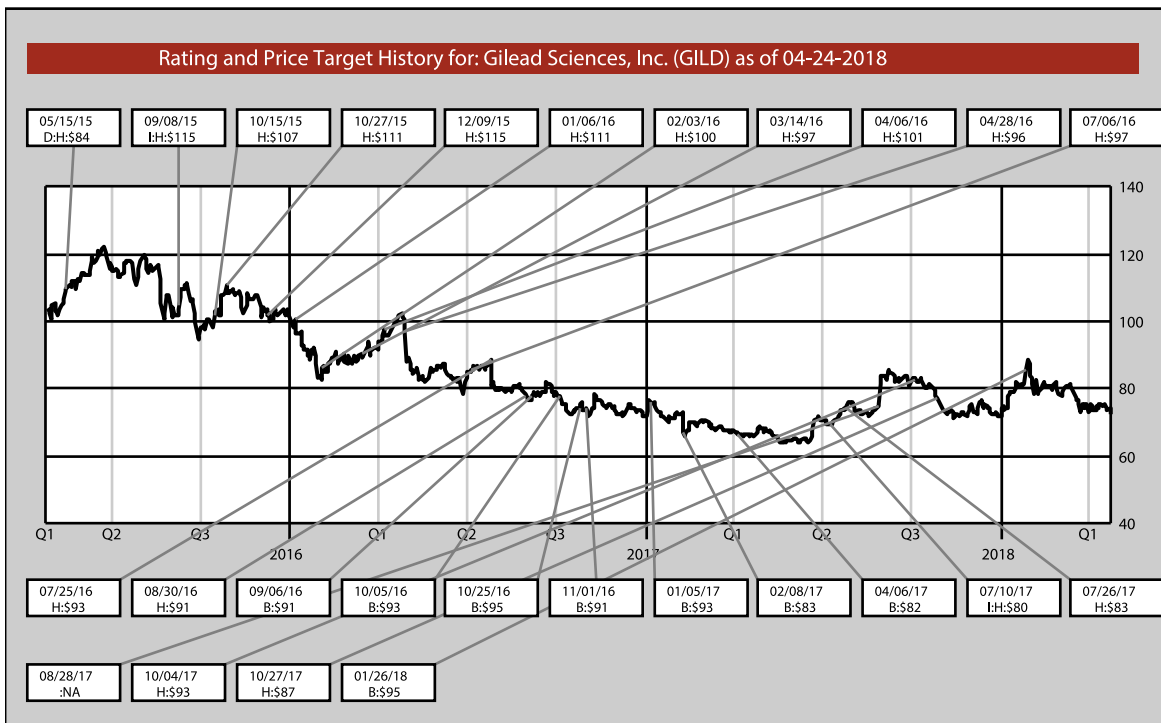


Rating and Price Target History for: Galapagos (GLPG) as of 04-24-2018



Rating and Price Target History for: AbbVie (ABBV) as of 04-24-2018





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			Count	Percent	Count	Percent
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