

Forecast Changes

We have updated our model to reflect full recognition of the €47.5m upfront relating to the MOR106 deal and the €9m milestone from Servier. We had previously spread the recognition of these milestones over 2-3 years. In addition, we include the \$45m milestone for the restructuring of the AbbVie Cystic Fibrosis collaboration, of which we include 80% in 2018 and the remainder in 2019, given comments from the CFO that the ‘majority’ of the milestone will be recognised in 2018.

Table 1: Galapagos Forecast changes (€'000)

	2018E	2019E	2020E	2021E	2022E	2023E
Net Revenues						
Old	251,461	277,088	258,564	215,954	357,024	488,918
New	348,967	258,943	226,047	216,518	355,877	497,760
Diff - %	38.8%	-6.5%	-12.6%	0.3%	-0.3%	1.8%
Diff Abs	97,505	-18,145	-32,517	564	-1,147	8,843
Royalties						
Old	0	0	10,822	61,629	128,034	230,397
New	0	0	10,822	61,629	128,034	230,397
Diff - %	-	-	0.0%	0.0%	0.0%	0.0%
Diff Abs	-	-	-	-	-	-
Milestones and Other Revenue						
Old	251,461	277,088	247,742	154,325	228,990	258,520
New	348,967	258,943	215,225	154,889	227,843	267,363
Diff - %	38.8%	-6.5%	-13.1%	0.4%	-0.5%	3.4%
Diff Abs	97,505	-18,145	-32,517	564	-1,147	8,843
SG&A						
Old	36,130	51,221	61,747	71,525	79,625	88,425
New	32,130	48,721	61,747	71,525	79,625	88,425
Diff - %	-11.1%	-4.9%	0.0%	0.0%	0.0%	0.0%
Diff Abs	-4,000	-2,500	-	-	-	-
R&D						
Old	316,408	362,130	345,914	333,829	331,301	326,037
New	316,940	362,769	346,425	334,085	331,429	326,037
Diff - %	0.2%	0.2%	0.1%	0.1%	0.0%	0.0%
Diff Abs	532	639	511	255	128	-
Operating income (loss)						
Old	(101,076)	(136,263)	(149,097)	(192,570)	(62,082)	57,709
New	(103)	(152,546)	(182,125)	(192,262)	(63,357)	66,552
Diff - %	-99.9%	11.9%	22.2%	-0.2%	2.1%	15.3%
Diff Abs	100,973	-16,283	-33,028	308	-1,275	8,843
Pretax income/(loss)						
Old	(94,563)	(129,887)	(144,248)	(189,290)	(59,862)	59,863
New	11,754	(143,529)	(174,489)	(186,093)	(58,187)	71,820
Diff - %	-112.4%	10.5%	21.0%	-1.7%	-2.8%	20.0%
Diff Abs	106,318	-13,642	-30,241	3,197	1,675	11,958
Net Income/(loss)						
Old	(94,700)	(129,887)	(144,248)	(189,290)	(59,862)	59,863
New	12,097	(143,529)	(174,489)	(186,093)	(58,187)	71,820
Diff - %	-112.8%	10.5%	21.0%	-1.7%	-2.8%	20.0%
Diff Abs	106,797	-13,642	-30,241	3,197	1,675	11,958
Basic EPS						
Old	(1.85)	(2.54)	(2.82)	(3.70)	(1.17)	1.17
New	0.23	(2.64)	(3.21)	(3.43)	(1.07)	1.32
Diff - %	-112.6%	4.1%	14.0%	-7.4%	-8.4%	13.0%
Diff Abs	2.1	-0.1	-0.4	0.3	0.1	0.2

Source: J.P. Morgan estimates

Embedded Value

Table 2: Galapagos NV embedded value summary

Galapagos Embedded Value (NPV per Share)										€122.9	100%
Royalties and product sales											
Product	Indication	Partner	Unadj. Peak Sales (€m)	Risk Adj.	Risk adj. Peak Sales (€m)	Royalty rate - US/ Int'l	Profit Share - EU	EmV (€m)	EmV/Share (€)	% of total	
Filgotinib	RA	Gilead	2,500	90%	2,250	20-30%	50%	3,362	62.1	50.5%	
Filgotinib	CD	Gilead	500	60%	300	20-30%	50%	404	7.5	6.1%	
Filgotinib	UC	Gilead	700	40%	280	20-30%	50%	427	7.9	6.4%	
Filgotinib	PsA	Gilead	340	50%	170	20-30%	50%	192	3.5	2.9%	
Filgotinib	AS	Gilead	340	50%	170	20-30%	50%	212	3.9	3.2%	
Filgotinib	Small bowel CD	Gilead	-	-	-	20-30%	50%	-	-	0.0%	
Filgotinib	Fistulizing CD	Gilead	-	-	-	20-30%	50%	-	-	0.0%	
Filgotinib	Sjogren's	Gilead	-	-	-	20-30%	50%	-	-	0.0%	
Filgotinib	CLE	Gilead	-	-	-	20-30%	50%	-	-	0.0%	
Filgotinib	SLE	Gilead	-	-	-	20-30%	50%	-	-	0.0%	
Filgotinib	Uveitis	Gilead	-	-	-	20-30%	50%	-	-	0.0%	
Filgotinib Milestones								502	9.3	7.5%	
Filgotinib sales force							35% of effort	(311)	(5.7)	-4.7%	
Filgotinib R&D spend								(202)	(3.7)	-3.0%	
Total Filgotinib		Gilead	4,380	72%	3,170			4,587	84.7	68.9%	
GLPG1690	IPF	-	1,000	40%	400	-	-	1,285	23.7	19.3%	
MOR106	AD	Novartis	900	50%	450	6-12%	-	263	4.9	4.0%	
GLPG1972	OA	Servier (ex-US)	2,100	20%	420	20%	-	208	3.8	3.1%	
Cystic Fibrosis	CF	AbbVie	-	-	-	-	-	-	-	0.0%	
Total Royalties and Product sales			8,380	53%	4,440			6,342	117.2	95.3%	
Other											
General and Admin Cost								(382)	(7.1)	-5.7%	
Selling and Marketing - other								(19)	(0.4)	-0.3%	
R&D								(388)	(7.2)	-5.8%	
Capex								(50)	(0.9)	-0.8%	
Cash and Cash Equivalents								1,151	21.3	17.3%	
Total Other								312	5.8	4.7%	
Total EmV								6,654	122.9	100.0%	

Source: J.P. Morgan estimates

Investment Thesis, Valuation and Risks

Galapagos (Overweight; Price Target: €125.00)

Investment Thesis

We reiterate our Overweight rating on GLPG with our Dec-19 PT of €125 per share/\$145 per ADR, indicating c.45% upside potential from current levels. The key value is the JAK-1 specific inhibitor filgotinib (partnered with Gilead) in autoimmune diseases, which has an efficacy profile at least as good as other (less selective) members of the JAK inhibitor class and a best in class safety profile - which we believe will drive uptake of the drug from launch in 2020. We forecast peak in market filgotinib sales of €4.4bn and include €3.2bn in our model after applying risk adjustments. In addition we include value from GLPG1690 which, based on Phase II data, could be the first asset in Idiopathic Pulmonary Fibrosis to halt disease progression and we forecast peak sales of €1bn and include €0.4bn in our model. GLPG have full commercial rights to GLPG1690 and intend to commercialise the asset worldwide. We also include value for royalties from MOR106 in atopic dermatitis (partnered with Novartis) and GLPG1972 in Osteoarthritis.

Valuation

We value Galapagos using our Embedded Value methodology (product by product NPV analysis), which results in our Dec-19 price target of €125 (prev. Jun-19 €120) per share for the GLPG share and \$145 (prev. Jun-19 \$140) for the GLPG ADR. In our EmV we include €84.7 per share relating to royalties, profit share and related commercial and R&D costs of filgotinib in autoimmune indications. From the other pipeline we include €23.7 per share for GLPG1690 in Idiopathic Pulmonary Fibrosis, €4.9 per share for MOR106 in Atopic Dermatitis and €3.8 per share for GLPG1972 in Osteoarthritis. We include cash of €1.2bn, being €21.3 per share. Offsetting this, we include SG&A costs of -€7.5 per share, R&D of -€7.2 per share and Capex of -€1 per share. This leads to an EmV of €123 per share, which informs our Dec-19 PT of €125 per share. For the ADR, we translate our GLPG NV value into USD using a €:\$ FX rate of 1.16, giving \$145.

Risks to Rating and Price Target

- Clinical trial risk relating to the remaining trials of the FINCH programme (FINCH 1 & 3) and the ISABELA programme in IPF.
- The key markets for filgotinib (RA, CD, UC, PsA and AS) are competitive, with the potential for additional competition within the JAK class from ABBV's upadacitinib, this could impact the commercial potential of filgotinib.
- If the MANTA testicular safety study demonstrates an impact of filgotinib on lowering sperm counts, this could lead to a warning on the label, which could reduce the commercial potential in some indications.
- Galapagos has no experience in commercialising assets, therefore it may not be able to extract the full value from GLPG1690 by leading the worldwide commercialisation in IPF.
- The same risks apply to the Galapagos ADR.