

## 3Q Earnings – Raising TP to \$140/sh

### R&D Day Reveals Refocused, High-Value Pipeline

#### CF Overhang Gone - Buy Ahead of FY19E – Raising TP to \$140

Last week, GLPG announced 3Q results and the sale of its partnered-CF program back to ABBV for \$45mn upfront and \$200mn in milestones (note) – we view the upfront payments as upside to expectations. We remove CF from our valuation and add \$45mn in 4Q. Further, we update our filgotinib peak sales est. from ~\$4bn to ~\$6bn based on the recent clinical data showing best-in-class read-through for late line, maintenance, and induction setting across multiple autoimmune oppys (RA P3 note, PsA P2 note, AS P2 note, UC P2→P3 note). **Our 12-mo Target Price moves to \$140 from \$124. We would be buyers into FY19E catalysts – FINCH 1 & 3 (1-2L RA - now 1Q19E) and P3 SELECTION 1 readout in UC (possibly by YE19) with upside from positive GILD updates on MANTA and Toledo (new autoimmune) program reveal.**

#### GLPG R&D Day Takeaways

R&D Day highlighted new Toledo (asset name, target not disclosed) program – focused on the still underserved IBD market by targeting DCs, barrier disruption, and macrophages - MOA was not disclosed. GLPG also announced that filgo provides pain benefits – independent of anti-inflammatory effects – which could enhance filgo’s already stellar competitive profile (to be disclosed in the future). Incremental visibility into readout expectations for GLPG’s rapidly advancing mid-late stage pipeline - targeting large unmet need in IPF (GLPG1690 - wholly owned) and OA (GLPG1972 - US rights).

- **Buying Oppy for Filgo; Raising Ests. on Updated Market Oppy to ~\$6.0bn Peak Sales in 2025E.** *We note fourth to market entrants (an investor concern for filgo) are not necessarily disadvantaged vs. earlier assets in market uptake (Pg. 4) – particularly when approved for multiple indications, and improved safety is avail. The ongoing JAK market build-out by PFE, LLY, and ABBV plays to filgotinib’s benefit. AS upside (note). We review indication specific opportunities for filgo on Pgs. 7-8.*
- **P3 ISABELA IPF Program and P2 ROCELLA OA Program - Data 2020E.** Very attractive indications with high unmet need. ‘1690: potentially best-in-class in IPF. ‘1972: potentially first approved DMT for 30mn OA pts in US.
- **GILD 3Q Call Updates Bullish – FINCH 1 & 3 earlier readout in 1Q19E, MANTA enrolling quickly – potential to append after filing (Pg. 9).**

Year-end: Dec	2017A		2018E			2019E		
EPS (€)	Actual	Prev.	Curr.	Cons.	Prev.	Curr.	Cons.	
1Q	-0.29A	-0.73A	-0.73A	N/A	-0.84E	0.00E	-0.70E	
2Q	-0.72A	-0.42A	-0.42A	N/A	-1.03E	-0.87E	-0.90E	
3Q	-0.72A	-0.84E	0.28A	N/A	-0.82E	-0.70E	-0.82E	
4Q	-0.59A	-1.06E	-0.54E	-0.39E	-0.98E	-0.85E	-0.91E	
Year	-2.34A	-3.07E	-1.42E	-1.96E	-3.67E	-2.44E	-2.94E	
Cash & Equivalents (€000)	1,151,211	960,763	1,320,690	1,150,676	878,110	1,219,636	983,492	

Source: Company data, FactSet, Instinet estimates

Key company data: See next page for company data and detailed price/index chart.

#### Instinet, LLC, Equity Research

30 October 2018

Rating	Buy
Remains	
Target Price	USD 140.00
Increased from 124.00	
Closing price	USD 99.62
29 October 2018	
Potential upside	+40.5%

#### Research analysts

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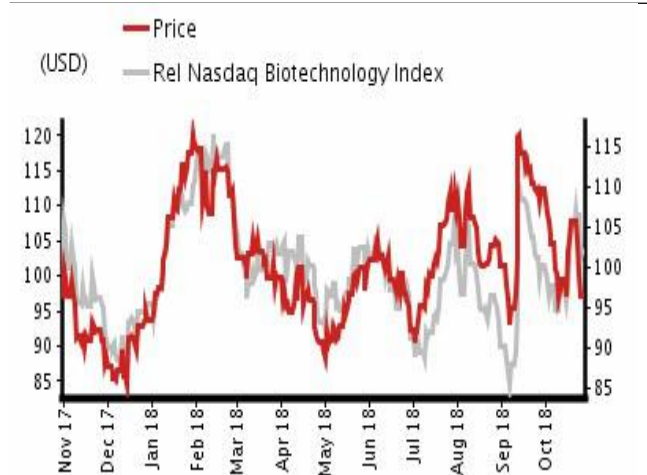
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# Key data on Galapagos NV

## Rating

Stock	Buy
Sector	Not rated

## Relative performance chart



Source: Thomson Reuters, Instinet research

## Performance as of 29 October 2018

(%)	1M	3M	12M
Absolute	-11.4	-8.9	2.5
Relative to Nasdaq Biotechnology Index	3.6	1.3	4.1

## Market data

Current Stock Price (\$)	99.62
Market Cap (\$mn)	5,114.3
52-week Low (\$)	84.15
52-week High (\$)	122.28
Shares Outstanding (mn)	51.34

Source: Thomson Reuters, Instinet research

## Valuation

Year-end: Dec	2017A	2018E	2019E
EV/Sales (x)	N/A	13.3	13.4

Source: Company data, Instinet estimates

## Summary Income Statement

Year-end: Dec; €000	2017A	2018E	2019E
Revenue	155,918	285,157	290,159
Income Tax	198	-343	0
Net Income (adj.)	-99,168	-55,672	-110,306
GAAP EPS	-2.34	-1.42	-2.44
EPS (adj.)	-2.00	-1.07	-2.00
Diluted Shares (000)	51,378	54,532	56,971

## Summary Balance Sheet

€000	2017A	2018E	2019E
Cash & Equivalents	1,151,211	1,320,690	1,219,636
PP&E	16,692	18,362	21,076
Total Assets	1,286,274	1,496,910	1,401,321
Total Debt	9	9	9
Total Liabilities	274,291	247,285	262,002
Shareholders' Equity	1,011,983	1,249,625	1,139,319
Total Liabilities & Equity	1,286,274	1,496,910	1,401,321

## Summary Cash Flow Statement

€000	2017A	2018E	2019E
Cash from Operations	-147,030	-117,992	-93,749
Change in Working Capital	-77,693	-66,493	11,966
Cash from Investing	-549	-5,843	-7,304
Capital Expenditures	-5,312	-5,843	-7,304
Cash from Financing	353,357	293,314	0
Free Cash Flow	-154,089	-123,835	-101,054

## Other Metrics

	2017A	2018E	2019E
Enterprise Value (€000)	N/A	3,794	3,895

Source: Company data, Instinet estimates

# Increasing Target Price to \$140/sh

We anticipate 1H19 catalysts (P3 filigo readouts - FINCH 1 & 3, 1-2L RA) will continuously de-risk filgotinib's opportunity in front-line and maintenance setting across multiple inflammatory/autoimmune indications (RA, Crohn's, UC, PsA, etc...) with best-in-class safety profile among JAK inhibitors and efficacy AT LEAST on par with upadacitinib and other bDMARDs seen to date. Further, we see potential P3 SELECTION 1 trial readout in the lucrative UC indication by YE19 as GILD accelerates UC trial enrollment (complete 1Q19E) - concurrently with MANTA testicular tox trial.

Further, we believe increasing visibility into mid- to late-stage pipeline (offering better economics than filigo) readouts - GLPG1690 in IPF (wholly owned) and GLPG1972 in OA (US rights; Servier ex-US) - will bring GLPG shares to our \$140/sh TP over NTM.

## Valuation Methodology

**Filgotinib + IPF (\$117/sh):** Our GLPG target price is based on a sum-of-the-parts analysis, applying a 16x royalty multiple on peak filgotinib US royalties and a 6x multiple on peak filgotinib EU profits in 2025E (in RA, PsA, UC, and Crohn's), and an 8x orphan drug multiple on peak sales est. of GLPG1690 in IPF (2025E) – discounted back to 4Q19E. We raise our filgotinib peak sales est. from \$4bn to \$6bn in 2025E.

**Mid-Stage Pipeline Upside:** GLPG1972 in OA and MOR106 in AtD (licensed to NVS, royalties/milestones shared with Morphosys) remain upside call options to our TP.

**Removing CF:** We remove our valuation estimates (prev. ~\$27/sh) for CF program based on its sale to ABBV for \$45mn upfront and \$200mn in milestones.

**Dilution & NTM:** Further, we update the TP and share count for recent ~\$300mn secondary share offering and for the passage of time.

**Cash (\$23/sh):** We est. \$1.22bn in cash by YE19, accounting for \$23 of our TP.

**Our one-year target price for GLPG shares moves to \$140/sh from \$124/sh on 57.2mn diluted shares outstanding (4Q19E).**

Fig. 1: GLPG - SOTP Analysis

Drug/Indication	Expected Launch	Peak Profit/Royalty Est (\$MM)	Valuation Year Sales	Multiple	Discounted Asset Value	Value / Share	Discount Rate	Partner
Filgotinib - Profit Split EU Big 5								
RA	2020	\$359	2025	6	\$834	\$15	20%	Gilead
UC	2021	\$161	2025	6	\$247	\$4	30%	Gilead
Crohns	2021	\$159	2025	6	\$243	\$4	30%	Gilead
PsA	2022	\$123	2025	6	\$128	\$2	40%	Gilead
Sub Total		\$802			\$1,453	\$25		
Filgotinib - US Royalties								
RA	2020	\$297	2025	16	\$1,842	\$32	20%	Gilead
UC	2021	\$157	2025	16	\$642	\$11	30%	Gilead
Crohns	2021	\$159	2025	16	\$649	\$11	30%	Gilead
PsA	2022	\$131	2025	16	\$364	\$6	40%	Gilead
Sub Total		\$744			\$3,497	\$61		
Filgotinib (Total)	2020	\$1,545	2025	6-16x	\$4,950	\$87	20-40%	Gilead
GLPG1690 (IPF)	2022	\$1,273	2025	8	\$1,770	\$31	40%	Owned
GLPG1972 (Osteoarthritis) - US Only	2023				Upside			Servier
MOR106 - WW Royalties	2023				Upside			MOR/NVS
<b>Pipeline Value</b>					<b>\$6,719</b>	<b>\$117</b>		
Net Cash (YE:2019)					<b>\$1,220</b>	<b>\$23</b>		
<b>Total Equity Value</b>						<b>\$140</b>		
Diluted Shares Outstanding Used for Valuation (MM, 4Q19E)							57.2	

Source: Instinet estimates

# Buy for “Best-in-Class” Filgotinib

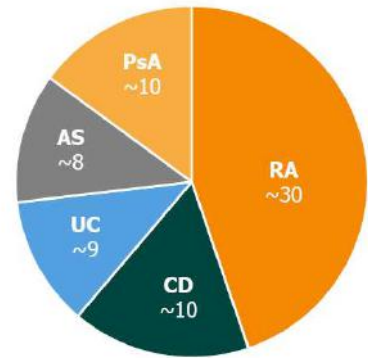
## RA Is Just the Beginning...

**Fig. 2: Filgotinib Pipeline Status / TAM**

Filgotinib Program Pipeline



~2027 market size, \$B



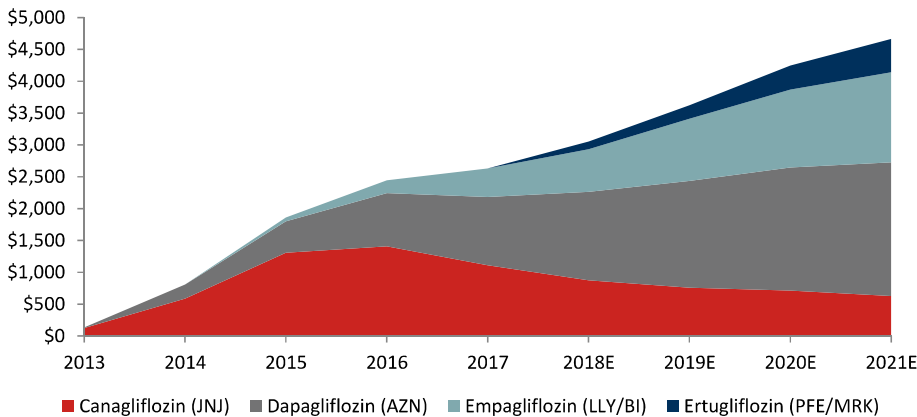
Source: Company presentations

## Filgotinib - Fourth to Market to Grow the Class

Based on historical precedents, the total market size of a drug class expands with each competitive entrant – despite ensuing pricing pressure – and facilitates wider adoption (PD-1, CDK4/6 inhibitors, ALK inhibitors, SGLT2 inhibitors – Fig. 3, etc...).

**Fig. 3: SGLT2 Market Expansion – Historical & Projected**

SGLT2 Total Market in T2DM Expanding Despite Fourth Market Entrant



Source: Company reports, FactSet consensus

Despite being first-to-market, canagliflozin was given a black-box approval after finding an imbalance in amputation risk – losing market share to later-entrant competitors.

T2DM (like RA) is a saturated market with many competitors and high-efficacy Sc agents. SGLT2’s were marketed as an efficacious option for oral administration.

**We draw similarities to the DVT/PE black box on Olumiant (and potentially Upa). Filgo’s safety to date remains best in class** - (see Fig. 4 & 5).

**Plus, the remaining unmet need in RA (both efficacy and safety) combined with Filgo’s superior efficacy vs. Xeljanz and Olumiant - should accelerate market expansion and adoption vs. those seen in SGLT2 market** – (see Fig. 6 & 7).