

Galapagos (GLPG NA)

Neutral

Price: €97.70

15 Dec 2020

filgotinib discontinued for RA in the US and GILD returning EU rights, expect stock to underperform high-single digit

Last night, after European and US market close, Galapagos (GLPG) announced that, following the FDA Type A meeting, Gilead* (GILD) will not advance Jyseleca (filgotinib) for RA (Rheumatoid Arthritis) in the US and is also returning EU rights to GLPG. Furthermore, the companies are stopping development of filgotinib in PsA (Psoriatic Arthritis) and AS (Ankylosing Spondylitis). Under the new terms of the agreement, GLPG will assume full responsibility for filgotinib in Europe and receive a €160m payment from GILD (€110m in 2021; €50m in 2022), with GILD entitled to tiered royalties of 8% to 15% of European sales of filgotinib, starting in 2024 (prev. 50:50 profit share). Furthermore, GLPG will take on full development costs for certain ongoing trials (prev. 50:50 global cost sharing). While increased R&D will be partly offset by the €160m payment from GILD, we expect the incremental R&D to exceed this amount, with GLPG's 50% share of filgotinib R&D already reaching c.€97m for 9M'20 (JPMe €127m for FY'20).

Reflecting the filgotinib update could trim our NPV by c.17%, and we believe only some of this downside risk was already priced into GLPG shares. As a sensitivity, if we were to: (i) take out US sales for filgotinib in RA and IBD (Ulcerative Colitis and Crohn's Disease), (ii) take out sales from filgotinib in PsA and AS, (iii) reflect the changes in the EU economics, (iv) give GLPG credit for the €160m payment and (v) reflect incremental R&D from GLPG assuming full development costs, our EmV would be cut by c.17%/ €20 to c.€100 (prev. €120), broadly in line with the current share price.

While yesterday's news was seemingly becoming increasingly anticipated, with GLPG shares down c.10% over the past two weeks vs. the SXDP down c.2%, we still expect significant further underperformance today. Though our downside sensitivity NPV of c.€100 is broadly in line with last night's close, we still expect further underperformance today, as the market may worry that the filgotinib European peak sales potential could be lower with GLPG marketing alone, and GILD's decision to walk could be seen as having a negative impact on GLPG's commercial potential. **If the market was already reflecting 50% chance of GILD returning rights, this would still imply c.8-9% further downside today.**

Webcast event at 1pm GMT (2pm CET; 8am EDT): Dial in: +44 844 481 9752 (UK), +1 646 741 3167 (US), +31 207 95 66 14 (Netherlands), +33 1 70 70 0781 (France), +32 2 793 38 47 (Belgium). Confirmation Code: **7689939**.

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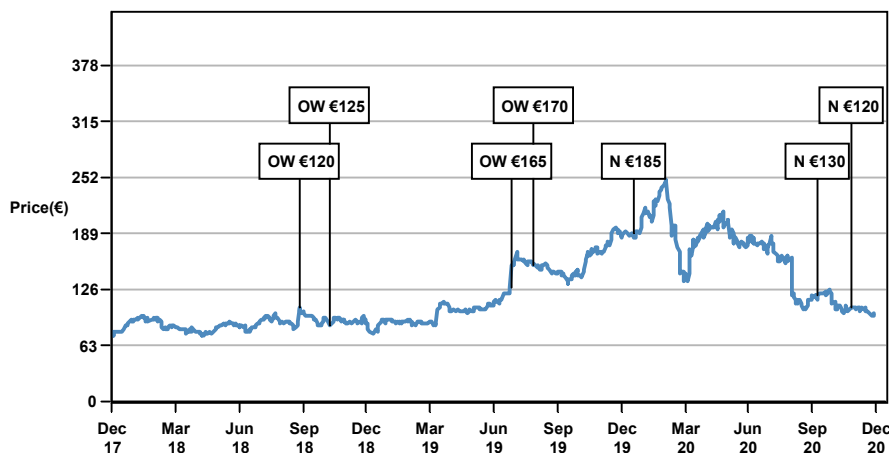
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Galapagos (GLPG.AS, GLPG NA) Price Chart



Date	Rating	Price (€)	Price Target (€)
13-Sep-18	OW	104.55	120
26-Oct-18	OW	86.04	125
15-Jul-19	OW	128.15	165
15-Aug-19	OW	152.05	170
06-Jan-20	N	188.40	185
24-Sep-20	N	118.70	130
12-Nov-20	N	104.75	120

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Sep 12, 2018. All share prices are as of market close on the previous business day.

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