**COMPANY NOTE**

Target | Estimate Change

Netherlands | Healthcare | Biotechnology

26 February 2018

Jefferies

# Galapagos (GLPG NA)

## Nearing Filgotinib Read-outs & IPF/OA Should Start Eclipsing CF; Reiterate Buy

**Key Takeaway**

**4Q call confirmed the first CF triple should enter patients in March for interim data mid-18E but we sensed timelines for other triples are slipping. We eagerly await key filgotinib read-outs this year and see '1690 IPF and '1972 osteoarthritis gaining focus as late-stage trials commence. We still view the current share price to be a compelling entry point given filgotinib blockbuster potential plus CF and broad pipeline optionality; reiterate Buy.**

**Pipeline rightfully gaining attention:** GLPG1690 is entering pivotal studies shortly and we see the value of GLPG's IPF assets gaining recognition as wholly owned for this Orphan disease. We forecast $850m WW 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 now ascribe a €5/share NPV assuming 20% probability of $3bn WW peak sales with partner Servier, noting GLPG still has all US rights.

**Accelerating cash burn well funded...attractive tax benefit:** We hike R&D spend to reflect the outlook as GLPG expects to run 13 Phase IIs this year. Net Cash c.€1.15bn at YE is more than sufficient to fund pipeline plans. Recent Belgian tax reform is positive for GLPG with the effective rate under "patent box" declining to 3.75% from 6.8%, which boosts our NPVs.

**Filgotinib catalysts coming:** 2H18E Phase III FINCH-2 RA data in patients post-biologics 2H18E, 2Q18E Phase II EQUATOR PsA data, and 4Q18E Phase II TORTUGA AS 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. We note partner Gilead recently updated timelines for Crohn's and ulcerative colitis trials suggesting enrollment by YE19E, hence we delay IBD launches into 2022E.

**CF remains acutely in focus:** Management remains confident the triple combo enters the clinic by end-1Q for initial data mid-18E. GLPG/AbbVie are likely lagging at least two years behind market incumbent Vertex, with its first triple starting Phase III. We ascribe €14/share NPV to CF assuming 30% likelihood of $3bn peak sales and 2023E first launch.

### Valuation/Risks

Our €115/$142 PT is based on a SOTP valuation comprising probability-adjusted NPVs for filgotinib, CF, GLPG1690 IPF and GLPG1972 OA 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. | 2017A | Prev. | 2018E | Prev. | 2019E | Prev. | 2020E |
|---|---|---|---|---|---|---|---|---|
| Rev. (MM) | *150.9* | 155.9 | *134.0* | 145.6 | *125.0* | 172.0 | *389.1* | 233.0 |
| EV/Rev | | 23.4x | | 25.0x | | 21.2x | | 15.6x |
| EBIT (MM) | *(82.1)* | (89.8) | *(133.0)* | (166.9) | *(179.0)* | (188.2) | *49.7* | (149.6) |
| EV/EBIT | | NM | | NM | | NM | | NM |
| Cash Position | *1,174.1* | 1,151.2 | *996.7* | 939.0 | *798.9* | 725.5 | *803.4* | 544.4 |
| **EPS** | | | | | | | | |
| FY Dec | *(2.04)* | (2.34) | *(2.52)* | (3.18) | *(3.30)* | (3.50) | *1.11* | (2.75) |
| FY P/E | | NM | | NM | | NM | | NM |
| **USD** | **Prev.** | **2017A** | **Prev.** | **2018E** | **Prev.** | **2019E** | **Prev.** | **2020E** |
| FY Dec | *(2.30)* | (2.64) | *(3.03)* | (3.92) | *(3.97)* | (4.31) | *1.34* | (3.39) |

**BUY**

Price target €115.00
(from €110.00)
Price €94.22^
ADR Price target $142.00
(from $130.00)
ADR Price $115.02^

Bloomberg BRU: GLPG NA
Bloomberg NASDAQ: GLPG

EQUITY RESEARCH EUROPE

| Financial Summary | |
|---|---|
| Net Debt (MM): | **(€1,151.2)** |
| Long-Term Debt (MM): | **€0.0** |
| Cash & ST Invest. (MM): | **€1,151.2** |

| Market Data | |
|---|---|
| 52 Week Range: | **€98.82 - €61.88** |
| Total Entprs. Value (MM): | **€3,644.6** |
| Market Cap. (MM): | **€4,795.8** |
| Shares Out. (MM): | **50.9** |
| Float (MM): | **42.8** |
| Avg. Daily Vol.: | **458,034** |

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**Price Performance**


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

# Galapagos

## Buy: €115 / $142 Price Target

THE LONG VIEW

## Scenarios

**Base Case**

- Lead product filgotinib underpins much of our valuation and remains the focus. We are encouraged by its competitive profile in the Phase IIb DARWIN arthritis (RA) studies and Phase II FITZROY Crohn's trial. Partner Gilead should maximise its commercial potential.
- Numerous other pipeline programmes could also crystallise value via possible milestones from existing alliances or new deals, in particular in cystic fibrosis, lung fibrosis (IPF), and osteoarthritis.
- Price Target €115/$142 per share/ADS largely comprising filgotinib, cystic fibrosis, GLPG1690 and GLPG1972 NPVs plus Net Cash.

**Upside Scenario**

- Successful Phase III trials for filgotinib in RA could add at least €14/share, with positive data in Crohn's and ulcerative colitis potentially adding c.€10/share
- Successful clinical progress with both the CF potentiator and correctors in a triple combination could add €5/share.
- Positive detailed Phase IIa FLORA results for GLPG1690 in idiopathic pulmonary fibrosis could add around €4/share.
- These potential catalysts could boost our NPV derived Price Target to c.€147/$181 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 trials could remove at least €48/share from our valuation.
- Efficacy and/or safety concerns in the filgotinib Phase III Crohn's or ulcerative colitis trials could remove at least €14/share from our valuation.
- Clinical setbacks or delays in cystic fibrosis could remove €14/share.
- Efficacy or safety concerns for GLPG1690 in IPF could remove at least €7/share
- These setbacks could reduce our NPV derived Price Target to c.€32/$39 per share/ADS.

## Investment Thesis / Where We Differ

- The c.€1.15bn Cash at YE 2017 should be more than sufficient to fund operations for the foreseeable future. Our cash burn forecasts exclude potential upsides from incremental deals.
- If successfully developed, Galapagos could commercialise GLPG1690 itself for the Orphan Disease IPF, which could provide a potentially lucrative long-term opportunity.

## Catalysts

- Start of first CF triple combination trial in CF patients during 1Q18E for initial results around mid-18E
- Filgotinib Phase IIb/III ulcerative colitis futility analysis in 1H18E, Phase III FINCH-2 RA results during 2H18E, Phase II EQUATOR results in psoriatic arthritis in 2Q18E, and Phase II TORTUGA data in ankylosing spondylitis by YE18E
- GLPG1690 advancing into pivotal trials in IPF during 2Q-3Q18E.
- Start of Phase IIb for GLPG1972 in osteoarthritis with partner Servier around 2Q18E

## Long Term Analysis

**Long Term Financial Model Drivers**

| **2017-22E Revenue CAGR** | **+27%** |
|---|---|
| 2017 Net Cash (€m) | 1,151 |
| 2018E Net Cash (€m) | 939 |
| 2019E Net Cash (€m) | 726 |



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# Reiterate Buy with PT +5% to €115

**Lead product filgotinib underpins the majority of our €115/share sum-of-the-parts valuation and remains the focus for investors. Gilead (GILD, $80, Buy) licensed global rights in December 2015 providing a partner to maximise the drug's commercial potential, after AbbVie (ABBV, $117, Buy) elected to opt-out in favour of prioritising its own JAK inhibitor upadacitinib. 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 (CF) collaboration with AbbVie should provide an abundance of catalysts for the stock as the first patient study of a triple combo begins for initial data mid-2018E. GLPG1690 for lung fibrosis (IPF) should enter pivotal trials shortly and could have significant commercial potential, with GLPG1205 nearing Phase II and GLPG3499 in Phase I for the same indication. GLPG1972 with partner Servier (private) for osteoarthritis could also be an underappreciated Phase II asset, in our view. Numerous other pipeline programmes could also crystallise value via possible milestones from existing alliances or new deals, and potentially drive positive share price momentum.**

## Cystic Fibrosis: Remains the story for 2018

In a global alliance with AbbVie, Galapagos is pursuing development of a triple combination of a potentiator plus two correctors for cystic fibrosis. We believe cystic fibrosis could be an incremental share price driver for Galapagos over the next 12 months but highlight the economics of 15%-20% royalties on sales suggests longer-term the value of this programme is likely overshadowed by filgotinib, the proprietary IPF portfolio, and GLPG1972 for osteoarthritis.

- **Peak sales forecast:** $3bn worldwide assuming launch in 2023E
- **Valuation:** €14 per share with a 30% probability of success
- **Next news flow:** Multiple clinical data read-outs for candidate correctors and potentiators before the start of the triple combination study in Class II CF patients around 4Q17E

Management is firmly committed to initiating by end-1Q18E the Phase Ib FALCON study of lead triple combination '2451+'2222+'2737 in Europe. We understand this trial in Class II CF patients will start with a dual potentiator '2451 plus early-stage corrector C1 '2222, before then adding late-stage corrector C2 '2737 to study the triple. No further details could be gleaned but we believe '2451 will be administered as a 35mg loading-dose then 1.5mg daily given its long half-life metabolite. Management confirmed interim data from this lead triple will be available by mid-year but would not be drawn on what measures/timepoints. The second triple '3067+'2222+'2737 has already been studied in healthy subjects with preparations now underway to move into patients in a global study by mid-year for data early-2019E. FDA does require three individual INDs for components of the triple before the combination can be studied in patients, with the third IND able to refer to the triple therapy.

Galapagos/AbbVie are likely lagging at least two years behind market incumbent Vertex (VRTX, $160, Buy), as it has recently begun the first Phase III with a triple combo. Importantly US FDA agreed to a 4-week primary efficacy endpoint and 12 weeks' safety for filing, with 24 weeks' data available during review and for EU/RoW. This suggests the first triple could be filed 1H19E and perhaps even reach the US market by YE19E, raising the bar for Galapagos/AbbVie to advance towards pivotal trials. Vertex also has a second triple combo expected to commence Phase III this year. Nevertheless, we still believe patients, physicians and payers would all support introduction of an alternative triple combination, even if it is challenging to demonstrate a superior clinical benefit.



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## Pivotal trial planning underway for '1690 in IPF

Phase IIa FLORA headline results of autotaxin inhibitor GLPG1690 were encouraging, with plans now underway to advance the drug into late-stage studies. We note the currently approved drugs Esbriet (pirfenidone) and Ofev (nintedanib) slow the rate of disease progression, hence the signal that GLPG1690 may stabilise lung function, if confirmed in longer-term studies, could be a significant benefit.

- **Peak sales forecast:** $850m WW in IPF assuming 2022E launches
- **Valuation:** c.€11 per share with a 30% probability of success
- **Next news flow:** Detailed Phase IIa FLORA results at an upcoming medical meeting likely ATS, 18-23 May 2018; Plans for future Phase III trials

The first Phase III study of GLPG1690 (autotaxin inhibitor) in idiopathic pulmonary fibrosis (IPF) is planned to start around March-April after concluding a meeting with FDA earlier this month and the European regulatory authority in the coming weeks. This trial will investigate '1690 in patients with stable disease on current standard-of-care, either Esbriet or Ofev, as an add-on therapy. Patients will be randomised 1:1 to a single 600mg daily dose or placebo for 12 months, with the primary endpoint ppFEV1. We understand dose-finding will be performed in the monotherapy Phase III study set to start during the summer, although patients will be allowed to down-titrate from 600mg in the combination trial if required. Final Phase III data are anticipated by 2020E, with interim futility analyses planned, suggesting our timing for filings around 2H21E may be overly conservative. Beyond GLPG1690, management emphasised Galapagos' goal to advance a portfolio of IPF drugs, with '3499 (undisclosed mechanism of action) entering Phase I soon and '1205 (GPR84 antagonist) moving directly into Phase IIa this year after it demonstrated encouraging efficacy in preclinical models. Recall '1205 previously failed in Phase IIa to treat ulcerative colitis.

## 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 ongoing.

- **Peak sales forecast:** $6bn with $3bn in RA, $600m in CD, $400m in ulcerative colitis (UC), and a $2bn cumulative contribution for other indications
- **Valuation:** c.€62 per share with a 65% probability of success
- **Next news flow:** Futility analysis of the Phase IIb/III SELECTION study in UC around 1H18E. Results from the Phase III FINCH-2 study in RA during 3Q18E, Phase II EQUATOR trial in psoriatic arthritis around 2Q18E, and Phase II TORTUGA study in ankylosing spondylitis by YE18E

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 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.



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## Filgotinib global sales and Gilead partnership model

### Table 1: Filgotinib global sales and Gilead partnership model

| (EUR millions Dec YE) | 2016A | 2017A | 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 ($mn)** | | | | **0.0** | **33.3** | **173.9** | **363.4** | **584.2** | **814.0** | **1,000.7** |
| | | | | | | | | | | |
| **WW Filgotinib RA Sales ($mn)** | | | | **0.0** | **126.9** | **419.9** | **880.3** | **1,489.4** | **2,002.7** | **2,388.4** |
| | | | | | | | | | | |
| 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%* | *0.0%* | *0.0%* | *0.9%* | *1.8%* | *3.0%* | *4.3%* |
| *Filgotinib Penetration of Patients Not on Biologics* | | | | *0.0%* | *0.0%* | *0.0%* | *1.5%* | *3.0%* | *5.0%* | *7.2%* |
| Filgotinib Patients (000s) | | | | 0.0 | 0.0 | 0.0 | 1.6 | 3.3 | 5.7 | 8.3 |
| Average Revenue per Patient p.a. | | | | $0 | $28,560 | $29,131 | $29,714 | $30,308 | $30,914 | $31,533 |
| **US Filgotinib CD Sales ($mn)** | | | | **0.0** | **0.0** | **0.0** | **48.8** | **101.5** | **175.9** | **261.5** |
| | | | | | | | | | | |
| 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%* | *0.0%* | *0.0%* | *0.9%* | *1.8%* | *3.0%* | *4.3%* |
| *Filgotinib Penetration of Patients Not on Biologics* | | | | *0.0%* | *0.0%* | *0.0%* | *1.5%* | *3.0%* | *5.0%* | *7.2%* |
| Filgotinib Patients (000s) | | | | 0.0 | 0.0 | 0.0 | 2.6 | 5.4 | 9.2 | 13.5 |
| Average Revenue per Patient p.a. (EUR) | | | | 0 | 12,500 | 12,500 | 12,500 | 12,500 | 12,500 | 12,500 |
| **Ex-US Filgotinib CD Sales (EURmn)** | | | | **0.0** | **0.0** | **0.0** | **32.5** | **67.0** | **115.0** | **169.2** |
| **Ex-US Filgotinib CD Sales ($mn)** | | | | **0.0** | **0.0** | **0.0** | **26.4** | **54.4** | **93.3** | **137.3** |
| | | | | | | | | | | |
| **WW Filgotinib CD Sales ($mn)** | | | | **0.0** | **0.0** | **0.0** | **75.2** | **155.8** | **269.3** | **398.8** |
| | | | | | | | | | | |
| 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%* | *0.0%* | *0.0%* | *1.8%* | *3.6%* | *6.0%* | *8.6%* |
| *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 | 0.0 | 0.0 | 1.2 | 2.5 | 4.3 | 6.4 |
| Average Revenue per Patient p.a. | | | | $0 | $28,560 | $29,131 | $29,714 | $30,308 | $30,914 | $31,533 |
| **US Filgotinib UC Sales ($mn)** | | | | **0.0** | **0.0** | **0.0** | **35.5** | **75.3** | **133.1** | **201.6** |
| | | | | | | | | | | |
| 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%* | *0.0%* | *0.0%* | *1.8%* | *3.6%* | *6.0%* | *8.6%* |
| *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 | 0.0 | 0.0 | 1.2 | 2.6 | 4.5 | 6.6 |
| Average Revenue per Patient p.a. (EUR) | | | | 0 | 12,500 | 12,500 | 12,500 | 12,500 | 12,500 | 12,500 |
| **Ex-US Filgotinib UC Sales (EURmn)** | | | | **0.0** | **0.0** | **0.0** | **15.4** | **32.1** | **55.7** | **82.7** |
| **Ex-US Filgotinib UC Sales ($mn)** | | | | **0.0** | **0.0** | **0.0** | **12.5** | **26.1** | **45.2** | **67.2** |
| | | | | | | | | | | |
| **WW Filgotinib UC Sales ($mn)** | | | | **0.0** | **0.0** | **0.0** | **48.0** | **101.3** | **178.3** | **268.8** |
| | | | | | | | | | | |
| **WW Filgotinib Other Indication Sales ($mn)** | | | | **0.0** | **0.0** | **0.0** | **46.8** | **171.8** | **432.4** | **839.5** |
| | | | | | | | | | | |
| **Gilead Collaboration** | | | | | | | | | | |
| **Galapagos Revenue for Profit Share in RA (EURmn)** | | | **0.0** | **(12.5)** | **(35.1)** | **(0.4)** | **36.1** | **67.8** | **117.3** | **157.3** |
| *% RA Sales in Other Territories Received as Royalties* | | | *0.0%* | *0.0%* | *20.0%* | *20.0%* | *20.0%* | *20.3%* | *20.8%* | *21.1%* |
| **Galapagos Royalties in RA (EURmn)** | | | **0.0** | **0.0** | **15.7** | **45.6** | **101.6** | **187.7** | **256.3** | **306.2** |
| **Galapagos Revenue for Profit Share in CD (EURmn)** | | | **0.0** | **0.0** | **0.0** | **(6.1)** | **(11.6)** | **(8.5)** | **(2.4)** | **2.5** |
| *% CD Sales in Other Territories Received as Royalties* | | | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *20.0%* | *22.5%* | *22.5%* | *23.3%* |
| **Galapagos Royalties in CD (EURmn)** | | | **0.0** | **0.0** | **0.0** | **0.0** | **8.3** | **20.5** | **37.2** | **59.9** |
| **Galapagos Revenue for Profit Share in UC (EURmn)** | | | **0.0** | **0.0** | **0.0** | **(3.0)** | **(6.0)** | **(4.6)** | **(1.6)** | **0.9** |
| *% UC Sales in Other Territories Received as Royalties* | | | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *20.0%* | *22.5%* | *22.5%* | *25.0%* |
| **Galapagos Royalties in UC (EURmn)** | | | **0.0** | **0.0** | **0.0** | **0.0** | **6.0** | **14.7** | **26.8** | **46.4** |
| **Galapagos Revenue for Profit Share in Other Indications (EURmn)** | | | **0.0** | **0.0** | **0.0** | **(26.3)** | **(55.4)** | **(45.8)** | **(23.4)** | **5.2** |
| *% Other Indications Sales in Other Territories Received as Royalties* | | | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *20.0%* | *22.5%* | *23.9%* | *25.0%* |
| **Galapagos Royalties in Other Indications (EURmn)** | | | **0.0** | **0.0** | **0.0** | **0.0** | **4.9** | **22.0** | **61.5** | **130.2** |
| Galapagos Revenue for Profit Share (EURmn) | | | 0.0 | (12.5) | (35.1) | (35.8) | (36.9) | 9.0 | 89.9 | 165.9 |
| Galapagos Royalties (EURmn) | | | 0.0 | 0.0 | 15.7 | 45.6 | 120.9 | 245.0 | 381.8 | 542.7 |
| **Galapagos Total Revenue (EURmn)** | | | **0.0** | **(12.5)** | **(19.3)** | **9.8** | **84.0** | **254.0** | **471.6** | **708.6** |
| Sales-related Milestones ($mn) | | | 0.0 | 0.0 | 0.0 | 0.0 | 150.0 | 0.0 | 150.0 | 150.0 |
| Filgotinib Development Milestones ($mn) | 360.0 | 10.0 | 25.0 | 100.0 | 200.0 | 0.0 | 300.0 | 0.0 | 0.0 | 0.0 |
| **Galapagos Milestones (EURmn)** | **325.5** | **8.9** | **20.3** | **81.2** | **162.3** | **0.0** | **365.3** | **0.0** | **121.8** | **121.8** |

Source: Jefferies estimates



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# Boosting Price Target +5% to €115

Our €115 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 €23 Net Cash per share.

**Table 2: 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 | 4,870 | 65% | 3,166 | 62.2 |
| CF Collaboration | Cystic fibrosis | 3,000 | 2,440 | 30% | 732 | 14.4 |
| GLPG1690 | Idiopathic pulmonary fibrosis | 850 | 1,785 | 30% | 535 | 10.5 |
| GLPG1972 | Osteoarthritis | 3,000 | 1,321 | 20% | 264 | 5.2 |
| Net Cash/(Debt) | | | 1,162 | 100% | 1,162 | 22.8 |
| **Valuation** | | | **11,578** | | **5,859** | **115.0** |
| Potential Dilution for Funding | Min. Yrs of Cash | 3.0 | | 0% | 0 | 0.0 |
| **Potential Diluted Valuation** | | | | | | **115.0** |

Source: Jefferies estimates

**Table 3: Sources of upside potential and downside risk**

| | Upside | EUR per share | Downside | EUR per share |
|---|---|---|---|---|
| filgotinib Phase III in RA | Positive data confirm profile | 14.3 | Efficacy and/or safety concerns | (47.8) |
| filgotinib Phase III in Crohn's & Ulcerative colitis | Positive data confirm profile | 9.6 | Efficacy and/or safety concerns | (14.3) |
| Clinical progress with CF triple combination | Encouraging Phase IIa data | 4.8 | Discontinued or delayed | (14.4) |
| GLPG1690 Phase IIa FLORA in IPF | Detailed data boost confidence | 3.5 | Efficacy and/or safety concerns | (7.0) |
| **Potential Upside/(Downside)** | | **32.2** | | **(83.5)** |
| **Potential Valuation** | | **147.2** | | **31.5** |

Source: Jefferies estimates



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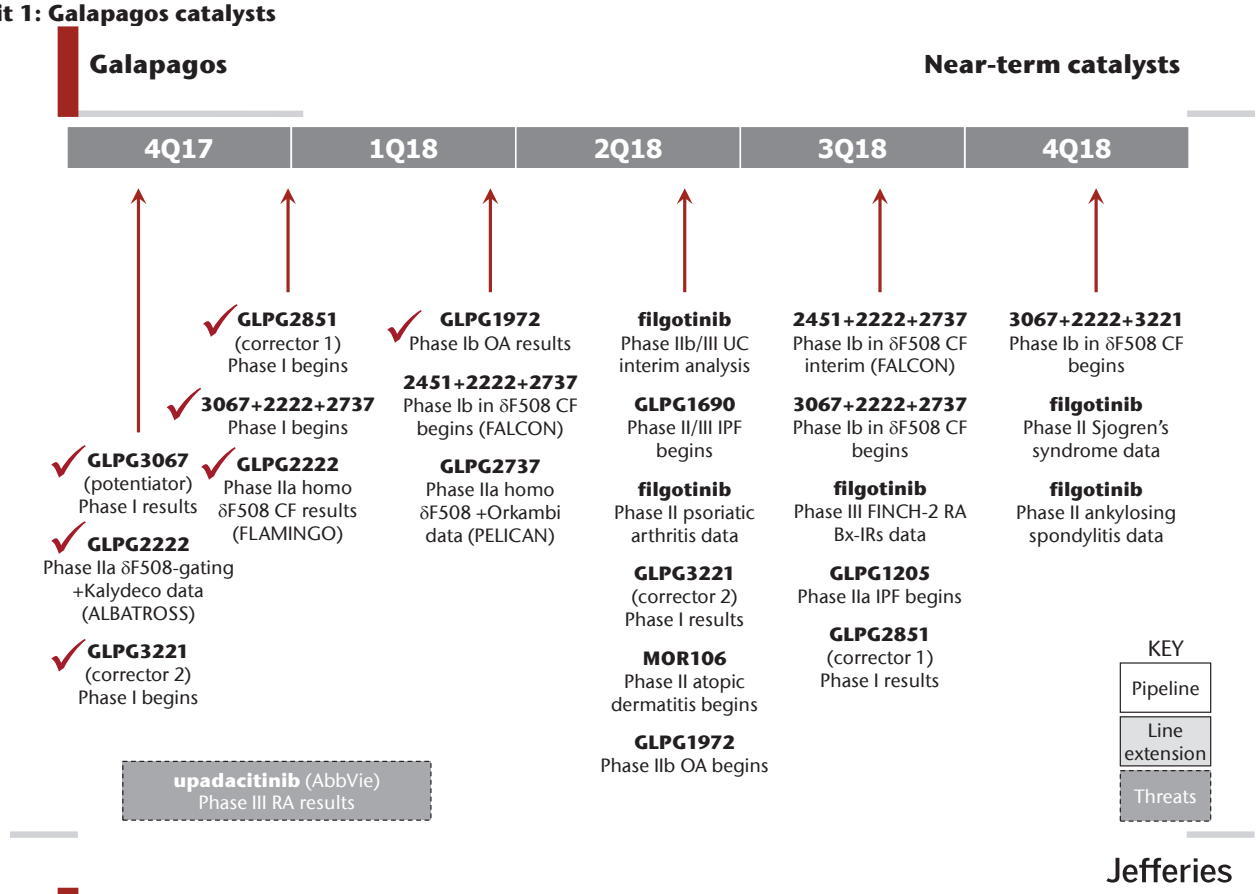
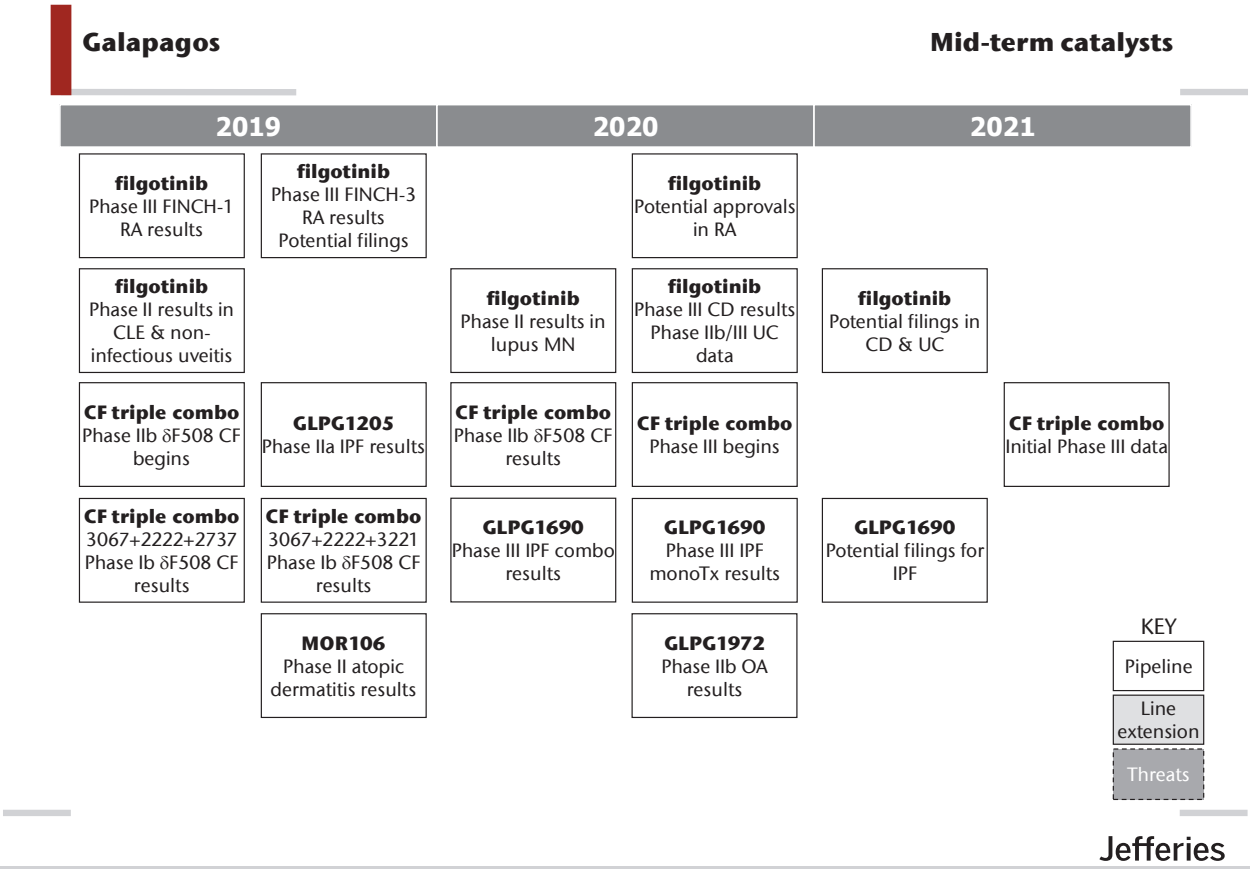
**Exhibit 1: Galapagos catalysts**




Source: Jefferies



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# Updated financial models

**Table 4: Galapagos Revenue Model**

| (EUR millions Dec YE) | 2017A | 2018E 1H18E | 2018E 2H18E | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|---|---|---|---|
| R&D Revenue | 127.1 | 48.7 | 73.0 | 121.6 | 162.8 | 232.9 | 2.0 | 366.3 | 0.0 |
| Other Income | 28.8 | 12.7 | 11.3 | 24.0 | 21.6 | 19.4 | 17.5 | 15.7 | 14.2 |
| filgotinib Royalties | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 15.7 | 45.6 | 115.9 | 222.9 |
| filgotinib Revenues for EU5-Benelux Profit Share | 0.0 | 0.0 | 0.0 | 0.0 | (12.5) | (35.1) | (9.5) | 18.5 | 54.8 |
| 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)** | **155.9** | **61.4** | **84.3** | **145.6** | **172.0** | **233.0** | **55.6** | **516.4** | **291.9** |
| **% Change Year over Year** | | | | | | | | | |
| R&D Revenue | (1.9%) | (20.1%) | 10.3% | (4.3%) | 33.9% | 43.0% | (99.1%) | 18213.0% | (100.0%) |
| Other Income | 30.5% | 5.1% | (32.6%) | (16.8%) | (10.0%) | (10.0%) | (10.0%) | (10.0%) | (10.0%) |
| filgotinib Royalties | n/a | n/a | n/a | n/a | n/a | n/a | 189.5% | 154.3% | 92.3% |
| Total Group Revenue (Prob. Adjusted) | 2.8% | (16.0%) | 1.7% | (6.6%) | 18.1% | 35.5% | (76.1%) | 829.1% | (43.5%) |

Source: Jefferies estimates, company data

**Table 5: Galapagos Margin Analysis**

| | 2017A | 2018E 1H18E | 2018E 2H18E | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|---|---|---|---|
| Gross Margin | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Sales & Marketing Expenses | 1.8% | 5.7% | 4.2% | 4.8% | 13.2% | 11.9% | 59.2% | 6.6% | 12.0% |
| General & Admin. Expenses | 15.7% | 21.1% | 17.3% | 18.9% | 17.4% | 13.9% | 62.3% | 7.1% | 13.2% |
| R&D Expenses | 140.1% | 203.8% | 181.5% | 190.9% | 178.8% | 138.4% | 561.9% | 65.3% | 125.8% |
| Operating Income | (57.6%) | (130.6%) | (102.9%) | (114.6%) | (109.4%) | (64.2%) | (583.4%) | 21.0% | (51.0%) |
| Pretax Profit | (74.1%) | (127.4%) | (100.6%) | (111.8%) | (105.3%) | (61.6%) | (574.4%) | 21.9% | (49.1%) |
| Net Income | (74.2%) | (127.4%) | (100.6%) | (111.8%) | (105.3%) | (61.6%) | (574.4%) | 21.9% | (49.1%) |

Source: Jefferies estimates, company data



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**Table 6: Galapagos Profit and Loss Model**

| (EUR millions except EPS Dec YE) | 2017A | 2018E 1H18E | 2018E 2H18E | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 155.9 | 61.4 | 84.3 | 145.6 | 172.0 | 233.0 | 55.6 | 516.4 | 291.9 |
| Cost of Sales | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross Profit | 155.9 | 61.4 | 84.3 | 145.6 | 172.0 | 233.0 | 55.6 | 516.4 | 291.9 |
| | | | | | | | | | |
| Total Operating Expenses | (245.7) | (141.5) | (171.0) | (312.5) | (360.1) | (382.7) | (379.9) | (408.1) | (440.7) |
| Sales & Marketing Expenses | (2.8) | (3.5) | (3.5) | (7.0) | (22.7) | (27.8) | (32.9) | (34.0) | (35.0) |
| General & Admin. Expenses | (24.4) | (12.9) | (14.6) | (27.5) | (30.0) | (32.4) | (34.6) | (36.7) | (38.6) |
| R&D Expenses | (218.5) | (125.1) | (152.9) | (278.0) | (307.5) | (322.5) | (312.3) | (337.4) | (367.1) |
| 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*** | ***(89.8)*** | ***(80.2)*** | ***(86.7)*** | ***(166.9)*** | ***(188.2)*** | ***(149.6)*** | ***(324.3)*** | ***108.3*** | ***(148.8)*** |
| **Adjusted Operating Income** | **(89.8)** | **(80.2)** | **(86.7)** | **(166.9)** | **(188.2)** | **(149.6)** | **(324.3)** | **108.3** | **(148.8)** |
| ***EBITDA*** | ***(85.5)*** | ***(77.9)*** | ***(84.4)*** | ***(162.3)*** | ***(183.4)*** | ***(144.6)*** | ***(319.5)*** | ***113.4*** | ***(142.7)*** |
| *Adjusted EBITDA* | *(85.5)* | *(77.9)* | *(84.4)* | *(162.3)* | *(183.4)* | *(144.6)* | *(319.5)* | *113.4* | *(142.7)* |
| | | | | | | | | | |
| Net Financial Income | (25.7) | 2.0 | 2.0 | 4.0 | 7.0 | 6.0 | 5.0 | 5.0 | 5.5 |
| Exceptionals | 0.0 | 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*** | ***(115.5)*** | ***(78.2)*** | ***(84.7)*** | ***(162.9)*** | ***(181.2)*** | ***(143.6)*** | ***(319.3)*** | ***113.3*** | ***(143.3)*** |
| **Adjusted Pretax Profit** | **(115.5)** | **(78.2)** | **(84.7)** | **(162.9)** | **(181.2)** | **(143.6)** | **(319.3)** | **113.3** | **(143.3)** |
| | | | | | | | | | |
| 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** | **(115.7)** | **(78.2)** | **(84.7)** | **(162.9)** | **(181.2)** | **(143.6)** | **(319.3)** | **113.3** | **(143.3)** |
| | | | | | | | | | |
| 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*** | ***(115.7)*** | ***(78.2)*** | ***(84.7)*** | ***(162.9)*** | ***(181.2)*** | ***(143.6)*** | ***(319.3)*** | ***113.3*** | ***(143.3)*** |
| **Adjusted Net Income** | **(115.7)** | **(78.2)** | **(84.7)** | **(162.9)** | **(181.2)** | **(143.6)** | **(319.3)** | **113.3** | **(143.3)** |
| | | | | | | | | | |
| WA Basic Shares (mn) | 49.5 | 51.2 | 51.2 | 51.2 | 51.7 | 52.2 | 52.7 | 53.2 | 53.7 |
| WA Shares Diluted (mn) | 49.5 | 51.2 | 51.2 | 51.2 | 51.7 | 52.2 | 52.7 | 54.8 | 53.7 |
| | | | | | | | | | |
| ***EPS (EUR)*** | ***(2.3)*** | ***(1.5)*** | ***(1.7)*** | ***(3.2)*** | ***(3.5)*** | ***(2.7)*** | ***(6.1)*** | ***2.1*** | ***(2.7)*** |
| **Adjusted EPS (EUR)** | **(2.3)** | **(1.5)** | **(1.7)** | **(3.2)** | **(3.5)** | **(2.7)** | **(6.1)** | **2.1** | **(2.7)** |
| Diluted EPS (EUR) | (2.3) | (1.5) | (1.7) | (3.2) | (3.5) | (2.7) | (6.1) | 2.1 | (2.7) |
| **Diluted Adjusted EPS (EUR)** | **(2.3)** | **(1.5)** | **(1.7)** | **(3.2)** | **(3.5)** | **(2.7)** | **(6.1)** | **2.1** | **(2.7)** |
| **Adjusted ADR EPS ($)** | **(2.6)** | **(1.9)** | **(2.0)** | **(3.9)** | **(4.3)** | **(3.4)** | **(7.5)** | **2.6** | **(3.3)** |
| | | | | | | | | | |
| **% Change Year over Year** | | | | | | | | | |
| Revenue | 2.8% | (16.0%) | 1.7% | (6.6%) | 18.1% | 35.5% | (76.1%) | 829.1% | (43.5%) |
| Cost of Sales | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Gross Profit | 2.8% | (16.0%) | 1.7% | (6.6%) | 18.1% | 35.5% | (76.1%) | 829.1% | (43.5%) |
| Total Operating Expenses | 50.7% | 33.6% | 22.3% | 27.2% | 15.2% | 6.3% | (0.7%) | 7.4% | 8.0% |
| Sales & Marketing Expenses | 57.0% | 221.1% | 104.3% | 149.7% | 223.6% | 22.7% | 18.5% | 3.2% | 3.2% |
| General & Admin. Expenses | 12.3% | 8.3% | 16.7% | 12.6% | 9.0% | 8.0% | 7.0% | 6.0% | 5.0% |
| R&D Expenses | 56.6% | 34.6% | 21.7% | 27.2% | 10.6% | 4.9% | (3.2%) | 8.0% | 8.8% |
| Operating Income | (681.6%) | (143.6%) | (52.4%) | (85.8%) | (12.7%) | 20.5% | (116.8%) | 133.4% | (237.3%) |
| Adjusted Operating Income | (681.6%) | (143.6%) | (52.4%) | (85.8%) | (12.7%) | 20.5% | (116.8%) | 133.4% | (237.3%) |
| Pretax Profit | (312.9%) | (59.0%) | (27.7%) | (41.0%) | (11.2%) | 20.7% | (122.3%) | 135.5% | (226.4%) |
| Adjusted Pretax Profit | (3473.9%) | (59.0%) | (27.7%) | (41.0%) | (11.2%) | 20.7% | (122.3%) | 135.5% | (226.4%) |
| Net Income | (314.2%) | (58.7%) | (27.5%) | (40.8%) | (11.2%) | 20.7% | (122.3%) | 135.5% | (226.4%) |
| Adjusted Net Income | (3237.4%) | (58.7%) | (27.5%) | (40.8%) | (11.2%) | 20.7% | (122.3%) | 135.5% | (226.4%) |
| EPS (EUR) | (297.8%) | (48.8%) | (26.4%) | (35.9%) | (10.1%) | 21.5% | (120.2%) | 135.2% | (225.2%) |
| Adjusted EPS (EUR) | (2982.2%) | (48.8%) | (26.4%) | (35.9%) | (10.1%) | 21.5% | (120.2%) | 135.2% | (225.2%) |

Source: Jefferies estimates, company data



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**Table 7: Galapagos Cash Flow Model**

| (EUR millions Dec YE) | 2017A | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|---|---|
| Operating Income | (89.8) | (166.9) | (188.2) | (149.6) | (324.3) | 108.3 | (148.8) |
| Depreciation and Amortisation | 4.3 | 4.6 | 4.8 | 5.0 | 4.8 | 5.1 | 6.1 |
| **EBITDA** | **(85.5)** | **(162.3)** | **(183.4)** | **(144.6)** | **(319.5)** | **113.4** | **(142.7)** |
| Other Adjustments and Exceptionals | 16.2 | 19.0 | 20.3 | 21.5 | 22.6 | 23.8 | 24.9 |
| Decrease/(Increase) in Inventories | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Decrease/(Increase) in Receivables | (27.7) | (1.3) | (2.2) | (5.0) | 14.6 | (37.9) | 18.5 |
| Increase/(Decrease) in Payables | 14.8 | 8.6 | 3.9 | 4.5 | (2.8) | 10.9 | 2.1 |
| Increase/(Decrease) in Deferred Income | (65.7) | (86.2) | (65.5) | (67.6) | 0.0 | 0.0 | 0.0 |
| Change in WC | (78.6) | (78.7) | (63.7) | (68.1) | 11.7 | (27.0) | 20.6 |
| Taxation Paid | (0.2) | (0.0) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest Paid | 1.1 | (1.0) | (1.0) | (1.0) | (1.0) | (1.0) | (1.0) |
| **Net Cash Flow from Operating Activities** | **(147.0)** | **(223.0)** | **(227.8)** | **(192.1)** | **(286.2)** | **109.2** | **(98.2)** |
| | | | | | | | |
| Purchase of Tangible Fixed Assets | (5.3) | (4.7) | (6.0) | (8.2) | (1.9) | (18.1) | (10.2) |
| Proceeds from Sale of PP&E | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Purchase of Intangible Assets | (2.1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| (Purchase)/Sale of Investments | 0.4 | 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 | 5.0 | 8.0 | 7.0 | 6.0 | 6.0 | 6.5 |
| **Net Cash Flow from Investing Activities** | **(7.1)** | **(4.7)** | **(6.0)** | **(8.2)** | **(1.9)** | **(18.1)** | **(10.2)** |
| | | | | | | | |
| Management of Liquid Resources | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital Changes | 353.4 | 10.5 | 12.3 | 12.3 | 12.3 | 12.3 | 12.3 |
| Debt Changes | (0.1) | (0.0) | 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** | **353.4** | **15.5** | **20.3** | **19.3** | **18.3** | **18.3** | **18.8** |
| | | | | | | | |
| Effect of FX on Cash and Cash Equivalents | (27.8) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | | | |
| **Increase in Cash** | **171.5** | **(212.2)** | **(213.5)** | **(181.1)** | **(269.9)** | **109.4** | **(89.7)** |
| | | | | | | | |
| **Change in Net Debt** | **(199.3)** | **217.2** | **221.5** | **188.1** | **275.9** | **(103.4)** | **96.2** |
| | | | | | | | |
| **(Cash Burn)** | **(154.1)** | **(227.7)** | **(233.8)** | **(200.3)** | **(288.1)** | **91.1** | **(108.4)** |

Source: Jefferies estimates, company data



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**Table 8: Galapagos Balance Sheet Model**

| (EUR millions Dec YE) | 2017A | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|---|---|
| **Non-current Assets** | **88.6** | **88.8** | **90.0** | **93.1** | **90.3** | **103.3** | **107.4** |
| Intangible Assets | 2.5 | 1.8 | 1.1 | 0.4 | 0.0 | 0.0 | 0.0 |
| Property, Plant and Equipment | 16.7 | 17.5 | 19.5 | 23.3 | 20.9 | 33.8 | 38.0 |
| Investments | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| Other Long-term Assets | 67.1 | 67.1 | 67.1 | 67.1 | 67.1 | 67.1 | 67.1 |
| | | | | | | | |
| **Current Assets** | **1,197.6** | **986.4** | **775.0** | **599.0** | **314.6** | **461.8** | **353.7** |
| Inventories | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade Accounts Receivable | 10.7 | 12.0 | 14.1 | 19.2 | 4.6 | 42.4 | 24.0 |
| Other Current Assets | 35.5 | 35.5 | 35.5 | 35.5 | 35.5 | 35.5 | 35.5 |
| Cash and Cash Equivalents | 1,151.2 | 939.0 | 725.5 | 544.4 | 274.5 | 383.9 | 294.3 |
| | | | | | | | |
| **Total Assets** | **1,286.3** | **1,075.2** | **865.0** | **692.1** | **404.9** | **565.1** | **461.1** |
| | | | | | | | |
| **Current Liabilities** | **171.7** | **121.4** | **127.4** | **66.1** | **63.2** | **74.1** | **76.3** |
| Trade Accounts Payable | 47.1 | 54.8 | 58.4 | 62.1 | 61.7 | 66.2 | 71.4 |
| Other Current Liabilities | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Accrued Expenses | 1.2 | 2.0 | 2.4 | 3.2 | 0.8 | 7.1 | 4.0 |
| Deferred Income | 122.5 | 63.7 | 65.8 | 0.0 | 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 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | | | |
| **Non-current Liabilities** | **102.6** | **75.2** | **7.6** | **5.8** | **5.8** | **5.8** | **5.8** |
| 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 | 97.3 | 69.9 | 2.3 | 0.6 | 0.6 | 0.6 | 0.6 |
| Long-term Provisions | 5.2 | 5.2 | 5.2 | 5.2 | 5.2 | 5.2 | 5.2 |
| | | | | | | | |
| **Total Shareholders' Equity** | **1,012.0** | **878.6** | **730.0** | **620.2** | **335.8** | **485.2** | **379.0** |
| Share Capital | 233.4 | 233.4 | 233.4 | 233.4 | 233.4 | 233.4 | 233.4 |
| Share Premium Account | 993.0 | 1,003.5 | 1,015.8 | 1,028.0 | 1,040.3 | 1,052.5 | 1,064.8 |
| Other Reserves and Adjustments | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Retained Earnings | (211.4) | (355.3) | (516.1) | (638.2) | (934.9) | (797.8) | (916.1) |
| | | | | | | | |
| Minority Interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | | | |
| **Total Liabilities and Shareholders' Equity** | **1,286.3** | **1,075.2** | **865.0** | **692.1** | **404.9** | **565.1** | **461.1** |

Source: Jefferies estimates, company data



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## Key changes to forecasts

**Table 9: Summary estimates changes for Galapagos**

| Forecasts (EURm) | 2018E New | 2018E Old | % Chg | 2019E New | 2019E Old | % Chg |
|---|---|---|---|---|---|---|
| **Sales** | 145.6 | 134.0 | +9% | 172.0 | 125.0 | +38% |
| **Adj. EBIT** | (166.9) | (133.0) | +25% | (188.2) | (179.0) | +5% |
| **Adj. EPS** | (3.18) | (2.52) | +26% | (3.50) | (3.30) | +6% |
| **Net Cash/(Debt)** | 939.0 | 996.7 | -6% | 725.5 | 798.9 | -9% |
| **Drivers of Change** | Changes to the top-line reflect revised milestone and deferred Revenue assumptions. Hiked R&D spend as GLPG intends to conduct 13+ Phase II trials this year and partner Gilead is investing heavily behind filgotinib. | | | | | |

Source: Jefferies estimates



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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)**

| | |
|---|---|
| Recommendation Published | , 13:24 ET. February 23, 2018 |
| Recommendation Distributed | , 00:00 ET. February 26, 2018 |

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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.

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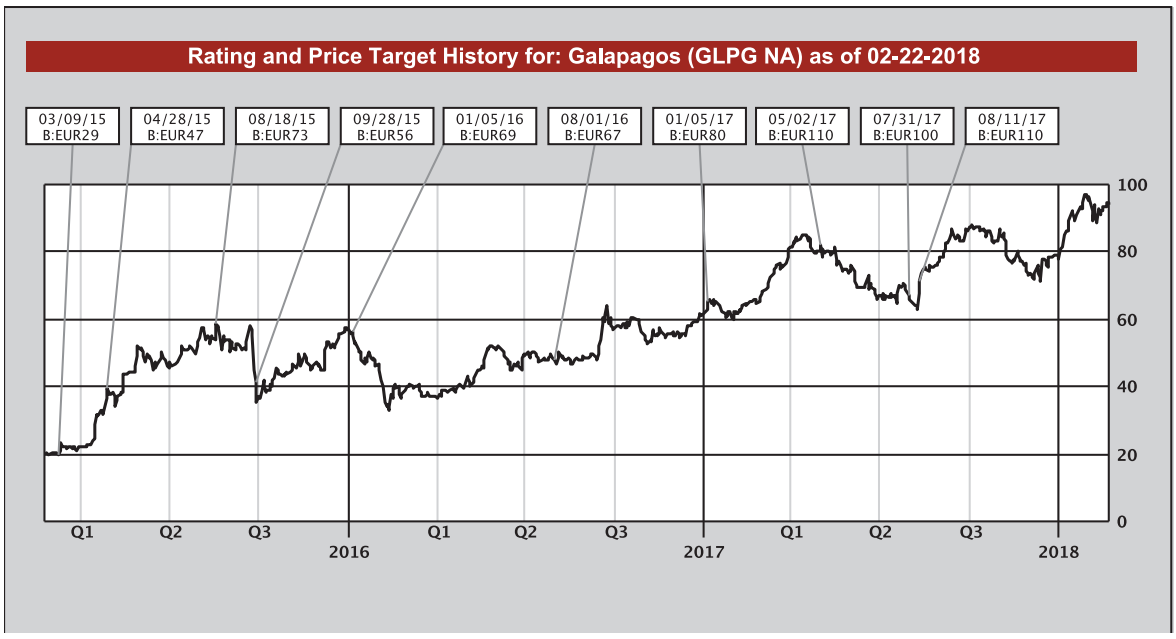
- Gilead Sciences, Inc. (GILD: $79.40, BUY)
- Vertex Pharmaceuticals Incorporated (VRTX: $157.59, BUY)



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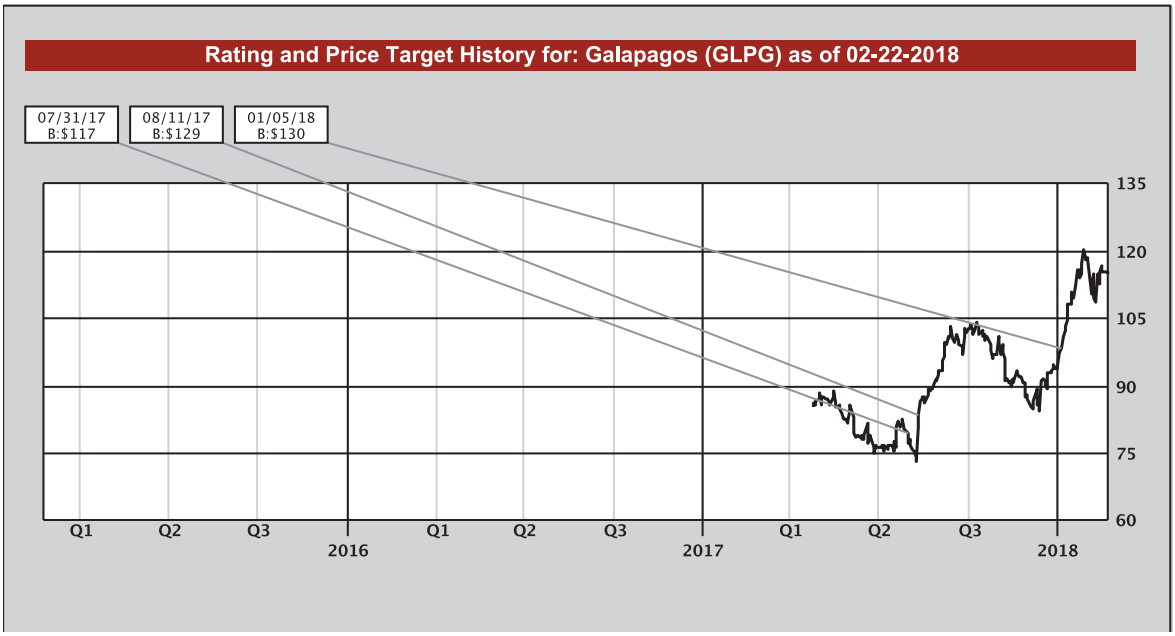


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Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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| | | | IB Serv./Past 12 Mos. | | JIL Mkt Serv./Past 12 Mos. | |
|---|---|---|---|---|---|---|
| Rating | Count | Percent | Count | Percent | Count | Percent |
| BUY | 1110 | 53.44% | 341 | 30.72% | 71 | 6.40% |
| HOLD | 826 | 39.77% | 167 | 20.22% | 22 | 2.66% |
| UNDERPERFORM | 141 | 6.79% | 20 | 14.18% | 3 | 2.13% |



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