

Equity Research

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Biotechnology

Galapagos N.V.

JNJ Buys a Call Option for JAK Development in IBD – TD-1473 will be a “Show Me Story”

On Wednesday before market open, JNJ (JNJ, Sell, \$110 PT) and Theravance (TBPH, Not Rated) announced a collaborative agreement to develop TD-1473 for the treatment of Crohn’s Disease and Ulcerative Colitis. Although TD-1473 is a JAK inhibitor, similar to filgotinib, the drug is unselective across the JAK isoforms and has also been designed to limit absorption to the GI tract. Overall, the dataset for TD-1473 is very limited, and across other efforts in IBD, unselective JAK’s and/or restricted absorption approaches have not fared well. **Furthermore, the structure of the deal is essentially a call option for JNJ to look at a Phase 2 dataset before committing to development – which we think was a smart move. We reiterate our Buy rating and \$118 PT.**

GLPG **\$112.13**

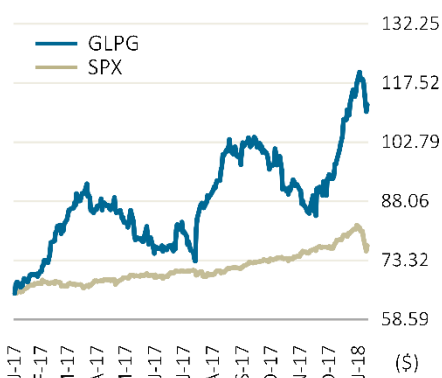
12 month target \$118.00

BUY

52 week range \$66.70 - \$120.23

Market Cap (m) \$5,704

Price Performance



Source: IDC

- ▶ **TD-1473 is an unselective pan-JAK inhibitor:** As we have written about numerous times, hitting JAK2 creates hematological toxicity problems for targeting auto-immune disorders, **with the most deleterious being DVT/ PE events associated with unselective JAK inhibitors such as baricitinib.** TD-1473 has potency across JAK isoforms, pKi values are 10 JAK1, 10 JAK2, 8.8 JAK3 and 9.5 for TYK2.
- ▶ **TD-1473 looks to circumvent toxicity issues by having restricted absorption outside of the GI tract:** In-human data is limited, but it does seem that the drug has preferred absorption within the colon. While restricted absorption may help the therapeutic window for Ulcerative Colitis, inflammation that occurs with Crohn’s is not limited to the colon. **Furthermore, mongersen recently failed in both indications, and used the restricted absorption premise as well.**
- ▶ **Clinical data for TD-1473 does not look published:** Theravance reported top-line results during August 2017, but we cannot find a formal presentation or publication from the Phase 1b study. At this point we could agree that TD-1473 seems to have activity based upon Mayo scoring, but a 10-patient study that lacks disclosure cannot provide any assessment of clinical effectiveness. **The company plans to start a Phase 2 program during 2H2018.**
- ▶ **Valuation:** Our \$118PT values GLPG at ~4x EV/ 2022E Sales.

Estimates

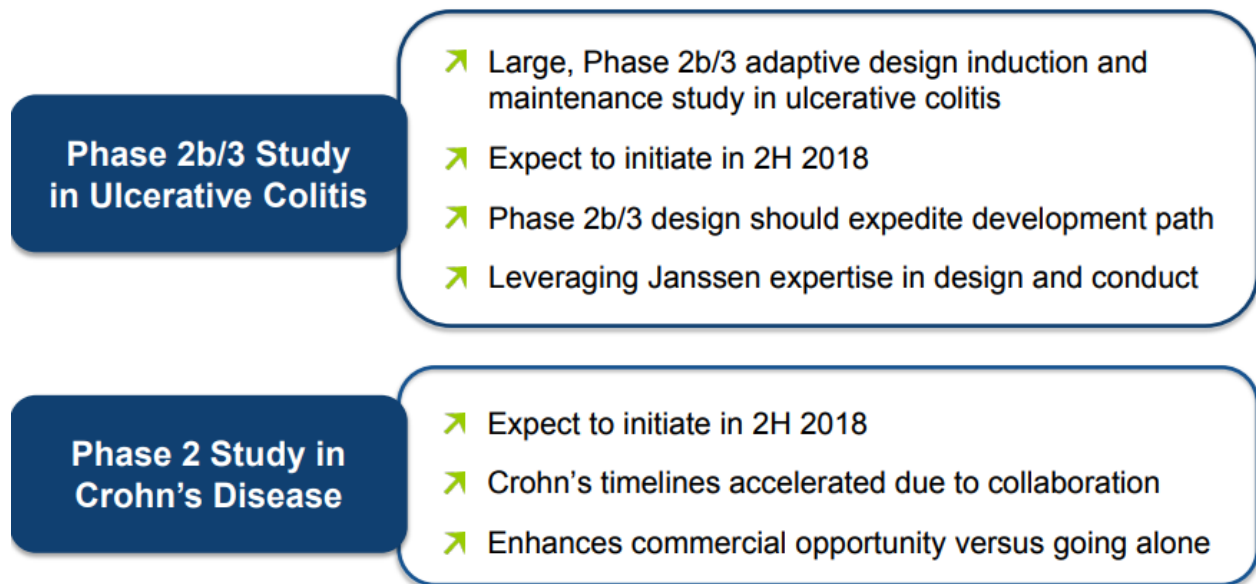
	1Q16 A	2Q16 A	3Q16 A	4Q16 A	FY16 A	1Q17 A	2Q17 E	3Q17 E	4Q17 E	FY17 E	FY18 E
Sales	15	34	16	87	152	40	0	0	0	0	0
EBITDA (Adj.)	0	0	0	0	0	(7)	(21)	(29)	(25)	(82)	(107)
Diluted EPS (Adj.)	0.00	0.00	0.00	0.00	0.00	(0.28)	(0.71)	(0.78)	(0.56)	(2.34)	(2.34)

Source: BTIG Estimates and Company Documents (\$ in millions, except per share amount)

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Figure 1. Development plan for TD-1473

➤ Complete Phase 1b Study Cohorts 2 and 3 in 1H 2018 to inform dose range for next phase of studies



Source: Company Reports, February 2018

Income Statement

Galapagos, Inc. Income Statement																
	2016E	Mar-17	Jun-17	Sep-17	Dec-17	2017E	Mar-18	Jun-18	Sep-18	Dec-18	2018E	2019E	2020E	2021E	2022E	2023E
EUR € mm		1Q17E	2Q17	3Q17	4Q17E		1Q18E	2Q18E	3Q18E	4Q18E						
Total Revenue	152	40	33	33	39	145	39	39	39	39	154	154	194	457	886	1663
Product Revenues		0	0	0	0	0	0	0	0	0	0	0	40	303	732	1509
Reimbursement Revenues	130	34	27	27	33	120	33	33	33	33	130	130	130	130	130	130
Other Income	22	6	6	6	6	24	6	6	6	6	24	24	24	24	24	24
Cost of Goods Sold	0.00	0	0	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-2	-15	-37	-75
Gross Profit	152	40	33	33	39	145	39	39	39	39	154	154	192	442	849	1588
Gross Margin %							100%	100%	100%	100%	100%	100%	99%	97%	96%	95%
Operating Expenses	-163	-51	-55	-63	-65	-234	-65	-66	-66	-67	-264	-269	-536	-815	-723	-1009
Research and Development	-140	-45	-48	-56	-57	-207	-58	-58	-58	-58	-232	-232	-410	-485	-512	-679
Research and Development % of Sales	1	1.127	145%	169%	149%	144%	151%	151%	151%	151%	151%	151%	1025%	160%	70%	45%
General and administrative expenses	-22	-6	-6	-6	-7	-24	-6	-6	-6	-7	-25	-26	-26	-27	-28	-28
G & A % of Sales	22%	0.141	19%	18%	17%	17%	15%	17%	16%	17%	16%	17%	14%	6%	3%	2%
Sales and marketing expenses	-2	-1	-1	-1	-1	-3	-2	-2	-2	-2	-7	-11	-100	-303	-183	-302
Sales and marketing % of Sales	2%	0.014	2%	2%	3%	2%	4%	4%	5%	5%	4%	7%	250%	100%	25%	20%
Operating Profit	-11	-11	-22	-30	-26	-89	-27	-28	-27	-28	-110	-115	-344	-373	126	579
Operating Profit Margin %	-8%	-28%	-65%	-89%	-69%	-61%	-70%	-72%	-71%	-73%	-71%	-74%	-178%	-82%	14%	35%
Fair value re-measurement of Share Sub Agreement	57	0	0	0												
Other financial income	10	1	1	1												
Other financial expenses	-2	-3	-15	-8		-27					0.00	0.00	0.00	0.00	0.00	0.00
Pretax Income	54	-14	-36	-37	-26	-112	-27	-28	-27	-28	-110	-115	-344	-373	126	579
Income Tax Provision	0	0	0	0												
Tax Rate	1%	0%	0%	0%												
Net Income	54	-14	-36	-37	-26	-112	-27	-28	-27	-28	-110	-115	-344	-373	126	579
Basic Shares Outstanding	45.06	46.26	48.04	45.53	47.05	46.72	47.05	47.05	47.05	47.05	47.05	47.05	47.05	47.05	47.05	47.05
Diluted Shares Outstanding	46.43	48.33	49.99	47.05	47.05	48.11	47.05	47.05	47.05	47.05	47.05	47.05	47.05	47.05	47.05	47.05
Basic EPS		-0.29	-0.74	-0.80	-0.56	-2.40	-0.57	-0.59	-0.58	-0.60	-2.34	-2.43	-7.32	-7.93	2.69	12.30
Diluted EPS		-0.28	-0.71	-0.78	-0.56	-2.34	-0.57	-0.59	-0.58	-0.60	-2.34	-2.43	-7.32	-7.93	2.69	12.30
Diluted EPS Growth % YoY																
Non-GAAP Adjustments																
GAAP EPS																
Share Price		\$83.46	\$76.52	\$101.75	\$102.77	\$102.77	\$103.80	\$104.83	\$105.88	\$106.94	\$106.94	\$111.28	\$115.80	\$120.50	\$125.40	\$130.49

Source: Company Reports, Bloomberg, BTIG Research Estimates, February 2018

BTIG Covered Companies Mentioned in this Report

GALAPAGOS N.V. (GLPG, Buy, \$118.00 PT; Current Price: \$112.13; Analyst: Dane.Leone)

JOHNSON & JOHNSON (JNJ, Sell, \$110.00 PT; Current Price: \$131.83; Analyst: Dane.Leone)

Appendix: Analyst Certification and Other Important Disclosures

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I, Dane Leone, CFA, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Zegbeh Jallah, PhD, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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Company Valuation and Risk Disclosures

Galapagos N.V. (GLPG, Buy, \$118.00 PT)

Valuation: Our \$118PT values GLPG at ~4.x EV/ 2022E Sales.

Risks: Our Buy rating and \$118 price target may prove inaccurate due to a number of risks related to Galapagos (GLPG) being an unprofitable early stage company with limited clinical data across the Cystic Fibrosis, Rheumatoid Arthritis, and Inflammatory Bowel Disease Portfolios.

Johnson & Johnson (JNJ, Sell, \$110.00 PT)

Valuation: Our ~\$110 Price Target is based on EV/ 2021E Sales and SOTP. Our model suggests that JNJ should trade at ~3.5x EV/ 2021E Sales.

Risks: Key Risks to our Sell Rating: Actelion deal produces more synergies than we currently anticipate, sales of new drugs are stronger than we currently model, and declining drug franchises do not decline as fast as we currently predict.

Johnson & Johnson (JNJ)



Note: Closing Price and Target Price have been adjusted for corporate actions.

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
29-Oct-15	101.03	115	Dane Leone	Buy
12-May-16	113.56	NA	Dane Leone	Neutral
21-Jul-17	133.01	110	Dane Leone	Sell

Other Disclosures

Additional Information Available Upon Request

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