**BUY**

**COMPANY UPDATE**

**Financial Summary**

| Changes | Previous | Current |
|---|---|---|
| Rating | — | Buy |
| Target Price | $188.00 | $298.00 |
| FY19A EPS | €3.28 | €2.49 |
| FY20E EPS | €(0.22) | €(1.61) |
| FY19A Revenue | €860.5 | €895.9 |
| FY20E Revenue | €495.0 | €643.3 |

| | |
|---|---|
| Price ( 02/21/20 ): | $274.03 |
| 52-Week Range: | $274 - $95 |
| Market Cap.(mm): | 17,812.0 |
| Shr.O/S-Diluted (mm): | 65.0 |
| Avg Daily Vol (3 Mo): | 140,222 |
| Dividend / Yield: | $0.00 / 0.0% |

| Revenue | 2018A | 2019A | 2020E |
|---|---|---|---|
| Q1 | €44.8 | €40.9 | €110.0 |
| Q2 | €57.0 | €67.6 | €110.5 |
| Q3 | €103.2 | €644.0 | €111.1 |
| Q4 | €112.8 | €143.2 | €311.7 |
| FY (Dec) | €317.8A | €895.9A | €643.3 |

| EPS | 2018A | 2019A | 2020E |
|---|---|---|---|
| Q1 | €(0.73) | €(0.89) | €(0.95) |
| Q2 | €(0.42) | €(0.86) | €(1.06) |
| Q3 | €0.28 | €5.83 | €(1.21) |
| Q4 | €0.27 | €(1.79) | €1.62 |
| EPS | €(0.56)A | €2.49A | €(1.61) |

**Price Performance**


# Shares Still Poised for Upside Despite Huge Move Post the GILD Deal; Increasing TP to $298

## Summary

Following GLPG's 4Q19 report, we reiterate our Buy and increase our TP to $298 from $188. With GILD fully behind GLPG, filgotinib (filgo) UC data approaching (2Q20), expected filgo RA approvals in US, EU and Japan (2H20), multiple P2 PoC read-outs in 2H20 (IPF, OA, SSc), anticipated Toledo program updates (including targets), and a huge balance sheet (>$6B cash) to dramatically accelerate the clinical pipeline (80 total clinical trials in FY20), we think GLPG still has upside despite the recent big move. Two changes to our model drove our TP increase: 1) we increased our assumed filgo price to match ABBV's Rinvoq; and 2) we increased our PoS for filgo in UC to 75% from prior 60%, since we believe the JAK class is likely effective here (Xeljanz is approved for UC). Filgo's best-in-class profile (lower DVTs; +Hb; +platelets) should support a solid RA launch and differentiate in other indications.

## Key Points

**GILD collaboration offers opportunity to realize GLPG's full potential.** In July 2019, GLPG and GILD entered into what we view as a transformational global R&D collaboration for the Company. The 10-year deal netted GLPG a $3.95B upfront payment and a $1.1B equity investment from GILD (holding 25.84% of GLPG shares now). We continue to view this collaboration as a win-win to both companies. The deal : **1)** keeps GILD (and likely other buyers) from acquiring GLPG in the next 10 years. And **2)** GLPG remains an independent and innovative company with its unique culture, and R&D platform. With a deep cash position (~$6.3B at FY19) and GILD support, GLPG is poised to expand and accelerate its research and clinical programs as well as its commercial presence.

**Fligotinib approval pending approval in the US EU and JP; GLPG currently ramping commercialization infrastructure in collaboration with GILD for potential launch in 2H20.** GILD filed for approval of filgotinib in the EU, US and JP based on FINCH 1 and 3 data (note) in RA. Management confirmed that the FDA has accepted the filing and classified it as a priority review, and GLPG expects the drug to enter the market after the summer of this year. In the meantime, GLPG has built up its commercial team in Benelux, France, Italy and Spain, which it believes will be cemented in the coming months in preparation for the launch of filgotinib in RA. Investors familiar with the story will recall that the debate around filgotinib has centered on whether it will be able to avoid a black box for thromboembolic events (TE), with management making its case for differentiated safety and an unmet need for sustained remission in RA patients. However, given the recent class label for TE (included in ABBV's JAK1 Rinvoq) we think the Street generally expects a black box for filgotinib – as do we. Nevertheless, we believe filgotinib's safety profile is clearly differentiated and best-in-class on TE – and the extent to which some of that safety language ends up in the label should allow for meaningful commercial differentiation and competitive advantage in the market.

**Data with filgotinib in UC coming in 2Q20; launch of P3 study with the drug in AS is expected in 1H20 (collab. with GILD).** The SELECTION P3 study in UC is on track to read out in 2Q20, with planned approval in FY21 followed by commercial launch in the Benelux, UK and Germany. GLPG plans to launch a P3 study of filgotinib in ankylosing spondylitis (AS) in 1H20. In September 2018, GLPG and GILD announced results of the P2 TORTUGA study evaluating filgotinib in adults with moderately to severely active ankylosing spondylitis (AS). Filgotinib treated patients achieved significantly greater improvements in AS Disease Activity Score (the primary endpoint) at Week 12 (mean change from baseline of -1.5 vs. placebo of -0.6; p<0.0001).

**Results from PINTA, NOVESA, and ROCCELLA remain on track for 2H20 --** ***Continued on the next page...***

**Adam A. Walsh**, M.D. | (617) 488-4626 | adamwalsh@stifel.com
**Edwin Zhang**, PhD | (212) 271-3787 | zhange@stifel.com
**Stifel Equity Trading Desk** | (800) 424-8870

***Investment Thesis***

*With the recent GILD partnership, GLPG is well-positioned to capitalize on its core drug discovery and development capabilities. We believe filgotinib has best-in-class safety that will prove a competitive advantage in the market and allow for meaningful penetration despite fourth to market status in RA. We think filgotinib also has significant potential in the IBD space, where oral compounds are likely to dominate the future treatment landscape. GLPG1690 has demonstrated potential in a P2, and P3 is progressing. The Toledo inflammation program remains opaque, but we are optimistic as we expect GILD examined the data in depth as part of its recent due diligence. We view GLPG as a well-funded, R&D productive, corporate partner validated, biotech player with a deep and broad pipeline and multiple significant value-creating milestones on the horizon.*

**Results from PINTA, NOVESA, and ROCCELLA remain on track for 2H20.** The second half of this year will provide us with multiple data readouts from the other candidates in GLPG's pipeline. We are expecting P2 data in 2H20 with 2 of its anti-fibrotic drugs. The PINTA trial (GLPG1205 in IPF) has finished enrollment (> 60 pts, 26wk study) and we estimate the data from this PoC study will readout in 3Q20. GLPG 1690 has received Orphan drug designation for treatment of cutaneous systemic sclerosis (SSc) in EU. NOVESA P2 trial in SSc is fully recruited with data in 2H20. We also await data from the ROCCELLA P2b trial with GLPG1972 in osteoarthritis (OA). The primary endpoint is reduction of cartilage loss measured by qMRI. Gilead has the option to pay a $250M fee to license GLPG1972 in the US after the completion of the P2b OA study – details regarding efficacy/safety requirements for GILD to opt in are so far sparse. However, if certain secondary efficacy endpoints are met, GILD would pay GLPG up to an additional $200M. In addition to ROCCELLA, management identified results from PINTA as a potential opt-in for GILD.

**ISABELLA GLPG1690 P3 IPF trial enrolling well.** To date, 600 patients have been enrolled and enrollment completion is expected by YE20. Futility analysis is on-track for read-out 1H21, after 33% of expected 1,500 patients reach 52 weeks of treatment. DSMB has been performing regular un-blinded safety analyses over time with no safety signal to date.

**Target in TOLEDO to be disclosed this year and first patient data YE20.** GLPG expects to launch multiple PoC studies in 2H20 – a P1 trial of GLPG4439 mentioned on the call – followed by topline patient data sets from GLPG3312 and GLPG3970 by the end of the year, at which point they will release information regarding the TOLEDO target to the public.

**Financial updates**: The company plans to invest heavily in R&D and to build-out commercial infrastructure in 2020, driving guidance for 2020 operational cash burn of €420-440M (including potential milestone payment from Gilead of ~$200m) for filgotinib approvals in RA. GLPG has an extremely strong balance sheet with €5.8B cash. Going forward, GLPG will recognize >€400M/year in deferred revenue in the next 4-5 years (then down to ~€200M per year after that).

**Target Price Methodology/Risks**

We arrive at our 12-month target price of $298 using a discounted cash flow (WACC 10%, terminal growth 1.5%). We probability-adjust our revenue projections for individual product candidates to reflect clinical, developmental and regulatory risks. We use a 10% WACC, which is in line with industry peers, to reflect inherent risk in biotechnology drug development. Our 1.5% terminal growth rate reflects drug patent expirations, partially offset by assumed new drug approvals to sustain steady-state CF.

Risks include: development, clinical, regulatory, manufacturing, commercial, competitive, financing, political, and volatility inherent to the sector.

**Company Description**

Galapagos is a clinical-stage biotechnology company specialized in the discovery and development of disease modifying, small molecule medicines with novel mechanisms of action. The pipeline includes clinical candidates focused on rheumatoid arthritis, inflammatory bowel disease, idiopathic pulmonary fibrosis, osteoarthritis, and atopic dermatitis. Lead assets include filgotinib (partnered with Gilead), GLPG1690 in IPF, and GLPG1972 in OA. Galapagos recently signed a transformational deal with Gilead that brought in significant cash and should allow for accelerated R&D. The Galapagos group, including fee-for-service subsidiary Fidelta, has approximately 460 employees, operating from its Mechelen, Belgium headquarters and facilities in The Netherlands, France and Croatia.

| **GLPG Income Statement** *(in 000s, except per share data)* | POS | FY 2016A | FY 2017A | FY 2018A | Mar 1Q19A | Jun 2Q19A | Sep 3Q19A | Dec 4Q19A | FY 2019A | Mar 1Q20E | Jun 2Q20E | Sep 3Q20E | Dec 4Q20E | FY 2020E | FY 2021E | FY 2022E | FY 2023E | FY 2024E | FY 2025E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Rheumatoid Arthritis (Filgotinib) | 95% | | | | | | | | | | | | | - | 57,748 | 219,495 | 519,772 | 838,672 | 911,704 |
| Crohn's disease (Filgotinib) | 50% | | | | | | | | | | | | | - | - | - | 11,340 | 114,446 | 186,242 |
| Ulcerative colitis (Filgotinib) | 75% | | | | | | | | | | | | | - | - | 8,583 | 68,331 | 123,993 | 181,247 |
| Psoriatic arthritis (Filgotinib) | 50% | | | | | | | | | | | | | - | - | 6,079 | 23,105 | 54,713 | 88,281 |
| Ankylosing spondylitis (Filgotinib) | 40% | | | | | | | | | | | | | - | - | 2,133 | 7,079 | 14,169 | 21,591 |
| IPF (Autotaxin) | 20% | | | | | | | | | | | | | - | - | - | 7,578 | 13,759 | 20,235 |
| Osteoarthritis (OA) | 15% | | | | | | | | | | | | | | | | - | 7,767 | 15,955 |
| Upfront/milestone pmts/other income | | 151,612 | **155,917** | **317,845** | **40,919** | **67,590** | **643,954** | **143,427** | **895,890** | **110,000** | **110,550** | **111,103** | **311,658** | **643,311** | **460,000** | **557,000** | **450,000** | **450,000** | **450,000** |
| **Total Revenue €** | | **€ 151,612** | **€ 155,917** | **€ 317,845** | **€ 40,919** | **€ 67,590** | **€ 643,954** | **€ 143,427** | **€ 895,890** | **€ 110,000** | **€ 110,550** | **€ 111,103** | **€ 311,658** | **€ 643,311** | **€ 517,748** | **€ 793,290** | **€ 1,087,204** | **€ 1,617,518** | **€ 1,875,255** |
| **Total Revenue $** | | **$163,826** | **$185,541** | **$378,235** | **$46,238** | **$76,377** | **$727,668** | **$162,072** | **$1,012,356** | **$121,000** | **$121,605** | **$122,213** | **$342,824** | **$707,642** | **$616,120** | **$944,015** | **$1,293,773** | **$1,924,847** | **$2,231,553** |
| COGS | | - | - | - | - | - | - | - | - | - | - | - | - | - | 5,775 | 23,629 | 63,720 | 116,752 | 142,525 |
| **Gross profit** | | 151,612 | 155,917 | 317,845 | 40,919 | 67,590 | 643,954 | 143,427 | 895,890 | 110,000 | 110,550 | 111,103 | 311,658 | 643,311 | 511,973 | 769,661 | 1,023,484 | 1,500,766 | 1,732,729 |
| R&D | | 139,573 | 218,502 | 322,876 | 83,195 | 94,372 | 120,680 | 129,073 | 427,320 | 137,050 | 143,903 | 152,537 | 163,214 | 596,703 | 626,539 | 651,600 | 677,664 | 704,771 | 725,914 |
| SG&A | | 23,529 | 27,218 | 39,776 | 10,966 | 17,586 | 32,643 | 37,083 | 98,278 | 37,100 | 38,213 | 40,124 | 42,531 | 157,968 | 164,286 | 169,215 | 174,291 | 179,520 | 184,906 |
| Income from co-promotion activities | | | | | | | | | | | | | | | 15,168 | 75,890 | 188,386 | 320,833 | 376,554 |
| Restructuring & integration costs | | | | | | | | | | | | | | | | | | | |
| **Total Operating Expense** | | 163,102 | 245,720 | 362,652 | 94,161 | 111,958 | 153,323 | 166,156 | 525,598 | 174,150 | 182,116 | 192,660 | 205,745 | 754,671 | 805,993 | 896,705 | 1,040,341 | 1,205,124 | 1,287,373 |
| **Operating income (loss) €** | | **11,491** | **(89,802)** | **(44,807)** | **(53,242)** | **(44,367)** | **490,631** | **(22,730)** | **370,292** | **(64,150)** | **(71,566)** | **(81,558)** | **105,913** | **(111,360)** | **(263,684)** | **24,736** | **359,914** | **937,309** | **1,198,463** |
| **Operating income (loss) $** | | **($15,651)** | **($106,864)** | **($53,320)** | **($60,163)** | **($50,135)** | **$554,413** | **($25,685)** | **$418,430** | **($70,565)** | **($78,722)** | **($89,713)** | **$116,504** | **($122,496)** | **($313,784)** | **$29,436** | **$428,297** | **$1,115,398** | **$1,426,171** |
| Fair value share of subscription agreement | | 57,479 | - | - | - | - | (142,349) | (39,295) | (181,644) | - | - | - | - | - | - | - | - | - | - |
| Financial income | | 9,950 | 3,663 | 18,335 | 6,999 | (1,349) | 34,755 | (18,923) | 21,482 | 4,500 | 4,410 | 4,322 | 4,235 | 17,467 | 45,023 | 40,018 | 37,254 | 36,971 | 40,992 |
| Financial expense | | (1,692) | (29,368) | (2,737) | (2,345) | (1,472) | (38,631) | (17,623) | (60,071) | (2,500) | (2,525) | (2,550) | (2,576) | (10,151) | (10,202) | (10,253) | (10,304) | (10,356) | (10,407) |
| **Net income (loss) before taxes** | | **54,246** | **(115,507)** | **(29,209)** | **(48,588)** | **(47,188)** | **344,405** | **(98,570)** | **150,059** | **(62,150)** | **(69,681)** | **(79,786)** | **107,573** | **(104,044)** | **(228,863)** | **54,502** | **386,864** | **963,924** | **1,229,048** |
| Income tax provision | | (235) | **(198)** | 50 | **68** | **61** | **(16,828)** | **16,913** | 214 | **100** | **100** | **100** | **100** | 400 | - | 3,706 | 26,307 | 65,547 | 83,575 |
| **Net income (loss) from continuing operations €** | | **54,012** | **(115,704)** | **(29,259)** | **(48,656)** | **(47,249)** | **361,233** | **(115,483)** | **149,845** | **(62,250)** | **(69,781)** | **(79,886)** | **107,473** | **(104,444)** | **(228,863)** | **50,795** | **360,557** | **898,377** | **1,145,473** |
| **Net income (loss) from continuing operations $** | | **$57,714** | **($137,688)** | **($34,818)** | **($54,981)** | **($53,392)** | **$408,193** | **($130,496)** | **$169,325** | **($68,475)** | **($76,759)** | **($87,875)** | **$118,220** | **($114,888)** | **($272,347)** | **$60,447** | **$429,063** | **$1,069,069** | **$1,363,113** |
| Net income from discontinued operations | | **-** | **(62)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Translation differences, other | | - | **(569)** | - | - | - | **238** | - | 238 | - | - | - | - | - | - | - | - | - | - |
| **Total comprehensive income (loss) to owners of the parent €** | | **54,012** | **(116,336)** | **(29,259)** | **(48,656)** | **(47,249)** | **361,471** | **(115,483)** | **150,083** | **(62,250)** | **(69,781)** | **(79,886)** | **107,473** | **(104,444)** | **(228,863)** | **50,795** | **360,557** | **898,377** | **1,145,473** |
| **EPS - continuing operations €** | | **€ 1.14** | **(€ 2.34)** | **(€ 0.56)** | **(€ 0.89)** | **(€ 0.86)** | **€ 5.83** | **(€ 1.79)** | **€ 2.49** | **(€ 0.95)** | **(€ 1.06)** | **(€ 1.21)** | **€ 1.62** | **(€ 1.61)** | **(€ 3.38)** | **€ 0.73** | **€ 5.02** | **€ 12.14** | **€ 15.02** |
| **EPS - continuing operations $** | | **$1.22** | **($2.78)** | **($0.68)** | **($1.01)** | **($0.97)** | **$6.59** | **($2.02)** | **$2.59** | **($1.05)** | **($1.17)** | **($1.33)** | **$1.78** | **($1.77)** | **($4.02)** | **$0.87** | **$5.97** | **$14.44** | **$17.88** |
| Shares outstanding (weighted average) | | 47,308 | 49,479 | 52,769 | 54,615 | 54,823 | 61,954 | 64,667 | 60,179 | 65,184 | 65,575 | 65,969 | 66,365 | 65,773 | 67,746 | 69,779 | 71,872 | 74,028 | 76,249 |

*Source: Stifel estimates and reported company data*



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**Galapagos NV (GLPG) as of February 21, 2020 (in USD)**


*Represents the value(s) that changed.
Buy=B; Hold=H; Sell=S; Discontinued=D; Suspended=SU; Discontinued=D; Initiation=I

**For a price chart with our ratings and target price changes for GLPG go to**
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**HOLD** -We expect a total return between -5% and 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

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The recommendation contained in this report was produced at 24 February 2020 02:34EST and disseminated at 24 February 2020 02:34EST.

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