

Equity Research

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Galapagos N.V. ADR (GLPG- \$117.78)

Rating: Overweight

Price Target: \$130.00

Physician Call Takes: Strong Filgotinib Data are Supportive of Opp'y in RA and Beyond

REV	1Q	2Q	3Q	4Q
2017A	—	—	—	—
2018E	44.8A	57.1A	103.2A	113.0A
2019E	87.0E	87.0E	14.0E	15.0E
2020E	—	—	—	—
EPS	1Q	2Q	3Q	4Q
2017A	—	—	—	—
2018E	(0.53)A	(0.62)A	0.26A	0.33A
2019E	(0.39)E	(0.50)E	(1.83)E	(1.89)E
2020E	—	—	—	—
FY	2017A	2018E	2019E	2020E
REV	127.1A	318.0A	21.0E	135.0E
EPS	(2.34)A	(0.57)E	(4.61)E	(6.98)E

Note: EPS and revenues in euros.

Investment Summary. We reiterate our OW and \$130 PT. The physician call on 3/29 (see below for replay) discussing the recent FINCH 1 & 3 data supports filgotinib's significant opportunity in RA. The physician we hosted, Philip Mease, was impressed by the Phase 3 data from filgotinib released last week, most notably the strong safety profile. He believes this differentiated safety profile has the potential to be a significant driver of uptake over competitors. He emphasized the commercial importance of how the sentiment in the physician community evolves around filgotinib's safety relative to other JAKs; he noted that, not just the phase 3 data, but also product labeling as well as marketing will be important in physicians' perception of safety and efficacy. In his practice, the physician noted very strong demand for oral products, thus we think the stronger efficacy and safety from a product like filgotinib could have wide appeal. We estimate the RA market is currently ~\$20B+ globally, and we currently forecast \$2.5B in peak RA filgotinib sales (2028) in our base case.

What drives upside from here for GLPG in 2019? We think earlier filing timelines in the US (e.g., without the full MANTA study) and competitor updates from upadacitinib have the potential to surprise to the upside for GLPG. We also think the strong data in RA bode well for the studies in other indications, e.g., in IBD (Phase 3 UC data expected mid-2020). From our conversations, we think many investors see GLPG as a potential M&A candidate.

Key Takes from our Physician Call:

- **Differentiated safety can unlock a significant market:** Infections, thrombosis and hemoglobin are some of the metrics the physician called out as being important to patients and prescribers. He noted he was impressed with the safety from filgotinib. On efficacy, the physician noted that most prescribers look at absolute response rates where he felt upadacitinib and filgotinib look largely similar.
- **Watching the labels will be important:** The physician noted the emphasis that RA prescribers place on the labels: we think differentiated safety labeling could drive even-larger uptake of filgotinib vs. other RA players. We will be closely looking at the upadacitinib label if approved later this year.
- **Immunogenicity of biologics supports a large market for orals because eventually patients progress on biologics.** The physician noted that average duration of treatment on any given biologic is ~1-1.5 years. He will usually cycle his patients on 1-2 TNFs before moving to another mechanism of action. Thus, even if the payers do position the TNFs or biosimilars ahead of JAKs (as the physician we hosted guessed the payers might), we think that, over time, there will be a large number of patients cycling onto JAKs.

Replay Information:

Dial-In #: 1 (888) 843-7419

Passcode: 4846 6741

Current Statistics

Market Cap (M)	\$6,433	Shares Out (M) :	54.6
ADV (3 mo.) :	79,791	52 Wk. Range	\$122.28 - \$85.00

Valuation

We use a probability adjusted DCF to value Galapagos shares. We assign a discount rate of 10% and a terminal growth rate of 0% in line with peers of similar size and R&D capacity.

Risks

Key risks to filgotinib include:

- Lack of efficacy in Phase 3 trials such as ulcerative colitis, Crohn's or psoriatic arthritis.
- Greater-than-expected competition commercially, either from additional JAK inhibitors, novel biologics, or biosimilar entrants.
- Testicular toxicity (only seen pre-clinically) is seen clinically with filgotinib.

Company Description

Galapagos is a clinical-stage biotechnology company. The company's lead asset, filgotinib, is partnered with Gilead (OW, covered by A. Young) and is in development for a variety of diseases in the inflammation and immunology (I&I) space such as rheumatoid arthritis, ulcerative colitis, and Crohn's, among many others. Other programs in development include the wholly owned idiopathic pulmonary disease (IPF) franchise, which has entered Phase 3.

Disclosures Appendix

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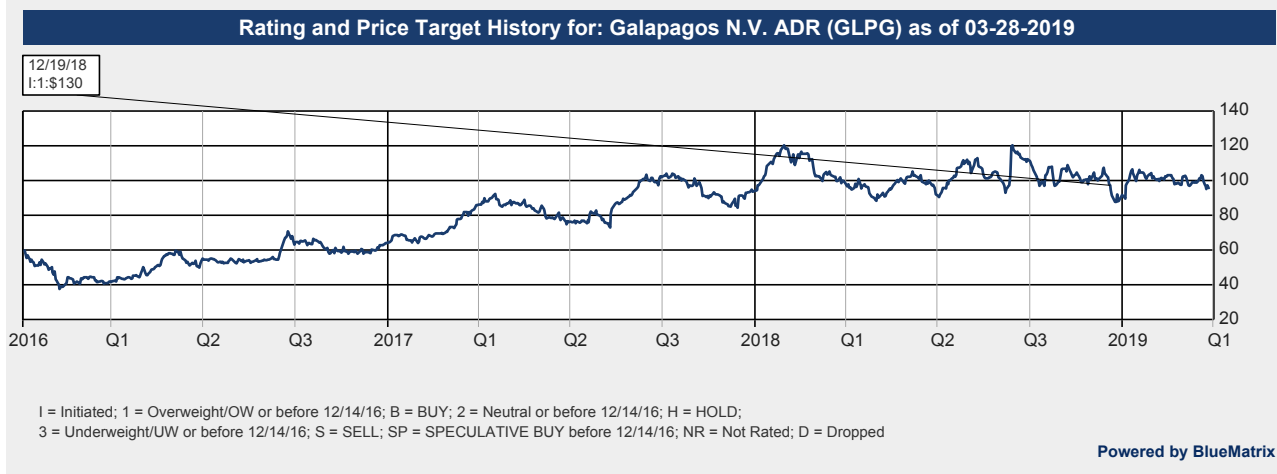
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Distribution of Ratings/Investment Banking Services (IB) as of 04/01/19

Rating	Cantor		IB Serv./Past 12 Mos.	
	Count	Percent	Count	Percent
BUY [1/B]	157	78.11	73	46.50
HOLD [2]	44	21.89	4	9.09
SELL [SL/3]	0	0.00	0	0.00



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