July 15, 2019

OUTPERFORM

Reason for report:

FLASH NOTE

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GALAPAGOS NV

Galapagos, Long Recognized as Technical Powerhouse, Rewarded with Independence

• **Bottom Line:** Everyone gets their cookies -- GLPG its independence; GILD an Immunology and inflammation (I&I) pipeline.

• **Terms of the agreement.** Under the agreement, GLPG will receive $3.95B upfront that will be recognized over the 10-year course of the agreement. GILD (MP) will also be making a $1.1B equity investment at €140.59 per share ($158.43 per ADS), raising ownership to 22% and will receive warrants that could increase ownership to 29.9% if exercised. GILD will also receive two seats on GLPG's board of directors. The filgotinib collaboration will be updated to give GLPG a 50/50 split of the economics and efforts in Germany, France, UK, Spain and Italy (previously 80/20 split) with global development costs also adjusted to an even share. GLPG remains eligible to receive the remainder of the $1.27B in potential milestones and 20-30% tiered royalties in ex-EU territories. For GLPG1690 in idiopathic pulmonary fibrosis (IPF), GILD will make a $325M milestone payment upon FDA approval in the U.S. For GLP1972 in osteoarthritis (OA), GILD will have the option to pay a $250M fee for U.S. licensing rights upon completion of the ongoing Phase 2b trial plus an additional $200M if certain secondary endpoints are achieved and with GLPG eligible to receive up to $550M in regulatory and commercial milestones. GILD will have a $150M opt-in option for any new drug developed by GLPG, with Phase 3 development expenses split evenly. GLPG is eligible to receive tiered royalties of 20-24% on commercial sales of all drugs except filgotinib.

• **Putting cash to best use.** The terms of this deal will allow GLPG to remain independent as they focus added resources on expanding an already world-class discovery platform. The additional cash will be used to boost GLPG's R&D efforts, with the company expected to roughly double the size of their R&D team from ~500 to ~1,000 employees. A specific focus will be accelerating development of the Toledo program, with GLPG management indicating plans to initiate as many as 8 Phase 2 programs in parallel that will seek to establish proof of concept across a suite of inflammatory diseases. GLPG also indicated their interest in reengaging their discovery platform to identify new targets for osteoarthritis, having already developed a certain amount of expertise and clinical engagement with the development of Phase 2b candidate GLPG1972.

• **Our Take.** Our value thesis for GLPG has always been a view of them as a technical powerhouse with heart, rather than on any one asset. Onno (van de Stolpe) and team have carefully built GLPG over two decades, focused intently on a "science first" mindset, and with a passion for standing up world class biotechnology in Europe. As a result of these values and drivers, the pipeline is enthusiastically pursuing difficult targets in white spaces, building, morphing and leveraging their carefully built in-house discovery and chemistry. GILD's "option to buy" further validates this thesis: commit to pipeline and science, leave the people alone, support infrastructure build-up in Europe and elsewhere. Why? Because building an organization is exceptionally hard, destroying it

Key Stats: **(NASDAQ: GLPG)**

Sector:	**Biopharma / Immunology & Metabolism**
S&P 500 Health Care Index:	**1,069.57**
Price:	**€145.75**
52 Week High:	€146.13
52 Week Low:	€85.00
Shares Outstanding (mil):	54.8
Market Capitalization (mil):	$7,987.1

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disarmingly easy. We met with a number of high-level non-executives at GLPG to understand where they come from, who they are and what drives them. Without exception, the experienced folks we met (either scientists or commercial executives) have come from successful careers at the "usual suspect" large pharmas, looking to replicate the heyday's of their career growth curves, building new franchises and introducing new medicines for patients; and a potential absorption of GLPG by GILD would have destroyed this talent migration, in our view. The decisions to go after autotaxin in IPF supported by one of the great translational medicine stories of our time, the pursuit of osteoarthritis and cartilage repair now recognized by the FDA as an urgent indication, the build-up across Toledo with the potential replication of the entire janus kinase inhibitor space with a new target/pathway, are testament to the people, the mindset, and the ambition, in our view. GILD's cash now provides GLPG freedom to operate, is far-sighted and will be transformative in ways we cannot measure presently, in our opinion. If the Toledo and the osteoarthritis programs are even a fraction of what we expect them to be, GLPG should continue to impress. Our model is currently under review. We rate GLPG Outperform.

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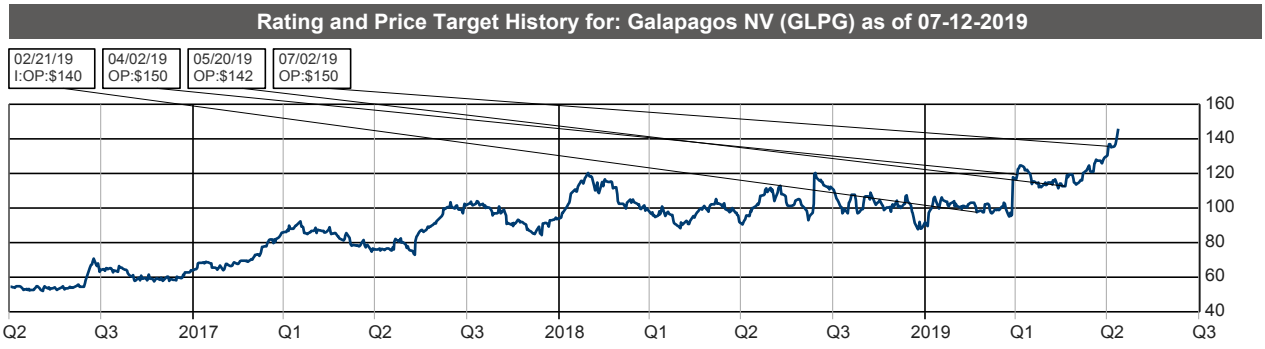
Disclosures Appendix

Analyst Certification

I, Pasha Sarraf, M.D., Ph.D., certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.



OP = Outperform MP = Market Perform UP = Underperform D = Drop Coverage I = Initiate SC = Suspended Coverage

Created by: BlueMatrix

Valuation

Our $150 PT was determined using a probability weighted scenario analysis. Individual scenario values were determined by sum of the parts valuation that applied a WACC calculated 11.9% discount rate and 2% terminal growth rate to revenues and cash flows projected into 2028. Revenues for each asset were adjusted independently twice: by probability of regulatory approval and by asset specific commercial profile.

A commercial probability distribution was determined based on a revenue weighted distribution of independent commercial scenarios projected for each drug candidate. GLPG1690 and filgotinib comprise a majority of the valuation. Galapagos held €1.2B in cash and cash equivalents as of the end of 1Q19. Pro forma cash was not applied to this valuation.

Risks to Valuation

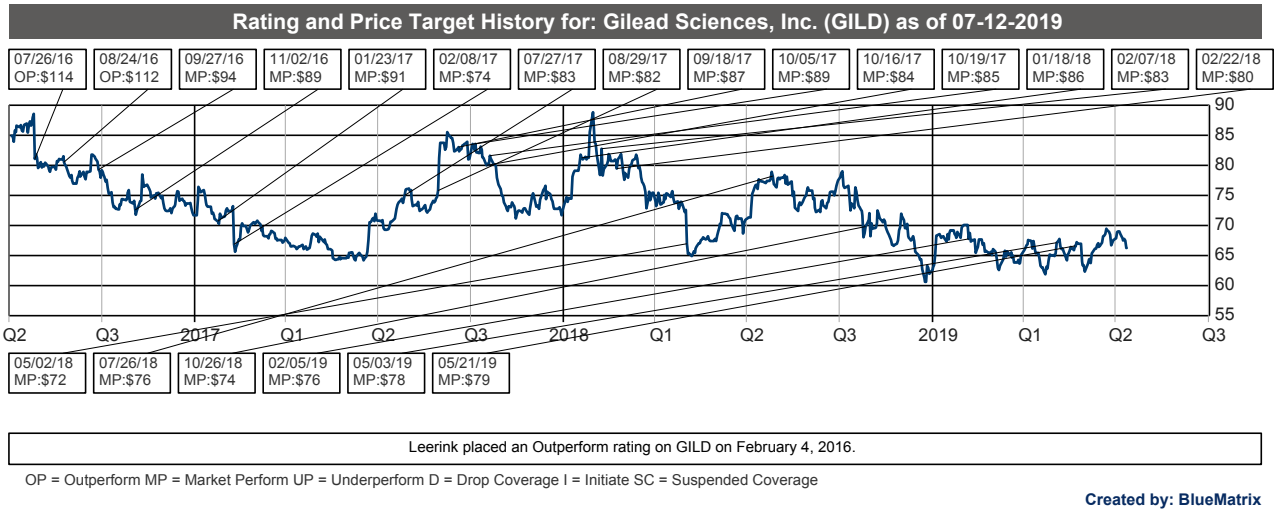
Risks to Valuation include the following:

Product Risk – One or more of the clinical trials for filgotinib or GLPG1690 may fail to meet its primary endpoint necessitating a deeper decision into continued development in that particular indication. Additionally, any safety issues that occur within one trial for filgotinib may read negatively across the entire filgotinib franchise.

Collaboration Risk – Multiple products within GLPGs pipeline, including filgotinib and MOR106 are being developed and will be marketed away from GLPG's control. This gives GLPG limited ability to address situational issues surrounding the success of these drugs.

Regulatory Risk – The FDA has previously indicated a belief in drug combinations as the likely future for IPF treatment. With this in mind, GLPG has pursued pivotal trial investigating GLPG1690 in combination with standard of care. While we believe this creates a safer path to approval, it nonetheless opens the door to potential competitors pursuing a path to approval as a monotherapy to significantly disrupt expectations for market competition

Financing Risk – GLPG currently has no revenue producing products on the market. Though well capitalized over the near term, negative outcomes for any of its asset franchises may significantly impact its ability raise funds in the future.



Valuation

Our $78 price target for Gilead Sciences, Inc. (GILD) is based on an average of four approaches that we believe are a reasonable basis for valuing the stock today. These approaches are trough price to earnings multiples for large cap, slow-growth medical products businesses long term; revenue multiples for large cap medical products stocks with slow growth outlooks; sum of the parts valuation for existing franchises; and discounted cash flow (DCF). Using a trough consensus forward earnings (2019E) multiple for slow-growth medical products stocks (AGN, ABBV,CELG, BIIB, AMGN) of 11.1x, applied to our 2020E EPS estimate for Gilead, gives a price of $79. Alternatively we apply a slow-growing, large-cap biopharma products (ABBV, AMGN, BMY, PFE, CELG, RHHBY, NVS) revenue multiple (4.0x) to 2020E revenue estimates to derive a 2019 implied value of $90bn, implying a one year price target of $70. Using a sum of the parts valuation for existing franchises, we get a price of $83, consisting primarily of a price of $65 for the company's HIV franchise and $6 for its HCV products. Lastly, our DCF uses our forecast of free cash flow through 2029E and then applies a -5% growth rate to our terminal cash flow forecast and discounts the values back to the present at a 7.7% WACC to give a present value of $78. The average of these four approaches is $78, which is our price target.

Risks to Valuation

The risks to our view, outlook, and valuation for Gilead include any major change in the labeling, price, or reimbursement coverage for the company’s existing HIV or HCV products, emergence of further aggressive price discounting, rebating, or other value erosion in the HIV and HCV categories, over and above our current forecast, or any failure of the company’s principal pipeline assets, selonsertib (NASH) and filgotinib (RA, IBD) to advance through development to commercialization. Opportunities for better performance and value than our expectations include delays or limitations in the development, profile, and adoption of competitive HIV products, successful development of underappreciated elements of the company’s portfolio, such as GS-9674 (FXR agonist), GS-0976 (ACC Inhibitor), or follow-on CAR-T indications and stronger-than-expected conversion of current HIV patients to Gilead’s next generation TAF-based HIV treatment regimens.

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Distribution of Ratings/Investment Banking Services (IB) as of 06/30/19				
			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [OP]	161	70.9	55	34.2
HOLD [MP]	62	27.3	2	3.2
SELL [UP]	4	1.8	0	0.0

Explanation of Ratings

Outperform (Buy): We expect this stock to outperform its benchmark over the next 12 months.

Market Perform (Hold/Neutral): We expect this stock to perform in line with its benchmark over the next 12 months.

Underperform (Sell): We expect this stock to underperform its benchmark over the next 12 months.

The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.

For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than $2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over $2 billion.

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Important Disclosures

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SVB Leerink LLC makes a market in Galapagos NV and Gilead Sciences, Inc.

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