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Galapagos NV GLPG.OQ GLPG US

EQUITY: AMERICAS BIOTECHNOLOGY

2Q Results: Awaiting Upa's Label

GILD Deal Sells Pipeline Risk: Upside in IBD, Upa Label, Toledo Target Disclosure

GLPG announced 2Q results, ending the quarter with a net loss of €0.86 per share and €1.148bn in cash (vs. €1.2bn 1Q19). GLPG is entitled to an upfront payment of $3.95bn (€3.55bn) and $1.1bn (€0.99bn) in equity investments from the GILD collaboration, expected to close before YE19 (note here). FY19 operational cash burn was reiterated at €320-340mn, excluding the GILD transaction. The transaction (discussed on p. 4 and in prior note) effectively monetized GLPG's early pipeline, some of which represents significant risk (e.g., '1690 IPF program that moved quickly into Ph3 on a small n from Ph1). However, we see the "takeout premium" coming out of GLPG, given a 10-year standstill provision in the agreement. We update our model for the GILD transaction. We increase our target price to $209 from $140 (see p. 4-5), now incorporating cash and adjusting for the passage of time. We also lower our discount rates on filgo programs, given regulatory feedback on MANTA. *Reiterate Buy.* Catalysts, p. 8; Pipeline updates, p. 6-7; Notes this qtr., p. 2.

- **3Q19**: **Potential Positive Catalysts on Back of Upa ADCOMM? Late Aug. PDUFA. Upa ADCOMM** (if at all, ABBV believes unlikely) could serve as a positive catalyst, highlighting key dose-related concerns for competitor Upa on DVT/PE black-box labeling. We note at EULAR, GILD/GLPG may have indicated their strategy to differentiate filgotinib's label (note here).
- **Filgotinib NDA Color on July 30 GILD Call – 3Q18 Filing . . . Launching 2H20.** We look to the GILD call for additional color on NDA timeline (rolling), MANTA data (though it seems none is required) and potential use of PRV, following recent FDA discussion. Recent note here.
- **R&D Day Nov. 14 to Highlight Cash Spend Plans but No Toledo Target.** Mgmt. indicated the Toledo target would be disclosed on the launch of Ph2 programs – until then, we do not anticipate significant value of Toledo to be incorporated into GLPG share price. Our view is that mgmt. should deploy capital to require or augment rights to non-GILD partnered assets, such as MOR106 (atopic derm) or '1972 with Servier.
- **Filgotinib Data in Focus – Catalysts and Pipeline List Page 6-8.** 2019 filgo Updates, Sjogren's/CLE P2 POC data 2H19, RA NDA 2H19. P3 PsA start 2H19. We view IBD as a lucrative/less competitive filgo market opportunity; P3 SELECTION trial for filgo in UC is fully enrolled, potential top-line data in 1H20. Xeljanz IBD launch details PFE July 30 earnings call.

Year-end: Dec	2018A	2019E			2020E		
EPS (€)	Actual	Prev.	Curr.	Cons.	Prev.	Curr.	Cons.
1Q	-0.73A	-0.89A	-0.89A	N/A	0.26E	0.60E	N/A
2Q	-0.42A	-1.11E	-0.86A	-0.59E	-1.67E	0.42E	N/A
3Q	0.28A	-1.05E	1.34E	-0.20E	-1.78E	0.27E	N/A
4Q	0.27A	-1.39E	0.65E	-0.33E	-1.80E	0.18E	N/A
Year	-0.56A	-4.45E	0.51E	-2.32E	-5.00E	1.48E	-2.77E
Cash & Equivalents (€000)	1,290,796	882,028	5,595,077	1,004,138	612,742	5,059,113	875,676

Source: Company data, FactSet, Instinet estimates

Key company data: See next page for company data and detailed price/index chart.

Instinet, LLC, Equity Research

26 July 2019

Rating Remains	**Buy**
Target Price Increased from 140.00	USD 209.00
Closing price 25 July 2019	USD 179.03
Potential upside	+16.7%

Research analysts

Americas Biotech

Christopher Marai, Ph.D. - ILLC
Christopher.Marai@Instinet.com
+ 1 212-310-5466

Jackson Harvey, Ph.D. - ILLC
jackson.harvey@instinet.com
+ 1 212 310 5453

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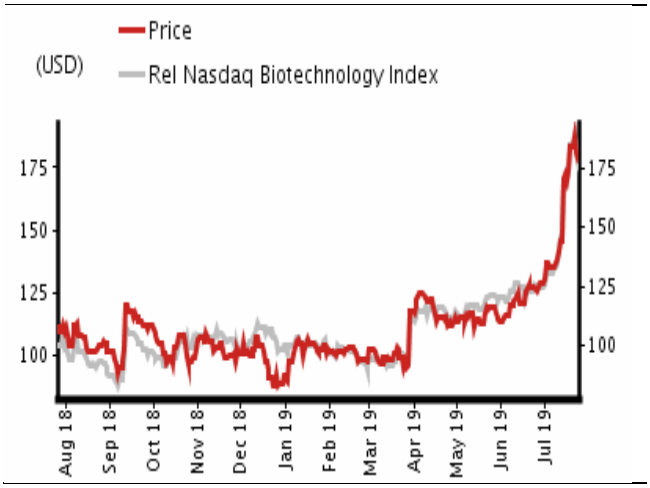
Key data on Galapagos NV

Rating

Stock	Buy
Sector	Not rated

Relative performance chart



Source: Thomson Reuters, Instinet research

Performance as of 25 July 2019

(%)	1M	3M	12M
Absolute	41.8	58.6	62.0
Relative to Nasdaq Biotechnology Index	44.2	61.0	74.7

Market data

Current Stock Price ($)	179.03
Market Cap ($mn)	9,777.7
52-week Low ($)	85.00
52-week High ($)	191.63
Shares Outstanding (mn)	54.62

Source: Thomson Reuters, Instinet research

Valuation

Year-end: Dec	2018A	2019E	2020E
EV/Sales (x)	14.8	10.7	14.8

Source: Company data, Instinet estimates

Summary Income Statement

Year-end: Dec; €000	2018A	2019E	2020E
Revenue	317,845	477,011	661,513
Income Tax	50	129	0
Net Income (adj.)	-11,027	56,583	134,270
GAAP EPS	-0.56	0.51	1.48
EPS (adj.)	-0.21	0.94	2.09
Diluted Shares (000)	54,397	59,915	64,127

Summary Balance Sheet

€000	2018A	2019E	2020E
Cash & Equivalents	1,290,796	5,595,077	5,059,113
PP&E	23,137	30,343	38,995
Total Assets	1,439,496	5,854,694	5,415,966
Total Debt	0	0	0
Total Liabilities	225,247	3,483,862	2,910,863
Shareholders' Equity	1,214,249	2,370,832	2,505,102
Total Liabilities & Equity	1,439,496	5,854,694	5,415,966

Summary Cash Flow Statement

€000	2018A	2019E	2020E
Cash from Operations	-142,466	3,221,427	-519,727
Change in Working Capital	-133,390	3,159,060	234,450
Cash from Investing	-15,914	-17,146	-16,238
Capital Expenditures	-10,392	-12,990	-16,238
Cash from Financing	287,876	1,100,000	0
Free Cash Flow	-156,182	3,204,281	-535,964

Other Metrics

	2018A	2019E	2020E
Enterprise Value (€000)	4,719	5,125	9,778

Source: Company data, Instinet estimates

Our Recent GLPG Notes

- EULAR: PsA and Filgos RA Label Advantage?
- FDA Meeting Sees Early NDA, More July 30
- Filgo Competitor Updates – PFE, LLY, INCY
- 1Q Results: Filgo Details on GILD Call May 2
- MANTA-Ray Filgo Safety Study Launched
- On the Road with Management
- FINCH Checks the Boxes, As Anticipated

Earnings Summary

Fig. 1: 1Q19 earnings summary
Actual vs. Consensus vs. Our Estimates

(in 000s, except for per share; GAAP)	Actual	Our Estimate
Total Revenues	**€ 67,590**	**€ 49,968**
R&D	94,372	91,515
SG&A	17,586	11,788
Operating Expenses	**111,958**	**103,303**
Operating Income	**(44,368)**	**(53,335)**
Earnings before taxes	**(47,189)**	**(60,757)**
Tax expense	61	-
Net Income	**(€ 47,250)**	**(€ 60,757)**
Diluted EPS	**(€ 0.86)**	**(€ 1.11)**

Source: Company data, Instinet estimates

Model Updates

Fig. 2: FY19E model estimates update
New Estimate vs. Previous Estimate

(in 000s, except for per share; GAAP)	Our Estimate	Previous Estimate
Total Revenue	**€ 477,011**	**€ 183,954**
R&D	370,322	361,628
SG&A	*64,447*	*50,634*
Operating Expenses	**434,769**	**412,262**
Operating Income	**42,242**	**(228,308)**
Net Financial income (expense)	(11,615)	(16,216)
Earnings before taxes	**30,626**	**(244,525)**
Tax expense	*129*	*68*
Net Income	**€ 30,497**	**(€ 244,593)**
Diluted EPS	**€ 0.51**	**(€ 4.45)**

Source: Instinet estimates

- GLPG reported cash & equivalents of €1.148bn as of the 2Q19 call.
- FY19 operational cash burn was reiterated at €320-340mn.

R&D Collaboration Highlights

Major new revisions to the GILD/GLPG collaboration are highlighted below:

Previous GILD/GLPG Deal: Filgotinib-Centric with GILD Taking Commercial Lead and 80:20 Cost Split. In 2016, GILD closed a licensing and collaboration agreement with GLPG for filgotinib. GILD has an exclusive, WW, royalty-bearing license for filgotinib and was primarily responsible for development and regulatory approval. GILD was responsible for 80% of costs incurred (and GLPG responsible for 20%). GILD made an upfront license fee payment of $300mn and a $425mn equity investment in GLPG (at the time, representing 14.75% of GLPG's outstanding share capital). GLPG was eligible to receive regulatory milestone-based payments of up to $755mn, sales-based milestone payments of up to $600mn, and tiered royalties on global net sales from 20-30% (with exception of certain co-promotion territories where profits would be split, which include the UK, Germany, France, Italy, Spain, the Netherlands, Belgium, and Luxembourg).

Current Revised GILD/GLPG Deal: Greater GLPG Involvement in Commercializing Filgotinib in Europe, and 50-50 Cost Split; GILD Now Has Rights to GLPG1690 (IPF, Ph3) and GLPG1972 (OA, Ph2b). The new collaboration agreement retains GILDs WW rights and co-development with GLPG in UK, Germany, France, Italy, and Spain. However, GLPG now has exclusive rights in the Netherlands, Belgium, and Luxembourg. In exchange for this expanded commercial role, GLPG will now have to split the costs 50-50 with GILD, instead of 20-80. Importantly, GILD now has rights to GLPG pipeline, including outright rights to GLPG1690 for idiopathic pulmonary fibrosis (IPF) and an option for rights on GLPG1972 for osteoarthritis (OA). If '1690 is approved, GILD will pay GLPG $325mn; if GILD exercises its option for '1972, GILD will pay $250mn after completion of the Ph2b in OA (and an additional $200mn, if certain secondary endpoints are met). GLPG would be eligible for $550mn in regulatory and commercial milestones if GILD opts in on '1972.

- Current deal now entitles GILD to rights and options on GLPG's pipeline (six programs beyond filgotinib in the clinic and 20 pre-clinical programs), including GLPG1690 in IPF and GLPG1972 in OA. Payments for opting in and milestone payments could add up to $750mn for GLPG.
- GLPG plans to use this money to invest in research, including doubling its current workforce (500 people to 1,000). GLPG retains a focus on Europe and will build a commercial infrastructure there.

Model and Target Price Updates

- GLPG will receive $3.95bn in an upfront payment that will close in 3Q19.
  - –This is recognized over 10 years.
- IPF U.S. rights now belong to GILD; we assume a 20% royalty rate to GLPG. GLPG still has EU rights. We now apply a 16x multiple to IPF royalties.
- The equity investment increases our share count estimate in one year's time to 64.2mn.
- Adjusted for 50:50 cost split and SG&A increase.
- We increase our target price to $209 from $140, incorporating cash and adjusting for the passage of time.
- We also lower our discount rates on filgo programs, given regulatory feedback on MANTA and plans for submission in RA.
- Our new valuation by sum of the parts (SOTP) is tabulated below and contrasted with our prior SOTP valuation.
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Fig. 3: Updated Sum of the Parts (SOTP) Valuation

Drug/Indication	Expected Launch	Peak Profit/Royalty Est ($MM)	Valuation Year Sales	Multiple	Discounted Asset Value	Value / Share	Discount Rate	Partner
Filgotinib - Profit Split EU Big 5								
RA	2020	$319	2025	6	$1,027	$16	15%	Gilead
UC	2021	$143	2025	6	$319	$5	25%	Gilead
Crohns	2021	$141	2025	6	$314	$5	25%	Gilead
PsA	2022	$109	2025	6	$147	$2	40%	Gilead
Sub Total		*$713*		*6*	*$1,806*	*$28*		
Filgotinib - US Royalties								
RA	2020	$357	2025	16	$3,063	$48	15%	Gilead
UC	2021	$157	2025	16	$931	$14	25%	Gilead
Crohns	2021	$159	2025	16	$941	$15	25%	Gilead
PsA	2022	$131	2025	16	$468	$7	40%	Gilead
Sub Total		*$803*			*$5,402*	*$84*		
Filgotinib (Total)	2020	$1,516	2025	6-16	$7,209	$112	15-40%	Gilead
GLPG1690 (IPF) - Royalty	2022	$407	2025	16	$1,457	$23	40%	Gilead
GLPG1972 (Osteoarthritis) - US Only	2023			Upside				Servier/Gilead
MOR106 - WW Royalties	2023			Upside				MOR/Gilead
Pipeline Value					**$8,665**	**$135**		
Net Cash 1 EURO = 0.877193 USD					***$4,438***	*$74*		
Total Equity Value						**$209**		
Diluted Shares Outstanding Used for Valuation (in 1 years time)							64.2	
Numbers may not add up due to rounding.								

Source: Instinet estimates

Fig. 4: Prior SOTP Valuation

Drug/Indication	Expected Launch	Peak Profit/Royalty Est ($MM)	Valuation Year Sales	Multiple	Discounted Asset Value	Value / Share	Discount Rate	Partner
Filgotinib - Profit Split EU Big 5								
RA	2020	$359	2025	6	$834	$15	20%	Gilead
UC	2021	$161	2025	6	$247	$4	30%	Gilead
Crohns	2021	$159	2025	6	$243	$4	30%	Gilead
PsA	2022	$123	2025	6	$128	$2	40%	Gilead
Sub Total		*$802*			*$1,453*	*$25*		
Filgotinib - US Royalties								
RA	2020	$297	2025	16	$1,842	$32	20%	Gilead
UC	2021	$157	2025	16	$642	$11	30%	Gilead
Crohns	2021	$159	2025	16	$649	$11	30%	Gilead
PsA	2022	$131	2025	16	$364	$6	40%	Gilead
Sub Total		*$744*			*$3,497*	*$61*		
Filgotinib (Total)	2020	$1,545	2025	6-16x	$4,950	$87	20-40%	Gilead
GLPG1690 (IPF)	2022	$1,273	2025	8	$1,770	$31	40%	Owned
GLPG1972 (Osteoarthritis) - US Only	2023			Upside				Servier
MOR106 - WW Royalties	2023			Upside				MOR/NVS
Pipeline Value					**$6,719**	**$117**		
Net Cash (YE:2019)					***$1,220***	*$23*		
Total Equity Value						**$140**		
Diluted Shares Outstanding Used for Valuation (MM, 4Q19E)							57.2	

Source: Instinet estimates

Pipeline Updates

Filgotinib FINCH 2 Results Published in JAMA on July 23

- GLPG published complete FINCH 2 results in rheumatoid arthritis (RA) in JAMA on July 23 (article here, editorial here).
  - See our prior note on the FINCH 2 data.
- GLPG/GILD recently announced FINCH 1 and FINCH 2 results, which forms the basis for their NDA.

In the editorial, the author drew attention to elevated aspartate rates (25.9% on 200mg filgo vs 12.2% on placebo) and creatine kinase (29.3% on 200mg filgo and 10.8% on placebo).

Filgotinib Regulatory Filings

- GILD will submit filgo for approval in RA in the U.S. in 2019, and European Submission is on track for 3Q19.
  - This is after a pre-NDA meeting with the FDA that included consideration of MANTA (NCT03201445) and MANTA-RAy (NCT03926195).
  - MANTA data does not appear to be a gating factor and is unlikely to significantly affect the potential label.
  - We note that GILD has one PRV remaining.
- GLPG anticipates approval of 100mg and 200mg dosing in RA, which is a differentiated feature of filgotinib's superior safety profile.

Other Filgotinib Trials

Filgotinib in Ulcerative Colitis: Ph3 SELECTION (NCT02914522) **Trial**

- Ph3 trial SELECTION has finished recruitment.
- Previously, the trial passed an interim futility analysis, where the DMC recommended the study proceed as planned at both the 100mg and 200mg once-daily dose in biologic experienced and biologic-naive patients.

We estimate data in 1H20

Filgotinib in Crohn's Disease: Ph3 DIVERSITY (NCT0291456) **Trial**

- The Ph2 study FITZROY supports the rationale with early efficacy data (presentation here, Lancet publication here and here).

Filgotinib in Sjogren (NCT03100942):

- The Ph2 has finished recruitment.
- **Data expected 2H19.**

The rationale in Sjogren is based on pre-clinical findings from GLPG.

Filgotinib in cutaneous Lupus (CLE) (NCT03134222)**:**

- Ph2 finished recruitment.
- **Data expected 2H19.**

Filgotinib in Psoriatic Arthritis (NCT TBD)

- Ph3 expected to start 2H19.
- EQUATOR Ph2 trial results were published in The Lancet (here) and presented at EULAR 2019 (our note here).

Filgotinib in Ankylosing Spondylitis (no active trials):

- TORTUGA Ph2 trial met primary endpoints; published in The Lancet here.

Inflammation Pipeline/TOLEDO Program

- **GLPG3312** is the first-generation Toledo compound:

– Ph1 readout in 2H19.
  - We believe it will be difficult to understand and interpret the Ph1 data without knowing the target and anticipated possible AEs; thus, we do not expect the Ph1 data to be a value-driving event.

- **GLPG3970** is a second-generation Toledo compound.
  – Ph1 to start in 2H19.
- **GLPG3121 (JAK1/TYK2) inhibitor:** the Ph1 trial was ***stopped*** owing to an undesirable PK profile.

The MOA of Toledo has not been disclosed for competitive reasons; GLPG will disclose more in 2020 after Ph2 trials have started.

GLPG1972 in Osteoarthritis

- P2b ROCELLA Trial fully recruited months ahead of schedule; top-line results in 1Q21.
- On May 1, 2019, GLPG presented at the Clinical Trial Symposium OARSI meeting in Toronto (presentation here).

MOR106 in Atopic Dermatitis

MOR106 is a monoclonal antibody that targets IL-17c

- GLPG and Morphosys announced the IGUANA (NCT03568071) Ph2 trial started in 2018; this is dosed IV.
- GLPG and Morphosys announced the The GECKO (NCT03864627) Ph2 trial in 2019; this is dosed subcutaneously (SQ):
  – Expecting SQ bridging top-line data 2H19.
- The Ph2 studies are supported by positive top-line results from a Ph1b study (presentation here).

GLPG1690 (autotaxin) in IPF

ISABELLA 1 (NCT03711162) and 2 (NCT03733444) Ph3 Trials for IPF

- GLPG indicated on the 2Q19 call that recruitment is “good,” and they plan to provide a timeline update later in 2019.
- The ISABELLA trial design was presented at ATS 2019 here.
- Allow for accrual of a large, controlled dataset to warrant broad label and utilization.
- Monotherapy P2a FLORA data supports potential efficacy in any setting, though combination with other IPF drugs may cause unexpected SAEs.
  – FLORA Ph2a data showed target engagement and favorable safety and tolerability.
- There will be a futility analysis in 2020E, based on both safety and efficacy.

During the conference call announcing the 10-year partnership with GILD, GLPG disclosed that unblinded safety data was shared with GILD prior to partnering. GILD has rights to GLPG1690 outside Europe, but will still pay $325mn milestone if approved in the U.S.

GLPG1690 in Systemic Sclerosis

- NOVESA (NCT03798366) Ph2 trial dosed first patient in 1Q19.
- GLPG will provide recruitment timeline **update in 2H19**.

GLPG1205 (GPR84 Inhibitor) in IPF

- GLPG1205 is in a Ph2 trial called PINTA (NCT03725852).
- GLPG will provide a timeline update in 2H19.
- GPR84 is a free fatty acid receptor on neutrophils and monocytes that respond to medium-chain free fatty acids and mediate chemotaxis and cytokine release.

Upcoming Potential Catalysts

• GLPG will host an R&D Day on November 14, 2019, in New York.

• ABBV's Upadacitinib possible ADCOMM in 3Q19 (est.).

Fig. 5: Upcoming Potential Catalysts

Time	Event	Impact	Drug	Indication	Phase	Program	NCT (or EU) #
Filgotinib (JAK inhibitor)							
2H19	**REGULATORY:** NDA Submission	+++	filgotinib	Rheumatoid arthritis	Rheumatoid arthritis	n/a	n/a
3Q19	**REGULATORY:** EU filing	++	filgotinib	Rheumatoid arthritis	Rheumatoid arthritis	n/a	n/a
2020	**REGULATORY:** ADCOM & Filgotinib Approval	+++	filgotinib	Rheumatoid arthritis	3	n/a	n/a
2H19	**DATA:** Testicular safety Data	+++	filgotinib	Ulcerative Colitis	2	MANTA	NCT03201445
1H20	**DATA:** Topline results	+++	filgotinib	Ulcerative Colitis	3	SELECTION 1	NCT02914522
2H19	**ENROLLMENT:** complete	+	filgotinib	Crohn's disease	3	DIVERSITY 1	NCT02914561
2020	**DATA:** Topline results	+++	filgotinib	Crohn's disease	3	DIVERSITY 1	NCT02914561
2H19	**INITIATION:** Initiate Ph 3	+	filgotinib	Psoriatic Arthritis	3	n/a	n/a
1H20	**INITIATION:** Initiate Ph 3	+	filgotinib	Anklyosing Spondylitis	3	n/a	n/a
2H19	**DATA:** Topline	++	filgotinib	Cutaneous lupus erythematosus	2	n/a	NCT03134222
2H19	**DATA:** Topline	++	filgotinib	Sjogren syndrome	2	n/a	NCT03100942
GLPG1690 (Autotaxin Inhibitor)							
2H19	**UPDATE**: timeline guidance	+	1690	Idiopathic pulmonary fibrosis	3	ISABELLA	NCT03711162, NCT03733444
2020 (est)	**ENROLLMENT:** Complete	++	1690	Idiopathic pulmonary fibrosis	3	ISABELLA	NCT03711162, NCT03733444
2020	**UPDATE:** Interim Futility Analysis - Go/No-Go	+++	1690	Idiopathic pulmonary fibrosis	3	ISABELLA	NCT03711162, NCT03733444
2021	**DATA:** Topline Data	+++	1690	Idiopathic pulmonary fibrosis	3	ISABELLA	NCT03711162, NCT03733444
2H19	**UPDATE:** recruitment update	++	1690	Systemic Sclerosis	2	NOVESA	NCT03798366
GLPG1205 (GPR84 inhibitor)							
4Q19	**ENROLLMENT:** Complete	+	1205	Idiopathic pulmonary fibrosis	2	PINTA	NCT03725852
GLPG1972 (ADAMTS5 inhibitor)							
YE19	**ENROLLMENT:** Complete	++	1972	Osteoarthritis (Knee)	2	ROCELLA	NCT03595618
2H20	**DATA:** Topline readout Ph2	+++	1972	Osteoarthritis (Knee)	2	ROCELLA	NCT03595618
MOR106 (anti- IL-17c mAb)							
2H19	**DATA:** SC. bridging topline	+	MOR106	Atopic dermatitis	2	GECKO	NCT03864627
2H19	**DATA**: topline readout	++	MOR106	Atopic dermatitis	2	IGUANA	NCT03568071
Toledo (not disclosed)							
2H19	**Data:** Topline PK/PD Data	++	3312, 1st gen	Healthy Volunteers	1	n/a	n/a
2H19	**INITIATION:** initiate Ph1	++	3970, 2nd gen	Healthy Volunteers	2	n/a	n/a

Source: , Company data; Instinet estimates

Financial Statements

Fig. 6: GLPG income statement

(€1000s, except per share data) [FY - Dec]	2018	1Q19A	2Q19A	3Q19E	4Q19E	2019E	1Q20E	2Q20E	3Q20E	4Q20E	2020E	2021E
US Filgotinib Royalties (RA)	0	0	0	0	0	0	0	0	2,850	6,649	9,499	83,377
EU Filgotinib Profits (RA)	0	0	0	0	0	0	0	0	0	1,998	1,998	81,893
		0	0	0	0		0	0	0	0		
US Filgotinib Royalties (UC)	0	0	0	0	0	0	0	0	0	0	0	18,142
EU Filgotinib Profits (UC)	0	0	0	0	0	0	0	0	0	0	0	0
		0	0	0	0		0	0	0	0		
US Filgotinib Royalties (Crohn's)	0	0	0	0	0	0	0	0	0	0	0	10,698
EU Filgotinib Profits (Crohn's)	0	0	0	0	0	0	0	0	0	0	0	0
		0	0	0	0		0	0	0	0		
US Filgotinib Royalties (PsA)	0	0	0	0	0	0	0	0	0	0	0	0
EU Filgotinib Profits (PsA)	0	0	0	0	0	0	0	0	0	0	0	0
Total Filgotinib Royalties/Profit Share	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**2,850**	**8,647**	**11,497**	**194,109**
R&D revenue	288,836	33,047	58,738	187,113	163,375	442,273	153,500	153,500	153,500	153,500	614,000	395,000
Other Income	29,009	7,872	8,852	9,737	8,277	34,738	7,863	8,649	9,514	9,990	36,016	36,196
Total Revenues	**317,845**	**40,919**	**67,590**	**196,850**	**171,652**	**477,011**	**161,363**	**162,149**	**165,864**	**172,137**	**661,513**	**625,305**
Costs & Expenses:												
Cost of Goods Sold	0	0	0	0	0	0	0	0	0	0	0	19,411
R&D	322,876	83,195	94,372	89,653	103,101	370,322	103,101	110,834	121,917	131,061	466,914	443,568
G&A	35,631	10,966	13,711	15,082	20,813	60,572	20,813	22,374	24,612	27,073	94,872	111,030
Sales and Marketing	4,147	0	3,875	0	0	3,875	0	0	0	0	0	0
Belenux Region revenues	0	0	0	0	0	0	0	0	0	444	444	16,379
Total Operating Expenses	**362,653**	**94,161**	**111,958**	**104,736**	**123,915**	**434,769**	**123,915**	**133,208**	**146,529**	**158,578**	**562,230**	**590,388**
Operating Income	**(44,808)**	**(53,242)**	**(44,368)**	**92,115**	**47,737**	**42,242**	**37,448**	**28,941**	**19,335**	**13,559**	**99,282**	**34,917**
Financial Income	18,335	4,655	(1,349)	1,549	1,452	6,307	7,693	7,274	6,714	6,294	27,975	25,296
Financial Expense	(2,736)		(1,472)	(8,400)	(8,050)	(17,922)	(6,794)	(9,100)	(8,400)	(8,050)	(32,344)	(24,258)
Other Income (Expense)	0					0					0	0
Pretax Income (Loss)	**(29,209)**	**(48,588)**	**(47,189)**	**85,264**	**41,139**	**30,626**	**38,347**	**27,114**	**17,649**	**11,803**	**94,914**	**35,955**
Income tax expense (Benefit)	50	68	61	0	0	129	0	0	0	0	0	0
Net Income (Loss) as reported GAAP	**(29,259)**	**(48,656)**	**(47,250)**	**85,264**	**41,139**	**30,497**	**38,347**	**27,114**	**17,649**	**11,803**	**94,914**	**35,955**
Basic Earnings Per Share as reported	(€ 0.56)	(€ 0.89)	(€ 0.86)	€ 1.37	€ 0.66	€ 0.52	€ 0.61	€ 0.43	€ 0.28	€ 0.19	€ 1.50	€ 0.57
Diluted Earnings Per Share GAAP	**(€ 0.56)**	**(€ 0.89)**	**(€ 0.86)**	**€ 1.34**	**€ 0.65**	**€ 0.51**	**€ 0.60**	**€ 0.42**	**€ 0.27**	**€ 0.18**	**€ 1.48**	**€ 0.56**
Basic Shares Outstanding (th)	52,125	54,615	54,888	62,162	62,473	58,535	62,785	63,099	63,415	63,732	63,258	63,384
Diluted Shares Outstanding (th)	**54,397**	**56,117**	**56,260**	**63,561**	**63,723**	**59,915**	**63,884**	**64,046**	**64,208**	**64,369**	**64,127**	**64,246**

Source: Company data, Instinet estimates

Fig. 7: Cash Flows

(€1000s, except per share data) [FY - Dec]	2018	2019E	2020E	2021E
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (Loss)	(29,259)	30,497	94,914	35,955
Adjustments				
Tax income/expenses	(8)	0	0	0
Other net financial income	3,495	0	0	0
Depreciation and amortization	0	5,784	7,586	9,749
Net realized loss for foreign exchange transaction	16,696	0	0	0
Stock based compensation	0	26,086	39,356	41,327
Change in assets and liabilities:				
Increase/decrease in provisions	0	0	0	0
Increase pension liabilities	0	0	0	0
Inventories	0	(7,155)	(25,920)	1,810
Account receivables	0	(76,793)	(36,900)	7,242
Prepaid expenses & other assets	0	(15,607)	(25,763)	(12,917)
Accounts payable and accrued expenses	0	(2,409)	19,502	4,308
Interest paid	0	0	0	0
Interest received	0	0	0	0
Income taxes paid/received	0	0	0	0
Deferred revenues & other	(133,390)	3,261,024	(592,500)	(474,000)
Net cash provided by (used in) operating activities	**(142,466)**	**3,221,427**	**(519,727)**	**(386,527)**
Purchase of and expenditure of intangible fixed assets	(3,325)	(4,156)	0	0
Proceeds from disposal of PPE	1	0	0	0
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of shares, net cost	280,224	1,100,000	0	0
Exercise of options	7,657	0	0	0
Repayment obligations under finance and other debt	(5)	0	0	0
Repurchase of common stock	0	0	0	0
Other	0	0	0	0
Net cash provided by financing activities	**287,876**	**1,100,000**	**0**	**0**
Net increase in cash and cash equivalents	139,585	4,304,281	(535,964)	(406,823)
Cash and cash equivalents at beginning of period	1,151,211	1,290,796	5,595,077	5,059,113
Cash and cash equivalents at end of period	**1,290,796**	**5,595,077**	**5,059,113**	**4,652,289**

Source: Company data, Instinet estimates

Fig. 8: Balance Sheet

(€1000s, except per share data) [FY - Dec]	2018	2019E	2020E	2021E
ASSETS				
Current assets:				
Cash and cash equivalents	1,290,796	5,595,077	5,059,113	4,652,289
Current R&D incentives receivables	11,203	11,203	11,203	11,203
Trade & other receivables	18,609	95,402	132,303	125,061
Inventory	0	7,155	33,076	31,265
Prepaid expenses and other current assets	8,244	23,851	49,613	62,530
Total current assets	**1,328,851**	**5,732,687**	**5,285,307**	**4,882,349**
Property and equipment, net	23,137	30,343	38,995	49,543
Intangible assets	3,632	7,788	7,788	7,788
Deferred tax assets/receivables	2,514	2,514	2,514	2,514
Non-current R&D incentives receivables	73,443	73,443	73,443	73,443
Non-current restricted cash	0	0	0	0
Other non-current assets	7,919	7,919	7,919	7,919
Total assets	**1,439,496**	**5,854,694**	**5,415,966**	**5,023,555**
LIABILITIES AND STOCKHOLDER'S EQUITY				
Current liabilities:				
Trade and other payables	68,928	65,215	84,335	88,558
Current obligations under finance lease	0	0	0	0
Current tax payable	1,175	1,175	1,175	1,175
Accrued charges	0	1,304	1,687	1,771
Deferred income	149,801	513,500	395,000	395,000
Other current liabilities	0	0	0	0
Total current liabilities	**219,905**	**581,195**	**482,196**	**486,505**
Long term debt	0	0	0	0
Deferred Revenue	0	2,897,325	2,423,325	1,949,325
Provisions	0	0	0	0
Pension liabilties	3,764	3,764	3,764	3,764
Other liabilities	1,578	1,578	1,578	1,578
Total liabilities	**225,247**	**3,483,862**	**2,910,863**	**2,441,172**
Stockholders' equity:				
Common Stock	236,540	236,540	236,540	236,540
Additional paid in capital (share premium account)	1,277,780	2,377,780	2,377,780	2,377,780
Other reserves	(735)	(735)	(735)	(735)
Translation differences	(1,557)	(1,557)	(1,557)	(1,557)
Accumulated Deficit	(297,779)	(241,196)	(106,926)	(29,644)
Total stockholders' equity	**1,214,249**	**2,370,832**	**2,505,102**	**2,582,384**
Total liabilities and stockholders' equity	**1,439,496**	**5,854,694**	**5,415,966**	**5,023,555**

Source: Company data, Instinet estimates

Appendix A-1

Analyst Certification

I, Christopher Marai, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Galapagos NV	GLPG US	USD 179.03	25-Jul-2019	Buy	Not rated	A4,A5,A6,A7

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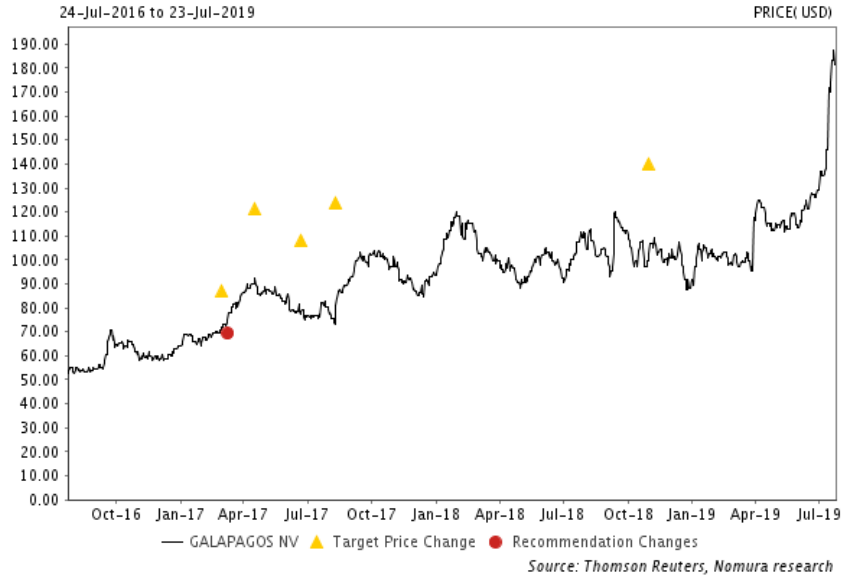
Galapagos NV (GLPG US) **USD 179.03 (25-Jul-2019)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
30-Oct-18		140.00	99.55
10-Aug-17		124.00	81.06
22-Jun-17		108.00	78.56
17-Apr-17		121.00	92.40
01-Mar-17	Buy		71.78
01-Mar-17		87.00	71.78

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of $209 for Galapagos NV (GLPG) is based on an SOTP analysis, applying a 16x royalty multiple on peak filgotinib U.S. royalties and 6x multiple on peak filgotinib EU profits in 2025E (in RA, PsA, UC, and Crohn's). We estimate filgotinib peak sales of $6bn in 2025. For filgotinib in RA, we apply a 15% discount rate, reflecting a lower development risk with the FINCH readouts, and as the target, JAK, is already validated by an approved drug in RA. For filgotinib in UC and Crohn's, we apply a 25% discount rate, reflecting a slightly higher risk for these indications and clinical stage. For filgotinib in PsA, we apply a 40% discount rate, reflecting the P2 clinical stage. For the IPF program, we use an 8x multiple, reflecting a higher value for the higher-margin orphan program and a 40% discount that reflects a higher development risk. The benchmark for this stock is the Nasdaq Biotechnology Index.

Risks that may impede the achievement of the target price Regulatory risk: For filgotinib, the FDA may issue a class label on the risk for serious infections and malignancies. This action will not prevent filgotinib from reaching the market, but it could create a negative perception of the drug among patients and physicians, which would affect commercial sales in a saturated market. Competitive risk: A superior oral agent achieves POC or enters market. If Upadacitinib gets approved without black-box label, it could take lion's share of the market. Competing IPF pipeline agents may achieve a speedier path to approval. Clinical risk: The Phase 2 study with filgotinib in CD used the CDAI as the primary outcome measure. The Phase 3 study is using the more traditional PRO as the primary outcome measure. This difference in design may result in a smaller efficacy difference between the placebo and treatment arms in the Phase 3 study. Enrollment of patients in studies might take longer than anticipated. Safety signals compromising the compound's therapeutic profile may result in black-box label or discontinuation. Investors should take note of the risk of volatility inherent in the price of Biotech stocks.

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