

**BUY**  
**COMPANY UPDATE**

**Financial Summary**

Changes	Previous	Current
Rating	—	Buy
Target Price	—	\$188.00
FY19E EPS	€(3.65)	€5.78
FY20E EPS	€3.15	€2.71
FY19E Revenue	€173.9	€820.0
FY20E Revenue	—	€584.0

Price ( 07/25/19 ):	\$179.03
52-Week Range:	\$192 - \$85
Market Cap.(mm):	9,810.8
Shr.O/S-Diluted (mm):	54.8
Avg Daily Vol (3 Mo):	160,129
Dividend / Yield:	\$0.00 / 0.0%

Revenue	2018A	2019E	2020E
<b>Q1</b>	€44.8	€40.9A	€NE
<b>Q2</b>	€57.0	€67.6A	€NE
<b>Q3</b>	€103.2	€55.0	€NE
<b>Q4</b>	€112.8	€657.0	€NE
<b>FY (Dec)</b>	€317.8A	€820.0	€584.0

EPS	2018A	2019E	2020E
<b>Q1</b>	€(0.73)	€(0.89)A	€NE
<b>Q2</b>	€(0.42)	€(0.86)A	€NE
<b>Q3</b>	€0.28	€(1.04)	€NE
<b>Q4</b>	€0.27	€8.56	€NE
<b>EPS</b>	€(0.56)A	€5.78	€2.71

**Price Performance**



## Focus on Execution and Delivery Post GILD Deal Announcement; Reports 2Q19

### Summary

The recent deal with GILD really marked Galapagos 20th anniversary. The company keeps its innovative R&D engine running without worrying about potential buyout or financial restrictions. The focus for GLPG is to execute and deliver in the next few years. With a huge cash balance (Stifel est. >\$5B by YE19), we think GLPG will expand and prioritize its rich pipeline including both pre-clinical and clinical programs. We hope to see incremental development acceleration in some late stage trials - for example, filgotinib in CD/UC and '1690 in IPF. ROCCELLA Phase 2b trial with GLPG1972 in osteoarthritis (OA) has completed recruitment. It's notable that the recruitment is 6 months ahead of schedule, highlighting the unmet medical need in OA. We expect the P2 OA data to readout around early 3Q next year. GLPG reported net loss of €95.9 million with a cash and cash equivalents of €1.1B in 2Q19.

### Key Points

**On Filgotinib:** The company reiterated a path forward for filing filgotinib in RA in 2019 following a meeting with the FDA (with available MANTA un-blinded data). Gilead intends to file filgotinib for approval in RA in Europe in Q3 2019. We expect filgotinib to be approved in RA in 2020 subject to MANTA trial completion and fulfillment of FDA requirement. Readouts from the proof-of-concept trials in Sjögren's syndrome and cutaneous lupus are anticipated in the 2H19. GILD also plans to launch a Phase 3 trial in psoriatic arthritis later this year.

**GLPG1972 in osteoarthritis:** ROCCELLA Phase 2b trial with GLPG1972 in osteoarthritis (OA) has completed recruitment. It's notable that the recruitment is 6 months ahead of its original schedule, highlighting the unmet medical need in OA. We expect the data readout around early 3Q next year. The primary endpoint is reduction of cartilage loss measured by qMRI. Gilead has the option to pay a \$250 million fee to license GLPG1972 in the United States after the completion of the Phase 2b OA study, although the company did not specify the details regarding efficacy/safety requirements for GILD to opt in. If certain secondary efficacy endpoints are met, Gilead would pay GLPG up to an additional \$200 million.

**GLPG/GILD mega deal:** The Gilead transaction is expected to close late in 3Q19, subject to certain closing conditions. The deal will most likely go through as we do not see any antitrust issue. Upon closing, GLPG will receive an upfront payment of \$3.95 billion in addition to a \$1.1 billion equity investment. On the call, the company commented that it may recognize 15-20% of the payment in year 2019. We thus adjust our model accordingly and increase the 4Q19 revenue line significantly. With a huge cash balance (Stifel est. >\$5B by YE19), we think GLPG will prioritize their rich pipelines including both pre-clinical and clinical programs. We hope to see development acceleration in some late stage trials, for example, filgotinib in Crohn's disease and '1690 in IPF.

**Other program updates:** GLPG1690 ISABELA Phase 3 (in IPF) and NOVESA Phase 2 (in systemic sclerosis) trials continue enrolling patients. The PINTA trial in IPF with GLPG1205 is to finish recruitment by YE19. It is a 26w-long trial with patients in EU/Mid-East/North Africa (OUS). We estimate topline data from PINTA in 3Q20. For MOR106, together with collaboration partners MorphoSys and Novartis, the ongoing Phase 1 and 2 trials are underway. The Toledo program remains largely opaque. The phase 1 readout of GLPG3312, the first Toledo compound, is scheduled for 2H19 and followed with an initiation of PoC phase 2 study likely by YE19.

Adam A. Walsh, M.D. | (617) 488-4626 | adamwalsh@stifel.com  
Edwin Zhang, PhD | (212) 271-3787 | zhange@stifel.com  
Neil Carnahan | (617) 488-4403 | neil.carnahan@stifel.com  
Stifel Equity Trading Desk | (800) 424-8870

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**Investment Thesis**

*We are bullish on the prospects for key pipeline asset filgotinib in multiple diseases. Recent positive POC data for GLPG1690 in IPF compel us to include it in our model with 15% POS. The rest of the pipeline is early and we await additional clinical data to assess its value. Galapagos is well financed with >\$1B cash on the balance sheet.*

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**Target Price Methodology/Risks**

We arrive at our 12-month target price of \$188 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 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. 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 <i>(in 000s, except per share data)</i>	FY 2016A	FY 2017A	FY 2018A	Mar 1Q19A	Jun 2Q19A	Sep 3Q19E	Dec 4Q19E	FY 2019E	FY 2020E	FY 2021E	FY 2022E	FY 2023E	FY 2024E	FY 2025E
Rheumatoid Arthritis (Filgotinib)										23,938	90,275	213,987	345,476	375,320
Crohn's disease (Filgotinib)										-	-	5,087	51,365	83,565
Ulcerative colitis (Filgotinib)										-	3,083	24,562	44,692	65,365
Psoriatic arthritis (Filgotinib)										-	2,016	7,602	18,020	29,093
Ankylosing spondylitis (Filgotinib)										-	1,333	4,424	8,856	13,494
IPF (Autotaxin)										-	-	7,578	13,759	20,235
Osteoarthritis (OA)										-	-	-	7,302	15,000
Upfront/milestone prmts/cost reimbursements	151,612	155,917	317,845	40,919	67,590	55,000	657,000	820,509	583,983	560,000	827,000	395,000	395,000	575,000
<b>Total Revenue €</b>	<b>€ 151,612</b>	<b>€ 155,917</b>	<b>€ 317,845</b>	<b>€ 40,919</b>	<b>€ 67,590</b>	<b>€ 55,000</b>	<b>€ 657,000</b>	<b>€ 820,509</b>	<b>€ 583,983</b>	<b>€ 583,938</b>	<b>€ 923,706</b>	<b>€ 658,241</b>	<b>€ 884,470</b>	<b>€ 1,177,072</b>
<b>Total Revenue \$</b>	<b>\$163,826</b>	<b>\$185,541</b>	<b>\$378,235</b>	<b>\$46,238</b>	<b>\$76,377</b>	<b>\$62,150</b>	<b>\$742,410</b>	<b>\$976,406</b>	<b>\$694,940</b>	<b>\$694,886</b>	<b>\$1,099,211</b>	<b>\$783,306</b>	<b>\$1,052,519</b>	<b>\$1,400,716</b>
COGS	-	-	-	-	-	-	-	-	-	2,394	9,671	26,324	48,947	60,207
<b>Gross profit</b>	151,612	155,917	317,845	40,919	67,590	55,000	657,000	820,509	583,983	581,544	914,036	631,917	835,523	1,116,865
R&D	139,573	218,502	322,876	83,195	94,372	96,259	99,147	372,973	391,622	407,287	423,578	440,521	458,142	471,886
SG&A	23,529	27,218	39,776	10,966	17,586	18,113	18,838	65,503	68,123	70,167	72,272	74,440	76,673	78,973
Income from co-promotion activities	-	-	-	-	-	-	-	-	-	5,994	29,891	73,718	126,198	148,082
Restructuring & integration costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Operating Expense</b>	163,102	245,720	362,652	94,161	111,958	114,373	117,985	438,476	459,745	483,448	525,740	588,680	661,013	698,941
<b>Operating income (loss) €</b>	<b>11,491</b>	<b>(89,802)</b>	<b>(44,807)</b>	<b>(53,242)</b>	<b>(44,367)</b>	<b>(59,373)</b>	<b>539,015</b>	<b>382,033</b>	<b>124,238</b>	<b>110,085</b>	<b>448,076</b>	<b>190,674</b>	<b>426,905</b>	<b>714,087</b>
<b>Operating income (loss) \$</b>	<b>(\$15,651)</b>	<b>(\$106,864)</b>	<b>(\$53,320)</b>	<b>(\$60,163)</b>	<b>(\$50,135)</b>	<b>(\$67,091)</b>	<b>\$609,087</b>	<b>\$454,619</b>	<b>\$147,843</b>	<b>\$131,001</b>	<b>\$533,211</b>	<b>\$226,902</b>	<b>\$508,017</b>	<b>\$849,763</b>
Fair value share of subscription agreement	57,479	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial income	9,950	3,663	18,335	6,999	(1,349)	4,000	5,000	14,650	50,318	50,593	48,676	49,183	47,777	48,124
Financial expense	(1,692)	(29,368)	(2,737)	(2,345)	(1,472)	(1,619)	(1,781)	(7,217)	(3,500)	(3,518)	(3,535)	(3,553)	(3,571)	(3,588)
<b>Net income (loss) before taxes</b>	<b>54,246</b>	<b>(115,507)</b>	<b>(29,209)</b>	<b>(48,588)</b>	<b>(47,188)</b>	<b>(56,992)</b>	<b>542,234</b>	<b>389,466</b>	<b>171,056</b>	<b>157,160</b>	<b>493,217</b>	<b>236,304</b>	<b>471,111</b>	<b>758,622</b>
Income tax provision	(235)	(198)	50	68	61	100	120	349	-	-	33,539	16,069	32,036	51,586
<b>Net income (loss) from continuing operations €</b>	<b>54,012</b>	<b>(115,704)</b>	<b>(29,259)</b>	<b>(48,656)</b>	<b>(47,249)</b>	<b>(57,092)</b>	<b>542,114</b>	<b>389,117</b>	<b>171,056</b>	<b>157,160</b>	<b>459,678</b>	<b>220,235</b>	<b>439,076</b>	<b>707,036</b>
<b>Net income (loss) from continuing operations \$</b>	<b>\$57,714</b>	<b>(\$137,688)</b>	<b>(\$34,818)</b>	<b>(\$54,981)</b>	<b>(\$53,392)</b>	<b>(\$64,514)</b>	<b>\$612,589</b>	<b>\$439,702</b>	<b>\$203,557</b>	<b>\$187,021</b>	<b>\$547,017</b>	<b>\$262,080</b>	<b>\$522,500</b>	<b>\$841,372</b>
Net income from discontinued operations	-	(62)	-	-	-	-	-	-	-	-	-	-	-	-
Translation differences, other	-	(569)	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total comprehensive income (loss) to owners of the parent €</b>	<b>54,012</b>	<b>(116,336)</b>	<b>(29,259)</b>	<b>(48,656)</b>	<b>(47,249)</b>	<b>(57,092)</b>	<b>542,114</b>	<b>389,117</b>	<b>171,056</b>	<b>157,160</b>	<b>459,678</b>	<b>220,235</b>	<b>439,076</b>	<b>707,036</b>
<b>EPS - continuing operations €</b>	<b>€ 1.14</b>	<b>(€ 2.34)</b>	<b>(€ 0.56)</b>	<b>(€ 0.89)</b>	<b>(€ 0.86)</b>	<b>(€ 1.04)</b>	<b>€ 8.56</b>	<b>€ 5.78</b>	<b>€ 2.71</b>	<b>€ 2.41</b>	<b>€ 6.86</b>	<b>€ 3.19</b>	<b>€ 6.17</b>	<b>€ 9.65</b>
<b>EPS - continuing operations \$</b>	<b>\$1.22</b>	<b>(\$2.78)</b>	<b>(\$0.68)</b>	<b>(\$1.01)</b>	<b>(\$0.97)</b>	<b>(\$1.17)</b>	<b>\$9.68</b>	<b>\$6.53</b>	<b>\$3.22</b>	<b>\$2.87</b>	<b>\$8.16</b>	<b>\$3.80</b>	<b>\$7.35</b>	<b>\$11.49</b>
Shares outstanding (weighted average)	47,308	49,479	52,769	54,615	54,823	55,152	63,304	56,973	63,193	65,089	67,042	69,053	71,125	73,258

Source: Stifel estimates and reported company data

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#### Galapagos NV (GLPG) as of July 25, 2019 (in USD)



\*Represents the value(s) that changed.

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