

Equity Research

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GLPG **\$96.71**

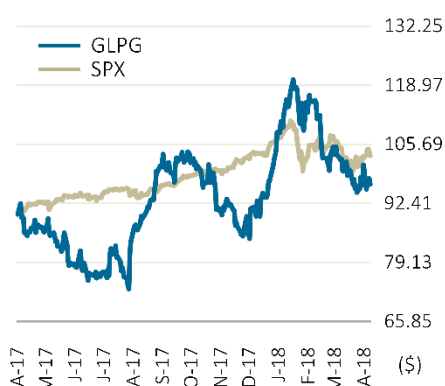
12 month target \$118.00

BUY

52 week range \$73.17 - \$120.23

Market Cap (m) \$4,919

Price Performance



Source: IDC

Estimates

	1Q17 A	2Q17 A	3Q17 A	4Q17 A	FY17 A	1Q18 E	2Q18 E	3Q18 E	4Q18 E	FY18 E	FY19 E
Sales	40	33	33	50	156	39	39	39	39	154	154
EBITDA (Adj.)	(7)	(21)	(29)	(26)	(82)	(37)	(46)	(48)	(53)	(185)	(251)
Diluted EPS (Adj.)	(0.28)	(0.71)	(0.78)	(0.57)	(2.34)	(0.79)	(0.87)	(0.92)	(1.02)	(3.59)	(4.78)

Source: BTIG Estimates and Company Documents (\$ in millions, except per share amount)

Biotechnology

Galapagos N.V.

Baricitinib's AdCom Positive Readthrough for Selective Jak Inhibitors

On Monday, the FDA convened an AdCom to discuss the approvability of baricitinib for the treatment of patients with moderate to severe Rheumatoid Arthritis (RA). Regarding the risk benefit profile, the advisory committee voted in favor of the 2mg dose (10 to 5) and not in favor of 4mg dose (5 to 10). The split of the votes somewhat mirrored the vote on safety, as the votes on efficacy were overwhelmingly positive for the 2mg (14 to 1) and 4mg (15 to 0) doses. We think the outcome bodes well for filgotinib, which has shown lower rate of venous thrombosis (the key safety concern), and we look forward to the next readout from Galapagos' Phase 3 RA program in 2H2018. **We reiterate our Buy rating and \$118 PT.**

- ▶ **Positive votes for the 2mg baricitinib dose despite some safety concerns highlights the dire need for more treatments:** The panelists reiterated the need for drugs with faster and more durable response, as patients quickly cycle through available drugs. Overall, they were impressed by baricitinib's efficacy, but the safety profile led to some panelists suggesting a later line use than proposed by Lilly (LLY, Not Rated), supporting the continued development of selective Jak inhibitors with comparable efficacy but with improved safety.
- ▶ **Concerns surrounding baricitinib's higher rate of VTE's could lead to major safety warning label:** The rate of VTEs in the 2mg dose (ranged from .4 - .6 per 100 patient years), and was generally viewed as in line with currently approved drugs, but the safety votes were still split (9 to 6). Lilly (LLY, Not Rated) has agreed to a label with warning for VTEs, in addition to post-marketing studies. With filgotinib having a VTE rate of $\leq .1$ per 100 patient years, we think this is very encouraging and could allow for a differentiated label.
- ▶ **The association of increases in platelet count with Jak2 inhibition further supports selective Jak inhibition:** Presentations from the FDA showed a link between the findings of increased platelet counts and Jak2 inhibition. Since filgotinib has over 30-fold greater selectivity for Jak1 than Jak2, we remain optimistic. There were limited discussions on other immunosuppressive AEs likely owing to limited activity of baricitinib on Jak3, and we would also expect the same for filgotinib.
- ▶ **Valuation: Our \$118PT values GLPG at ~4x EV/ 2022E Sales.**

Income Statement

Galapagos, Inc. Income Statement																				
EUR € mm	2016	Mar-17	Jun-17	Sep-17	Dec-17	2017	Mar-18	Jun-18	Sep-18	Dec-18	2018	Mar-19	Jun-19	Sep-19	Dec-19	2019E	2020E	2021E	2022E	
Total Revenue	152	40	33	33	50	156	39	39	39	39	154	39	39	39	39	154	194	457	886	
Product Revenues							0	0	0	0	0	0	0	0	0	0	0	40	303	732
Reimbursement Revenues	130	34	27	27	39	127	33	33	33	33	130	33	33	33	33	130	130	130	130	
Other Income	22	6	6	6	10	29	6	6	6	6	24	6	6	6	6	24	24	24	24	
Cost of Goods Sold	0.00	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-2.00	-15.16	-36.59	
Gross Profit	152	40	33	33	50	156	39	39	39	39	154	39	39	39	39	154	192	442	849	
Gross Margin %							100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	99%	97%	96%	
Operating Expenses	-163.1	-51	-55	-63	-77	-246	-80	-84	-87	-92	-343	-96	-99	-102	-108	-405	-537	-815	-723	
Research and Development	-140	-45	-48	-56	-69	-219	-73	-76	-79	-83	-311	-87	-90	-93	-98	-368	-410	-485	-512	
Research and Development % of Sales	138%	1.127	145%	169%	140%	142%	189%	198%	205%	216%	202%	227%	234%	242%	255%	239%	1025%	160%	70%	
General and administrative expenses	-22	-6	-6	-6	-7	-24	-6	-6	-6	-7	-25	-6	-7	-6	-7	-26	-26	-27	-28	
G & A % of Sales	22%	0.141	19%	18%	13%	16%	15%	17%	16%	18%	16%	15%	17%	16%	18%	17%	14%	6%	3%	
Sales and marketing expenses	-2	-1	-1	-1	-1	-3	-2	-2	-2	-2	-7	-3	-3	-3	-3	-11	-100	-303	-183	
Sales and marketing % of Sales	2%	0.014	2%	2%	2%	2%	4%	4%	5%	5%	4%	7%	7%	7%	8%	7%	250%	100%	25%	
Operating Profit	-11	-11	-22	-30	-27	-90	-42	-46	-48	-53	-189	-57	-61	-63	-69	-251	-345	-373	126	
Operating Profit Margin %	-8%	-28%	-65%	-89%	-55%	-58%	-108%	-119%	-125%	-139%	-123%	-149%	-158%	-165%	-181%	-163%	-178%	-82%	14%	
Fair value re-measurement of Share Sub Agreement	57	0	0	0	0	0														
Other financial income	10	1	1	1	1	5														
Other financial expenses	-2	-3	-15	-8	-4	-31					0.00					0.00	0.00	0.00	0.00	
Pretax Income	54	-14	-36	-37	-30	-116	-42	-46	-48	-53	-189	-57	-61	-63	-69	-251	-345	-373	126	
Income Tax Provision	0	0.0	-0.1	-0.1	0.0	0														
Tax Rate	1%	0%	0%	-0.2%	-0.1%	-1%														
Net Income	54	-14	-36	-37	-30	-116	-42	-46	-48	-53	-189	-57	-61	-63	-69	-251	-345	-373	126	
Basic Shares Outstanding	45.06	46.26	48.04	45.53	58.09	49.48	52.55	52.55	52.55	52.55	52.55	52.55	52.55	52.55	52.55	52.55	52.55	52.55	52.55	
Diluted Shares Outstanding	46.43	48.33	49.99	47.05	52.55	49.48	52.55	52.55	52.55	52.55	52.55	52.55	52.55	52.55	52.55	52.55	52.55	52.55	52.55	
Basic EPS		-0.29	-0.74	-0.80	-0.51	-2.34	-0.79	-0.87	-0.92	-1.02	-3.59	-1.09	-1.16	-1.21	-1.32	-4.78	-6.56	-7.10	2.41	
Diluted EPS		-0.28	-0.71	-0.78	-0.57	-2.34	-0.79	-0.87	-0.92	-1.02	-3.59	-1.09	-1.16	-1.21	-1.32	-4.78	-6.56	-7.10	2.41	
Diluted EPS Growth % YoY																				

Source: Company Report, Bloomberg, FactSet, BTIG Research Estimates, April 2018

BTIG Covered Companies Mentioned in this Report

GALAPAGOS N.V. (GLPG, Buy, \$118.00 PT; Current Price: \$96.71; Analyst: Dane.Leone)

Appendix: Analyst Certification and Other Important Disclosures

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I, Dane Leone, CFA, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Zegbeh Jallah, PhD, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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Company Valuation and Risk Disclosures

Galapagos N.V. (GLPG, Buy, \$118.00 PT)

Valuation: Our \$118PT values GLPG at ~4x EV/ 2022E Sales.

Risks: Our Buy rating and \$118 price target may prove inaccurate due to a number of risks related to Galapagos (GLPG) being an unprofitable early stage company with limited clinical data across the Cystic Fibrosis, Rheumatoid Arthritis, and Inflammatory Bowel Disease Portfolios.

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