

# Galapagos (GLPG NA)

## 2018 Burn Outlook Narrowed as Expected; Key Pipeline Catalysts On-track

### Key Takeaway

**1H financials are not material with higher Revenues offset by greater OpEx vs. consensus. We await the 1pm UK/8am EST call for possible R&D updates, notably on the status of the AbbVie CF partnership. Key upcoming catalyst is the filgotinib FINCH-2 data. We are optimistic filgotinib efficacy will be in line with other JAKi's, but believe its potentially superior safety profile could be a key differentiator, driving uptake despite likely being fourth to market.**

**1H financials not the focus:** Revenues are ahead of our estimate and consensus, but so too is OpEx, for a loss just narrower than anticipated. Net Cash c.€1.07bn at 30 June is more than sufficient to fund pipeline plans, in our view.

- Revenues €101.9m vs JEF€90.8m & consensus €84.5m
- Operating Expenses €167.6m vs JEF€153.7m & consensus €149.0m
- Net Loss €59.1m vs JEF€68.9m & consensus €60.1m

**2018 outlook updated for MOR106 deal as expected:** Management has updated its cash burn outlook to €180-200m, from €220-240m, reflecting Galapagos' 50% share of the €95m upfront licensing fee for MOR106 from Novartis (NOVN SW, CHF83, Buy) after the July deal. This is in-line with our current €234m estimate when adjusting for the Novartis revenue.

**Upcoming filgotinib data could demonstrate differentiated profile:** FINCH-2 data evaluating filgotinib in rheumatoid arthritis (RA) patients post-biologics is expected imminently, and is the first of three Phase III filgotinib studies in RA. Safety will be a focus, notably thrombotic events for which we remain optimistic filgotinib could be best-in-class. We think filgotinib's high JAK1 selectivity could be differentiating, since it: (1) does not increase platelets, thus potentially less DVT risk; and, (2) does not decrease haemoglobin or lymphocyte levels, so potentially less risk of anaemia and infections. Since filgotinib is likely to be the fourth JAKi to market, a clean safety profile could help drive use, in our view. For efficacy by the ACR20 primary endpoint we view placebo-adjusted 20-25% for low dose and 25-30% for high dose to be positive. FINCH-1 and -3 data during 2019E could enable RA launches by YE20E with partner Gilead (GILD, \$78, Buy). For further detail, see our preview [note](#).

**Multi-blockbuster potential for filgotinib:** We forecast \$6bn WW peak sales, with \$3bn in RA, \$600m in Crohn's disease, \$400m in ulcerative colitis, and a \$2bn cumulative contribution for other indications, for c.€65 per share NPV with a 65% probability of success. 3Q18E Phase II ankylosing spondylitis (TORTUGA study) data and later then results in Sjogren's syndrome, uveitis and forms of lupus could further confirm our view of the broad commercial potential.

**CF remains acutely in focus:** GLPG is reviewing the future of its cystic fibrosis (CF) alliance with AbbVie (ABBV, \$95, Buy) after the pharma decided not to pursue the second triple, which we believe triggered a breakdown in the relationship. Initial Phase Ib FALCON data from the first triple are expected in late-3Q18E. We still ascribe €15/share NPV to CF at 30% probability of \$3bn peak sales.

**Pipeline rightfully gaining attention:** Phase III ISABELA studies of GLPG1690 in lung fibrosis (IPF) are expected to begin recruiting patients 2H18E. We forecast \$850m WW '1690 peak sales after 2022E launch. The Phase II ROCCELLA trial of GLPG1972 in osteoarthritis and the Phase II PINTA trial of GLPG1205 in IPF will both also begin enrolling shortly. GLPG1972 is being examined as a unique MoA for the unmet need in osteoarthritis, with GLPG retaining all US rights.

**Conference call:** 1pm BST (8am EST); +32 2 404 0659; code 1122269

**BUY**

Bloomberg BRU: GLPG NA  
Price target €115.00  
Price €92.22^

**BUY**

Bloomberg NASDAQ: GLPG  
ADR Price target \$134.00  
ADR Price \$110.85^

^Prior trading day's closing price unless otherwise noted.

**Peter Welford, CFA \***

Equity Analyst

44 (0) 20 7029 8668 pwelford@jefferies.com

**Lucy Codrington \***

Equity Analyst

+44 (0) 20 7029 8570 lcodrington@jefferies.com

\* Jefferies International Limited

## Company Description

### Galapagos

Galapagos is a Belgian biotech company focusing on drug discovery using cells taken from patients with diseases of interest; typically musculoskeletal, CNS and inflammatory disorders plus orphan indications. The company's most advanced product is filgotinib (GLPG0634 a JAK1 inhibitor) is in Phase III for rheumatoid arthritis, Crohn's disease and ulcerative colitis partnered with Gilead. Galapagos also has a global alliance with AbbVie in cystic fibrosis. The company also has active collaborations with Servier and MorphoSys.

## Company Valuation/Risks

### Galapagos

Our Price Target is based on a sum-of-the-parts valuation comprising probability-adjusted NPVs for filgotinib, the cystic fibrosis alliance, GLPG1690 in IPF, and GLPG1972 in osteoarthritis plus Net Cash. Risks include: (1) efficacy, safety, or regulatory setbacks; (2) need to execute future out-licensing and alliances; and (3) clinical trial failures.

### AbbVie

Our \$110 PT is supported by DCF, PE and PEG-relative valuations. Risks: Humira; R&D; reimbursement; M&A.

### Gilead Sciences, Inc.

Our \$95 PT is based on a pipeline-adjusted DCF and 16x our 2019 EPS estimate. Risks: competition, pipeline disappointments, and worse-than-expected sales.

### Novartis AG

Valuation: Our PT of CHF100 is based primarily on PE, PEG and DCF metrics. Risks: Pricing/access; R&D; Manufacturing; Alcon recovery; Entresto launch; LOEs.

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## Investment Recommendation Record

### (Article 3(1)e and Article 7 of MAR)

Recommendation Published , 17:55 ET. August 2, 2018  
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Steven DeSanctis owns shares of AbbVie Inc. common shares.

Jefferies LLC is acting as a financial advisor to Kite Pharma (KITE) on the sale of the company to Gilead Sciences (GILD).

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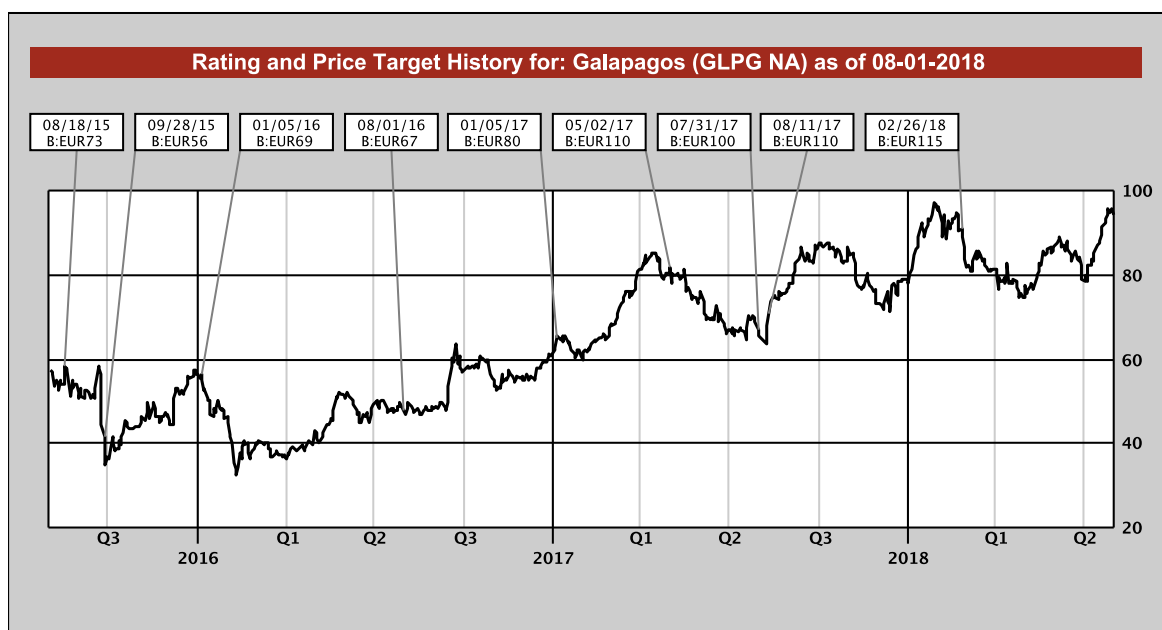
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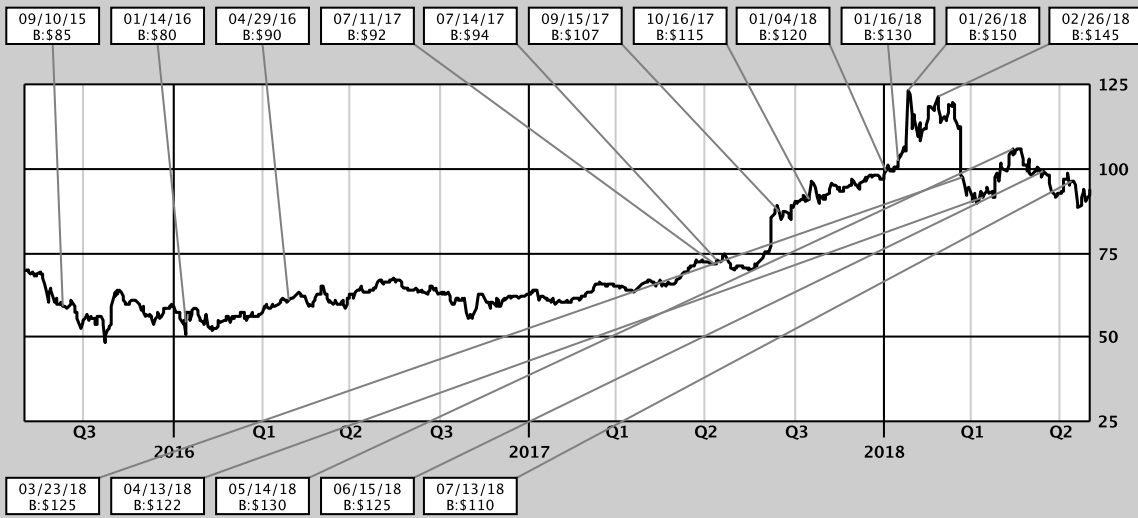
- AbbVie (ABBV: \$93.91, BUY)
- Gilead Sciences, Inc. (GILD: \$77.90, BUY)
- Novartis AG (NOVN SW: CHF83.48, BUY)

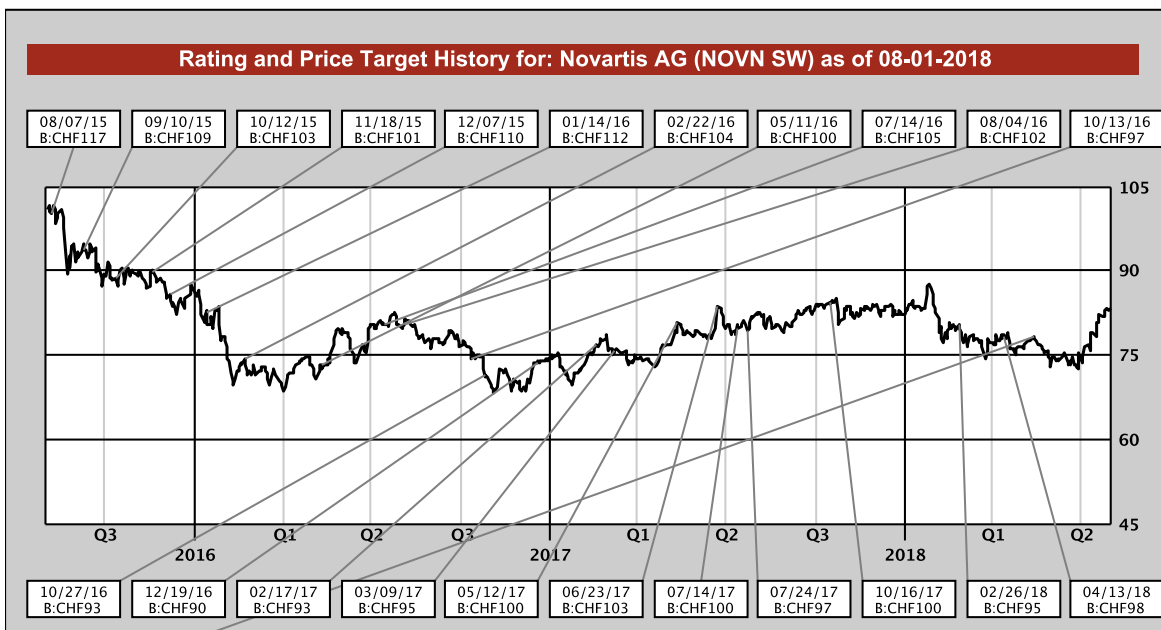
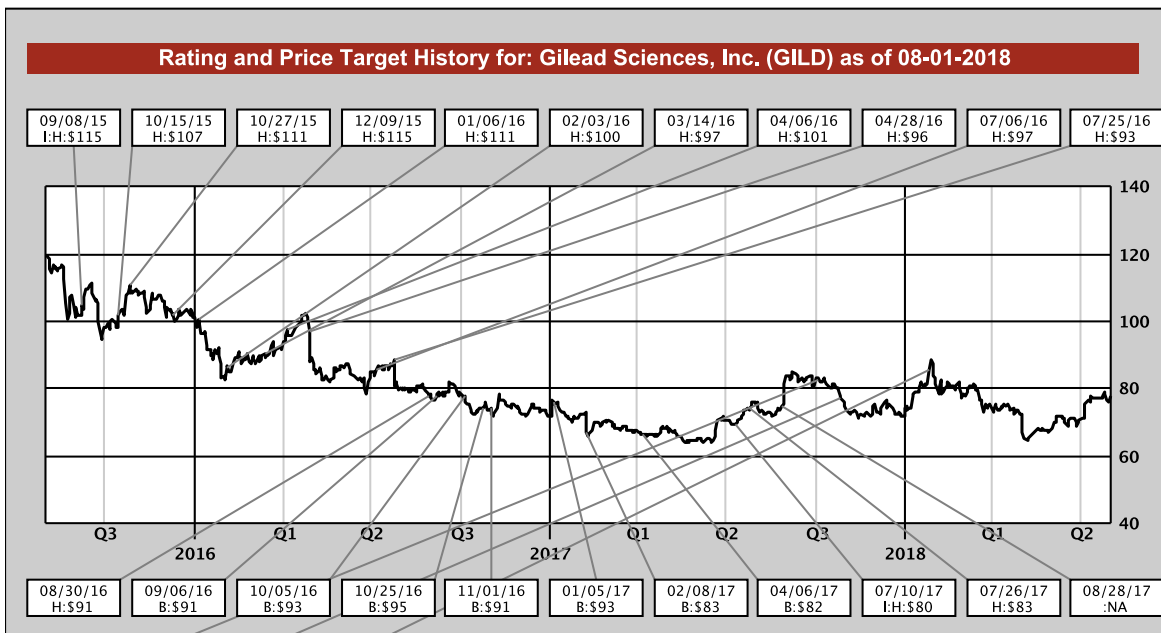


**Rating and Price Target History for: Galapagos (GLPG) as of 08-01-2018**



**Rating and Price Target History for: AbbVie (ABBV) as of 08-01-2018**





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			Count	Percent	Count	Percent
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