

## ABBV Data Update and GLPG Co-Promote

### Filgo Emerging as the Safer JAK Inhibitor

This morning, **ABBV** reported positive top-line data from its Phase 3 SELECT-MONOTHERAPY trial evaluating upadacitinib (Upa), an oral JAK1-selective inhibitor, as monotherapy in moderate-severe rheumatoid arthritis (RA) patients with inadequate response to methotrexate (MTX). At 14 weeks, both doses (15mg and 30mg QD) met the primary endpoints of ACR20/50/70 and LDA score. Upa's safety profile was consistent with previously reported studies; however, there was one fatal hemorrhagic stroke in a patient with pre-existing cardiovascular issues in the 15mg cohort; another SAE, pulmonary embolism, was observed in the 15mg cohort in a patient with pre-existing conditions.

- **Upa Boasts Comparable Efficacy to Filgo in Monotherapy (Fig. 1), but Safety/Tolerability Are Still Key Competitive Advantage for Filgo.** No new safety signals in this study; SAEs occurred at 5% and 3% in the 15 mg and 30 mg groups, respectively, and at 3% in the MTX group. Filgotinib resulted in less reduction of NK cells and a lower rate of opportunistic infection compared with other JAK inhibitors (Figs. 2-3). Also, filgotinib patients experienced an increase in Hb levels.
- **GLPG Decides to Opt In to Co-promote Filgotinib, with Partner GILD, in 8 EU countries (Germany, France, Italy, Spain, UK, Netherlands, Belgium, Luxembourg).** Outside these territories, Galapagos will be eligible for tiered royalties ranging from 20% to 30% on net filgotinib sales. We anticipated GLPG would opt in to the co-promote, given its desire to build a commercial organization and cash war chest. Deal terms were favorable, with GLPG funding 35% of co-promotion costs at a 50/50 profit split. See p. 5 for model updates.
- **Co-Promotion Lock-In Instills Confidence in GILD Collaboration Ahead of Equity Investment Lockup Expiration Date.** The impending expiration of GLPG's lockup and standstill agreement with GILD remains December 31, 2017. We believe GLPG's decision to opt in on co-promotion of filgotinib ahead of the lockup expiration date speaks to management's confidence in the potential of its highly selective JAK1 inhibitor.
- **Filgotinib's Safety Profile Appears Superior to Upadacitinib's on Paper.** However, clinical experience may not differ substantially, potentially leading to marketing prowess trumping data, post-approval.

#### Instinet, LLC, Equity Research

20 December 2017

Rating Remains	<b>Buy</b>
Target Price Remains	USD 124.00
Closing price 19 December 2017	USD 91.26
Potential upside	+35.9%

#### Research analysts

##### Americas Biotech

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Year-end: Dec	2016A		2017E		2018E		
EPS (€)	Actual	Prev.	Curr.	Cons.	Prev.	Curr.	Cons.
1Q	0.79A	N/A	-0.29A	N/A	N/A	-0.76E	-0.50E
2Q	-0.08A	N/A	-0.72A	N/A	N/A	-0.97E	-0.50E
3Q	-0.52A	N/A	-0.72A	N/A	N/A	-1.00E	-0.62E
4Q	0.96A	N/A	-0.64E	-0.70E	N/A	-0.41E	-0.54E
Year	1.14A	N/A	-2.39E	-1.98E	N/A	-2.40E	-2.10E
Cash & Equivalents (€k)	973,241	N/A	1,152,929	1,170,871	N/A	1,055,422	1,034,489

Source: Company data, FactSet, Instinet estimates

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

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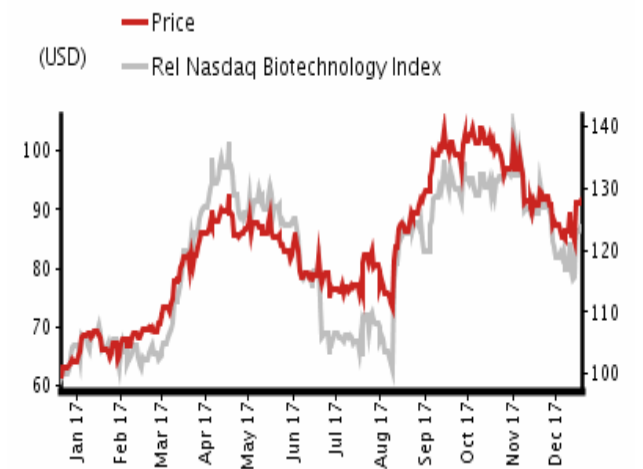
See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

# Key data on Galapagos NV

## Rating

Stock	Buy
Sector	Not rated

## Relative performance chart



Source: Thomson Reuters, Instinet research

## Performance as of 19 December 2017

(%)	1M	3M	12M
Absolute	0.5	-10.1	52.6
Relative to Nasdaq Biotechnology Index	-1.8	-6.6	34.0

## Market data

Current Stock Price (\$)	91.26
Market Cap (\$mn)	4,648.5
52-week Low (\$)	60.19
52-week High (\$)	104.09
Shares Outstanding (mn)	50.94

Source: Thomson Reuters, Instinet research

## Valuation

Year-end: Dec	2016A	2017E	2018E
EV/Sales (€k)	N/A	N/A	N/A

Source: Company data, Instinet estimates

## Summary Income Statement

Year-end: Dec; €k	2016A	2017E	2018E
Revenue	151,612	149,898	183,696
Income Tax	235	265	0
Net Income (adj.)	65,046	-103,143	-102,245
GAAP EPS	1.14	-2.39	-2.40
EPS (adj.)	1.37	-2.04	-2.00
Diluted Shares (k)	47,308	50,476	53,758

## Summary Balance Sheet

€k	2016A	2017E	2018E
Cash & Equivalents	973,241	1,152,929	1,055,422
PP&E	14,961	31,282	53,553
Total Assets	1,083,338	1,279,348	1,204,112
Total Debt	63	63	63
Total Liabilities	324,637	327,956	354,965
Shareholders' Equity	758,701	951,392	849,146
Total Liabilities & Equity	1,083,338	1,279,348	1,204,112

## Summary Cash Flow Statement

€k	2016A	2017E	2018E
Cash from Operations	239,405	-96,083	-67,416
Change in Working Capital	234,450	3,319	27,009
Cash from Investing	-7,287	-20,061	-30,092
Capital Expenditures	-4,458	-20,061	-30,092
Cash from Financing	395,996	295,833	0
Free Cash Flow	234,450	3,319	27,009

## Other Metrics

	2016A	2017E	2018E
Enterprise Value (€k)	N/A	N/A	N/A

Source: Company data, Instinet estimates

**Fig. 1: Filgotinib Monotherapy vs. Upadacitinib – Efficacy and Safety Results**

Filgotinib (12 wk)	ACR 20	ACR 50	ACR 70	Serious AE
Placebo	31%	11%	4%	1%
50 mg QD	67%	36%	8%	1%
100 mg QD	66%	34%	19%	0%
200 mg QD	73%	44%	13%	4%

Upadacitinib (14 wk)	ACR 20	ACR 50	ACR 70	Serious AE
MTX	41%	15%	3%	3%
15 mg QD	68%	42%	23%	5%
30mg QD	71%	52%	33%	3%

Grey shadow indicates statistically significant response  
 MTX = methotrexate

Source: Company data, Instinet research

**Fig. 2: Adverse Events Across JAK Inhibitors in the Clinic**

% patients with reduction in neutrophil count	Filgotinib			Baricitinib			Upadacitinib				
	Placebo	100 mg	200 mg	Placebo	2 mg	4 mg	Placebo	3 mg BID	6 mg BID	12 mg BID	18 mg BID
Grade 1	1.6%	0.6%	3.9%	<1.0%	2.0%	5.0%					
Grade 2	2.4%	0.0%	3.2%	<1.0%	2.0%	3.0%	2.0%	0.0%	6.0%	7.0%	13.0%
Grade 3	0.0%	0.6%	0.7%	0.0%	<1%	0.0%	0.0%	0.0%	0.0%	4.0%	2.0%
Grade 4	0.0%	0.6%	0.0%				0.0%	0.0%	0.0%	2.0%	0.0%
% patients with decreased Hb											
Grade 1	22.5%	11.0%	11.0%	15.0%	16.0%	18.0%					
Grade 2	3.9%	2.9%	1.9%	3.0%	8.0%	5.0%	0.0%	6.0%	9.0%	13.0%	20.0%
Grade 3	0.0%	0.0%	0.0%	0.0%	<1.0%	0.0%	0.0%	6.0%	0.0%	9.0%	11.0%
Grade 4	0.0%	0.0%	0.0%	<1.0%	0.0%	0.0%	0.0%	0.0%	7.0%	4.0%	4.0%

Source: Company data, Instinet research

**Fig. 3: Safety Filgotinib vs. Other JAK Pathway Inhibitors**

	Tofacitinib Phase 3			Baricitinib -Phase 3			Filgotinib Phase 2b			Upadacitinib Phase 2b			
	Placebo	5 mg	10 mg	Placebo	2 mg	4 mg	Placebo	100 mg	200 mg	Placebo	12 mg BID	18 mg BID	24 mg QD
Total AE	54.9%	51.0%	56.7%	56.5%	57.0%	63.5%	46.8%	38.7%	51.6%	35.0%	62.0%	60.0%	35.0%
Serious AE	4.9%	0.4%	2.0%	4.0%	2.0%	4.0%	3.9%	2.6%	2.5%	1.0%	6.0%	3.0%	4.0%
Discontinuation rate due to AE	4.1%	0.8%	2.4%	3.0%	3.5%	4.5%	4.7%	3.2%	2.6%	3.0%	3.0%	7.0%	2.0%
Malignancies (no. of cases)	1	2	3	0	0	3	0	0	0	0	0	0	0
Serious infection	0.0%	0.0%	0.4%	1.0%	1.0%	2.0%	0.8%	1.9%	1.1%	1.0%	1.0%	0.0%	0.0%
Notes	Boxed warning contains serious infections, opportunistic infections, and malignancy. LDL levels were increased in the tofacitinib group.			Patients in the baracitinib group experienced reduction neutrophil count and an increase in creatinine levels and LDL.			Herpes zoster was more common in the filgotinib group.			Infections were the most common AE			

Source: Company data, Instinet research

# Galapagos NV Opt-In on Co-Promotion of Filgotinib w/ GILD in 8 EU Countries Supports Filgotinib Market Potential

Last Friday, GLPG announced a decision to opt in to co-promote filgotinib with partner GILD in 8 EU countries (Germany, France, Italy, Spain, the UK, Netherlands, Belgium, and Luxembourg).

## Model Updates

- **Outside these territories, Galapagos will be eligible for tiered royalties ranging from 20% to 30% on net filgotinib sales.**
  - We anticipated GLPG would opt in to the co-promote, given its desire to build a commercial organization and cash war chest.
- **Deal Terms Favorable, 35% Co-promotion Costs, 50/50 Profit Split; Model Updates.**
  - In the eight European countries mentioned, GLPG will assume 35% of the promotional efforts and split profits equally with GILD.
  - For Netherlands, Belgium, and Luxembourg (Belenux region), GLPG will book the sales. Accordingly, we have made updates to our model estimates and recording format (see Figs. 4-6).

## Co-Promotion Lock-In Instills Confidence In GILD Collab, Ahead of Equity Investment Lock-Up Expiration Date.

- The impending expiration of GLPG's lockup and standstill agreement with GILD is December 31, 2017.
- We believe that GLPG's decision to opt in on co-promotion of filgotinib ahead of the lockup expiration date speaks to management's confidence in the potential of its highly selective JAK1 inhibitor.

Fig. 4: GLPG Income Statement

(€1000s, except per share data) [FY - Dec]	2015	2016	1Q17A	2Q17A	3Q17A	4Q17E	2017E	1Q18E	2Q18E	3Q18E	4Q18E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
US Filgotinib Sales (RA Only)	0	0	0	0	0	0	0	0	0	0	0	0	0	19,225	70,246	169,192	243,418	250,149	257,066
Intl Filgotinib Sales (RA Only)	0	0	0	0	0	0	0	0	0	0	0	0	0	22,601	60,632	60,632	114,366	161,074	243,060
US Filgotinib Sales (Crohn's)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	40,245	82,717	127,506	174,708	179,539
Intl Filgotinib Sales (Crohn's)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	14,817	29,811	59,981	60,341
US Filgotinib Sales (UC only)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4,799	11,095	25,338	26,039
Intl Filgotinib Sales (UC only)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4,869	11,896	26,751
<b>Total Filgotinib Royalties/Profit Share</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>19,225</b>	<b>133,093</b>	<b>332,156</b>	<b>531,067</b>	<b>683,146</b>	<b>792,795</b>
US GLPG- Triple Combo Royalties (CF)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	7,314	111,645	181,772	184,966	188,217
Intl GLPG-Triple Combo Royalties (CF)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	23,103	46,995	101,570	101,570	159,513
<b>Total GLPG1837+Corrector Royalties</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,314</b>	<b>134,748</b>	<b>228,767</b>	<b>286,536</b>	<b>347,730</b>	
Filgotinib (Belenux Region)													0	5,909	19,725	38,967	60,902	86,314	
R&D revenue	39,563	129,519	33,992	26,933	26,945	37,166	125,036	37,391	29,626	29,640	40,883	137,540	115,383	117,690	120,044	91,834	62,447	31,848	32,485
Other Income	21,017	22,093	5,871	6,235	6,378	6,378	24,862	6,442	6,506	6,571	26,637	46,156	84,862	94,862	94,862	94,862	94,862	94,862	94,862
<b>Total Revenues</b>	<b>60,579</b>	<b>151,612</b>	<b>39,863</b>	<b>33,168</b>	<b>33,323</b>	<b>43,544</b>	<b>149,898</b>	<b>43,833</b>	<b>36,132</b>	<b>36,211</b>	<b>67,520</b>	<b>183,696</b>	<b>200,245</b>	<b>231,778</b>	<b>355,314</b>	<b>653,600</b>	<b>917,143</b>	<b>1,096,392</b>	<b>1,267,872</b>
<b>Costs &amp; Expenses:</b>																			
Cost of Goods Sold	0	0	0	0	0	0	0	0	0	0	0	0	0	0	295	986	1,948	3,045	4,316
R&D	129,714	139,573	44,930	47,984	56,313	61,944	211,169	65,041	68,293	70,342	71,045	274,721	288,457	294,226	300,111	306,113	312,235	318,480	324,849
G&A	19,127	21,744	5,603	6,327	5,853	6,438	24,220	6,760	7,098	7,453	7,825	29,135	37,875	43,557	47,912	50,308	52,572	55,200	56,856
Sales and Marketing	1,182	1,785	556	535	808	606	2,504	2,504	2,504	2,504	2,504	2,629	2,761	2,899	3,490	4,871	6,795	8,989	11,530
Collaboration Split (Belenux Region)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,935	6,460	12,762	19,945	28,268
<b>Total Operating Expenses</b>	<b>150,023</b>	<b>163,103</b>	<b>51,088</b>	<b>54,845</b>	<b>62,973</b>	<b>68,988</b>	<b>237,894</b>	<b>74,305</b>	<b>77,895</b>	<b>80,298</b>	<b>81,374</b>	<b>306,485</b>	<b>329,093</b>	<b>340,681</b>	<b>353,743</b>	<b>368,738</b>	<b>386,312</b>	<b>405,660</b>	<b>425,819</b>
<b>Operating Income</b>	<b>(89,444)</b>	<b>(11,491)</b>	<b>(11,225)</b>	<b>(21,677)</b>	<b>(29,650)</b>	<b>(25,443)</b>	<b>(87,995)</b>	<b>(30,472)</b>	<b>(41,762)</b>	<b>(44,088)</b>	<b>(13,854)</b>	<b>(122,789)</b>	<b>(128,848)</b>	<b>(108,904)</b>	<b>1,571</b>	<b>284,862</b>	<b>530,831</b>	<b>690,732</b>	<b>842,053</b>
Interest and Other Income (Expense), net	(30,632)	57,479	0	0	-	0	0	0	0	-	0	0	0	0	0	0	0	0	0
Interest Income	1,987	9,950	894	1,425	1,345	1,345	5,008	1,352	1,302	1,202	1,152	5,008	5,008	5,008	5,008	5,008	5,008	5,008	5,008
Interest Expense	(1,539)	(1,692)	(3,274)	(15,299)	(8,232)	(8,232)	(35,037)	(9,460)	(9,110)	(8,409)	(8,059)	(35,037)	(35,037)	(35,037)	(35,037)	(35,037)	(35,037)	(35,037)	(35,037)
Other Income (Expense)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Pretax Income (Loss)</b>	<b>(119,628)</b>	<b>54,246</b>	<b>(13,605)</b>	<b>(35,552)</b>	<b>(36,538)</b>	<b>(32,331)</b>	<b>(118,025)</b>	<b>(38,580)</b>	<b>(49,570)</b>	<b>(51,295)</b>	<b>(20,761)</b>	<b>(122,789)</b>	<b>(128,848)</b>	<b>(108,904)</b>	<b>1,571</b>	<b>284,862</b>	<b>530,831</b>	<b>690,732</b>	<b>842,053</b>
Income tax expense (Benefit)	(1,218)	235	0	92	69	104	265	0	0	0	0	0	0	0	0	0	0	0	27,629
<b>Net Income (Loss) as reported</b>	<b>(118,410)</b>	<b>54,012</b>	<b>(13,605)</b>	<b>(35,644)</b>	<b>(36,607)</b>	<b>(32,434)</b>	<b>(118,289)</b>	<b>(38,580)</b>	<b>(49,570)</b>	<b>(51,295)</b>	<b>(20,761)</b>	<b>(122,789)</b>	<b>(128,848)</b>	<b>(108,904)</b>	<b>1,571</b>	<b>284,862</b>	<b>530,831</b>	<b>663,103</b>	<b>784,793</b>
Stock option expense	5,036	11,034	3,023	3,945	4,729	3,449	15,146	3,715	3,895	6,424	6,510	20,544	23,037	23,848	24,762	25,812	27,042	28,396	29,807
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net Income (Loss) Non-GAAP</b>	<b>(113,374)</b>	<b>65,046</b>	<b>(10,582)</b>	<b>(31,699)</b>	<b>(31,878)</b>	<b>(28,985)</b>	<b>(103,143)</b>	<b>(34,864)</b>	<b>(45,675)</b>	<b>(44,871)</b>	<b>(14,251)</b>	<b>(102,245)</b>	<b>(105,812)</b>	<b>(85,056)</b>	<b>26,333</b>	<b>310,674</b>	<b>557,872</b>	<b>691,499</b>	<b>814,600</b>
<b>Diluted Earnings Per Share Non-GAAP</b>	<b>(€3.18)</b>	<b>€1.37</b>	<b>(€0.22)</b>	<b>(€0.61)</b>	<b>(€0.63)</b>	<b>(€0.57)</b>	<b>(€2.04)</b>	<b>(€0.65)</b>	<b>(€0.85)</b>	<b>(€0.83)</b>	<b>(€0.26)</b>	<b>(€2.00)</b>	<b>(€2.07)</b>	<b>(€1.66)</b>	<b>€0.49</b>	<b>€5.76</b>	<b>€10.33</b>	<b>€12.79</b>	<b>€15.05</b>
Earnings Per Share, Diluted Fully Taxed	€3.32	€0.77					nm					nm	nm	nm	€0.02	€3.61	€6.71	€8.72	€10.62
Basic Earnings Per Share Non-GAAP	(€2.94)	€1.42	(€0.23)	(€0.64)	(€0.63)	(€0.57)	(€2.08)	(€0.68)	(€0.89)	(€0.88)	(€0.28)	(€2.00)	(€2.07)	(€1.66)	€0.51	€6.05	€10.85	€13.44	€15.81
<b>Diluted Earnings Per Share</b>	<b>(€3.32)</b>	<b>€1.14</b>	<b>(€0.29)</b>	<b>(€0.72)</b>	<b>(€0.72)</b>	<b>(€0.64)</b>	<b>(€2.39)</b>	<b>(€0.76)</b>	<b>(€0.97)</b>	<b>(€1.00)</b>	<b>(€0.41)</b>	<b>(€2.40)</b>	<b>(€2.52)</b>	<b>(€2.12)</b>	<b>€0.03</b>	<b>€5.28</b>	<b>€9.83</b>	<b>€12.26</b>	<b>€14.50</b>
Basic Earnings Per Share as reported	(€3.08)	€1.18	(€0.29)	(€0.72)	(€0.72)	(€0.64)	(€2.39)	(€0.76)	(€0.97)	(€1.00)	(€0.41)	(€2.40)	(€2.52)	(€2.12)	€0.03	€5.55	€10.32	€12.88	€15.23
Basic Shares Outstanding (th)	35,700	45,696	46,256	49,830	50,902	51,029	49,504	51,080	51,131	51,182	51,234	51,157	51,208	51,259	51,311	51,362	51,413	51,465	51,516
<b>Diluted Shares Outstanding (th)</b>	<b>38,506</b>	<b>47,308</b>	<b>48,330</b>	<b>51,644</b>	<b>50,902</b>	<b>51,029</b>	<b>50,476</b>	<b>53,881</b>	<b>53,932</b>	<b>53,983</b>	<b>54,034</b>	<b>53,758</b>	<b>53,809</b>	<b>53,860</b>	<b>53,911</b>	<b>53,963</b>	<b>54,014</b>	<b>54,065</b>	<b>54,117</b>

Source: Company data, Instinet estimates

Fig. 5: GLPG Balance Sheet

(€'000s, except per share data) [FY - Dec]	2015A	2016A	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
<b>ASSETS</b>											
<b>Current assets:</b>											
Cash and cash equivalents	340,314	973,241	1,152,929	1,055,422	905,996	759,299	700,651	904,029	1,304,699	1,719,646	2,248,808
Current restricted cash	6,857	6,570	6,570	6,570	6,570	6,570	6,570	6,570	6,570	6,570	6,570
Current R&D incentives receivables	9,161	10,154	10,154	10,154	10,154	10,154	10,154	10,154	10,154	10,154	10,154
Current financial assets from share subscription agreement	8,371	0									
Short term marketable securities	0	0	0	0	0	0	0	0	0	0	0
Trade & other receivables	3,931	9,728	9,728	9,728	9,728	9,728	9,728	9,728	9,728	54,820	63,394
Inventory	325	300	300	300	300	300	300	300	300	300	300
Prepaid expenses and other current assets	5,512	7,239	7,239	7,239	7,239	7,239	7,239	13,072	18,343	21,928	25,357
<b>Total current assets</b>	<b>374,470</b>	<b>1,007,232</b>	<b>1,186,920</b>	<b>1,089,413</b>	<b>939,987</b>	<b>793,290</b>	<b>734,642</b>	<b>943,853</b>	<b>1,349,794</b>	<b>1,813,418</b>	<b>2,354,583</b>
Property and equipment, net	13,782	14,961	31,282	53,553	85,302	131,682	200,321	302,579	455,441	684,342	958,846
Goodwill	0	0	0	0	0	0	0	0	0	0	0
Intangible assets	1,550	1,023	1,023	1,023	1,023	1,023	1,023	1,023	1,023	1,023	1,023
Deferred tax assets/receivables	1,726	1,957	1,957	1,957	1,957	1,957	1,957	1,957	1,957	1,957	1,957
Non-current R&D incentives receivables	49,384	54,188	54,188	54,188	54,188	54,188	54,188	54,188	54,188	54,188	54,188
Non-current restricted cash	1,046	1,098	1,098	1,098	1,098	1,098	1,098	1,098	1,098	1,098	1,098
Other non-current assets	557	2,880	2,880	2,880	2,880	2,880	2,880	2,880	2,880	2,880	2,880
<b>Total assets</b>	<b>442,514</b>	<b>1,083,338</b>	<b>1,279,348</b>	<b>1,204,112</b>	<b>1,086,435</b>	<b>986,118</b>	<b>996,109</b>	<b>1,307,577</b>	<b>1,866,381</b>	<b>2,558,906</b>	<b>3,374,575</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>											
<b>Current liabilities:</b>											
Trade and other payables	29,482	31,269	34,494	61,297	49,364	34,068	17,687	18,437	19,316	20,283	21,291
Current obligations under finance lease	52	54	54	54	54	54	54	54	54	54	54
Current tax payable	2,583	1,022	1,022	1,022	1,022	1,022	1,022	1,022	1,022	1,022	1,022
Accrued charges	490	619	714	919	987	1,022	1,061	1,106	1,159	1,217	1,277
Deferred income	39,806	70,827	70,827	70,827	70,827	70,827	70,827	70,827	70,827	70,827	70,827
Other current liabilities	0	0	0	0	0	0	0	0	0	0	0
<b>Total current liabilities</b>	<b>72,412</b>	<b>103,791</b>	<b>107,110</b>	<b>134,119</b>	<b>122,254</b>	<b>106,993</b>	<b>90,651</b>	<b>91,446</b>	<b>92,378</b>	<b>93,403</b>	<b>94,471</b>
Long term debt	0	0	0	0	0	0	0	0	0	0	0
Obligations under finance lease	63	9	9	9	9	9	9	9	9	9	9
Deferred Revenue	0	214,785	214,785	214,785	214,785	214,785	214,785	214,785	214,785	214,785	214,785
Provisions	55	63	63	63	63	63	63	63	63	63	63
Pension liabilities	2,693	3,520	3,520	3,520	3,520	3,520	3,520	3,520	3,520	3,520	3,520
Other liabilities	2,291	2,469	2,469	2,469	2,469	2,469	2,469	2,469	2,469	2,469	2,469
<b>Total liabilities</b>	<b>77,515</b>	<b>324,637</b>	<b>327,956</b>	<b>354,965</b>	<b>343,100</b>	<b>327,839</b>	<b>311,497</b>	<b>312,292</b>	<b>313,224</b>	<b>314,249</b>	<b>315,317</b>
Stockholders' equity:											
Common Stock	185,399	223,928	223,928	223,928	223,928	223,928	223,928	223,928	223,928	223,928	223,928
Additional paid in capital	357,402	649,135	944,968	944,968	944,968	944,968	944,968	944,968	944,968	944,968	944,968
Other reserves	(18)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Translation differences	(467)	(1,090)	(1,090)	(1,090)	(1,090)	(1,090)	(1,090)	(1,090)	(1,090)	(1,090)	(1,090)
Accumulated other comprehensive loss	0	0	0	0	0	0	0	0	0	0	0
Accumulated Deficit	(177,319)	(112,272)	(215,415)	(317,660)	(423,472)	(508,528)	(482,195)	(171,521)	386,351	1,077,850	1,892,451
<b>Total stockholders' equity</b>	<b>364,999</b>	<b>758,701</b>	<b>951,392</b>	<b>849,146</b>	<b>743,335</b>	<b>658,279</b>	<b>684,611</b>	<b>995,285</b>	<b>1,553,157</b>	<b>2,244,657</b>	<b>3,059,257</b>
<b>Total liabilities and stockholders' equity</b>	<b>442,514</b>	<b>1,083,338</b>	<b>1,279,348</b>	<b>1,204,112</b>	<b>1,086,435</b>	<b>986,118</b>	<b>996,109</b>	<b>1,307,577</b>	<b>1,866,381</b>	<b>2,558,906</b>	<b>3,374,575</b>

Source: Company data, Instinet estimates

Fig. 6: GLPG Cash Flow Statement

(€'000s, except per share data) [FY - Dec]	2015A	2016A	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>											
Net Income (Loss)	(118,410)	54,012	(118,289)	(122,789)	(128,848)	(108,904)	1,571	284,862	530,831	663,103	784,793
Adjustments											
Tax income/expenses	(1,218)	235	0	0	0	0	0	0	0	0	0
Other net financial income	(448)	(8,258)	0	0	0	0	0	0	0	0	0
Fair value measurement of share subscription	30,632	(57,479)	0	0	0	0	0	0	0	0	0
Depreciation and amortization	3,402	4,182	3,740	7,820	13,388	21,325	32,921	50,080	75,645	113,860	171,085
Net realized loss for foreign exchange transaction	(398)	1,229	0	0	0	0	0	0	0	0	0
Stock based compensation	5,036	11,034	15,146	20,544	23,037	23,848	24,762	25,812	27,042	28,396	29,807
Other	0	0	0	0	0	0	0	0	0	0	0
<b>Change in assets and liabilities:</b>											
Increase/decrease in provisions	(125)	7	0	0	0	0	0	0	0	0	0
Increase pension liabilities	30	244	0	0	0	0	0	0	0	0	0
Gain on sale of fixed assets	(62)	(14)	0	0	0	0	0	0	0	0	0
Inventories	(44)	25	0	0	0	0	0	0	0	0	0
Account receivables	(7,220)	(12,978)	0	0	0	0	0	0	0	(45,092)	(8,574)
Prepaid expenses & other assets	0	0	0	0	0	0	0	(5,833)	(5,271)	(3,585)	(3,430)
Accounts payable and accrued expenses	(26,728)	2,102	3,319	27,009	(11,865)	(15,261)	(16,342)	795	931	1,025	1,068
Interest paid	(49)	(47)	0	0	0	0	0	0	0	0	0
Interest received	1,106	1,066	0	0	0	0	0	0	0	0	0
Income taxes paid/received	(94)	(1,763)	0	0	0	0	0	0	0	0	0
Current obligations under finance lease	0	2	0	0	0	0	0	0	0	0	0
Deferred revenues & other	0	245,806	0	0	0	0	0	0	0	0	0
<b>Net cash provided by (used in) operating activities</b>	<b>(114,590)</b>	<b>239,405</b>	<b>(96,083)</b>	<b>(67,416)</b>	<b>(104,289)</b>	<b>(78,992)</b>	<b>42,912</b>	<b>355,716</b>	<b>629,178</b>	<b>757,709</b>	<b>974,751</b>
Purchase of and expenditure of intangible fixed assets	(565)	(332)	0	0	0	0	0	0	0	0	0
Proceeds from disposal of PPE	110	18	0	0	0	0	0	0	0	0	0
Increase/decrease in restricted cash	2,258	235	0	0	0	0	0	0	0	0	0
Investments, net	0	(2,750)	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0
<b>Net cash used in investing activities</b>	<b>(4,297)</b>	<b>(7,287)</b>	<b>(20,061)</b>	<b>(30,092)</b>	<b>(45,137)</b>	<b>(67,706)</b>	<b>(101,559)</b>	<b>(152,338)</b>	<b>(228,507)</b>	<b>(342,761)</b>	<b>(445,589)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>											
Proceeds from issuance of shares, net cost	271,413	391,784	295,833	0	0	0	0	0	0	0	0
Exercise of options	0	4,261	0	0	0	0	0	0	0	0	0
Repayment obligations under finance and other debt	(43)	(49)	0	0	0	0	0	0	0	0	0
Repurchase of common stock	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0
<b>Net cash provided by financing activities</b>	<b>271,370</b>	<b>395,996</b>	<b>295,833</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Effect of exchange rate on cash</b>	<b>118</b>	<b>4,816</b>									
Net increase in cash and cash equivalents	152,483	632,927	179,689	(97,507)	(149,426)	(146,698)	(58,647)	203,377	400,670	414,948	529,161
Cash and cash equivalents at beginning of period	187,712	340,314	973,241	1,152,929	1,055,422	905,996	759,299	700,651	904,029	1,304,699	1,719,646
<b>Cash and cash equivalents at end of period</b>	<b>340,314</b>	<b>973,241</b>	<b>1,152,930</b>	<b>1,055,422</b>	<b>905,996</b>	<b>759,299</b>	<b>700,651</b>	<b>904,029</b>	<b>1,304,699</b>	<b>1,719,646</b>	<b>2,248,808</b>

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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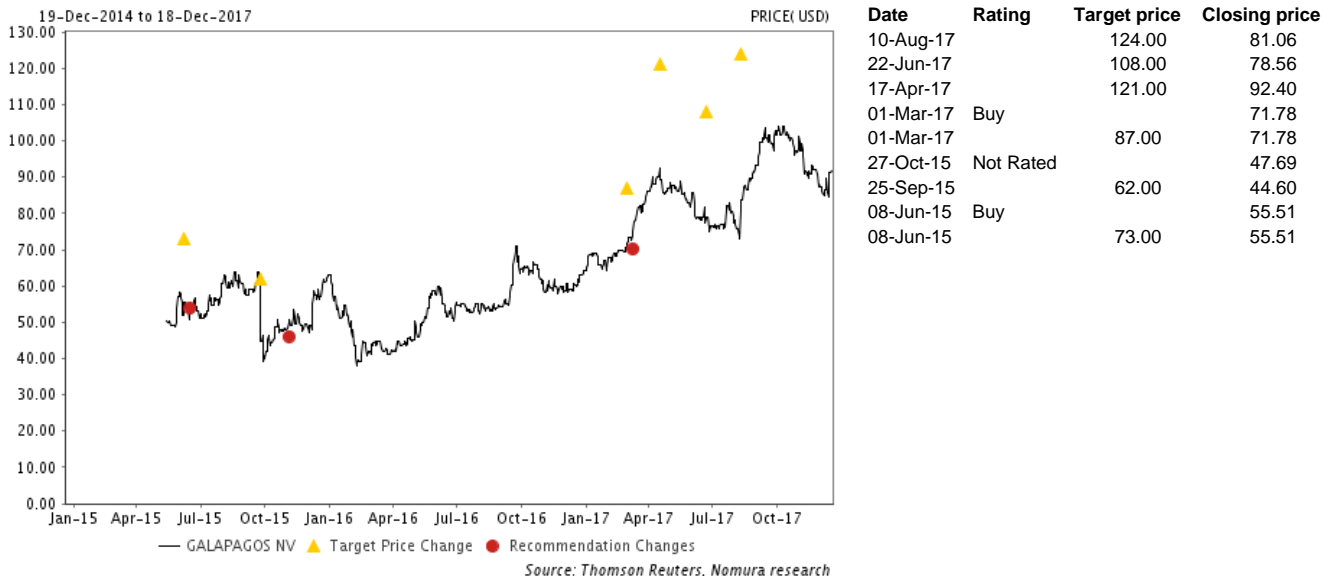
Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Galapagos NV	GLPG US	USD 91.26	19-Dec-2017	Buy	Not rated	A6

A6 The Nomura Group expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.

### Galapagos NV (GLPG US)

USD 91.26 (19-Dec-2017) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



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

**Valuation Methodology** For Galapagos NV (GLPG), we use a top-line revenue multiple valuation, a method widely used for early-stage biotech companies. Our target price of \$124 represents a 6x multiple for EU profit share on filgotinib across inflammatory indications and a 16x multiple for U.S. royalties on filgotinib. In filgotinib for RA, we apply a 15% discount rate, reflecting a lower development risk, as the target, JAK, is already validated by an approved drug in RA. In filgotinib in UC and Crohn's, we apply a 20% discount rate, reflecting a slightly higher risk for these indications, as no JAK inhibitor is approved. For the Cystic Fibrosis program, we use an 18x multiple, reflecting a higher value for the higher-margin orphan program and a 25% discount that reflects a higher development risk. For the IPF program, we use an 8x multiple, reflecting a higher value for the higher-margin orphan program and a 45% 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: The FDA may require Galapagos to present data on the efficacy of the individual triple-combo drugs in the target patient population, which would require the company to conduct a large Phase 2 study. Enrollment of patients in these studies might be challenging, due to the low expectation of efficacy from a single compound. 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 viability. Competitive risk: Baricitinib, a JAK 1/2 inhibitor, was expected to be approved by January 19, 2017. In clinical studies, the drug presented compelling efficacy superior to adalimumab. If baricitinib is found to be safe and approved without a black-box warning, it could take the lion's share of the market. Celgene's mongersen, an SMAD7 anti-sense RNA, showed compelling safety and efficacy profile in a Phase 2 study in CD patients. The compound is in a Phase 3 study and is set to report top-line data by 2H18. If approved, mongersen would have first-mover advantage as the only orally available DMT for Crohn's. 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.

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As at 30 September 2017.

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