

Galapagos NV

Post 1Q update. Next up filgotinib UC data in 2Q'20, success already anticipated in our view

We have updated our GLPG model for 1Q'20 results and to reflect reduced OpEx in 2020, due to the paused enrollment for some Phase II and III filgotinib trials and the postponed starts of earlier stage programs as a result of COVID-19 (1Q first take [here](#)). For FY'20, we reduce OpEx by c.6%/ €41m, with lower R&D (down c.8%/ €45m), only partially offset by slightly higher SG&A (up c.2%/ €4m). Our FY'20 cash burn of c.€415m (excl. potential '1972 opt-in milestone) is now in the middle of the new operational cash burn guidance for "€400m-€430m" (prev. JPMe c.€440m, above top end). Beyond FY'20, we increase OpEx by c.3% out to 2024. **Overall, changes are neutral to our EmV, and hence our unchanged Dec-20 PT of €185/\$200 implies c.14% downside.** The next event is the filgotinib Phase III UC (Ulcerative Colitis) data in 2Q'20 (trial completed as of March 31 on ct.gov), where we see little upside, with success already well anticipated (JPMe include UC sales at 100% POS with global peak sales of €800m). Ahead of this readout, in this note we provide the data available to date for competing JAKs (Janus kinases) in UC, which is discussed in further detail in our recent UC deep dive ([here](#)).

- **Following 1Q'20 results, we update our model for reduced operational cash burn guidance:** In FY'20, we tweak down the recognition of the GILD upfront and lower OpEx by c.6%/ €41m, driven by reduced R&D spend (down c.8%/ €45m) due to COVID-19 recruitment delays. Our cash burn is now in the middle of the new guidance range of "€400m-€430m". Beyond FY'20, our forecasts have changed to reflect slower recognition of the GILD upfront and increased OpEx (up c.3% for 2021-24).
- **Upcoming newsflow, risk lays to the downside on UC readout, though some upside risk on earlier stage readouts in H2'20:** (1.) Phase III (SELECTION) data for filgotinib in UC in 2Q'20, where we believe success is already anticipated and see limited upside; (2.) Filgotinib regulatory approval in RA in 2H'20, where we see low probability of a differentiated label; (3.) Multiple Phase II trial starts for '3970 (2nd gen Toledo) in the autoimmune space, with topline data in patients not expected until 1H'21 (seeing as '3970 has been prioritized, we no longer expect to see clinical data from 1st gen Toledo '3312); (4.) Phase II (PINTA) data for '1205 in IPF in 2H'20, with the development plan for this asset likely to be in combination trials with '1690, for which we will have to wait until 1H'21 for the futility analysis to read out; (5.) Phase II (NOVESA) data for '1690 in SSc (Systemic Sclerosis); and (6.) Phase II (ROCCELLA) data for '1972 in OA (Osteoarthritis). While Phase II data for '1690 in SSc and '1972 in OA could be positive, we note that these trials are higher risk.
- **Our Dec-20 EmV based PT of €185 implies c.14% downside to current levels:** At current levels, based on our Dec-20 EmV based PT of €185, we believe the shares are trading around fair value into key 2020 newsflow.

GLPG.AS, GLPG NA
Neutral
Price: €213.30 (12-May)

Price Target: €185.00 (Dec-20)

GLPG, GLPG US
Neutral
Price: \$225.62 (12-May)

Price Target: \$200.00 (Dec-20)

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Neutral

Company Data	
Shares O/S (mn)	67
52-week range (€)	252.90-98.50
Market cap (\$ mn)	15,528.97
Exchange rate	0.93
Free float(%)	64.1%
3M - Avg daily vol (mn)	0.68
3M - Avg daily val (\$ mn)	134.4
Volatility (90 Day)	63
Index	MSCI Europe
BBG BUY HOLD SELL	8 9 0

Galapagos NV (GLPG.AS;GLPG NA)

Year-end Dec (€)	FY19A	FY20E	FY20E	FY21E	FY21E	FY22E	FY22E
		(Prev)	(Curr)	(Prev)	(Curr)	(Prev)	(Curr)
Revenue (€ mn)	896	741	717	681	669	775	764
Adj. EBITDA (€ mn)	378	17	35	(163)	(196)	(152)	(187)
EBITDA margin	42.2%	2.3%	4.9%	(23.9%)	(29.2%)	(19.6%)	(24.5%)
Adj. net income (€ mn)	150	35	43	(145)	(179)	(136)	(174)
Adj. EPS (€)	2.49	0.52	0.64	(2.24)	(2.76)	(2.11)	(2.68)
BBG EPS (€)	5.32	-	(0.73)	-	(1.60)	-	1.65
Reported EPS (€)	2.49	0.52	0.64	(2.24)	(2.76)	(2.11)	(2.68)
DPS (€)	-	-	-	-	-	-	-
Dividend yield	-	-	-	-	-	-	-
Adj. P/E	85.7	414.0	335.5	NM	NM	NM	NM

Source: Company data, Bloomberg, J.P. Morgan estimates.

Neutral

Company Data	
Shares O/S (mn)	67
52-week range (\$)	274.03-110.92
Market cap (\$ mn)	15,198.90
Exchange rate	1.00
Free float(%)	-
3M - Avg daily vol (mn)	0.19
3M - Avg daily val (\$ mn)	38.4
Volatility (90 Day)	65
Index	MSCI Europe
BBG BUY HOLD SELL	6 5 1

Galapagos NV (GLPG;GLPG US)

Year-end Dec (€)	FY19A	FY20E	FY20E	FY21E	FY21E	FY22E	FY22E
		(Prev)	(Curr)	(Prev)	(Curr)	(Prev)	(Curr)
Revenue (€ mn)	896	741	717	681	669	775	764
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Reported EPS (€)	2.49	0.52	0.64	(2.24)	(2.76)	(2.11)	(2.68)
DPS (€)	-	-	-	-	-	-	-
Dividend yield	-	-	-	-	-	-	-
Adj. P/E	83.8	405.2	328.3	NM	NM	NM	NM

Source: Company data, Bloomberg, J.P. Morgan estimates.

Upcoming Newsflow: Preparing for the Phase III UC data point in 2Q'20

Table 1: Galapagos key upcoming newsflow over next 12 months

Timing	Event	Drug	Mechanism	Indication	Event
2Q'20	Clinical data	Filgotinib	JAK 1	UC	Phase III (SELECTION) data in mod-severe UC (act. completion: Mar-20)
2H'20	Regulatory approval	Filgotinib	JAK 1	RA	Expect US/EU/Japan regulatory approval (PRV suggest PDUFA late Aug)
2H'20	Regulatory approval	Filgotinib	JAK 1	RA	Expect EU/ Japan regulatory approval for Filgotinib in RA
2H'20	Trial starts	GLPG3970	Not disclosed	Inflammation	Phase II POC trial starts in autoimmune space
2H'20	Clinical data	GLPG1972	ADAMTS-5 inhibitor	Knee OA	Phase IIb (ROCCELLA) data of GLPG1972 in osteoarthritis - could trigger GILD opt in
1H'21	Clinical data	GLPG1690	Autotaxin inhibitor	IPF	Futility analysis when 30% of pts have received 52 weeks of therapy
1H'21	Clinical data	GLPG3970	Not disclosed	Inflammation	Phase II data in patients - unlikely to trigger GILD opt in, but possible

UC = Ulcerative Colitis; RA = Rheumatoid Arthritis; OA – Osteoarthritis; IPF = Idiopathic Pulmonary Fibrosis
Source: J.P. Morgan estimates

Phase II filgotinib UC data

As noted in our recent UC deep dive ([here](#)), given read-across from other JAK inhibitors in UC, we expect a positive readout from for filgotinib and, as a result, include UC sales at 100% probability with global peak sales potential of €800m. We see limited upside to this given the number of new therapies potentially entering the UC market, which look strong based on the Phase II data seen to date.

The UC data for Xeljanz (Pfizer) and Rinvoq (Abbvie) look comparable on efficacy in our view (see Table 2), and based on filgotinib having demonstrated a strong profile in RA (with efficacy on par with, if not better than, competing JAKs, and safety potentially best in class), we would expect filgotinib to look as least as good.

Table 2: Phase II/III efficacy data for JAK inhibitors as induction therapy in UC

Company Drug Brand name Target Trial No. Phase	Pfizer Tofacitinib Xeljanz JAK-1 and 3				AbbVie Upadacitinib Rinvoq JAK-1				
	OCTAVE induction 1: NCT01465763 III		OCTAVE induction 2: NCT01458951 III		U-ACHIEVE: NCT02819635 IIb				
Arm	10mg/bid	Pbo	10mg/bid	Pbo	7.5mg/qd	15mg/qd	30mg/qd	45mg/qd	Pbo
N	476	122	429	112	47	49	52	56	46
Baseline characteristics									
Mayo score (mean)	9.0	9.1	9.0	8.9					
Corticosteroid-refractory	73.5%	80.3%	70.6%	74.1%					
TNF-refractory	51.1%	52.5%	51.7%	53.6%					
Concomitant med. (%)									
Corticosteroids	45.0%	47.5%	46.2%	49.1%					
Efficacy	Week 8		Week 8		Week 8				
All comers	N = 476	N = 122	N = 429	N = 112	N = 47	N = 49	N = 52	N = 56	N = 46
Clinical Response	60%	33%	55%	29%	30%	45%	44%	50%	13%
Placebo - adjusted	27%		26%		17%	32%	31%	37%	
p-value	<0.001		<0.001		<0.05	<0.001	<0.001	<0.001	
Clinical Remission	19%	8%	17%	4%	9%	10%	12%	20%	0%
Placebo - adjusted	10%		13%		9%	10%	12%	20%	
p-value	0.007		<0.001		nm	<0.05	<0.05	<0.01	
Mucosal healing	31%	16%	28%	12%					
Placebo - adjusted	16%		17%						
p-value	<0.001		<0.001						
TNF naïve	N = 222	N = 57	N = 195	N = 47					
Clinical Remission	25%	16%	22%	9%					
Placebo - adjusted	9%		14%						
p-value	nm		nm						
TNF refractory	N = 243	N = 64	N = 222	N = 60					
Clinical Remission	11%	2%	12%	0%					
Placebo - adjusted	10%		12%						
p-value	nm		nm						

Source: J.P. Morgan research, Clinical data

Forecast Changes

Table 3: Galapagos forecast changes (€'000, except per share data)

	2020E	2021E	2022E	2023E	2024E	2021-24 ECAGR
Net Revenues						
Old	740,564	680,735	775,249	1,225,410	1,269,056	23.1%
New	717,402	669,422	764,136	1,215,385	1,259,359	23.4%
Diff - %	-3.1%	-1.7%	-1.4%	-0.8%	-0.8%	
Diff Abs	(23,161)	(11,313)	(11,113)	(10,025)	(9,697)	
SG&A						
Old	144,819	186,410	219,982	239,767	252,998	10.7%
New	148,382	191,585	226,558	247,279	261,381	10.9%
Diff - %	2.5%	2.8%	3.0%	3.1%	3.3%	
Diff Abs	3,562	5,175	6,576	7,512	8,384	
R&D						
Old	584,900	656,450	697,475	736,488	768,700	5.4%
New	540,013	672,759	714,634	758,574	794,838	5.7%
Diff - %	-7.7%	2.5%	2.5%	3.0%	3.4%	
Diff Abs	(44,887)	16,309	17,159	22,086	26,138	
Operating income (loss)						
Old	8,852	(170,988)	(160,671)	216,322	191,795	-203.9%
New	27,011	(203,804)	(195,559)	176,628	147,455	-189.8%
Diff - %	205.1%	19.2%	21.7%	-18.3%	-23.1%	
Diff Abs	18,159	(32,817)	(34,888)	(39,695)	(44,340)	
Basic EPS						
Old	0.87	0.42	2.39	5.87	6.71	152.2%
New	0.66	(2.76)	(2.68)	2.98	2.47	-196.4%
Diff - %	-24.2%	-759.4%	-211.9%	-49.3%	-63.2%	
Diff Abs	(0.21)	(3.18)	(5.07)	(2.90)	(4.24)	
Operational cash burn*						
Old	(233,920)	(561,780)	(569,239)	(251,209)	56,680	-146.6%
New	(206,887)	(577,597)	(596,566)	(281,670)	18,222	-131.6%
Diff - %	-11.6%	2.8%	4.8%	12.1%	-67.9%	
Diff Abs	27,033	(15,816)	(27,327)	(30,461)	(38,459)	

*FY'20 cash burn includes potential '1972 opt-in milestone

Source: J.P. Morgan estimates

Valuation

Dec-20 PT unchanged at €185/ \$200 for the shares/ ADR

We value Galapagos using our Embedded Value (EmV) methodology (product by product NPV), which informs our Dec-20 price target of €185 per share for the GLPG share and \$200 for the GLPG ADR.

Figure 1: Galapagos Embedded Value Analysis (€m, except per share data)

Galapagos Embedded Value (NPV per Share)										WACC	7.7%
Royalties and product sales											
Product	Indication	Partner	Unadj. Peak Sales (€m)	Risk Adj.	Risk adj. Peak Sales (€m)	Royalty rate - US/ Int'l	Profit Share - EU	EmV (€m)	EmV/Share (€)	% of total	
Filgotinib	RA	Gilead	2,600	100%	2,600	20-30%	50%	4,175	62.0	33.6%	
Filgotinib	CD	Gilead	600	70%	420	20-30%	50%	497	7.4	4.0%	
Filgotinib	UC	Gilead	800	100%	800	20-30%	50%	1,417	21.0	11.4%	
Filgotinib	PsA	Gilead	360	70%	252	20-30%	50%	327	4.9	2.6%	
Filgotinib	AS	Gilead	360	70%	252	20-30%	50%	317	4.7	2.6%	
Filgotinib Milestones								446	6.6	3.6%	
Filgotinib sales force								(594)	(8.8)	-4.8%	
Filgotinib R&D spend								(640)	(9.5)	-5.2%	
Total Filgotinib		Gilead	4,720	92%	4,324			5,946	88.3	47.9%	
GLPG1690 - US	IPF	Gilead	1,500	50%	750	20-24%	-	812	12.1	6.5%	
GLPG1690 - EU	IPF	-	500	50%	250	-	-	654	9.7	5.3%	
GLPG1690 - US	SSc	Gilead	1,000	20%	200	20-24%	-	199	2.9	1.6%	
GLPG1690 - EU	SSc	-	500	20%	100	-	-	263	3.9	2.1%	
GLPG1972 - US	OA	Gilead (option)	1,900	20%	380	20-24%	-	475	7.0	3.8%	
GLPG1972 - EU	OA	Servier (ex-US)	300	20%	60	20%	-	57	0.9	0.5%	
MOR106	ATD	Novartis	900	0%	-	6-12%	-	-	-	-	
Cystic Fibrosis	CF	AbbVie	-	-	-	-	-	-	-	-	
Total Royalties and Product sales			11,320	54%	6,064			8,405	124.8	67.7%	
Other											
General and Admin Cost								(914)	(13.6)	-7.4%	
Selling and Marketing - other								(99)	(1.5)	-0.8%	
R&D								(602)	(8.9)	-4.8%	
Capex								(156)	(2.3)	-1.3%	
Cash and Cash Equivalents								5,781	85.8	46.6%	
Total Other								4,009	59.5	32.3%	
Total EmV								12,414	184.3	100.0%	

Source: J.P. Morgan estimates

Investment Thesis, Valuation and Risks

Galapagos NV *(Neutral; Price Target: €185.00)*

Investment Thesis

Remain Neutral as the stock is now at fair value in our view. Looking into the rest of 2020, we do see potential positive catalysts including filgotinib data in Ulcerative Colitis from the Phase III SELECTION-1 trial as well as potential regulatory approval of filgotinib in RA in 2H'20, however at current levels much of the upside seems to be priced in. We leave our Dec-20 PT of €185/ \$200 per GLPG share/ GLPG ADR unchanged.

Valuation

We value Galapagos using our Embedded Value methodology (product by product NPV analysis), which informs our Dec-20 price target of €185 per share for the GLPG share and \$200 for the GLPG ADR. In our EmV we include c.€88.3 per share relating to filgotinib royalties, profit share and related commercial and R&D costs in autoimmune indications. From the other pipeline we include €28.6 per share for GLPG1690 (€21.8 in Idiopathic Pulmonary Fibrosis and €6.8 in Systemic Sclerosis) and €7.9 per share for GLPG1972 in Osteoarthritis. We include cash of €5.8bn, being €85.8 per share. Offsetting this, we include SG&A costs of -€13.6 per share, R&D of -€8.9 per share and Capex of -€2.3 per share. This leads to an EmV of €184.3 per share, which informs our Dec-20 PT of €185. For the ADR, we translate our GLPG NV value into USD using a €:\$ FX rate of 1.08, giving \$200.

Risks to Rating and Price Target

Upside risks

- Filgotinib label could be differentiated on safety following potential FDA approval, which could lead to faster update in RA.
- Exceptional clinical data for the TOLEDO assets and acceleration of the investment in clinical development could drive NPV upside.
- Earlier than anticipated clinical data for the ISABELA trials in IPF (GLPG1690) could drive upside if the interim analysis is successful.

Downside risks

- Regulatory risk surrounding filgotinib filing and approval, clinical trial risk from the ISABELA programme in IPF and ROCCELLA in OA.
- The key markets for filgotinib (RA, CD, UC, PsA and AS) are competitive, with the potential for additional competition within the JAK class from ABBV's upadacitinib, this could impact the commercial potential of filgotinib.
- Galapagos has no experience in commercialising assets, therefore it may not be able to extract the full value from GLPG1690 or other pipeline assets with the European commercialisation.

The same risks apply to the Galapagos ADR.

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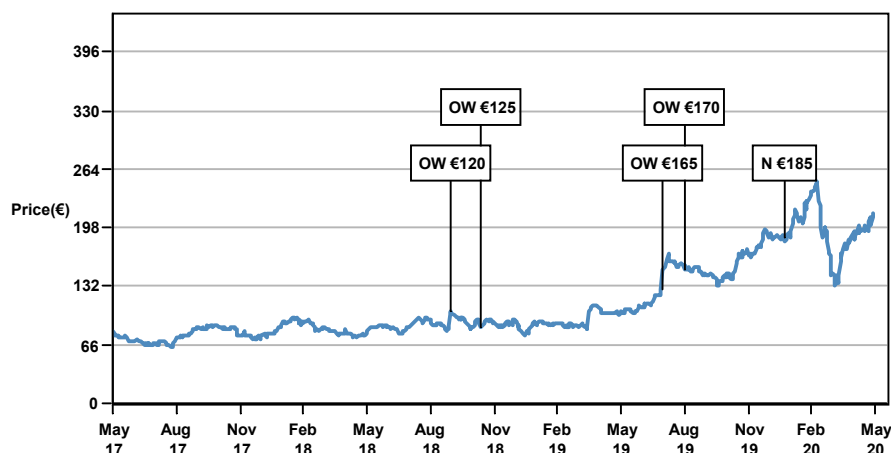
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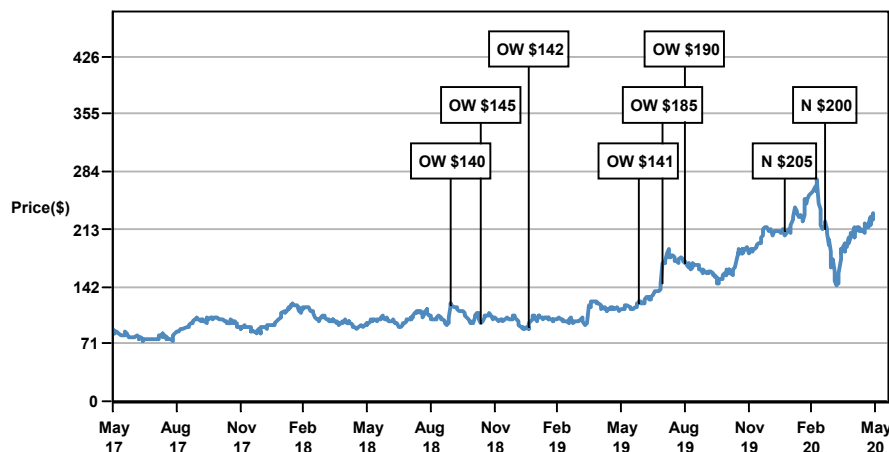
Galapagos (GLPG.AS, GLPG NA) Price Chart



Date	Rating	Price (€)	Price Target (€)
13-Sep-18	OW	104.55	120
26-Oct-18	OW	86.04	125
15-Jul-19	OW	128.15	165
15-Aug-19	OW	152.05	170
06-Jan-20	N	188.40	185

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Sep 12, 2018. All share prices are as of market close on the previous business day.

Galapagos ADR (GLPG, GLPG US) Price Chart



Date	Rating	Price (\$)	Price Target (\$)
13-Sep-18	OW	119.71	140
26-Oct-18	OW	97.04	145
02-Jan-19	OW	91.74	142
10-Jun-19	OW	120.42	141
15-Jul-19	OW	145.75	185
15-Aug-19	OW	169.59	190
06-Jan-20	N	209.08	205
02-Mar-20	N	211.36	200

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Sep 12, 2018. All share prices are as of market close on the previous business day.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

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	Overweight (buy)	Neutral (hold)	Underweight (sell)
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IB clients*	52%	49%	37%
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IB clients*	75%	68%	57%

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