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Galapagos - AbbVie's Best Bet For Staying Market Leader In Rheumatoid Arthritis Post Humira?

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Summary

- AbbVie has 7 drugs in clinical development for Rheumatoid Arthritis to potentially succeed the world's bestselling drug Humira that will be running of patent between end 2016 and 2018.
- Galapagos' oral GLPG0634 JAK1 inhibitor is leading the pack reflected by a $1,3 billion (plus double digit royalties) development and commercialization deal and promising clinical results.
- Market capitalization of Galapagos is only $ 400-500 million, despite cash and cash equivalents of $ 250-300 million by end 2014.
- Upon indication or confirmation that AbbVie will move Galapagos' gem to Phase III for Rheumatoid Arthritis, the risk-adjusted net present value of Galapagos increases to a multiple of the current.
- Topline Phase IIb results expected for March 2015 will provide a strong indication of prospects of GLPG0634 becoming a blockbuster.

Galapagos (GLPG.AS) is a mid-size clinical stage biotech company headquartered in Belgium. It is specialized in the discovery and development of small molecule and antibody therapies with novel modes-of-action. Galapagos focuses on studying disease process and key points of intervention, developing new drugs that aim to stop the disease rather than treat symptoms. Galapagos has discovered drug targets (starting points for the development of novel drugs) using cells from patients for more than fifteen diseases. These targets form the basis of drug discovery programs aimed at identifying small molecules or antibodies that alter the activity of these proteins, thereby changing the course of the disease. The Galapagos Group has around 400 employees, operating from its Mechelen, Belgium headquarters and facilities in The Netherlands, France, and Croatia. Charles River (NYSE:CRL) acquired the Galapagos subsidiaries BioFocus and Argenta service operations on 1 April 2014, substantially increasing Galapagos cash balances. Galapagos (ISIN BE0003818359) is traded on the Euronext Amsterdam (GLPG.AS) and the Euronext Brussels (GLPG.BR). Trading on the US OTC market (OTC:GLPGF) is extremely thin. The Company is considering filing for a NASDAQ notation shortly.

Galapagos has a broad pipeline, with three Phase II programs, two Phase I programs, five pre-clinical, and more than 20 discovery programs focusing on the discovery of small-molecule and antibody programs in cystic fibrosis, inflammation, antibiotics, metabolic disease, and other indications. A closer look at the pipeline however shows that most programs are still very far from market with very uncertain - and generally low - net present value. The prospect for substantial profits in the medium-term relies heavily on the success of a single, potential blockbuster, programme: GLPG0634, which is an orally-available, selective inhibitor of JAK1 (Janus Kinase 1) for the treatment of rheumatoid arthritis and potentially other inflammatory diseases (now treated with tumor necrosis factor (TNF) injections).

We calculate a risk-adjusted net present value of Galapagos, based on analysis and informed assumptions of clinical and commercial prospects and risks: market size, peak market share, timing, risks, competitors, price, margin, cost of capital, etc.

We focus our analysis of valuing Galapagos on GLPG0634 for Rheumatoid Arthritis which is the main driver of company value in the short and medium term.

Rheumatoid arthritis

Rheumatoid arthritis is a chronic disease in which the immune system mistakenly attacks healthy tissue, causing inflammation in and around joints. Treatments suppress the immune system and can increase vulnerability to infection. The treatment market is dominated by injections that block a protein called tumor necrosis factor (TNF), that's overproduced by patients with rheumatoid arthritis. Treatments for RA in general are also effective against other related indications.

The AbbVie - Galapagos deal

On 29 February 2012, AbbVie (NYSE:ABBV) and Galapagos signed a $1.3 billion plus double-digit royalties deal for the development and commercialization of GLPG0634. Under the terms of the agreement, AbbVie made an initial upfront payment of $150 million for rights related to the global collaboration. Upon successful completion of the RA Phase II studies, AbbVie will license the program for a one-time fee of $200 million if the studies meet pre-agreed criteria. AbbVie has sole responsibility for Phase III clinical development and global manufacturing. Galapagos would potentially be eligible to receive additional milestone payments amounting to $1.0 billion, in addition to tiered double-digit royalties on net sales upon commercialization. On 17 May 2013 Galapagos announced an extension of their GLPG0634 clinical development collaboration to include Crohn's disease on similar terms as those for RA. Upon successful completion of the Phase II study, expected in Q2 2015, AbbVie will pay Galapagos a $50 million milestone and fund and perform clinical development beyond Phase II, and complete regulatory and commercialization activities. If the Phase II studies confirm the promising earlier results on safety and efficacy, we expect AbbVie and Galapagos to start new programs with GLPG0634 for other related indications, leading to further upfront and milestone payments and higher targeted market size.

Clinical studies

In November 2011 Galapagos announced that GLPG0634 achieved the primary endpoint of significant improvement in the signs and symptoms of rheumatoid arthritis at four weeks in a single center Phase II study. A second Phase II, dose-range finding clinical trial in multiple centers, reported in November 2012, confirmed these positive results. Galapagos started a Phase IIB clinical program with GLPG0634 in June 2013. The Phase IIB program, named DARWIN (Drug Against Rheumatoid Arthritis With Selective JAK1 INhibition) includes 2 dose finding studies, Darwin 1 and Darwin 2, and an open label extension study, Darwin 3. All patients received methotrexate but no longer have an adequate therapeutic response to this first-line therapy in RA. The dose finding studies will evaluate the efficacy and safety of GLPG0634 with 24 weeks of treatment in 875 moderate to severe RA patients refractory to first-line treatment methotrexate. Galapagos expects to report 12-week topline data from the Phase IIB program in Q1 2015.

In January 2014, Galapagos started a Phase II study with GLPG0634 in Crohn's disease. This study will evaluate the efficacy and safety of GLPG0634 during 20 weeks of treatment in 180 patients with active Crohn's disease. Galapagos expects to read out topline results in Q2 2015.

Market size and key players

Reports and projections on market size for rheumatoid arthritis widely differ depending on definitions and analyst group. Decision Resources Group finds that the rheumatoid arthritis disease-modifying anti-rheumatic drug market will increase to over $18.2 billion in 2023 in the United States, France, Germany, Italy, Spain, the United Kingdom and Japan. GBI Research suggests that the rheumatoid arthritis market is set to increase to $26.9 billion by 2018. Visiongain predicts the world rheumatoid arthritis drug market will generate revenue of $38.5bn in 2017. When considering wider definitions of the market, GBI Research projects that the global arthritis therapeutics market will reach $38 billion in 2018. The market share of rheumatoid arthritis, osteoarthritis, psoriatic arthritis and ankylosing spondylitis in the overall arthritis market was 68%, 22%, 7.4% and 2.6%, respectively. EvaluatePharma forecasts the anti-rheumatics market to reach $52.1 billion in revenues in 2018.

AbbVies Humira currently dominates the market. EvaluatePharma projects that Humira will reach peak sales in 2016 of $11.5 billion before sales taper off, as Humira is coming close to the end of its patent exclusivity. Humira targets a wide range of indications including Rheumatoid Arthritis, Plaque Psoriasis, Crohn's Disease, Ulcerative Colitis, Psoriatic Arthritis and Ankylosing Spondylitis. Based on AbbVie's SEC filing, the U.S. patent for Humira is expected to expire in December 2016 and in the majority of the European countries by April 2018.

For our valuation we estimate the total global market size for GLPG0634 (including for Crohn) at $26 billion dollar by 2019, growing at 6% per year due to ageing populations and new drug development. Other main RA drugs on the market are Remicade (NYSE:JNJ), Enbrel (NASDAQ:AMGN), Rituxan (OTCQX:RHHBY), Celebrex (NYSE:PFE), Orencia (NYSE:BMY) and Arcoxia (NYSE:MRK), and recently Pfizer's JAK-inhibitor Xeljanz. In addition, new drugs are close to approval.

Market share for JAK-inhibitors

The rheumatoid arthritis market is now dominated by injections with TNF-alpha inhibitors. Most analysts expect that TNFs will remain the leading drug class in both sales and patient shares in the RA market even in the early 2020s.

Projections for the ability of oral medications based on JAK inhibitors and other novel technologies to take market share away from TNF injections differs widely. Several analyst reports project hard times for JAKs to gain substantial market share on TNFs and biosimilars. The convenience benefit of an oral treatment may not easily outweigh e.g. Humira's alleged safety and efficacy record. While not immaculate, health risks are known and recorded. TNF-alpha inhibitors allegedly are deeply entrenched as first-line biologics in the RA treatment algorithm, as rheumatologists remain relatively satisfied with their efficacy and are comfortable with their long-term safety profiles. It will be important to build up an acceptable post-marketing safety profile, most likely after two to three years on the market.

Moreover, the uptake of biosimilars of TNF-alpha inhibitors will limit the market share of JAK inhibitors, as low-cost biosimilars of major TNF-alpha inhibitors (Remicade, Enbrel and Humira) are expected to launch starting 2015.

Initially, the JAKs are likely to take market share of RA patients that fail to respond to first-line treatment. Estimates of biologic-treated RA patients that do not respond to the currently marketed biologics are in the range of 15 to 40 percent.

However, some drawbacks of TNF-alpha inhibitor treatment may contribute to a higher pick-up of JAKs than many analysts expect if the JAKs efficacy and safety profile is enhanced compared to Xeljanz. While currently approved TNF's and biosimilars offer a robust and rapid response, efficacy tends to dissipate over time. One factor contributing to the loss of TNF response over time is the development of antidrug antibodies. In addition, there have been concerns that anti-TNF antibodies can lead to cancer in children and adolescents. On the Humira.com Homepage a prominent safety warning stresses that "*serious infections have happened in people taking HUMIRA. These serious infections include tuberculosis (TB) and infections caused by viruses, fungi, or bacteria that have spread throughout the body. Some people have died from these infections. HUMIRA may increase the chance of getting lymphoma, including a rare kind, or other cancers. HUMIRA can cause serious side effects including hepatitis B infection in carriers of the virus, allergic reactions, nervous system problems, blood problems, heart failure, certain immune reactions including a lupus-like syndrome, liver problems, and new or worsening psoriasis*."

Concluding, safe and effective JAKs should be able to grab a substantial market share, but they face some headwinds in the short run, and need to establish a long-term safety and efficacy record.

Pharmacor advisory service finds that, as the number of effective alternative biologics and oral kinase inhibitors increases, and following the entry of biosimilars of several agents in the TNF-alpha inhibitor class starting in 2015, TNF-alpha inhibitors' market share will fall from 73 to 53 percent in 2022. We consider that the TNF share will fall further especially towards the mid-2020s when the second wave of JAKs, including GLPG0634 if pursued, will have established a long-term efficacy and safety record.

Based on these broad considerations and analysis, we project a relevant market share for all JAK-inhibitors in the RA market of around 30% by 2023.

Market share for Galapagos' JAK1 inhibitor

There are a number of JAK-based competitors. Pfizer's Xeljanz is already FDA approved and on the market. Incyte/Lilly's baricitinib is in Phase III. Vertex' VX-509, Astellas/JnJ ASP015K and AbbVie's own ABT-494 are all in Phase II. GLPG 0634 and ABT-494 are the only programs solely based on JAK1. Phase II data of GLPG0634 suggested a better efficacy and safety profile than other JAK inhibitors currently in development. If confirmed in Phase IIb and Phase III, it may be a winner despite arriving later to the market than Xeljanz and Baricitinib (NYSE:LLY).

The high price that AbbVie was willing to pay for the GLPG634 deal indicates that AbbVie considered it to be the best in the "new wave" of pills. AbbVie won a bidding process that included most of the key players in the market. GLPG0634 is different from other JAK inhibitors in development that it specifically targets JAK1, a strategy that may result in a better efficacy and safety profile. The fact that GLPG0634 only focuses on JAK1 and avoids inhibition of JAK2 is a unique advantage as inhibition of JAK2 has shown anemia and reduced formation of blood cells in trials, side effects that have been highlighted in the EMA rejection of Xeljanz.

If AbbVie takes GLPG0634 forward, it is a strong confirmation that prospects for substantial market share are very good. Payment of the license fee, costs of Phase III studies and expenses towards FDA approval and commercialization are likely exceeding $ 0,6 billion. Proceeding with it would reflect trust of AbbVie in a blockbuster success.

The brand name and sales network of the market leader (AbbVie) that dominates the market should further contribute to high chances of commercial success once the Phase IIb hurdle is taken.

Evaluatepharma expects the first-to-market JAK-inhibitor Xeljanz to be the fourth-best-selling drug for RA by 2018 with projected sales of $2.7 billion. Due to better safety and efficacy, GLPG0634 should be able to grasp a higher

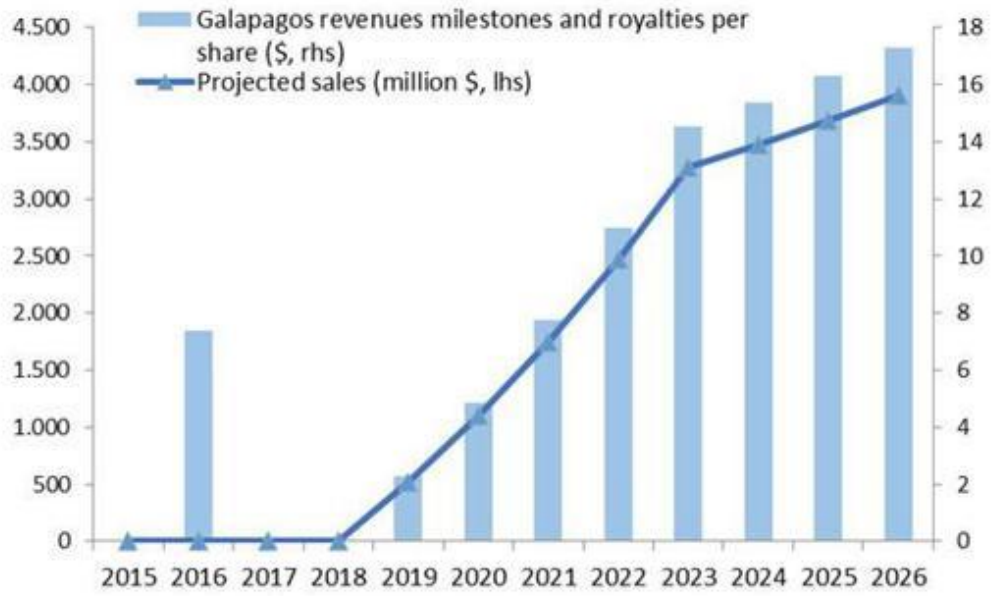
market share in the early 2020s. Galapagos CEO Van de Stolpe when signing the AbbVie RA deal refered to peak sales in the range $2 billion to $5 billion. When a broader market with other indications is considered (similar to Humira), higher peak sales are possible.

Based on excellent safety and efficacy and a strong partner, we consider a market share of 10% of the total relevant market by 2023 a realistic conservative estimate, i.e. GLPG0634 would take 1/3 of the market share taken by JAKs, while TNFs and biosimilars would (continue to) dominate the market. The market share would probably be at the lower end of AbbVie's projections as it selected GLPG0634 to preserve its market dominance. If successful, much higher shares are possible.

Pricing will be a tricky issue. It will depend on the strength of the clinical results in Phase IIb and Phase III studies compared to TNFs and competitors, and on general developments in the health plan and health insurance market. Xeljanz is under pressure for its pricing at about $25,000 a year, broadly in line with TNF pricing, but expensive compared to the $1,000 of a cocktail based on a combination of methotrexate and two other generics that is claimed to have similar effects as Amgen's Enbrel in a New England Journal of Medicine Study. Pricing pressures may affect future sales and margins of GLPG0634.

For our valuation we consider $3 billion dollar sales of GLPG0634 across markets by 2023, i.e. 1/3 of the market for JAK-inhibitors.

Graph 1 – Projected sales and Galapagos' revenues per share (in $) in case of successful FDA approval and commercialization of GLPG0634 starting end 2018, early 2019



Source: SNJ-Biostoxx

Note: (i) Projections for Crohn are added to RA. As for RA, Crohn competition may be stiff with a large number of firms competing and sizable number of new drugs in advanced clinical stages (including based on TNFs, JAKs, stemcells, antibiotics, MAdCAM, Glucocorticoid Receptor, Integrin α4β7/α4β1). Due to strong partnering, we assume a 10% market share can be achieved by 2023.

Valuation details GLPG0634 for RA and Crohn

Share price target calculation is based on scenarios for risk-adjusted Net Present Values of future cash flows, discounted at a rate reflecting high riskiness of the biotech business. Our scenarios and risk parameters are based on actual developments and prospects sketched in company presentations, and our market analysis.

We consider a total market size combined for RA and Crohn of $ 26 billion in 2019, growing at 6% per annum due to ageing, inflation and new product availability. GLPG0634 market share increases to 10% by 2023, with a ramp starting in 2019. As we have no information on the agreed tiered structure of the double-digit royalties, a flat 12% royalty rate is assumed. No expenses are considered for Galapagos related to GLPG0634 and all overhead is attributed in valuation of other programmes. No revenues after 2029 are considered as patent expires in 2030. The USD/EUR exchange rate is set at 1,25. The annual discount rate of future cash flows is 15%.

For the valuation of Galapagos before March 2015 when topline results on RA are released, we set a very conservative probability of AbbVie moving GLPG to Phase III (for Crohn and RA) of 40%. The probability of achieving FDA approval once Phase III has been initiated by AbbVie is set at 80%. And the probability of achieving a significant commercially viable market share once FDA approval is granted is also set at 80%. Combining these probability assumptions, the implicit probability of GLPG0634 becoming a blockbuster is assumed to be 26%. Once AbbVie takes it to Phase III, this probability increases to 64%.

This conservative risk assessment reflects concerns that have arisen over the past 6 months on several grounds. First, GlaxoSmithKline (NYSE:GSK) pulled the plug on the whole anti-inflammatory project with Galapagos (GSK184) on all three indications (lupus, ulcerative colitis and psoriasis). GSK184 is an orally administered JAK1 inhibitor for chronic immune-inflammatory diseases partnered with Galapagos in 2006. On Phase II results of lupus only GSK cited that the treatment's overall risk-benefit profile was disappointing after it performed poorly on a drug-drug-interaction study with statins (cholesterol-lowering drugs) and effectiveness was disappointing on initial Phase II results for lupus. Galapagos CEO Onno van Stolpe clarified that Galapagos initially did not consider developing GSK184 for lupus but proceeded with it on GSK's insistance. The GSK decision to end all programmes on the basis of lupus Phase II results is remarkable considering that GSK disclosed good efficacy and safety in psoriasis on 6 November 2014 after the decision to end the programme. Second, recruitment delays pushed back top-line data from the Phase II(b) trials of selective JAK1 inhibitor GLPG634 in rheumatoid arthritis patients from end 2014 to Q1 2015. Third, Galapagos free fatty acid receptor 2 (FFA2) inhibitor, GLPG974, failed to demonstrate clinical benefit in ulcerative colitis in Phase II.

Moreover, general doubts on JAK-based drugs arose as other programs were ended in late clinical stage (e.g. Sanofi discontinued its fedratinib for myelofibrosis (MF) in Phase III in December 2013) over side-effects, raising general concerns on the safety and effectiveness of JAK inhibitors. Safety concerns on JAKs were further heightened in 2013, as the European Medicines Agency decided not to approve Pfizer's JAK-based treatment of rheumatoid arthritis Xeljanz (also known as tofacitinib), which was the first JAK-based RA treatment to have won FA approval in 2012. It considered that the JAK-inhibitor did not show a sufficiently consistent reduction in disease activity and structural damage to joints; it noted considerable and unresolved safety concerns, and risk of serious side effects, such as liver damage, problems with increased lipid blood levels, certain cancers, and gastro-intestinal perforations. And market share projections of the RA market for JAKs have been lowered in recent years as Pfizers JAK-inhibitor Xeljanz uptake disappoints and cheaper alternatives (drug cocktail based on generics) are advocated.

Together, despite very strong results in earlier clinical trials, these developments have lowered expectations on successful completion of the GLPG0634 Phase II(b) JAK1 programs and its ability to gain substantial market share, resulting in a sharp decline in the Galapagos share price in 2014. While many of the concerns may not directly relate to the selective JAK1 inhibitor GLPG0634, they may adversely affect AbbVie's decision to proceed with the program in 2015 unless results of the clinical trials are very strong.

Though we set a conservative probability of AbbVie proceeding the programme to Phase III on the basis of these concerns, we do note a number of indications that point to a higher probability of success: 1. In September 2014, Galapagos announced that over 90% of the patients who had completed Darwin 1 and Darwin 2 participation had chosen to participate in Darwin 3, in which all patients will receive long term treatment with GLPG0634. As most patients had access to alternative treatment including Humira, this appears to indicate believe in efficacy and safety by patients and treating physicians; 2. Galapagos CEO Onno Van Stolpe noted end October 2014 that a dedicated GLPG0634 project team at AbbVie is fully proceeding with preparations of Phase III, including production process and design of pills; 3. AbbVie's efforts and resources dedicated to the development of its own JAK1 inhibitor ABT-494 are much smaller than those dedicated to the development of GLPG0634 (e.g. size of clinical studies).

Table 1 - Key figures of GLPG0634 main scenario (10% market share)

GLPG royalties	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total market (billion $)	20,6	21,8	23,1	24,5	26,0	27,5	29,2	30,9	32,8
GLPG 634 total net sales (million $)	0	0	0	0	519	1.101	1.750	2.474	3.278
GLPG 634 royalties + milestones cash flow (million $)	0	250	0	0	62	132	210	297	393

Source: SNJ-Biostoxx

On the basis of these assumptions and model simulations, the risk-adjusted net present value of GLPG0634 now is EUR 7 per share. It will increase to EUR 18 upon AbbVie's decision to proceed to Phase III. Reduced uncertainty (reflected in a lower discount rate and risk-adjustment), or higher peak market estimates could raise the net present value of GLPG0634 to a multiple of EUR 18.

Valuation of the remaining pipeline

In addition to the above mentioned programs (GSK184, GLPG0974 and GLPG0634), the remaining pipeline is at early stage and distant to market commercialization. Valuation or pricing of the programs is very strongly subject to assumptions in the very far future.

Most advanced is GLPG1205. Galapagos is to progress GLPG1205 into a Phase 2A study in Inflammatory Bowel Disease (IBD). GLPG1205 is a first-in-class molecule for inflammatory disorders like inflammatory bowel disease that is developed in partnership with Janssen Pharmaceutica NV, a Johnson & Johnson company. GLPG1690, a novel mode of action discovered by Galapagos with potential application in pulmonary diseases has just started a Phase I clinical study. GLPG1790 preclinical is a promising selective small molecule inhibitor of the ephrin receptor kinase family, which could play a key role in melanoma, pancreatic, ovarian, prostatic, and colorectal cancers, in addition to triple-negative breast cancer. AbbVie and Galapagos signed an agreement in cystic fibrosis to develop and commercialize molecules that address mutations in the CFTR gene. GLPG1837 is a promising potentiator at the pre-clinical candidate stage. Galapagos is also moving forward with the Servier-aligned GLPG1972 for osteoarthritis, a pulmonary disease drug co-developed with Johnson & Johnson and a proprietary MRSA treatment called GLPG1492.

With our model-based analysis we currently attaches a total risk-adjusted (net present) value of 4 Euro per share to the total of these programs, including the effect of potential milestones, royalties, (overhead) expenses, risks and substantial discount rates. We note however that this is subject to a large degree of uncertainty and changes in model input settings (market size, market share, time to market and especially risk factors) lead to significantly different risk-adjusted net present value of these programs.

We do note though that Galapagos has been successful in agreeing large deals with major pharmaceutical companies that included sizeable upfront- and milestone payments. Between 2006 and 2014, cash revenues related to strategic alliances amounted to $ 530 million. Any new major deals with sizable milestone payments exceeding projected expenses can contribute to share value. We consider sizeable partnership deals with large milestones and cost sharing possible or even likely on the cancer program (GLPG1790), MRSA program (GLPG1492) and the anti-bacterial platform. While commercial-sales cash-flows are far in the future, major deals with upfront- and milestone payments could contribute to a positive cash flow and risk profile on these programs already in clinical development stage and thus to the net present value of the company. We will revalue the company on the basis of new deals when they are made.

The risk adjusted value of the other programs net of cost is currently valued at just above EUR 100 million as any net revenues that can be attributed to shareholders are far in the future, while overhead and development costs are sizeable. Success or failure of GLPG0634 affects the risk profile of the other projects. Value of other programs goes up with success of GLPG0634 as credibility and ability to make new deals increases and risks reduce.

Total valuation of Galapagos shares

The main risks and drawbacks of Galapagos can be summarized as follows. Apart from rheumatoid arthritis and Crohn (GLPG0634), only the early stage pipeline products seem at this stage to have very promising clinical and market prospects. The low market price reflects serious concerns on possible side-effects of JAK inhibitors in general and on Galapagos' programs. Recently four other Galapagos programs (3 JAK-based) disappointed in Phase II. Galapagos partner on GLPG0634, AbbVie, also develops its own proprietary JAK1 inhibitor for RA currently in Phase II (ABT-494), and has another 5 RA programs currently in clinical Phase II (ABT-122, ABT-981, ABT-RTA 408, ALX-0061, BT-061). The value of Galapagos is highly dependent on the results of a single study making the stock highly speculative at this stage.

But the company seems very cheap with a market capitalization at EUR 11 per share, valuing the company at $400-450 million. End-of-year cash balances and cash equivalents are projected to be above EUR 200 million ($250 million), consisting of more than EUR 175 million cash and a deferred subsidy of more than EUR 30 million of the French government. CEO Onno Van Stolpe hinted at overachievement of the EUR 175 million end of year cash balance guidance at a recent investor meeting. This implies that the total value of the (pre)clinical pipeline, patents, programs, partnerships and deals is less than $200 million. Considering that successful conclusion of the GLPG0634 Phase II programs comes with milestones of up to $ 250 million by end 2015, total cash balances could actually equal or exceed the current share price in case only that single program reaches its Phase II(b) targets. From that perspective the share price seems a true bargain. The large cash buffer implies that there is no need for capital increases and dilution in the near future, especially as expenses will drop once the expensive GLPG0634 Phase IIb studies are completed. GLPG634 has real blockbuster potential and the the company can show a track record of major deals with strong partners, with large upfront payments and milestones. Partners include AbbVie, Johnson and Johnson, Servier, MorphoSys. The company's valuation could be positively affected by a NASDAQ listing (which it consideration currently), as biotech valuation in the US is a multiple of that in Europe.

Success of the GLPG0634 Phase II studies would be a major boost to the value of the company and failure a major set-back. Upon indication or confirmation that AbbVie will move GLPG0634 to Phase III for Rheumatoid Arthritis and Crohn disease, the risk-adjusted net present value of Galapagos increases to a multiple of the current share price. Uncertainty on Galapagos' future prospects - both clinically and commercially - declines dramatically: As AbbVie decides to invest another $0,6 billion in the licensing fees and development, it provides a strong indication

of its commercial focus on GLPG0634 over its other programs. In case the Phase IIb results are convincing and partner AbbVie proceeds to launching Phase III as planned by end 2015, we may raise our Galapagos price target to the range 25-35 euro. In case of failure, our price target may be reduced to the range 5-10 euro as the company will be set back for years and uncertainty on the technological platform and long-term potential of the company to be profitable may surface.

In all, our current conservative risk-adjusted valuation of EUR 16,00 is 45% above the current market valuation. This consists per share of EUR 5 cash by end Q1 2015, EUR 7 for the GLPG0634 program, and EUR 4 for the remaining (pre)clinical programs, partnerships, deals and patents netted for the overhead costs and risks. Share price developments of Galapagos are projected to be highly volatile in the run-up to the first line (12-week) results of the Phase IIb clinical study of GLPG634 (rheumatoid arthritis) that are expected in March 2015.

Until March 2015, the share may have an interesting risk/return profile for speculative investors that consider that the probability for achieving a blockbuster status exceeds 26%.

Table 2 – Conservative Risk-adjusted net present value scenarios for Galapagos 2015 (EURO/share)

Current	**16,00**
Of which	
Cash	*5,00*
GLPG0534	*7,00*
Other-Overhead	*4,00*
GLPG0634 to Phase III by AbbVie	**28,00**
Of which	
Cash	*5,00*
GLPG0534	*18,00*
Other-Overhead	*5,00*
GLPG0634 abandoned by AbbVie	**8,50**
Of which	
Cash	*5,00*
GLPG0534	*0,50*
Other-Overhead	*3,00*

Source: SNJ-Biostoxx

Note: (i) Number of shares considered: 33.859.082. (ii) Cash is considered at Q1 2015 level. (iii) License fee and milestone payments are considered under GLPG0634 (and not cash) (iv) Value of other programs goes up with success of GLPG0634 as credibility and ability to make new deals increases and risks reduce; (v) discount rate of 15%.

Editor's Note: This article discusses one or more securities that do not trade on a major exchange. Please be aware of the risks associated with these stocks.