

Biotechnology

Price:	\$67.59
Fair Value Estimate:	\$64.00
52-Week Range:	\$37.03 - \$67.98
Market Cap (MM):	\$3,116
Shr.O/S-Diluted (mm):	46.1
Average Daily Volume:	69,805
Cash/Share:	\$26.00

FYE: Dec	2016E	2017E	2018E
EPS:	€(1.11)E	€4.25E	€(2.26)E
Prior EPS:	NC	NC	NC
P/E Ratio:	NA	12.2x	NA

Quarterly EPS:

Quarter	2016E	2017E	2018E
Q1	€0.79A	€(0.56)E	--
Q2	€(0.08)A	€1.29E	--
Q3	€(0.73)E	€0.83E	--
Q4	€(1.06)E	€2.83E	--

Quarterly Revenue (M):

Quarter	2016E	2017E	2018E
Q1	€15A	€73E	--
Q2	€39A	€145E	--
Q3	€25E	€113E	--
Q4	€28E	€181E	--
Year:	€107E	€512E	€278E



September 22, 2016

Galapagos NV

(GLPG) - BUY

GLPG: Filgotinib Now More Important to Gilead!

Flash Takeaways

Gilead (GILD - No rating) halted its phase 2/3 study of GS-5745, in patients with moderate to severe active ulcerative colitis (UC) due to futility, implying filgotinib is potentially more important to Gilead's intermediate- to long-term growth prospects. Recall, three phase 3 studies (FINCH program) in RA were initiated last month; A Crohn's phase 3 program is anticipated during 4Q16; and A phase 2/3 study in UC is also expected to commence during 4Q16. Note, UC is currently not reflected in our model. Upcoming 4Q16 clinical catalysts include: Crohn's endoscopy data from the FITZROY phase 2 program at the UEG Week, October 15-19; SAPHIRA 1 & 2 (Cystic Fibrosis) study readout at the NACFC, October 25-27. Despite GLPG stock being up ~25% over the past three weeks, (up 7.4% YTD vs. XBI down 2.7%), the stock is relatively under-owned (51 holders), and the upcoming data events could provide meaningful upside from current level, in our view.

Analysts Notes

- Multiple abstracts at the NACFC highlighting the depth, breath, and speed of the CF program: Note, published literature suggests, VX-770 (VRTX – No rating), impairs the biochemical stability of F508-CFTR and other class II processing mutations (such as P67L and R170G). This potentially limits the efficacy of combination therapies like VX-809 and or VX-661. Hence, a new potentiator, without the limitations of VX-770 would be a meaningful addition as triple therapy (potentiator+ early corrector + late corrector) seems to be ultimate goal to improve efficacy in homozygous patients and provide first clinical benefit for heterozygous patients. Galapagos has two potentiators in the clinic, which include: GLPG1837 and GLPG2451. Importantly, Galapagos has two correctors in development, which include: early-corrector C1- 2222, its and backup (GLPG-2851); And late corrector C2 – 2737 and its backup (not yet disclosed). So, while the SPAHIRA studies are monotherapy studies in G551D (30+ patients) and S1251N (7 or more patients), the data will be a meaningful step forward towards combination studies, which are expected to begin during 4Q16.
- The CF corrector/potentiator commercial opportunity could exceed \$7B globally, and we are assuming a 30% market share for GLPG/ABBV: The upcoming SAPHIRA 1 and 2 studies will provide first insights on GLPG1837 (potentiator) and is likely to set off comparisons with Kalydeco. If -1837 or the follow-on correctors stabilize the CFTR protein during its transport to the surface, the potentiators alone could be commercially viable, in our view. The -1837 data is likely to be followed by multiple healthy volunteer studies from the other key

components of the strategy (correctors and back up potentiators), setting the stage for a triple combo studies during late 2017. Whether GLPG/ABBV will choose a phase 3 program prior to a triple-combo phase 2 is not yet clear. Either way, progress on the CF program remains a key driver of sentiment on GLPG stock over the next 12 to 18 months, in our view.

- We are modeling peak sales of \$1.9B for filgotinib in RA, and \$658M in Crohn's with Ulcerative Colitis offers additional optionality (not in our FV): Yes, filgotinib is at least two years behind baricitinib (INCY/LLY); however, in case of RA being third in to launch, it may be a commercial positive, because: Xeljanz (PFE) experience suggests physicians are likely to get more comfortable with the safety profile of JAK inhibitors over the next two years; the anticipated launch of baricitinib increases share-of-voice; Filgotinib JAK1 specificity resulting in a superior hematologic safety profile over competitors could be an advantage (more so in IBD); oral dosing increases convenience over biologics; and although experience with GILD suggests otherwise, filgotinib could be priced attractively vs. other JAK's and biosimilars (we are modeling a \$21K launch price in U.S.).
- Our FV excludes ~\$25 in cash and does not yet assign any economics to the UC program, suggesting room for upside from current levels, especially if the CF program lives up to its potential.
 - We value GLPG based on a risk-adjusted sum-of-parts analysis and is driven by filgotinib (RA and Crohn's) and CF programs. We assign modest NPV to its OA and IFP clinical programs as we await clinical validation:
 - r-NPV for the Gilead-partnered RA program are \$40/share based on a 65% probability of success (POS) in RA. RA represents 63% of our FV. Note the elaborate phase 3 program (three independent phase 3 studies were initiated on 8/22/16)
 - r-NPV for the Gilead-partnered Crohn's programs is \$8/share based on 60% probability of success. Note, a phase 3 program in Crohn's is expected to begin enrollment during 4Q16. Crohn's represents 13% of our FV. Between RA and Crohn's, we anticipate over \$2.5B in peak sales and hence, blockbuster status. We are not currently including the Ulcerative Colitis opportunity as we await phase 2/3 study initiation/data
 - r-NPV for the Abbvie-partnered CF program is \$11/share (or 17% of our FV). Our r-NPV assumes the following success rates: Triple-combo in homozygous patients at 20%; Triple-combo in heterozygous patients at 9%; Monotherapy in G551D, 2117H, etc. at 65%
 - r-NPV for the OA and IPF programs are \$3 and \$2/share, respectively with 9% probability of success.

Balance Sheet	Estimates											
	Mar '16	Jun '16	Sep '16	Dec '16	Mar '17	Jun '17	Sep '17	Dec '17	FY '18	FY '19	FY '20	
Assets												
Cash & Short-Term Investments	356	987	967	950	867	802	833	817	903	920	1,215	1,532
Cash Only	347	987	967	950	867							
Total Short Term Investments	8	0	0									
Short-Term Receivables	13	15	18	18	20	20						
Accounts Receivables, Net	1	6	7	9	9	10	12	35	59	120	145	220
Other Receivables	12	9	11	9	11	12						
Prepaid Expenses	0	--	--							35	45	25
Miscellaneous Current Assets	3	6	7	7	7	7	7	12	30		45	20
Total Current Assets	372	1,008	992	1,001	921	860	864	899	1,032	1,155	1,589	1,897
Net Property, Plant & Equipment	--	--	--									
Long-Term Note Receivable	14	14	15	16	17	18	18					
Total Assets	443	1,079	1,067	1,081	1,003	943	947	899	1,032	1,155	1,589	1,897
Liabilities & Shareholders' Equity												
ST Debt & Curr. Portion LT Debt	--	--	--									
Accounts Payable	0	0	0	0								
Other Current Liabilities	29	24	23	20	23	25	18	10	9	53	227	375
Miscellaneous Current Liabilities	40	78	87	95	95	80	80	95	120	210	135	165
Total Current Liabilities	72	105	112	115	118	107	100	107	131	249	361	515
Long-Term Debt	--	--	--									
Provision for Risks & Charges	0	0	0	0								
Deferred Tax Liabilities	3	3	3	3	3							
Other Liabilities	--	--	--	2	3							
Deferred Tax Liability-Untaxed Reserves	3	243	222	206	173	154	104	9	0	110	426	377
Other Liabilities (excl. Deferred Income)	--	--	--									
Deferred Income	3	243	222	205	173	200						
Total Liabilities	78	351	337	326	297	261	204	116	131	359	787	892
Non-Equity Reserves	--	--	--									
Preferred Stock (Carrying Value)	0	0	0									
Redeemable Preferred Stock	0	0	0									
Non-Redeemable Preferred Stock	0	0	0									
Preferred Stock issues for ESOP	--	--	--									
ESOP Guarantees - Preferred Stock	--	--	--									
Common Equity	365	729	730	728	729							
Common Stock Par/Carry Value	185	222	223	224	224	225	226	227	229	230	231	232
Additional Paid-In Capital/Capital Surplus	357	647	649	707	707	707	707	707	707	707	707	707
Retained Earnings	-177	-139	-141	-175	-224	-250	-190	-151	-19	-141	-135	66
Total Shareholders' Equity	365	729	730	755	706	682	743	783	917	796	803	1,005
Total Equity	365	729	730	755	706							
Total Liabilities & Shareholders' Equity	443	1,079	1,067	1,081	1,003	943	947	899	1,032	1,155	1,589	1,897

Galapagos NV												
Income Statement												
All figures in millions of Euro, except per share items												
	Estimates											
	Dec '15	Mar '16	Jun '16	Sep '16	Dec '16	Mar '17	Jun '17	Sep '17	Dec '17	FY '18	FY '19	FY '20
Sales+milestone	7.19	14.82	38.67	25.34	28.34	72.54	145.53	113.46	181.04	278.36	464.06	466.34
RA+crohn's+CF+etc											15.77	281.65
Gross Income	7.19	14.82	38.67	25.34	28.34	72.54	145.53	113.46	181.04	278.36	479.83	748.00
SG&A Expense	38.67	3.97	6.73	8.08	8.88	9.15	9.61	10.09	10.59	78.88	118.31	141.98
Depreciation & Amortization Expense	0.88	0.96	1.04	1.14	1.25	1.32	1.38	1.45	1.53	8.52	12.78	19.17
Research & Development	32.84	27.82	34.59	50.16	67.72	88.03	74.83	63.60	44.52	311.64	342.80	411.36
Net OPEX	78.22	33.18	42.36	59.38	77.86	98.50	85.82	75.14	56.64	399.03	473.89	572.50
EBIT (Operating Income)	-32.36	-18.36	-3.69	-34.04	-49.52	-25.96	59.71	38.32	124.40	-120.67	5.93	175.49
Pretax Income	-56.81	35.95	-3.69	-34.04	-49.52	-25.96	59.71	38.32	124.40	-120.67	5.93	175.49
Income Taxes	0.19	0.00	-0.02	-0.20	-0.30	-0.16	-0.36	-0.23	-7.46	-14.48	-0.71	-24.57
Net Income	-57.00	35.95	-3.67	-33.83	-49.22	-25.81	60.07	38.55	131.87	-106.19	6.65	200.06
Preferred Dividends	0.00	0.00	0.00	--								
Net Income available to Common	-57.00	35.95	-3.67	-33.83	-49.22	-25.81	60.07	38.55	131.87	-106.19	6.65	200.06
EPS (recurring)	-0.91	0.81	-0.08	-0.73	-1.06	-0.56	1.29	0.83	2.83	-2.26	0.14	4.17
EPS (diluted)	-1.46	0.79	-0.08	-0.73	-1.06	-0.56	1.29	0.83	2.83	-2.26	0.14	4.17
Basic Shares Outstanding	39.08	44.43	46.11	46.20	46.29	46.39	46.48	46.57	46.67	47.04	47.51	47.98
Diluted Shares Outstanding	39.08	45.84	46.11	46.20	46.29	46.39	46.48	46.57	46.67	47.04	47.51	47.98
EBITDA	-31.48	34.99	-11.19	-34.04	-49.52	-25.96	61.09	39.77	125.93	-112.15	18.71	194.66

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Debjit Chattopadhyay, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

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Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Galapagos NV in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

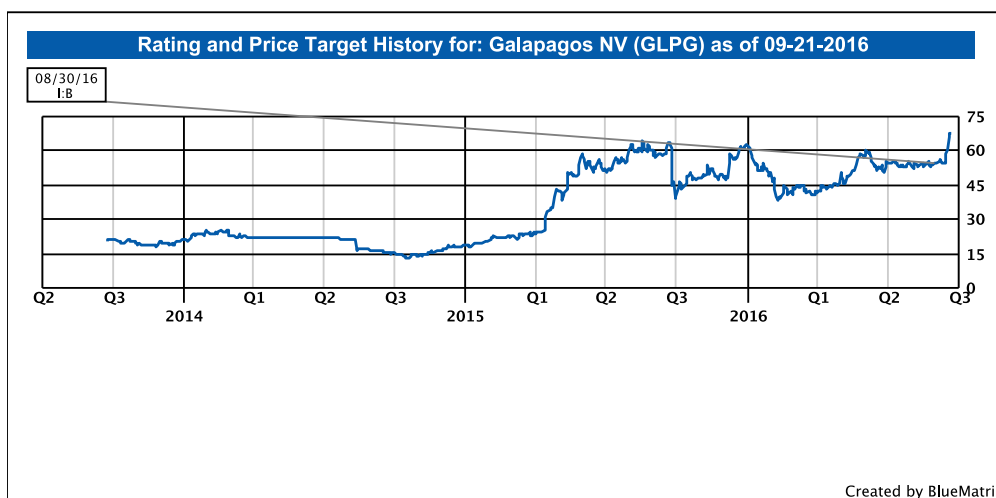
Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 06/30/16

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	109	52.15	26	23.85
NEUTRAL [N]	98	46.89	11	11.22
SELL [S]	2	0.95	0	0.00

*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

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