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Xeljanz 4Q Pos for Filgo in UC; FINCH Upside

Quick Note

Yesterday, Pfizer reported 4Q Xeljanz sales of $553mn (+37% YoY operationally), impressive growth despite being on the market for >6 years after initial launch in RA at YE2012. Additionally in RA, early-line uptake is substantial, with about 53% of patients on Xeljanz monotherapy (without methotrexate), pointing to increasing comfort level and experience that physicians have in prescribing JAK inhibitors (even less well-tolerated ones like Xeljanz). We look to filgo monotherapy data from the P3 "FINCH 3" trial (RA, MTX-naive setting) with readout expected in 1Q19.

Xeljanz sales growth was largely driven by 35% volume growth in scripts and recent expansion into psoriatic arthritis (PsA) and ulcerative colitis (UC) (Fig. 1). PFE expects UC and PsA (particularly UC, recently approved in both the US and EU) to drive the next leg of Xeljanz growth in 2019; PFE est. ~$10bn market oppy in the two indications alone. *We note RA is filgo's first indication; the bigger unmet need lies in UC, an indication where filgotinib is ahead of Upa in the clinic (next UC data: 1H20).* We view Xeljanz's strong performance in RA, UC, and PsA as a positive read-through to filgo's future market opportunity as the best-in-class JAK inhibitor (expected to enter market in 2020). Our conviction is further supported by potential safety concerns for upa at the higher doses, given ABBV's low-dose labeling goal in RA (note here), which might also inhibit UC setting use given typically high doses. We maintain our positive view on GLPG's impending FINCH 1 & 3 readout (preview here); upside scenarios below. *Reiterate Buy.*

- **PFE – UC to drive next leg of Xeljanz growth, positive for filgo.** Xeljanz, despite subpar efficacy and high discontinuations, brought in $1.8bn in annual sales in FY18 and is projected to grow up to $2.8bn by 2021E (Fig. 2), very impressive growth, we believe, considering Xeljanz is going into its 7th year on the market. *On its call, Pfizer alluded* specifically *to UC as being the next big growth driver in FY19, supporting our thesis that UC represents the big and overlooked opportunity for filgotinib. Recall, filgo UC may also be advantaged by being ahead of ABBV's upa in the clinic.* We also anticipate oral S1Ps will enter the mix in UC, too, though PFE's work with JAK inhibition may tilt earlier utilization toward JAKs, though efficacy data will matter, too. Regardless, we anticipate significant opportunity to treat UC with multiple agents as patients cycle through therapies and grow the overall market.
- **ABBV's 15mg low-dose selection, a cautionary hedge?** On ABBV's 4Q call, the company indicated it will seek an upadacitinib label in RA at the low dose (15mg) (note here). Recall, FDA approved Olumiant (baricitinib, JAK1/JAK2 inhibitor, like upadacitinib) at the (lowest) 2mg dose in later lines of RA therapy (post-TNF), with a black-box label (note here), largely due to concerns of thrombotic events (DVT/PE). Though upadacitinib's DVT/PE rates are similar to baricitinib, the rates do not appear to be dose-dependent (an advantage over baricitinib's dataset). If concerns remain

Instinet, LLC, Equity Research

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Rating Remains	**Buy**
Target Price Remains	USD 140.00
Closing price 29 January 2019	USD 104.23

Research analysts

Americas Biotech

Christopher Marai, Ph.D. - ILLC
Christopher.Marai@Instinet.com
+ 1 212-310-5466

Allen Cha - ILLC
allen.cha@instinet.com
+1 212-310-5488

Jackson Harvey, Ph.D. - ILLC
jackson.harvey@instinet.com
+ 1 212 310 5453

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about higher-dose upa, or come across in a 3Q19 ADCOMM (anticipated by ABBV), upa utilization may be limited in the lucrative IBD market.

- **MANTA early read upside to filgo NDA submission timeline?** We expect MANTA recruitment to accelerate, now up to 94 sites from 84 on last update. We see the potential for upside with filgotinib filing by mid-2019, which could set up for concurrent launch with Upa (note here). However, filgo filing by YE19 could hit the shares if MANTA trial becomes a bottleneck.

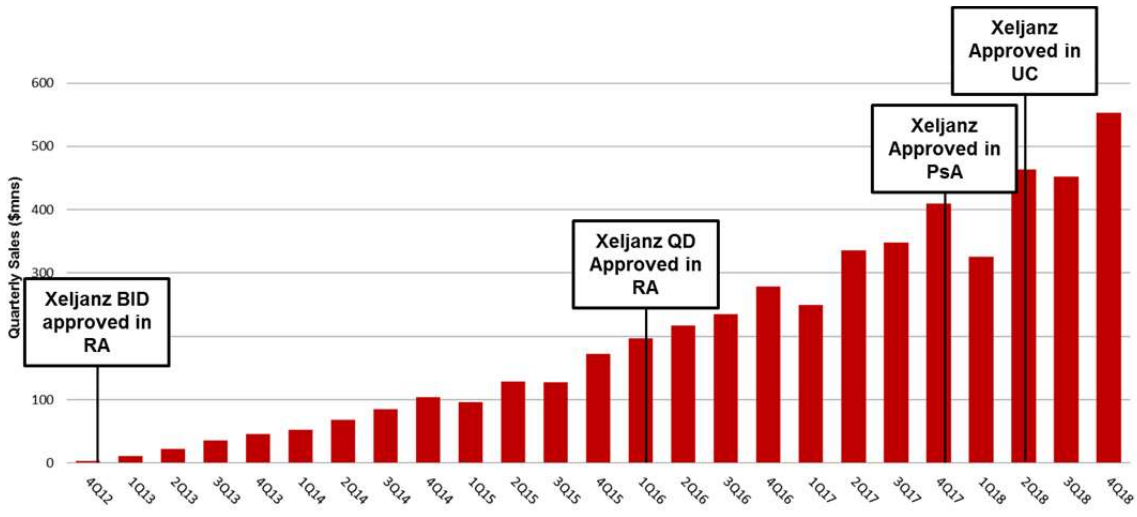
Expectations Finch 1 & 3 Readout

- **Positive expectations into FINCH 1 & 3 readout 1Q19; downside scenario unlikely.** We believe filgo's consistent performance in historical trials leaves little to the imagination for FINCH 1 and 3; however, a hiccup (which we view as unlikely) could create downside for the shares. Potential downside risk is limited, in our view, as RA is only the first indication for filgo and the one with the highest competitive hurdle. IBD represents the next filgo opportunity, just as big as RA but with greater need for an efficacious oral therapy. Also in IBD, filgo is ahead of upa. Detailed FINCH 1 & 3 expectations here.
- **Show-me set-up despite expectations for strong filgo safety and efficacy.** We believe most investors are expecting an update in line with prior data (FINCH 2 note here): equal efficacy to upa but with some hint of a better safety profile. The key overhang on shares currently, in our view, is the fear of catastrophic issues, either safety or inadequate efficacy data (which we and most investors view as unlikely – i.e., 0-3% chance), but nonetheless a significant potential "game changing" risk to the filgotinib franchise, particularly in light of upa competition. This setup, in our view, portends two opportunities for upside: 1) the first of two FINCH reads (perhaps 25% of the move higher), and then with fuller clarity on the second of two upcoming FINCH readouts (75% of the move higher). The positive base-case scenario – equal or better activity to upa and better safety (70% chance of this) – could see GLPG trade to $125-130 after both readouts. Recall, GLPG shares rallied ~20% following the positive FINCH 2 data.

GLPG expects FINCH 1 & 3 to read out separately in 1Q19.

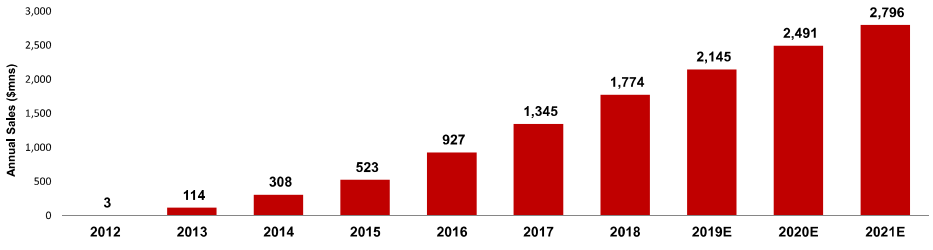
Data will be press released in the FINCH 2 PR release format; see Fig. 3.

Fig. 1: Xeljanz Quarterly Sales (Actuals)



Source: Company data, Instinet research

Fig. 2: Xeljanz Annual Sales & Estimates



Source: FactSet consensus, Company data, Instinet research

Fig. 3: Press Release Expectations - FINCH 1 & 3 Topline Readout

GLPG stated FINCH 1 & 3 will read out SEPARATELY and pointed to the FINCH 2 PR as a reference for the format of future data release in 1Q19

FINCH 2 PR Screenshots (below) – Sept 11, 2018, 4:05PM ET

Top-line efficacy data are summarized in the table below.

Non-responder imputation	Week 12			Week 24		
	Placebo (n=148)*	Filgotinib 100 mg (n=153)*	Filgotinib 200 mg (n=147)*	Placebo (n=148)*	Filgotinib 100 mg (n=153)*	Filgotinib 200 mg (n=147)*
ACR20 (%)	31.1	57.5***	66.0***	34.5	54.9***	69.4***
ACR50 (%)	14.9	32.0***	42.9***	18.9	35.3**	45.6***
ACR70 (%)	6.8	14.4*	21.8***	8.1	20.3**	32.0***
DAS28(CRP) </equal to 3.2 (Low disease activity) (%)	15.5	37.3***	40.8***	20.9	37.9**	48.3***
DAS28(CRP) < 2.6 (Clinical remission) (%)	8.1	25.5***	22.4***	12.2	26.1**	30.6***

*Number of patients randomized to each treatment group and who received at least one dose of study drug
ACR20/50/70 represents American College of Rheumatology 20% /50 %/70 % improvements.
* p <0.05, compared to placebo
** p <0.01, compared to placebo
*** p <0.001, compared to placebo

Filgotinib was generally well-tolerated in the FINCH 2 trial, with no new safety signals compared to those reported in previous trials of filgotinib. Treatment-emergent adverse events and serious adverse events were mostly mild or moderate in severity. Serious adverse events occurred in 3.4, 5.2 and 4.1 percent of the patients in the placebo, 100mg and 200mg groups, respectively. The proportion of patients who discontinued study drug due to treatment-emergent adverse events was also similar across groups. Two cases of uncomplicated herpes zoster were reported in each filgotinib group. Two major adverse cardiovascular events (MACE) were identified, one subarachnoid hemorrhage in the placebo group and one myocardial ischemia in the filgotinib 100 mg group. There was one case of non-serious retinal vein occlusion in the filgotinib 200 mg group and no reports of deep venous thrombosis (DVT) or pulmonary embolism (PE). There were no deaths, malignancies, gastrointestinal perforations, or opportunistic infections, including active tuberculosis.

Detailed findings from the FINCH 2 study will be submitted for presentation at a future scientific conference.

PR release for FINCH 1 & 3 - we anticipate a cut of topline efficacy measures across all arms.

- ACR20
- ACR50
- ACR70
- LDA (DAS28-CRP≤3.2)
- Clinical Remission (DAS28-CRP<2.6)

Safety cuts to include a summary of TEAEs and SAEs

- % SAEs
- Discontinuation rates across arms (qualitative)
- Infections
- MACE
- DVT or PE
- Deaths, Malignancies, GI perforations, Herpes Zoster, Active TB

Source: Company data, Instinet research