Sell

Galapagos NV (GLPG.AS)

We lower our filgotinib outlook and see risk with the remaining pipeline; Downgrade to Sell

GLPG.AS	12m Price Target: **€87.00**	Price: **€111.80**	Downside: **22.2%**
GLPG	12m Price Target: **$103.00**	Price: **$131.79**	Downside: **21.8%**

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We lower our 12-month price target (PT) on Galapagos (GLPG) to €87, and downgrade the shares to Sell from Neutral. With changes to our financial model, our new 12-month price target is 19% lower than our previous €108 PT, and implies 22% potential downside from current levels vs. average 25% upside to rest of coverage. In addition, with this report, we introduce a $103 12-month price target on the US-listed ADR.

Increasing caution on filgotinib. Most notably, our model includes revised assumptions on the timing of US and ex-US launches of filgotinib (newly approved brand name in EU and Japan is Jyseleca), a JAK inhibitor (JAKi) for autoimmune/inflammatory diseases that is the company's lead asset. Our new sales estimates for filgotinib reflect (1) a meaningful delay in the timing of the US launch given receipt of the August 2020 FDA CRL (LINK) in the initial indication of RA, which in our view, now puts the asset at a considerable competitive disadvantage against AbbVie's Rinvoq (another recently launched JAKi), (2) potential sales contribution across five indications (RA, UC, CD, PsA and AS), but vs. ten indications previously modeled, and 3) weaker market penetration. The net result is that we now lower our peak risk-unadjusted sales forecast for filgotinib by approximately two-thirds, to $2.1bn (vs. our prior >$6bn). We note that our revised estimates for filgotinib in the three lead indications (RA, UC, and CD) are directionally aligned with those of our US large cap biotech analyst Terence Flynn, who covers Gilead (GILD).

Other model changes. Equally as important, other significant changes now reflected in our model include: (1) incorporation of GLPG's expanded global collaboration with GILD, and the various complex pushes and pulls to the P&L; (2) full 2019 and 1H20

Key Data

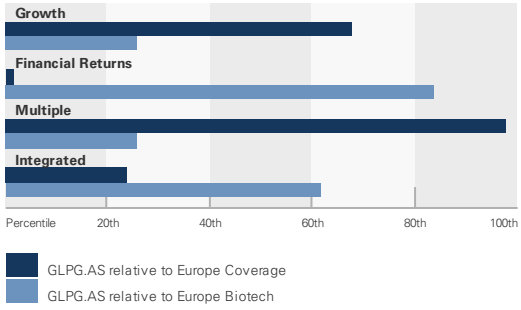
Market cap: €7.4bn / $8.7bn
Enterprise value: €7.6bn / $8.9bn
3m ADTV: €62.1mn / $73.2mn
Belgium
Europe Biotech
M&A Rank: 3
Leases incl. in net debt & EV?: Yes

GS Forecast

	12/19	12/20E	12/21E	12/22E
Revenue (€ mn) New	**895.9**	**615.0**	**580.7**	**618.5**
Revenue (€ mn) Old	215.0	232.4	272.2	463.7
EBIT (€ mn)	370.3	(211.6)	(211.1)	(96.0)
EPS (€) New	**2.60**	**(4.54)**	**(3.08)**	**(1.36)**
EPS (€) Old	(4.69)	(4.48)	(3.77)	(0.98)
P/E (X)	49.1	NM	NM	NM
Dividend yield (%)	0.0	0.0	0.0	0.0
CROCI (%)	187.0	(17.9)	(19.6)	(14.6)
N debt/EBITDA (ex lease,X)	1.9	–	–	–

	6/20	9/20E	12/20E	3/21E
EPS (€)	(1.77)	(0.04)	(1.94)	(0.24)

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates. See disclosures for details.

Sell

Galapagos NV (GLPG.AS)

Rating since Oct 20, 2020

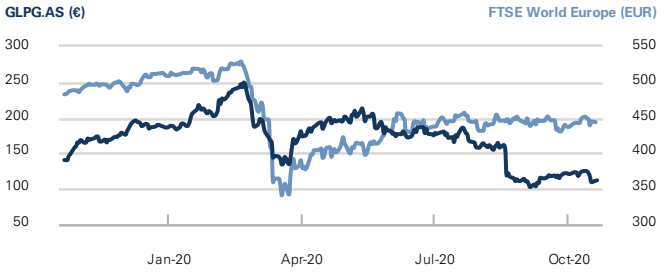
Ratios & Valuation

	12/19	12/20E	12/21E	12/22E
EV/sales (X)	9.1	12.2	13.4	12.8
EV/EBITDAR (X)	21.2	NM	NM	NM
EV/EBITDA (excl. leases) (X)	21.4	NM	NM	NM
EV/EBIT (X)	21.9	NM	NM	NM
P/E (X)	49.1	NM	NM	NM
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/GCI (X)	2.3	2.7	2.7	2.7
CROCI (%)	187.0	(17.9)	(19.6)	(14.6)
ROIC (%)	22.2	(6.5)	(7.4)	(3.2)
ROA (%)	5.2	(3.9)	(3.9)	(1.9)
Days inventory outst, sales	–	0.0	0.5	1.0
Asset turnover (X)	20.1	8.7	7.3	7.4
Capex/D&A (%)	367.0	288.7	120.2	95.7
Net debt/equity (excl. leases) (%)	25.4	7.0	14.9	17.8
EBIT interest cover (X)	6.2	(2.0)	(42.2)	(19.2)
FCF cover of dividends (X)	–	–	–	–

Growth & Margins (%)

	12/19	12/20E	12/21E	12/22E
Total revenue growth	181.9	(31.4)	(5.6)	6.5
EBITDA growth	1,049.3	(153.9)	0.8	57.6
EBIT growth	926.4	(157.1)	0.2	54.5
Net inc. growth	612.2	(297.0)	31.2	55.3
EPS growth	563.3	(274.5)	32.1	55.8
DPS growth	NM	NM	NM	NM

Price Performance



	3m	6m	12m
Absolute	(39.8)%	(44.1)%	(21.1)%
Rel. to the FTSE World Europe (EUR)	(38.7)%	(48.8)%	(14.7)%

Source: FactSet. Price as of 20 Oct 2020 close.

Income Statement (€ mn)

	12/19	12/20E	12/21E	12/22E
Total revenue	895.9	615.0	580.7	618.5
Total operating expenses	(98.3)	(216.2)	(239.6)	(264.4)
R&D	(427.3)	(610.3)	(552.2)	(450.1)
Other operating inc./(exp.)	–	–	–	–
EBITDA	**377.1**	**(203.4)**	**(201.7)**	**(85.4)**
Depreciation & amortisation	(6.8)	(8.2)	(9.5)	(10.5)
EBIT	**370.3**	**(211.6)**	**(211.1)**	**(96.0)**
Net interest inc./(exp.)	(38.6)	(61.9)	8.0	5.2
Income/(loss) from associates	–	–	–	–
Profit/(loss) on disposals	–	–	–	–
Total other net	(181.6)	(21.1)	0.0	0.0
Pre-tax profit	**150.1**	**(294.5)**	**(203.1)**	**(90.8)**
Provision for taxes	(0.2)	(0.7)	0.0	0.0
Minority interest	–	–	–	–
Preferred dividends	–	–	–	–
Net inc. (pre-exceptionals)	**149.8**	**(295.2)**	**(203.0)**	**(90.8)**
Post-tax exceptionals	–	–	–	–
Net inc. (post-exceptionals)	**149.8**	**(295.2)**	**(203.0)**	**(90.8)**
EPS (basic, pre-except) (€)	**2.60**	**(4.54)**	**(3.08)**	**(1.36)**
EPS (basic, post-except) (€)	**2.60**	**(4.54)**	**(3.08)**	**(1.36)**
Wtd avg shares out. (basic) (mn)	57.6	65.1	65.8	66.6
Tax rate (%)	0.1	(0.2)	0.0	0.0
Common dividends declared	0.0	0.0	0.0	0.0
DPS (€)	–	–	–	–

Balance Sheet (€ mn)

	12/19	12/20E	12/21E	12/22E
Cash & cash equivalents	1,861.6	2,030.6	1,439.9	968.0
Accounts receivable	21.9	16.4	14.8	10.7
Inventory	–	0.1	1.4	2.1
Other current assets	3,982.4	3,243.1	3,240.3	3,243.4
Total current assets	**5,865.9**	**5,290.2**	**4,696.5**	**4,224.3**
Net PP&E	66.1	76.0	82.4	85.4
Net intangibles	24.9	33.4	34.7	36.1
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	111.7	135.4	123.8	93.1
Total assets	**6,068.6**	**5,535.0**	**4,937.4**	**4,438.8**
Accounts payable	143.4	219.7	194.8	155.9
Short-term debt	6.2	27.3	27.3	27.3
Short-term lease liabilities	5.8	6.9	6.9	6.9
Other current liabilities	416.3	409.6	409.6	409.6
Total current liabilities	**571.8**	**663.5**	**638.5**	**599.7**
Long-term debt	2,586.3	2,189.5	1,781.2	1,372.8
Long-term lease liabilities	19.6	19.7	18.5	17.3
Other long-term liabilities	15.3	19.2	19.2	19.2
Total long-term liabilities	**2,621.2**	**2,228.4**	**1,818.9**	**1,409.3**
Total liabilities	**3,193.0**	**2,891.9**	**2,457.4**	**2,009.0**
Preferred shares	**--**	**--**	**--**	**--**
Total common equity	**2,875.7**	**2,643.1**	**2,480.0**	**2,429.8**
Minority interest	**--**	**--**	**--**	**--**
Total liabilities & equity	**6,068.6**	**5,535.0**	**4,937.4**	**4,438.8**
Capital employed	**5,468.2**	**4,859.9**	**4,288.5**	**3,830.0**
Adj for unfunded pensions & GW	–	–	–	–

Cash Flow (€ mn)

	12/19	12/20E	12/21E	12/22E
Net income	149.8	(295.2)	(203.0)	(90.8)
D&A add-back	12.4	7.4	13.3	14.0
Minority interest add-back	–	–	–	–
Net (inc)/dec working capital	12.7	73.7	(21.8)	(38.5)
Other operating cash flow	3,033.6	(351.1)	(361.7)	(341.7)
Cash flow from operations	**3,208.6**	**(565.3)**	**(573.1)**	**(457.0)**
Capital expenditures	(45.7)	(21.3)	(16.0)	(13.4)
Acquisitions	–	–	–	–
Divestitures	–	0.0	–	–
Others	(3,719.0)	739.1	4.8	4.8
Cash flow from investing	**(3,764.7)**	**717.8**	**(11.3)**	**(8.7)**
Repayment of lease liabilities	–	–	–	–
Dividends paid (common & pref)	–	–	–	–
Inc/(dec) in debt	–	–	–	–
Other financing cash flows	1,335.8	17.0	(6.2)	(6.2)
Cash flow from financing	**1,335.8**	**17.0**	**(6.2)**	**(6.2)**
Total cash flow	**769.7**	**168.9**	**(590.6)**	**(471.9)**
Reinvestment rate (%)	1.4	(3.3)	(2.9)	(3.2)

Source: Company data, Goldman Sachs Research estimates.

financial results, as well as recently updated 2020 financial guidance; and (3) new revenue builds and contributions from three other programs not previously factored, including Toledo (for autoimmune/inflammatory diseases), GLPG1205 (for IPF) and ziritaxestat/GLPG1690 (for SSc). Also, recall last week, GLPG reported negative Phase 2 data (LINK) for GLPG1972 (a novel ADMATS5 inhibitor); while official next steps have yet to be announced, we do not factor this asset into our model.

Our current thoughts on the stock

Looking back in time, following the news of the expanded GILD partnership in July 2019, GLPG shares reached an all-time high level of €252.90 on February 20, 2020 (+97% from the last trading day before the deal was announced). In the time since, however, and following the negative '1972 results last week, the shares have now retrenched 56%. (Of note, at current levels, the shares now trade *below* the last trading day before the GILD deal was announced).

Investor debates have primarily centered on filgotinib, and more recently, in particular, to what degree the FDA CRL could set its prospects back in terms of the timing of its US launch and ultimately, to its commercial potential. In our view, what is at stake is filgotinib's competitive positioning in what we view to be a very crowded autoimmune/inflammatory disease market, especially vis-a-vis Rinvoq, which was approved in August 2019 and had reported 1H20 WW sales of $235mn ($218mn US/$17mn ex-US).

In addition, with Humira biosimilars continuing to make inroads ex-US and potentially entering the US market by 2023, we believe that with each month that the US launch of filgotinib is delayed, risk increases for optimal market share penetration for the product. Overall, in light of the CRL-related delay for filgotinib, we believe concerns around the competitive landscape for the product could continue to weigh on sentiment over the next 12 months.

Further, in light of the setback with '1972, we believe investor questions could begin to arise around GLPG's remaining pipeline, and in our view, the next key clinical readouts for GLPG (i.e., for '1205 and ziritaxestat) carry sizable risk (based on their novel MOA's). With this is mind, we now choose to take a more cautious view on the name, and hence our move to Sell.

What could make us more positive?

Admittedly, there are a number of scenarios for filgotinib where there exists the potential for upside to our current forecasts.

First, we could be too conservative with our current views around POS and also market share assumptions for filgotinib. On POS, based on the issue of the CRL, we now revise our original POS assumptions for the product, with the most important being that in lead indication rheumatoid arthritis (RA), we now lower POS from a prior 95% to a current 85%. Also, in terms of our market share assumptions, it is possible that GLPG and partner GILD could execute the initial commercial launches in the US and ex-US territories better than we currently anticipate. In either case, or perhaps even both, there

could be upside to our current filgotinib forecasts.

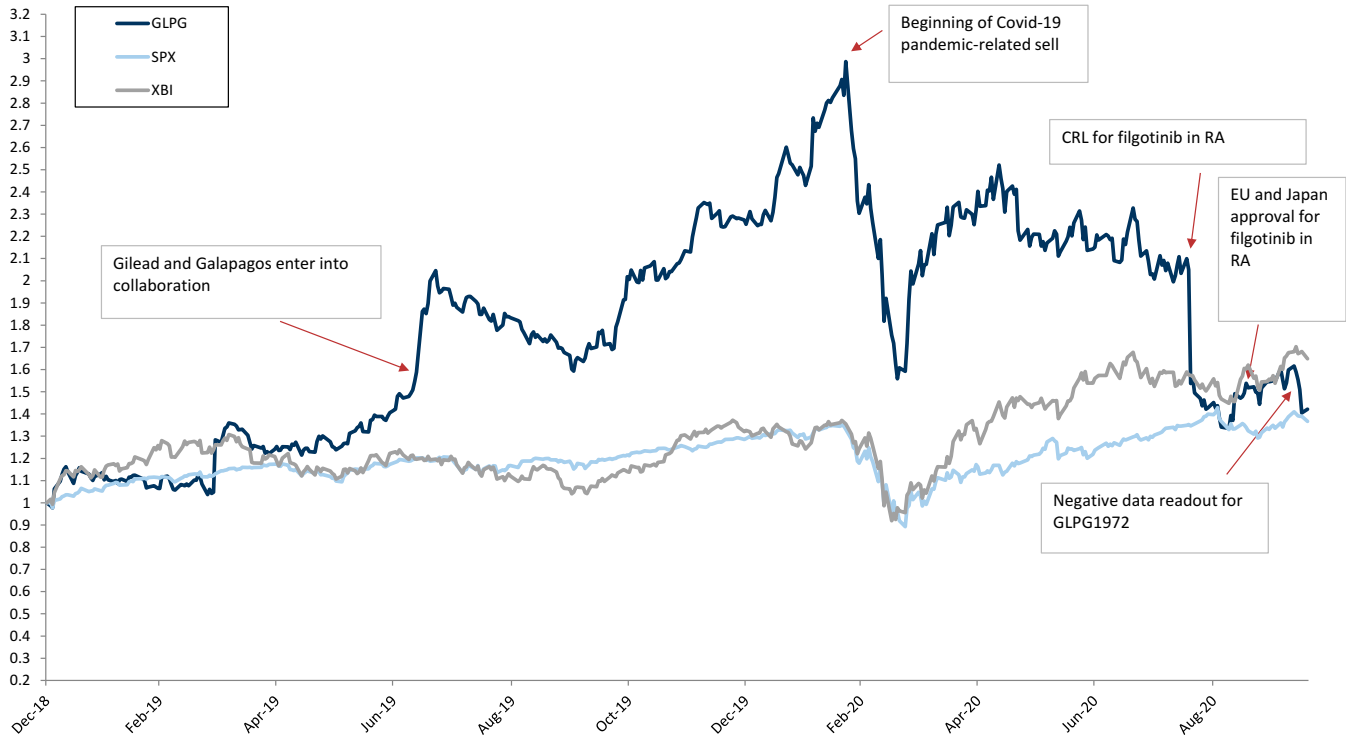
Beyond filgotinib, and more near-term, an upcoming Phase 2 clinical data readout for GLPG1205 in IPF is expected shortly (i.e., within 4Q20), and further down the line, a potentially bigger Phase 3 interim (and futility) readout for ziritaxestat/GLPG1690 (also in IPF) is expected in 1H21. These results will likely serve as important points of value inflection, as depending on the outcome, there is potential for upside to our current forecast.

While we describe each candidate in greater details in the sections below, briefly, both '1205 and ziritaxestat feature mechanisms of actions that while exciting scientifically to us, are also still very novel, and hence unproven (we currently model 25% POS for '1205 and 65% for ziratаxestat).

Beyond the IPF assets, other sources of upside, in our view, include (1) better than expected data for GLPG3970, the first candidate from the Toledo program to advance into Phase 2; (2) incrementally new data that could be viewed positively at an upcoming investor event specific for the Toledo program to be held on October 27; and (3) over the next 12 months, new partnership deals that could yield either non-dilutive funding from partners, or new mid- or late-stage assets that could contribute to GLPG's top-line in the near or mid-term horizon.

GLPG in 5 charts

Exhibit 1: Stock chart



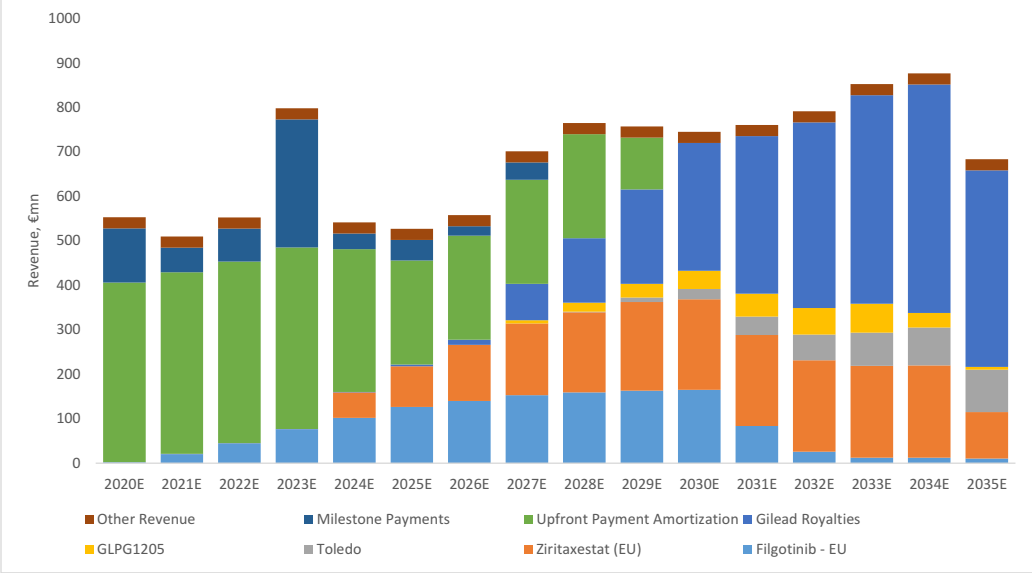
Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 2: Summary of peak revenue forecasts

Program	Indication	Launch	Peak Sales unadjusted ($ mn)	POS	Peak Sales risk-adjusted ($ mn)	Prior POS	Prior Peak Sales unadjusted ($mn)
Filgotinib	RA	2020	989	85%	888	95%	2624
	CD	2023	443	60%	266	70%	1068
	UC	2022	379	70%	265	60%	1082
	PsA	2024	152	50%	76	50%	802
	AS	2026	124	50%	62	50%	536
Total			**2,087**		**1,558**		**6,112**
GLPG1690	dcSSC	2024	459	50%	229		
	IPF	2023	2,269	65%	1,475	45%	1559
Total			**2,728**		**1,704**		**1,559**
Toledo		2027	2,035	25%	509		
GLPG1205	IPF	2026	1,763	25%	441		
Total			**8,613**		**4,211**		**7,671**

Source: Goldman Sachs Global Investment Research

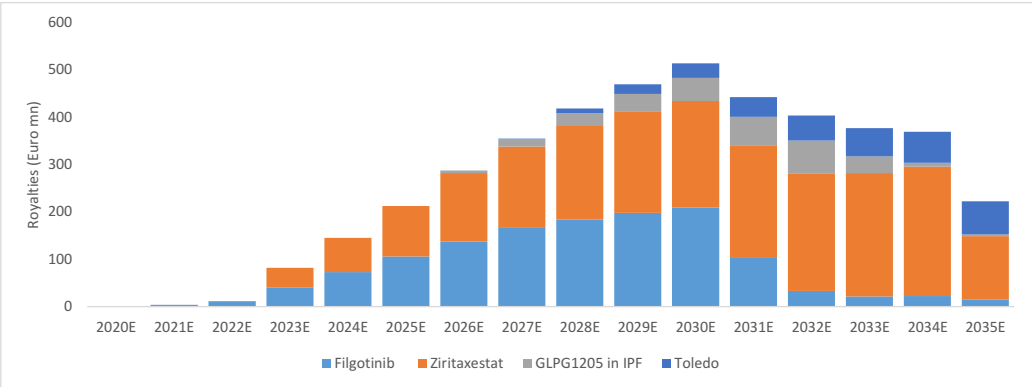
Exhibit 3: Breakdown of revenue



Other revenue includes reimbursement income and service revenues

Source: Goldman Sachs Global Investment Research

Exhibit 4: Overview of royalties from Gilead



Source: Goldman Sachs Global Investment Research

Exhibit 5: GS estimates vs. consensus
€mn except per share data

		FY20	FY21	FY22	FY23	FY24	FY25	FY30	FY35
Consensus	**Revenue**	**556.4**	**593.3**	**690.5**	**789.1**	**898.8**	**1,120.0**	**1,815.0**	**1,313.0**
	EBIT	(219.0)	(196.0)	(185.0)	(192.4)	(116.7)	90.0	712.0	516.0
	Net Inc.	(251.0)	(269.0)	(256.0)	(153.0)	(55.8)	122.5	930.0	531.0
	EPS	**(3.69)**	**(4.12)**	**(3.60)**	**(2.54)**	**(1.53)**	**1.20**	**9.59**	**6.36**
Gse	**Revenue**	**615.0**	**580.7**	**618.5**	**939.8**	**728.3**	**779.4**	**1,006.3**	**478.1**
	EBIT	(211.6)	(211.1)	(96.0)	166.6	85.7	114.7	385.9	197.7
	Net Inc.	(295.2)	(203.0)	(90.8)	169.9	87.9	116.3	360.0	191.9
	EPS	**(4.54)**	**(3.08)**	**(1.36)**	**2.52**	**1.29**	**1.68**	**4.89**	**2.44**
GS Vs Cons	**Revenue**	**11%**	**-2%**	**-10%**	**19%**	**-19%**	**-30%**	**-45%**	**-64%**
	EBIT	3%	-8%	48%	187%	173%	27%	-46%	-62%
	Net Inc.	-18%	25%	65%	211%	257%	-5%	-61%	-64%
	EPS	**-23%**	**25%**	**62%**	**199%**	**184%**	**40%**	**-49%**	**-62%**

Source: Company data, Goldman Sachs Global Investment Research, Bloomberg

What's changed in our model

Model revisions

We now adjust our model to reflect the following:

- **Lowering filgotinib:** We revised our assumptions on the timing of US and ex-US launches of filgotinib given the receipt of CRL from FDA, which delays potential US approval to 1Q22 versus 3Q20 prior. We now model risk-adjusted revenue contributions in five indications (RA, UC, CD, PsA and AS) versus 10 prior and have a more conservative view vs. earlier because of the lack of superior efficacy vs. Humira, the delay in US launch providing more time for ABBV to position Rinvoq and the launch of biosimilar versions of Humira in 2023 in the US market as per our AbbVie analyst's expectations. With the product now approved in Europe and Japan (approvals were announced concurrently on September 25), we make no meaningful estimate changes to filgotinib (or Jyseleca, as its being called from a brand name perspective) in these territories.
- **New product contributions:** We now include revenue from the Toledo program, GLPG1205 and ziritaxestat (for SSc) in our model. Given last week's negative results for GLPG1972, we do not include estimates for that program.
- **Expanded GILD partnership:** As a part of the collaboration with GILD, GLPG received $1.1bn in an equity investment and $3.95bn upfront payment (which we have recognized over the years until 2029). In addition to that, GILD also gained rights to GLPG1690 and GLPG1972 (which now has a negative Phase 2 data readout) and opt-in's for all other clinical programs after completion of Phase 2. As per the deal, GLPG and GILD will share the development cost equally for all drugs that GILD opts-in for. We assume opt-in by GILD for all the drugs (except '1972) and thus, we lower our R&D expenditure after every expected opt-in. We add milestone payments and royalties to our model as per the deal. For filgotinib, under the revised agreement, GLPG and GILD will share costs equally in lieu of 80/20 split earlier.
- Net net, the drivers of change are lower filgotinib estimates, new product revenue

contributions, incorporation of the Gilead deal, and updating the model for 2019 and 1H20 earnings.

Exhibit 6: Revisions to estimates

€mn, except EPS data		2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
OLD	**Total Revenue**	**232.4**	**272.2**	**463.7**	**865.6**	**1,222.5**	**1,330.5**	**1,848.8**	**1,843.3**	**1,963.0**	**2,052.9**	**2,125.0**	**1,219.0**	**1,019.7**	**882.9**	**879.9**	**890.6**
	COGS	-	-	-	(15.1)	(20.4)	(25.9)	(31.9)	(35.2)	(35.7)	(36.2)	(36.8)	(37.3)	(37.9)	(38.5)	(39.0)	(39.6)
	R&D	(448.9)	(442.6)	(450.4)	(350.3)	(275.2)	(241.5)	(212.7)	(188.3)	(174.5)	(162.0)	(150.8)	(145.8)	(141.0)	(136.5)	(132.1)	(128.0)
	SG&A	(59.5)	(66.6)	(82.5)	(127.2)	(149.8)	(170.6)	(191.6)	(204.2)	(207.8)	(211.4)	(215.1)	(218.9)	(222.7)	(226.6)	(230.5)	(234.6)
	Opex	**(508.3)**	**(509.2)**	**(532.9)**	**(477.5)**	**(425.0)**	**(412.1)**	**(404.3)**	**(392.5)**	**(382.3)**	**(373.5)**	**(365.9)**	**(364.7)**	**(363.7)**	**(363.0)**	**(362.7)**	**(362.6)**
	EBIT	(276.0)	(236.9)	(69.2)	373.0	777.2	892.5	1,412.5	1,415.6	1,545.0	1,643.3	1,722.3	817.0	618.1	481.4	478.2	488.4
	Net Profit/Loss	(265.8)	(228.0)	(60.6)	344.2	710.5	818.5	1,292.8	1,303.6	1,428.5	1,526.1	1,606.8	797.3	616.7	488.7	479.2	480.8
	EPS	**(4.48)**	**(3.77)**	**(0.98)**	**5.47**	**11.06**	**12.50**	**19.35**	**19.13**	**20.55**	**21.52**	**22.22**	**10.81**	**8.20**	**6.37**	**6.12**	**6.02**
NEW	**Total revenue**	**615.0**	**580.7**	**618.5**	**939.8**	**728.3**	**779.4**	**878.7**	**1,019.6**	**1,083.5**	**1,055.4**	**1,006.3**	**872.6**	**796.5**	**777.8**	**747.7**	**478.1**
	COGS	(0.2)	(2.0)	(3.1)	(3.8)	(8.0)	(10.9)	(13.3)	(16.1)	(18.0)	(20.2)	(21.6)	(19.1)	(17.4)	(17.9)	(16.9)	(10.8)
	R&D	(610.3)	(552.2)	(450.1)	(495.1)	(346.6)	(357.0)	(367.7)	(371.3)	(375.1)	(337.6)	(286.9)	(200.8)	(160.7)	(144.6)	(130.1)	(117.1)
	SG&A	(216.0)	(237.6)	(261.3)	(274.4)	(288.1)	(296.8)	(299.7)	(302.7)	(305.8)	(308.8)	(311.9)	(187.2)	(177.8)	(168.9)	(160.5)	(152.4)
	Opex	**(826.5)**	**(791.8)**	**(714.5)**	**(773.3)**	**(642.7)**	**(664.6)**	**(680.7)**	**(690.2)**	**(698.9)**	**(666.5)**	**(620.5)**	**(407.1)**	**(355.9)**	**(331.4)**	**(307.5)**	**(280.4)**
	EBIT	(211.6)	(211.1)	(96.0)	166.6	85.7	114.7	198.0	329.4	384.6	388.8	385.9	465.6	440.6	446.4	440.2	197.7
	Net Profit /Loss	(295.2)	(203.0)	(90.8)	169.9	87.9	116.3	199.2	330.8	386.6	391.8	360.0	425.1	404.7	412.0	408.5	191.9
	EPS	**(4.54)**	**(3.08)**	**(1.36)**	**2.52**	**1.29**	**1.68**	**2.85**	**4.67**	**5.39**	**5.39**	**4.89**	**5.71**	**5.36**	**5.39**	**5.27**	**2.44**
% Change	**Total revenue**	**165%**	**113%**	**33%**	**9%**	**-40%**	**-41%**	**-52%**	**-45%**	**-45%**	**-49%**	**-53%**	**-28%**	**-22%**	**-12%**	**-15%**	**-46%**
	COGS				-75%	-61%	-58%	-58%	-54%	-49%	-44%	-41%	-49%	-54%	-53%	-57%	-73%
	R&D	36%	25%	0%	41%	26%	48%	73%	97%	115%	108%	90%	38%	14%	6%	-2%	-9%
	SG&A	263%	257%	217%	116%	92%	74%	56%	48%	47%	46%	45%	-14%	-20%	-25%	-30%	-35%
	Opex	**63%**	**56%**	**34%**	**62%**	**51%**	**61%**	**68%**	**76%**	**83%**	**78%**	**70%**	**12%**	**-2%**	**-9%**	**-15%**	**-23%**
	EBIT	23%	11%	-39%	-55%	-89%	-87%	-86%	-77%	-75%	-76%	-78%	-43%	-29%	-7%	-8%	-60%
	Net Profit/Loss	-11%	11%	-50%	-51%	-88%	-86%	-85%	-75%	-73%	-74%	-78%	-47%	-34%	-16%	-15%	-60%
	EPS	**-1%**	**18%**	**-39%**	**-54%**	**-88%**	**-87%**	**-85%**	**-76%**	**-74%**	**-75%**	**-78%**	**-47%**	**-35%**	**-15%**	**-14%**	**-59%**

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 7: Revisions to filgotinib estimates

	Filgotinib Sales($mn)	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
OLD	Non-adjusted sales	195	489	1,105	2,044	3,232	4,488	5,760	6,671	7,490	7,911	8,248	2,327	1,083	231	78	41
	Risk-adjusted sales	185	450	869	1,437	2,074	2,749	3,430	3,931	4,323	4,605	4,819	1,464	747	157	59	35
NEW	Non-adjusted sales	7	70	183	482	816	1137	1424	1707	1867	1999	2087	1086	348	218	227	165
	Risk-adjusted sales	7	70	172	414	670	915	1118	1310	1411	1497	1558	808	257	156	162	110
%change	Non-adjusted sales	-96%	-86%	-83%	-76%	-75%	-75%	-75%	-74%	-75%	-75%	-75%	-53%	-68%	-6%	190%	298%
	Risk-adjusted sales	-96%	-85%	-80%	-71%	-68%	-67%	-67%	-67%	-67%	-67%	-68%	-45%	-66%	-1%	174%	214%

Source: Goldman Sachs Global Investment Research

Pipeline review

Jyseleca (filgotinib)

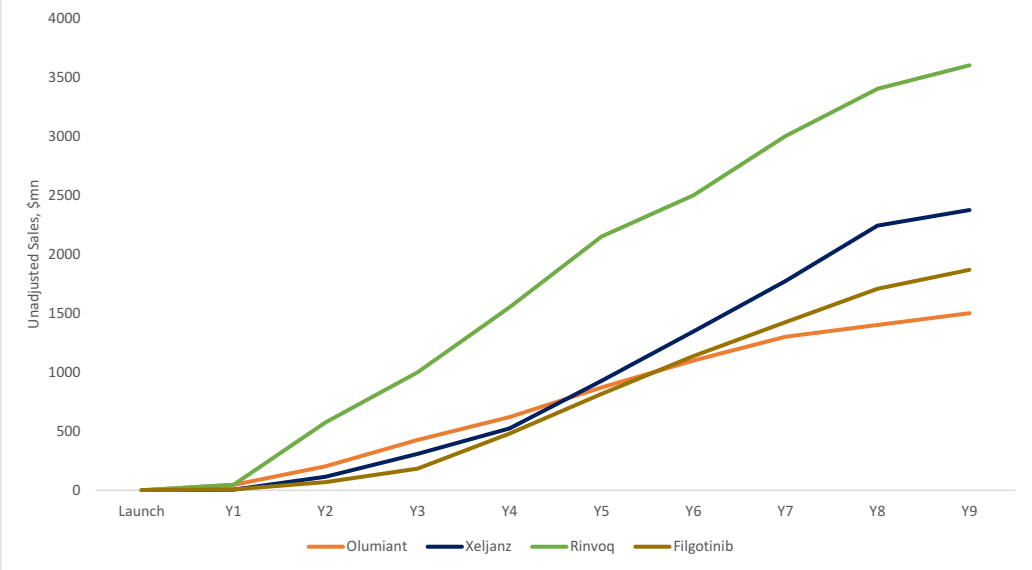
What is it and the market opportunity?

Filgotinib is a small molecule inhibitor of JAK1, a member of the JAK (Janus kinase) family of cytoplasmic tyrosine kinases. The family of receptors (JAK1, JAK2, JAK3 and TYK2) are broadly responsible for the modification of specific proteins within cells and control a diverse array of biological functions. JAKs are an important therapeutic target in a variety of diseases, particularly auto-immune diseases, as they up regulate a wide variety of cytokines (responsible for immune system signaling). Drugs that target JAK dampen the pro-inflammatory effects of cytokine signaling, thus providing therapeutic benefit in inflammatory diseases. Filgotinib is currently in development for rheumatoid arthritis (RA), ulcerative colitis (UC), psoriatic arthritis (PsA), Crohn's disease (CD) and ankylosing spondylitis (AS). According to prior GS research, we estimate that the global inflammation market will grow to ~$65bn by 2027.

Competitive landscape: Filgotinib represents the fourth JAK inhibitor (JAKi) to come to the market (currently approved in Japan and Europe, pending approval in the US). Others include Xeljanz (approved in 2012 for RA, PSA and UC), Olumiant (approved in 2018 for RA), and Rinvoq (approved in 2019 for RA), which are marketed by Pfizer, Eli Lilly, and AbbVie, respectively (all companies covered by Terence Flynn). That said, with respect to Rinvoq, ABBV has submitted supplemental new drug applications (sNDAs) for Rinvoq in PsA, AS and more recently, atopic dermatitis (AtD). Other trials underway include those for Rinvoq in CD, UC, axial spondyloarthritis, giant cell arteritis, and Takayasu arteritis.

Although, filgotinib has shown a favorable safety profile vs. the other JAKi's, we believe there is a risk that like for the other three JAKi's, a black box warning around safety could be applied to filgotinib (this of course assumes final approval by FDA). Thus, were this to be the case, we believe any potential safety advantages previously communicated by GLPG for filgotinib may ultimately be neutralized, with all four JAKi's potentially on a similar playing field with respect to safety. In terms of commercialization, we believe that GLPG/GILD are at a relative disadvantage vs. other immunology players, which have at least two drugs in their portfolio (ABBV, JNJ and LLY) and in some cases a longer, established presence in the space. Also, the potential launch of biosimilar versions of Humira in 2023 in the US market could become another disadvantage to filgotinib, which we currently expect to launch in US in 2022.

Exhibit 8: JAK inhibitor launch trajectories



The reported sales for Olumiant, Xeljanz and Rinvoq is till Y3,Y8 and Y1 respectively, beyond which we use GS estimates

Source: Company data, Goldman Sachs Global Investment Research

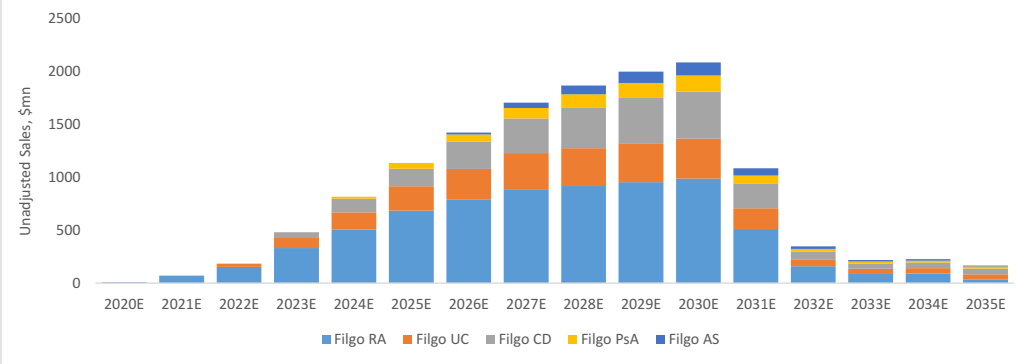
Our assumptions

- **RA —** Our model assumes US approval and subsequent launch in 2022 from 4Q20 prior (EU and Japan launch in 4Q20). We assign a PoS of 85% (US) and forecast peak risk unadjusted sales of $990mn in 2030, after which we expect patent

expiration and thus, a decline in sales due to generic erosion. (As filgotinib is a small molecule-based drug, any patent cliff in the post-2030 LOE period for the product could be steep.) We further assume an average annual price of c.$65k based on Rinvoq pricing, 25% GTN adjustment and 4% annual growth rate. In Europe, where filgotinib was recently approved as Jyseleca, we assume a 30% discount to the US price (c.$45k/year) and keep the price constant (i.e., we assume no annual price increases) throughout our forecast period.

- **UC —** Our model assumes US approval and subsequent launch in 2022, given the possibility of a parallel filing for RA and UC. Recall that filing timeline for filgotinib has been made uncertain given (1) mixed Phase 3 data in UC (LINK) and (2) the FDA CRL in the lead indication of RA, with GLPG stating that filing in the US for UC is dependent on the ultimate timing of resolution for filgotinib in RA. We currently assume an EU and Japan launch in 2022. In terms of our forecasts, we assign a PoS of 70% and project peak year risk unadjusted sales of $380mn in 2030, after which we expect patent expiration. We make the same pricing assumptions as filgotinib in RA, adjusted according to year of launch.
- **CD/PsA/AS —** Our model assumes US, EU and Japan launch in 2023/2024/2026 for CD/PsA/AS respectively. We assign a PoS of 60/50/50% and forecast peak risk unadjusted sales of ~$440/$150/$120 mn in 2030 for CD/PsA/AS after which we expect patent expiration. We make the same pricing assumptions as filgotinib in RA, adjusted according to year of launch.

Exhibit 9: Filgotinib risk-unadjusted sales summary in different indications



Source: Goldman Sachs Global Investment Research

Current status: GLPG received an approval in RA on September 25, 2020 in Japan and Europe and a complete response letter from the US FDA in August 2020 (LINK) for filgotinib in RA. As stated previously, positive Phase 3 data are in hand (specifically at the higher 200mg dose, but not the lower 10mg dose) and it is in Phase 3 clinical trials in Crohn's disease (CD) and psoriatic arthritis (PsA), with a Phase 3 in ankylosing spondylitis (AS) expected to start by YE2020. In addition, GILD is running Phase 2 trials for filgotinib in uveitis, small bowel Crohn's disease, and fistulizing Crohn's disease (indications we do not currently model).

IPF Franchise

Ziritaxestat (GLPG1690)

Ziritaxestat is an oral, once daily autotaxin inhibitor currently in Phase 3 studies. Autotaxin is the main enzyme responsible for lysophosphatidic acid (LPA) production. LPA is a well-known pro-fibrotic and pro-inflammatory lipid, acting through at least six G-protein coupled receptors (GPCRs). The mechanism is believed to block LPA production. The autotaxin/LPA approach has been previously validated, via a Bristol-Myers Squibb (covered by Terence Flynn) candidate (BMS-986020), but due to significant off-target toxicity, that program was discontinued. Recall that GLPG has received orphan drug designation from the US and EU in both idiopathic pulmonary fibrosis (IPF) and systemic sclerosis (SSc) for ziritaxestat.

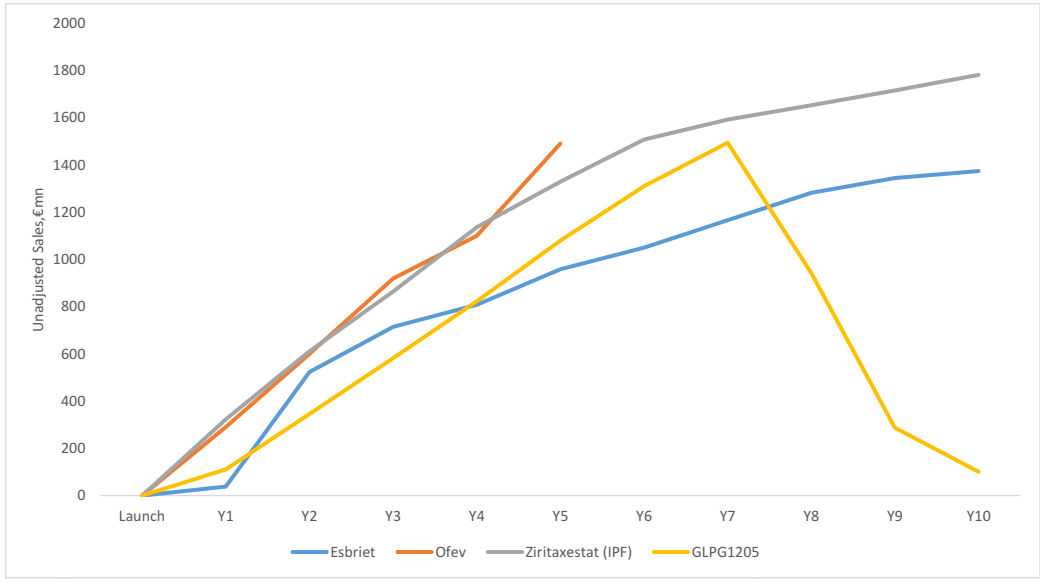
GLPG1205

Galapagos is also advancing GLPG1205 (a GPR84 inhibitor) in IPF. GPR84 is a G protein-coupled receptor (GPCR) where based on the scientific literature, it is believed to have a role in inflammation and fibrotic conditions. Thus, its blockade may be effective in improving patients with IPF. Currently, GLPG1205 is being investigated in the Phase 2 PINTA study. Here, 60 patients on local standard of care (specifically defined as receiving Roche's Esbriet, Boehringer Ingelheim's Ofev, or neither agent) are being evaluated, with FVC at 26 weeks as the primary endpoint. The trial began in September 2018, and we are currently expecting data in 4Q20. We note that a competitor product is PBI-4050, originally developed by Prometic Life Sciences (now known Liminal BioSciences, not covered). An exploratory, Phase 2 study was completed in June 2019, showing no safety concerns and encouraging early results. That said, the program has not advanced since.

IPF and market opportunity

Idiopathic pulmonary fibrosis (IPF) is the most common type of interstitial lung disease (ILD) that results in scarring (fibrosis) of the lungs. As the scarring gets worse, it becomes hard to breathe and the lungs are unable to take in enough oxygen. Median survival of a patient diagnosed with IPF is c.2-3 years, and while there now are two currently approved drugs (Roche's Esbriet and Boehringer Ingelheim's Ofev, which were both approved in the fall of 2014 and that on a combined basis, has generated ~ €2.5bn in 2019), there is still a significant need given the limitations of the two drugs on both efficacy and tolerability (GLPG cites 25% discontinuations). Esbriet and Ofev, only slow respiratory decline and do not change the lethal outcome of IPF. Their poor tolerability profiles lead to a significant proportion of patients discontinuing therapy every year, and in addition, many patients are not even started on therapy, despite the known progression of the disease. Thus, in our view, the unmet need for disease-modifying therapies with a good efficacy and safety could translate into a sizable market opportunity.

Exhibit 10: Launch trajectories of GLPG1205 and GLPG1690(IPF) vs. competitors



For Esbriet, we use reported sales till Y6, beyond which we use GS estimates

Source: Company data, Goldman Sachs Global Investment Research

Our assumptions

- **Ziritaxestat:** Our model assumes an annual incidence of IPF of around 80k/100k patients in the US/EU and peak penetration of c.30% in the US and c.8% in EU. We further assume initial launch year annual price in the US of c.$156k for ziritaxestat based on 4% annual growth off of 2020 Ofev list pricing and a 20% GTN adjustment. In Europe, we assume a 30% discount to the US price (c.$110k/year) and keep the price constant. We assign a PoS of 65% and forecast peak risk unadjusted sales of $2.2bn in 2034, after which we expect patent expiration. Currently, we assume a product launch in 2023, and based on our current sales projection, we thereby model $325mn in non-risk adjusted milestones from GILD in 2023. Of note, interim Phase 3 data (expected in 1H21) be very positive with the trial being stopped on the basis of strong efficacy, timing of a US launch could be accelerated. However, this is not our base case.
- **GLPG1205:** Assuming similar epidemiology around US/EU incidence as above, our model assumes peak penetration for '1205 of c.25% in the US and c.6% in EU. We further assume initial launch year price of c.$175k in the US, based on GLPG1690 pricing of 2026, 20% GTN adjustment and 4% annual growth rate. In Europe, we assume a 30% discount to the US price (c.$122/year) and keep the price constant. We assign a PoS of 25% and forecast peak risk unadjusted sales of $1.7bn in 2032, after which we expect patent expiration. Currently, we assume a US launch in 2026, and model $150mn in non-risk adjusted milestones from GILD in 2021 after completion of Phase 2.

Current status

- **GLPG1690 —** It is being advanced in the Phase 3 ISABELA1 and ISABELA2 trials;

an interim (and futility) analysis is expected is 1H21.

- **GLPG1205 —** It is currently in Phase 2 studies and data from Phase 2 PINTA study is expected in 4Q20.

Ziritaxestat in dcSSC

What is dcSSC and market opportunity?

Diffuse cutaneous systemic sclerosis (dcSSc) is a subtype of systemic scleroderma, whose main symptom is skin hardening (fibrosis). While exact causes of the disease are unknown, symptoms appear to originate with an autoimmune reaction that causes an overproduction of collagen. While pediatric cases are possible, most patients begin to exhibit symptoms at 40-50 years of age. While 135k adults suffer from systemic scleroderma, 75% of those cases are considered limited SSc, i.e. less widespread skin thickening and limited internal organ involvement. dcSSc (representing the other 25% patients) often involves fibrotic damage to multiple internal organs, which can lead to dysphagia (trouble eating), joint pain, and muscle weakness. Roughly 2% of cases exhibit potentially life-threatening renal involvement, and pulmonary fibrosis is seen in 60% of cases. According to GLPG, dcSSc has one of the highest mortality rates among rheumatic diseases. There are currently no FDA approved treatments for the disease.

Therapeutic options for dcSSc are methotrexate, cyclophosphamide, or mycophenolate mofetil and autologous stem cell transplantation. Methotrexate is efficient for stabilizing or reducing skin involvement but evidence of efficacy in organ involvement is lacking. Patients with lung involvement or progressive skin thickening are treated with either cyclophosphamide, or mycophenolate mofetil. Present therapies postpone disease deterioration but do not prevent serious disease complications.

Competitive landscape

There are a number of ongoing competitive programs for dcSSc, which we highlight below:

- **Lenabasum:** This is an oral medication being developed by Corbus Pharmaceuticals (not covered) as a potential treatment of scleroderma and other chronic inflammatory diseases that lead to tissue scarring (fibrosis). The Phase 2 trial results for study evaluating its safety and efficacy in patients with dcSSC showed clinically meaningful improvements and well tolerated safety profile.
- **BMS-986020:** This an LPAR1 antagonist being developed by Bristol-Myers Squibb (covered by Terence Flynn) that had advanced into a Phase 2 clinical trial in idiopathic pulmonary fibrosis (IPF) and plans to also advance into Phase 2 in SSc. However, the Phase 2 trial in SSc with withdrawn (LINK). As a result, we believe BMS-986020 has been discontinued in favor of a backup compound (potentially BMS-986278, LINK).
- **HZN-825:** This is an LPAR1 antagonist in development by Horizon Therapeutics (HZNP) for dcSSc. HZNP expects to conduct a Phase 2b trial starting in the first half of 2021, and for additional details on the asset, we refer you to our note that provides a fuller description and history of the asset (LINK).
- Of note, Boehringer Ingelheim's **Ofev** is approved in systemic scleroderma, but

primarily to manage associated declines in respiratory function.

Our assumptions: Our model assumes a US launch in 2024, and 2025 in the EU. We assign a PoS of 50% and forecast peak risk unadjusted sales of $460mn in 2034, after which we expect patent expiration. We further assume an average annual price of c.$162k, 20% GTN adjustment and 4% annual growth rate. In Europe, we assume a 30% discount to the US price (c.$113/year) and keep the price constant.

Current status: On September 9, GLPG reported positive top line results from NOVESA Phase 2a trial of ziritaxestat in dsSSc. With respect to efficacy, when compared to placebo, treatment with 600 mg ziritaxestat lead to statistically significant improvements in the primary endpoint measure of modified Rodnan Skin Score (mRSS) at Week 24 (-8.3 vs -5.7 for placebo). Overall, ziritaxestat was well tolerated with only two patients experiencing serious adverse events as compared to one in the placebo group.

The Toledo program

This represents GLPG's biggest program in terms of the discovery and early development efforts. Molecules inhibiting this target family effectuate a dual mode of action on inflammation by stimulating anti-inflammatory cytokines and inhibiting pro-inflammatory cytokines. The MOA is novel but GLPG is yet to disclose any specific details about the program. However, they have disclosed the following about its Toledo compounds:

- '3970 (second generation) hits TOL2 and TOL3 (i.e., is TOL2 and TOL3 selective); a Phase 1 started in 2019, and a broad Phase 2 development program with multiple proof of concept studies in several autoimmune diseases started in 3Q20 (top line data is expected in 2021) and additionally GLPG aims to launch 2 additional Phase 2 studies, in Sjögren's and systemic lupus erythematosus in 1Q21.
- '4605, a selectiveTOL2/TOL3 compound, currently in preclinical phase and directed towards fibrosis
- '4399 is TOL3 selective; currently in preclinical phase and directed towards inflammation

GLPG will host an investor event on October 27 specifically on the Toledo program, at which time, we expect the company to announce the target/mechanism of action, which long has been undisclosed by the company.

Our assumptions: Contrary to our prior product revenue forecasts, where we have constructed detailed, patient-driven market models, for Toledo, we have instead chosen to take a more simplified approach. Here, we benchmark Toledo sales forecasts to that of our risk-unadjusted filgotinib forecasts. Against that backdrop, our model assumes a US launch for a Toledo program in 2027 (EU in 2028), and currently, we assign a PoS of 25% (first patient dosing occurred within the past month). In terms of peak risk-adjusted sales, we currently model $509mn, and further, we model $150mn in non-risk adjusted milestones at the completion of Phase 2 in 2023.

Financial projections

Revenue: To arrive at total revenue for GLPG, we model the following programs: 1) Filgotinib in RA, UC, CD, PsA and AS, 2) Ziratаxestat in IPF and SSC, 3) Toledo, and GLPG1205 in IPF. For each program, we have built out individual revenue models, with key assumptions being: 1) market share penetration within the incident, 2) prevalent patient populations 3) pricing, and 4) probability of success.

Overall, we currently forecast (1) peak risk-unadjusted total sales potential across GLPG's portfolio of $8.6bn and (2) peak company revenue of $1.1bn in 2028 (recall GLPG does not record 100% of sales). In terms of revenue, in addition to the sales recorded by GLPG for each commercialized product in ex-US territories (where GLPG has responsibility), we also model royalty payments (from ex-EU sales — i.e., from US, Japan and other territories), and potential upfront and milestone payments from GILD.

COGS: We assume a steady state gross margin of 95% comparable to the COGS associated with small molecule manufacturing.

OpEx

- **R&D:** We forecast a decline of 10% in R&D expense in 2021 given our assumption that GLPG discontinues the development of GLPG1972. Further, we model a specific decline of ~18% and 30% in the years of 2022 and 2024 as we expect GILD to opt-in for GLPG1205 and Toledo after potential successful completion of Phase 2, and hence, share in the development costs. Post 2024, we model a gradual increase in R&D till 2028 and then a further decline as filgotinib and other programs lose patent exclusivity.
- **SG&A:** We assume SG&A growth at 10% yoy in 2021 and 2022 as GLPG launches filgotinib in Europe and Japan and a gradual increase till 2030. We model a decline of 40% yoy in 2031 assuming patent expiration for filgotinib and no new product launches, implying steady-state SG&A at ~20% of sales.
- All-in, our model implies operating profitability beginning in 2023.

Taxes

- We expect the company's net operating loss carry-forward to last until 2029, after which we assume an effective tax rate of 10%.

DCF assumptions

- We assume a discount rate of 10% (unchanged vs. our prior model), which we believe is appropriate given GLPG's late stage of development and having secured regulatory approvals for Jyseleca (again, in Europe and Japan). In addition, this is in line with the range of 10%-15% that is applied across our biotechnology coverage universe.
- We assume a terminal growth rate (TGR) of 0% which reflects the declining revenue (due to various patent expiries) offset by potential new products from GLPG's drug discovery engine (which has proven to be very productive). We note that previously,

we had modeled a -10% TGR, mainly to reflect the expected loss of US exclusivity for filgotinib several years ahead of the end of our forecast period (2035).

Upcoming news flow

Given the size of Galapagos' current R&D efforts, the balance of YE20 and 2021 is shaping up to be busy from a pipeline progress perspective. We believe the next 6-18 months will be mainly about the status and potential launch of filgotinib in RA (and UC) in the US, along with updates on the commercial launches for the product in Europe and Japan, but that said, other key data sets and events include:

- **2H20:** Phase 2 PINTA data for GLPG1205 in IPF; and updates on the Toledo program at the Toledo roundtable on October 27;
- **2021:** 26-week data from the MANTA and MANTA-Ray studies; interim Phase 3 data for ziritaxestat/GLPG1690 in IPF; Phase 2 data in fistulizing CD for filgotinib; and Phase 3 DIVERSITY data in CD for filgotinib.

Exhibit 11: Upcoming Catalysts

Timing	Product	Event Type	Details
2020			
4Q20	**'1205**	**Clinical**	**Announce Phase 2 PINTA data in IPF**
27-Oct-20	'3970 (2nd gen Toledo)	Clinical	Announce target class and Phase 1 data
4Q20	filgotinib	Commercial	Launch in France, Italy, Spain, and Japan for RA
4Q20	filgotinib	Clinical	Initiate Phase 3 program in AS
2021+			
1H21	filgotinib	Clinic	Announce 26 week data from MANTA studies
1H21	filgotinib	Regulatory	NDA submission in RA and UC
1H21	'3970 (2nd gen Toledo)	Clinical	Announce topline data from Phase 2 POC trials
1H21	**'1690**	**Clinical**	**Announce futility analysis for Phase 3 ISABELA1 data in IPF**
1H21	filgotinib	Clinical	Announce Phase 2 data in fistulizing CD
1H21	filgotinib	Regulatory	Regulatory filing in EU and Japan for UC
2H21	**filgotinib**	**Clinical**	**Announce Phase 3 DIVERSITY data in CD**
2022+			
4Q21/1Q22	'1690	Clinical	Announce final Phase 3 ISABELA1 data in IPF
1Q22	**filgotinib**	**Regulatory**	**EU and Japan approval in UC**
1Q22	**filgotinib**	**Regulatory**	**Potential FDA approval in RA and UC**

Source: Company data, Goldman Sachs Global Investment Research

Valuation/Risks

As a result of the model changes, we downgrade GLPG to Sell from Neutral with a DCF-derived 12-month price target of €87 vs. prior €108 (unchanged 10% WACC and 0% terminal growth rate vs prior terminal growth rate of -10%). In addition, we introduce a $103 12-month PT on the US ADR (using a 1:1 ADR ratio and EUR/US exchange rate of 1.18).

Upside risks include:

Clinical

- Better-than-expected data from the clinical readouts for GLPG1205 and GLPG1690.

- Revenue contributions from earlier stage assets not modeled currently
- Faster-than-anticipated clinical advancement, earlier-than-anticipated NDA submission and full FDA approval for filgotinib.

Competitive

- Better-than-expected execution of filgotinib commercial launch, potentially capturing larger-than-anticipated market share, which represents upside to our current revenue estimates.

Exhibit 12: DCF valuation

€mn	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E
Product Sales	2	20	44	76	159	218	266	322	361	403	433	381	349	358	338	217
Royalties	0	4	12	82	145	212	287	355	418	469	513	442	403	377	369	222
Recognition of deferred revenue	404	408	408	408	321	234	234	234	234	117	0	0	0	0	0	0
Milestones	122	56	74	288	35	46	21	39	0	0	0	0	0	0	0	0
Other revenue	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25
Other income	62	68	55	61	43	44	45	46	46	42	35	25	20	18	16	14
Total Revenues	**615**	**581**	**619**	**940**	**728**	**779**	**879**	**1020**	**1083**	**1055**	**1006**	**873**	**796**	**778**	**748**	**478**
COGS	**0**	**-2**	**-3**	**-4**	**-8**	**-11**	**-13**	**-16**	**-18**	**-20**	**-22**	**-19**	**-17**	**-18**	**-17**	**-11**
COGS %	-10.0%	-10.0%	-7.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%
Gross profit	**615**	**579**	**615**	**936**	**720**	**768**	**865**	**1004**	**1065**	**1035**	**985**	**854**	**779**	**760**	**731**	**467**
Gross margin %	100.0%	99.7%	99.5%	99.6%	98.9%	98.6%	98.5%	98.4%	98.3%	98.1%	97.9%	97.8%	97.8%	97.7%	97.7%	97.7%
R&D	**-610**	**-552**	**-450**	**-495**	**-347**	**-357**	**-368**	**-371**	**-375**	**-338**	**-287**	**-201**	**-161**	**-145**	**-130**	**-117**
R&D %	-99.2%	-95.1%	-72.8%	-52.7%	-47.6%	-45.8%	-41.8%	-36.4%	-34.6%	-32.0%	-28.5%	-23.0%	-20.2%	-18.6%	-17.4%	-24.5%
SG&A	**-216**	**-238**	**-261**	**-274**	**-288**	**-297**	**-300**	**-303**	**-306**	**-309**	**-312**	**-187**	**-178**	**-169**	**-160**	**-152**
SG&A %	-35.1%	-40.9%	-42.3%	-29.2%	-39.6%	-38.1%	-34.1%	-29.7%	-28.2%	-29.3%	-31.0%	-21.4%	-22.3%	-21.7%	-21.5%	-31.9%
Otherincome/expense	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
EBIT	**-211.6**	**-211.1**	**-96.0**	**166.6**	**85.7**	**114.7**	**198.0**	**329.4**	**384.6**	**388.8**	**385.9**	**465.6**	**440.6**	**446.4**	**440.2**	**197.7**
Tax rate	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.8%	10.0%	10.0%	10.0%	10.0%	10.0%
Adjusted taxes	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-30.2	-46.6	-44.1	-44.6	-44.0	-19.8
NOPLAT	**-211.0**	**-211.1**	**-96.0**	**166.6**	**85.7**	**114.7**	**198.0**	**329.4**	**384.6**	**388.8**	**355.7**	**419.0**	**396.5**	**401.8**	**396.2**	**178.0**
+ D&A	7.4	13.3	14.0	15.4	14.4	15.3	16.4	16.0	17.0	17.9	18.9	19.8	20.7	21.6	22.4	23.2
- CAPEX	21.3	16.0	13.4	14.7	10.3	11.0	11.0	11.0	11.0	11.0	11.0	10.0	9.0	8.0	8.0	8.0
+ CIWC	-338	-430	-447	-445	-346	-237	-241	-246	-239	-121	-4	-20	0	-3	0	23
Free cash flow	**-562.8**	**-644.0**	**-542.3**	**-277.4**	**-256.5**	**-117.9**	**-38.2**	**88.3**	**151.3**	**275.0**	**360.0**	**409.0**	**408.4**	**412.8**	**410.3**	**216.3**

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 13: Intrinsic valuation

Intrinsic Valuation	
PV of cash flows (2021-2035)	-309
WACC	10%
TV Growth rate	0%
Terminal Value	543
Enterprise Value	234
Net debt (end 1H21)	-4,916
Platform Value	600
Equity Value	5,750
# of shares (end of 1H21)	65.8
Equity Value per share	87.0
Exchange rate	1.2
Equity Value per share($)	103

Source: Goldman Sachs Global Investment Research

Appendix: Financial statements

Exhibit 14: Income statement

€ mn	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E
Sales Revenue	**2.0**	**20.1**	**44.1**	**75.8**	**159.4**	**218.2**	**266.2**	**321.6**	**360.8**	**403.2**	**432.6**	**381.2**	**348.7**	**358.5**	**337.9**	**216.7**
Filgotinib RA	2.0	20.1	40.9	62.5	76.2	86.1	87.6	89.0	90.5	92.0	93.5	47.5	14.5	2.9	3.0	1.0
Filgotinib UC	0.0	0.0	3.1	9.4	15.8	22.3	27.2	32.1	32.3	32.4	32.6	16.4	4.9	5.0	5.0	5.0
Filgotinib CD	0.0	0.0	0.0	3.9	8.9	15.0	19.3	22.7	25.1	25.5	24.8	12.4	3.9	2.7	2.7	2.8
Filgotinib PsA	0.0	0.0	0.0	0.0	1.0	3.1	4.8	6.1	6.9	7.5	7.6	3.9	1.2	0.8	0.8	0.9
Filgotinib AS	0.0	0.0	0.0	0.0	0.0	0.0	1.1	2.9	4.6	5.8	6.7	3.6	1.2	0.8	0.8	0.8
Ziritaxestat (EU)	-	0.0	0.0	0.0	57.5	91.8	126.3	161.2	180.1	199.2	203.6	204.6	205.7	206.7	207.7	104.4
IPF	-	0	0	0	58	87	116	146	161	177	178	179	180	181	181	91
SSc	-	0	0	0	0	5	10	15	19	22	26	26	26	26	26	13
Toledo	-	-	-	-	-	-	-	-	**1.0**	**10.1**	**22.7**	**41.2**	**57.8**	**74.5**	**85.1**	**95.4**
GLPG1205 in IPF	-	0	0	0	0	0	0	8	20	31	41	52	60	65	33	7
Royalties	**0.4**	**3.8**	**11.6**	**81.8**	**145.1**	**212.2**	**287.3**	**354.5**	**417.8**	**468.8**	**513.4**	**441.7**	**403.0**	**376.6**	**368.8**	**222.0**
Filgotinib	0	3.8	11.6	39.8	72.9	105.8	137.5	167.6	183.6	197.9	209.0	104.3	33.3	21.5	22.5	14.4
Ziritaxestat	-	-	-	42.0	72.3	106.4	144.3	169.9	199.2	214.3	225.0	236.2	247.9	260.1	272.9	134.2
GLPG1205 in IPF	-	-	-	-	-	-	5.5	15.8	25.4	36.4	48.6	59.9	69.0	35.4	7.8	3.7
Toledo	-	-	-	-	-	-	-	1.2	9.5	20.3	30.8	41.4	52.8	59.5	65.5	69.6
Recognition of non-refundable upfront payments	**403.8**	**408.3**	**408.3**	**408.3**	**321.0**	**233.7**	**233.7**	**233.7**	**233.7**	**116.8**	**-**	**-**	**-**	**-**	**-**	**-**
Milestone Payments	**122.0**	**55.5**	**74.2**	**288.0**	**35.1**	**46.4**	**21.2**	**39.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
GILD Filgotinib	122.0	23.7	74.2	77.2	35.1	46.4	21.2	39.0	-	-	-	-	-	-	-	-
GILD Ziritaxestat	-			179.0	-	-	-	-	-	-	-	-	-	-	-	-
GLPG1205 in IPF	-	31.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ABBV CF	-															
Toledo	-	-	-	31.8	-	-	-	-	-	-	-	-	-	-	-	-
Reimbursement income	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Novartis MOR106																
ABBV CF																
Other																
Other Revenues	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Revenues	**553.2**	**512.7**	**563.1**	**878.9**	**685.7**	**735.5**	**833.4**	**973.9**	**1,037.3**	**1,013.8**	**971.0**	**847.9**	**776.7**	**760.0**	**731.7**	**463.7**
Other Income	**61.8**	**68.0**	**55.4**	**60.9**	**42.7**	**43.9**	**45.3**	**45.7**	**46.2**	**41.5**	**35.3**	**24.7**	**19.8**	**17.8**	**16.0**	**14.4**
Total Revenues	**615.0**	**580.7**	**618.5**	**939.8**	**728.3**	**779.4**	**878.7**	**1,019.6**	**1,083.5**	**1,055.4**	**1,006.3**	**872.6**	**796.5**	**777.8**	**747.7**	**478.1**
COGS	**(0.2)**	**(2.0)**	**(3.1)**	**(3.8)**	**(8.0)**	**(10.9)**	**(13.3)**	**(16.1)**	**(18.0)**	**(20.2)**	**(21.6)**	**(19.1)**	**(17.4)**	**(17.9)**	**(16.9)**	**(10.8)**
% of product sales	10%	10%	7%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
R&D	**(610.3)**	**(552.2)**	**(450.1)**	**(495.1)**	**(346.6)**	**(357.0)**	**(367.7)**	**(371.3)**	**(375.1)**	**(337.6)**	**(286.9)**	**(200.8)**	**(160.7)**	**(144.6)**	**(130.1)**	**(117.1)**
Growth %	43%	-10%	-19%	10%	-30%	3%	3%	1%	1%	-10%	-15%	-30%	-20%	-10%	-10%	-10%
% of revenue	99%	95%	73%	53%	48%	46%	42%	36%	35%	32%	29%	23%	20%	19%	17%	24%
SG&A	**(216.0)**	**(237.6)**	**(261.3)**	**(274.4)**	**(288.1)**	**(296.8)**	**(299.7)**	**(302.7)**	**(305.8)**	**(308.8)**	**(311.9)**	**(187.2)**	**(177.8)**	**(168.9)**	**(160.5)**	**(152.4)**
Growth %	120%	10%	10%	5%	5%	3%	1%	1%	1%	1%	1%	-40%	-5%	-5%	-5%	-5%
% of revenue	35%	41%	42%	29%	40%	38%	34%	30%	28%	29%	31%	21%	22%	22%	21%	32%
Total Opex	**(826.5)**	**(791.8)**	**(714.5)**	**(773.3)**	**(642.7)**	**(664.6)**	**(680.7)**	**(690.2)**	**(698.9)**	**(666.5)**	**(620.5)**	**(407.1)**	**(355.9)**	**(331.4)**	**(307.5)**	**(280.4)**
Operating Profit/Loss	**(211.6)**	**(211.1)**	**(96.0)**	**166.6**	**85.7**	**114.7**	**198.0**	**329.4**	**384.6**	**388.8**	**385.9**	**465.6**	**440.6**	**446.4**	**440.2**	**197.7**
Operating Profit Margin	-34%	-36%	-16%	18%	12%	15%	23%	32%	35%	37%	38%	53%	55%	57%	59%	41%
Net Financial Income/Expense	(83.0)	8.0	5.2	3.4	2.3	1.5	1.2	1.4	2.0	3.0	4.7	6.8	9.1	11.3	13.6	15.5
Other Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pre-tax Profit/Loss	**(294.5)**	**(203.1)**	**(90.8)**	**169.9**	**87.9**	**116.3**	**199.2**	**330.8**	**386.6**	**391.8**	**390.5**	**472.3**	**449.6**	**457.7**	**453.9**	**213.2**
Corporate Taxes	(0.7)	-	-	-	-	-	-	-	-	-	(30.6)	(47.2)	(45.0)	(45.8)	(45.4)	(21.3)
Tax rate effective	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	8%	10%	10%	10%	10%	10%
Net Profit/Loss	**(295.2)**	**(203.0)**	**(90.8)**	**169.9**	**87.9**	**116.3**	**199.2**	**330.8**	**386.6**	**391.8**	**360.0**	**425.1**	**404.7**	**412.0**	**408.5**	**191.9**
Basic EPS	(4.54)	(3.08)	(1.36)	2.52	1.29	1.68	2.85	4.67	5.39	5.39	4.89	5.71	5.36	5.39	5.27	2.44
Diluted EPS	(4.54)	(3.08)	(1.36)	2.52	1.29	1.68	2.85	4.67	5.39	5.39	4.89	5.71	5.36	5.39	5.27	2.44

Source: Goldman Sachs Global Investment Research

Exhibit 15: Balance sheet

€ mn	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E
Assets																
Inventory	0.1	1.4	2.1	2.6	5.5	7.5	9.1	11.0	12.4	13.8	14.8	13.1	11.9	12.3	11.6	7.4
Trade and other receivables	50.5	47.7	50.8	77.2	59.9	64.1	72.2	83.8	89.1	86.7	82.7	71.7	65.5	63.9	61.5	39.3
Current R&D receivables	16.4	14.8	10.7	11.7	8.2	8.5	8.7	8.8	8.9	8.0	6.8	4.8	3.8	3.4	3.1	2.8
Current financial instruments	3,182	3,182	3,182	3,182	3,182	3,182	3,182	3,182	3,182	3,182	3,182	3,182	3,182	3,182	3,182	3,182
Cash and cash equivalents	2,031	1,440	968	721	529	448	447	575	767	1,092	1,506	1,979	2,446	2,916	3,387	3,665
Current restricted cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other current assets	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3
Total Current Assets	**5,290.2**	**4,696.5**	**4,224.3**	**4,005.5**	**3,795.4**	**3,720.6**	**3,729.5**	**3,870.8**	**4,069.6**	**4,392.9**	**4,803.3**	**5,261.1**	**5,720**	**6,188**	**6,655**	**6,908**
Intangible assets	33.4	34.7	36.1	37.6	39.2	40.9	42.4	43.7	44.7	45.4	45.9	46.2	45.2	43.1	40.8	38.4
PP&E (incl right of use assets)	76.0	82.4	85.4	88.2	87.6	86.5	84.6	83.4	81.4	78.8	75.4	71.3	65.5	59.0	51.9	44.2
Deferred tax assets	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Non-current R&D incentives receivables	121.7	110.1	79.3	87.3	61.1	62.9	64.8	65.5	66.1	59.5	50.6	35.4	28.3	25.5	22.9	20.6
Non-current restricted cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-current assets	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
Non-current Assets	**244.8**	**240.9**	**214.6**	**226.8**	**201.6**	**204.1**	**205.6**	**206.2**	**205.9**	**197.4**	**185.6**	**166.6**	**152.8**	**141.4**	**129.4**	**117.0**
Total Assets	**5,535.0**	**4,937.4**	**4,438.8**	**4,232.3**	**3,997.0**	**3,924.6**	**3,935.1**	**4,077.0**	**4,275.5**	**4,590.3**	**4,988.9**	**5,427.7**	**5,873**	**6,329.7**	**6,784.8**	**7,024.5**
Liabilities																
Provisions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current lease liabilites	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9
Trade and other liabilities	219.7	194.8	155.9	147.6	104.3	107.5	109.7	110.8	111.9	106.3	98.4	63.8	55.6	51.5	47.8	44.3
Current tax payable	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Current financial instruments	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3
Current deferred revenue	408.3	408.3	408.3	321.0	233.7	233.7	233.7	233.7	116.8	-	-	-	-	-	-	-
Accrued charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	**663.5**	**638.5**	**599.7**	**504.0**	**373.5**	**376.6**	**378.8**	**379.9**	**264.2**	**141.7**	**133.9**	**99.2**	**91.1**	**87.0**	**83.2**	**79.8**
Retirement benefit liabilities	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Provisions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-current lease liabilities	19.7	18.5	17.3	16.0	14.8	13.6	12.4	11.2	9.9	8.7	7.5	7.3	6.1	4.8	3.6	2.4
Other non-current liabilities	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7
Non-current deferred revenue	2,189.5	1,781.2	1,372.8	1,051.8	818.1	584.5	350.8	117.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total Non-current Liabilities	**2,228.4**	**1,818.9**	**1,409.3**	**1,087.1**	**852.2**	**617.3**	**382.4**	**147.4**	**29.4**	**28.2**	**26.9**	**26.7**	**25.5**	**24.3**	**23.1**	**21.9**
Total Liabilities	**2,891.9**	**2,457.4**	**2,009.0**	**1,591.1**	**1,225.6**	**993.9**	**761.2**	**527.4**	**293.6**	**169.9**	**160.8**	**126.0**	**116.6**	**111.3**	**106.3**	**101.6**
Share Capital	290.5	290.5	290.5	290.5	290.5	290.5	290.5	290.5	290.5	290.5	290.5	290.5	290.5	290.5	290.5	290.5
Share premium	2,723.7	2,723.7	2,723.7	2,723.7	2,723.7	2,723.7	2,723.7	2,723.7	2,723.7	2,723.7	2,723.7	2,723.7	2,723.7	2,723.7	2,723.7	2,723.7
Other	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)
Retained earnings	(365.4)	(528.5)	(578.7)	(367.3)	(237.1)	(77.7)	165.4	541.1	973.4	1,412.0	1,819.6	2,293.2	2,747	3,210	3,670	3,914
Total Shareholder Equity	**2,643.1**	**2,480.0**	**2,429.8**	**2,641.2**	**2,771.4**	**2,930.8**	**3,173.9**	**3,549.6**	**3,981.9**	**4,420.5**	**4,828.1**	**5,301.7**	**5,756**	**6,218**	**6,678**	**6,923**
Total Equity and Liabilities	**5,535.0**	**4,937.4**	**4,438.8**	**4,232.3**	**3,997.0**	**3,924.6**	**3,935.1**	**4,077.0**	**4,275.5**	**4,590.3**	**4,988.9**	**5,427.7**	**5,873**	**6,330**	**6,785**	**7,025**

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 16: Cash flow statement

€ mn	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E
Net income	(295.2)	(203.0)	(90.8)	169.9	87.9	116.3	199.2	330.8	386.6	391.8	360.0	425.1	404.7	412.0	408.5	191.9
Adjustments	115.5	56.8	80.3	45.6	80.6	55.1	57.2	58.9	60.1	68.2	101.3	124.0	113.3	109.4	108.2	83.9
Depreciation and amortization	7.4	13.3	14.0	15.4	14.4	15.3	16.4	16.0	17.0	17.9	18.9	19.8	20.7	21.6	22.4	23.2
Share based compensation	39.1	39.8	40.6	41.5	42.3	43.1	44.0	44.9	45.8	46.7	47.6	48.6	49.5	50.5	51.5	52.6
Exchange losses/(gains)	(4.0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair value remeasurements/adjustments	34.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains/losses on asset disposals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	34.5	3.6	25.6	(11.3)	23.9	(3.3)	(3.1)	(2.0)	(2.6)	3.6	34.8	55.6	43.0	37.3	34.3	8.2
Changes in working capital (excl. deferred income)	73.7	(21.8)	(38.5)	(36.3)	(25.2)	(3.3)	(7.8)	(12.5)	(5.6)	(3.9)	(3.6)	(19.9)	0.2	(2.5)	(0.2)	23.2
Changes in deferred revenue	(411.5)	(408.3)	(408.3)	(408.3)	(321.0)	(233.7)	(233.7)	(233.7)	(233.7)	(116.8)	-	-	-	-	-	-
Interest	(97.9)	3.2	0.4	(1.4)	(2.5)	(3.3)	(3.6)	(3.4)	(2.8)	(1.8)	(0.1)	2.0	4.3	6.6	8.9	10.7
Tax	(0.7)	-	-	-	-	-	-	-	-	-	(30.6)	(47.2)	(45.0)	(45.8)	(45.4)	(21.3)
Cash flow from operating activities	**(565.3)**	**(573.1)**	**(457.0)**	**(230.5)**	**(180.3)**	**(68.9)**	**11.4**	**140.1**	**204.6**	**337.5**	**427.0**	**484.0**	**477.4**	**479.6**	**479.9**	**288.3**
Purchase of PP&E	(10.8)	(12.4)	(9.5)	(10.4)	(5.7)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
Purchase of intangible fixed assets	(10.5)	(3.7)	(3.9)	(4.3)	(4.6)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(4.0)	(3.0)	(3.0)	(3.0)
Disposals	0.0															
Current financial investments, net	730.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of financial assets	(2.7)															
Interest received from financial investments	4.7	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Net movement in marketable securities	6.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in restricted cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash flow from investing activites	**717.8**	**(11.3)**	**(8.7)**	**(9.9)**	**(5.6)**	**(6.2)**	**(6.2)**	**(6.2)**	**(6.2)**	**(6.2)**	**(6.2)**	**(5.2)**	**(4.2)**	**(3.2)**	**(3.2)**	**(3.2)**
Payment of lease liabilities	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)
Shares issued for cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
issue costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from exercise of warrants	23.3															
Share buyback	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash flow from financing activities	**17.0**	**(6.2)**	**(6.2)**	**(6.2)**	**(6.2)**	**(6.2)**	**(6.2)**	**(6.2)**	**(6.2)**	**(6.2)**	**(6.2)**	**(6.2)**	**(6.2)**	**(6.2)**	**(6.2)**	**(6.2)**
Total cash flow in the year	**169.6**	**(590.6)**	**(471.9)**	**(246.7)**	**(192.0)**	**(81.3)**	**(1.1)**	**127.7**	**192.2**	**325.1**	**414.6**	**472.6**	**467.0**	**470.2**	**470.5**	**278.9**
Cash at beginning of period	1,861.6	2,030.6	1,439.9	968.0	721.3	529.3	448.0	446.9	574.6	766.7	1,091.8	1,506.4	1,979.0	2,446.0	2,916.1	3,386.6
Exchange rates & other unrealized gain (loss)	(0.6)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash at end of period	**2,030.6**	**1,439.9**	**968.0**	**721.3**	**529.3**	**448.0**	**446.9**	**574.6**	**766.7**	**1,091.8**	**1,506.4**	**1,979.0**	**2,446.0**	**2,916.1**	**3,386.6**	**3,665.4**

Source: Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

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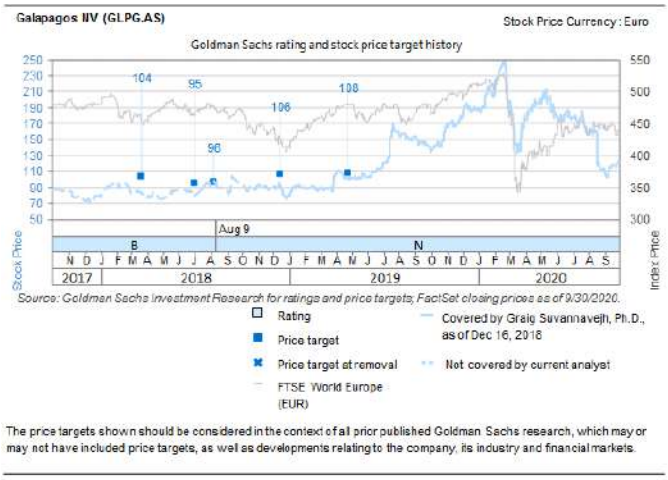

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