

**HOLD**  
**COMPANY UPDATE**

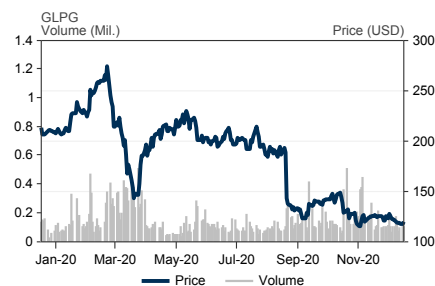
| Financial Summary |          |          |
|-------------------|----------|----------|
| Changes           | Previous | Current  |
| Rating            | —        | Hold     |
| Target Price      | \$138.00 | \$105.00 |
| FY20E Revenue     | €480.9   | €481.0   |
| FY21E Revenue     | €449.0   | €543.0   |

|                          |               |
|--------------------------|---------------|
| Price ( 12/16/20 ):      | \$96.82       |
| 52-Week Range:           | \$274 - \$112 |
| Market Cap.(mm):         | \$6,322.3     |
| Shr.O/S-Diluted (mm):    | 65.3          |
| Avg Daily Vol (3 Mo):    | 158,581       |
| Dividend / Yield:        | \$0.00 / 0.0% |
| Cash (mm):               | €5,309        |
| Price: Intraday 12/16/20 |               |

| Revenue  | 2019A   | 2020E   | 2021E  |
|----------|---------|---------|--------|
| Q1       | €40.9   | €106.9A | €NE    |
| Q2       | €67.6   | €117.7A | €NE    |
| Q3       | €644.0  | €144.0A | €NE    |
| Q4       | €143.2  | €113.0  | €NE    |
| FY (Dec) | €895.9A | €481.0  | €543.0 |

| EPS IFRS | 2019A  | 2020E   | 2021E  |
|----------|--------|---------|--------|
| Q1       | (0.89) | (0.78)A | NE     |
| Q2       | (0.86) | (1.77)A | NE     |
| Q3       | 5.83   | (1.25)A | NE     |
| Q4       | (1.82) | (1.24)  | NE     |
| EPS IFRS | 2.49A  | (5.22)  | (5.09) |

**Price Performance**



## Sticking To The Sidelines Given Need For Higher Spend In An Intensely Competitive Landscape; Target Price Moves To \$105

### Summary

We are reiterating our Hold rating after GLPG's conference call discussing the restructured GILD-GLPG development and commercial agreement for filgotinib. See our first take note from last night [here](#). Our target price moves to \$105 on the news. We would not be buying the weakness as we think setup for shares over the next 12 months is a challenging one. We see few catalysts from the pipeline that will offer meaningful upside for shares, and we remain cautious on filgotinib (Jyseleca) uptake ex-US given the intense competition in the JAK category. We expect shares will likely remain range bound, though think there could be more risk to the downside on significantly increased cash burn and the potential for more disappointing pipeline updates in 2021 (ie. ziritaxestat Ph3 futility in IPF and Toledo).

### Key Points

**Management clarified its plan and the FDA's position regarding the MANTA/MANTA-RAY data and filing filgotinib in UC.** As we noted last night, the FDA signaled that GLPG/GILD will need to submit 52-week data for patients that experience  $\geq 50\%$  decrease from baseline in sperm concentration, and/or motility, and/or morphology by week 26 and do not recover. GLPG/GILD plan to assess the 26-week data (expected in mid-2021) and will discuss whether they can submit with as part of their UC filing if the safety looks good. But given the FDA's stance on this, it seems like filing with 26-week MANTA results is a low probability event and likely a bull case scenario, so we push our filgotinib UC launch out by a year to be conservative. Interestingly, GLPG's CMO noted that there was an un-blinded group looking at the MANTA/MANTA-RAY data that will communicate with the EMA and regulators in Japan, where filgotinib gained approval and patients are being treated with the drug, to ensure any safety signal from the MANTA studies is relayed to these agencies. It's not clear to us if a safety signal is seen, if there is risk to filgotinib in these markets but this puts even more importance on these studies.

**GLPG believes Jyseleca can achieve peak sales of ~€500 million in the EU5, which makes up 70% of the overall EU opportunity. The big questions is: what do they need to spend to get there?** As part of the new agreement, GLPG is responsible for commercializing Jyseleca in the EU in RA and all future indications. Accordingly, all commercial responsibilities for the EU5 are expected to be assumed in 2021, with those from the remaining EU countries (e.g. Alpines, Nordics, and Ireland) by the end of 2021. For RA, the total EU represents a €350-€550 peak sales opportunity for Jyseleca and management believes they can attain profitability on that franchise in 2024. To compete with players like ABBV (NC, \$102.55) though, we think GLPG will need to spend considerably in S&M since it is a 4th to market JAK that we don't believe is very differentiated. So we don't think the Street will be sold on its peak sales and/or profitability timelines.

**Spend is going up across the board given GLPG's sole responsibility for EU clinical and commercial development.** In light of the changes to the GILD/GLPG partnership we have raised our near term opex estimates to account for a full EU sales force build out. In addition, with the MANTA study updates we modestly decreased our POS for IBD, as well as PsA and AS in the EU and pushed back the potential US launch in UC. Rolling in these changes to the market opportunities brings our price target to \$105 from \$138.

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**Investment Thesis**

*Our thesis is predicated on: (1) the chance of it receiving a meaningfully differentiated label within the JAK class is low; (2) we are cautious on GILD/GLPG's ability to deliver filgotinib sales ahead of consensus estimates between 2020-2025, which to us seem high; and (3) while we are positive on GLPG's pipeline and its long-term prospects, we don't see any major, near-term catalysts from the pipeline that would sufficiently offset our commercial concerns. While there is a lot to like here, given GLPG's meaningful cash position and robust R&D engine, we would seek a better entry point.*

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**Target Price Methodology/Risks**

Our target price for GLPG shares is \$105. This is based on a probability-weighted, risk-adjusted NPV analysis. We assign \$6 for filgotinib, GLPG1690, other revenue, and other pipeline, respectively. We assign \$99 of value for cash.

Risks: Underperforming filgotinib consensus sales, failures from the pipeline, delays from the pipeline, competition.

**Company Description**

Galapagos is a clinical-stage biotechnology company specialized in the discovery and development of disease modifying, small molecule medicines with novel mechanisms of action. The pipeline includes clinical candidates focused on rheumatoid arthritis, inflammatory bowel disease, idiopathic pulmonary fibrosis, osteoarthritis, and atopic dermatitis. Lead assets include filgotinib (partnered with Gilead) and GLPG1690 in IPF. Galapagos recently signed a transformational deal with Gilead that brought in significant cash and should allow for accelerated R&D. The Galapagos group, including fee-for-service subsidiary Fidelta, has approximately 460 employees, operating from its Mechelen, Belgium headquarters and facilities in The Netherlands, France and Croatia.

**GLPG Annual P&L Summary**

(figures in €m, except per share data)

|  | 2017          | 2018          | 1Q19          | 2Q19          | 3Q19        | 4Q19          | 2019        | 1Q20          | 2Q20          | 3Q20          | 4Q20E         | 2020E         | 2021E         | 2022E         | 2023E         | 2024E         | 2025E         |
|--|---------------|---------------|---------------|---------------|-------------|---------------|-------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Filgotinib EU Sales (JAKi; RA, UC, CD, AS, PsA)            | -             | -             | -             | -             | -           | -             | -           | -             | -             | -             | 4             | 4             | 18            | 69            | 194           | 383           | 631           |
| Ziritaxestat EU Sales (Autotaxin; IPF)                     | -             | -             | -             | -             | -           | -             | -           | -             | -             | -             | -             | -             | -             | -             | -             | 9             | 29            |
| <b>Total Product Sales</b>                                 | -             | -             | -             | -             | -           | -             | -           | -             | -             | -             | <b>4</b>      | <b>4</b>      | <b>18</b>     | <b>69</b>     | <b>194</b>    | <b>392</b>    | <b>660</b>    |
| Filgotinib Royalties                                       | -             | -             | -             | -             | -           | -             | -           | -             | -             | -             | -             | -             | 1             | 9             | 36            | 84            | 171           |
| Ziritaxestat Royalties                                     | -             | -             | -             | -             | -           | -             | -           | -             | -             | -             | -             | -             | -             | -             | -             | 10            | 31            |
| <b>Total Royalties</b>                                     | -             | -             | -             | -             | -           | -             | -           | -             | -             | -             | -             | -             | <b>1</b>      | <b>9</b>      | <b>36</b>     | <b>93</b>     | <b>202</b>    |
| <b>Other Revenues (upfronts, milestones, grants, etc.)</b> | <b>156</b>    | <b>318</b>    | <b>41</b>     | <b>68</b>     | <b>644</b>  | <b>143</b>    | <b>896</b>  | <b>107</b>    | <b>118</b>    | <b>144</b>    | <b>109</b>    | <b>478</b>    | <b>524</b>    | <b>493</b>    | <b>504</b>    | <b>536</b>    | <b>239</b>    |
| <b>Total Revenues</b>                                      | <b>156</b>    | <b>318</b>    | <b>41</b>     | <b>68</b>     | <b>644</b>  | <b>143</b>    | <b>896</b>  | <b>107</b>    | <b>118</b>    | <b>144</b>    | <b>113</b>    | <b>481</b>    | <b>543</b>    | <b>571</b>    | <b>734</b>    | <b>1,022</b>  | <b>1,101</b>  |
| % y/y growth   | 3%            | 104%          | -9%           | 19%           | 524%        | 27%           | 182%        | 161%          | 74%           | -78%          | -21%          | -46%          | 13%           | 5%            | 29%           | 39%           | 8%            |
| COGs   | -             | -             | -             | -             | -           | -             | -           | -             | -             | -             | 1             | 1             | 3             | 10            | 29            | 58            | 98            |
| % of sales   | 0%            | 0%            | 0%            | 0%            | 0%          | 0%            | 0%          | 0%            | 0%            | 0%            | 0%            | 0%            | 0%            | 2%            | 4%            | 6%            | 9%            |
| Gross Income   | 156           | 318           | 41            | 68            | 644         | 143           | 896         | 107           | 118           | 144           | 112           | 481           | 540           | 561           | 705           | 963           | 1,004         |
| % gross margin   | 100%          | 100%          | 100%          | 100%          | 100%        | 100%          | 100%        | 100%          | 100%          | 100%          | 100%          | 100%          | 100%          | 98%           | 96%           | 94%           | 91%           |
| G&A Expense  | 24            | 36            | 11            | 18            | 33          | 37            | 74          | 35            | 55            | 44            | 35            | 169           | 130           | 137           | 147           | 157           | 168           |
| % of sales   | 16%           | 11%           | 27%           | 26%           | 5%          | 26%           | 8%          | 32%           | 47%           | 31%           | 31%           | 35%           | 24%           | 24%           | 20%           | 15%           | 15%           |
| S&M Expense  | 3             | 4             | -             | -             | -           | -             | 25          | -             | -             | -             | 15            | 15            | 135           | 200           | 210           | 221           | 232           |
| % of sales   | 2%            | 1%            | 0%            | 0%            | 0%          | 0%            | 3%          | 0%            | 0%            | 0%            | 13%           | 3%            | 25%           | 35%           | 29%           | 22%           | 21%           |
| R&D Expense  | 219           | 323           | 83            | 94            | 121         | 129           | 427         | 117           | 149           | 132           | 145           | 543           | 591           | 609           | 627           | 646           | 665           |
| % of sales   | 140%          | 102%          | 203%          | 140%          | 19%         | 90%           | 48%         | 109%          | 127%          | 92%           | 128%          | 113%          | 109%          | 107%          | 85%           | 63%           | 60%           |
| <b>Operating Income</b>                                    | <b>(90)</b>   | <b>(45)</b>   | <b>(53)</b>   | <b>(44)</b>   | <b>491</b>  | <b>(23)</b>   | <b>370</b>  | <b>(45)</b>   | <b>(86)</b>   | <b>(32)</b>   | <b>(83)</b>   | <b>(246)</b>  | <b>(316)</b>  | <b>(385)</b>  | <b>(279)</b>  | <b>(60)</b>   | <b>(61)</b>   |
| % operating margin   | na            | na            | na            | na            | 76%         | na            | 41%         | na            | na            | na            | na            | na            | na            | na            | na            | na            | na            |
| Total financial income (expense)                           | (26)          | 16            | 5             | (3)           | (146)       | (76)          | (220)       | (6)           | (28)          | (49)          | -             | (83)          | (15)          | (10)          | (8)           | (8)           | (8)           |
| <b>Pre-tax income</b>                                      | <b>(116)</b>  | <b>(29)</b>   | <b>(49)</b>   | <b>(47)</b>   | <b>344</b>  | <b>(99)</b>   | <b>150</b>  | <b>(50)</b>   | <b>(115)</b>  | <b>(82)</b>   | <b>(83)</b>   | <b>(329)</b>  | <b>(331)</b>  | <b>(395)</b>  | <b>(287)</b>  | <b>(68)</b>   | <b>(69)</b>   |
| % pre-trax income margin                                   | na            | na            | na            | na            | 53%         | na            | 17%         | na            | na            | na            | na            | na            | na            | na            | na            | na            | na            |
| Tax expense (benefit)                                      | 0             | 0             | 0             | 0             | (17)        | 17            | 0           | 0             | 0             | 0             | -             | -             | -             | -             | -             | -             | -             |
| % tax rate   | na            | na            | na            | na            | -3%         | na            | 0%          | na            | na            | na            | na            | na            | na            | na            | na            | na            | na            |
| <b>Net income (loss)</b>                                   | <b>(116)</b>  | <b>(29)</b>   | <b>(49)</b>   | <b>(47)</b>   | <b>361</b>  | <b>(115)</b>  | <b>150</b>  | <b>(51)</b>   | <b>(115)</b>  | <b>(82)</b>   | <b>(83)</b>   | <b>(329)</b>  | <b>(331)</b>  | <b>(395)</b>  | <b>(287)</b>  | <b>(68)</b>   | <b>(69)</b>   |
| % net margin   | na            | na            | na            | na            | 56%         | na            | 17%         | na            | na            | na            | na            | na            | na            | na            | na            | na            | na            |
| <b>IFRS EPS</b>  | <b>(2.34)</b> | <b>(0.56)</b> | <b>(0.89)</b> | <b>(0.86)</b> | <b>5.83</b> | <b>(1.82)</b> | <b>2.49</b> | <b>(0.78)</b> | <b>(1.77)</b> | <b>(1.25)</b> | <b>(1.24)</b> | <b>(5.22)</b> | <b>(5.09)</b> | <b>(5.90)</b> | <b>(4.16)</b> | <b>(0.95)</b> | <b>(0.94)</b> |
| % y/y growth   | na            | na            | na            | na            | na          | na            | na          | na            | na            | na            | na            | na            | na            | na            | na            | na            | na            |
| Weighted Average Diluted Shares                            | 49.5          | 52.1          | 54.6          | 54.8          | 62.0        | 63.5          | 60.1        | 64.8          | 65.1          | 65.3          | 66.7          | 63.1          | 65.0          | 67.0          | 69.0          | 71.0          | 73.2          |
| % y/y growth   | 5%            | 5%            | 7%            | 7%            | 14%         | 17%           | 15%         | 19%           | 19%           | 5%            | 5%            | 5%            | 3%            | 3%            | 3%            | 3%            | 3%            |

Source: Company information and Stifel estimates

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## Galapagos NV (GLPG) as of December 15, 2020 (in USD)



\*Represents the value(s) that changed.

Buy=B; Hold=H; Sell=S; Discontinued=D; Suspended=SU; Discontinued=D; Initiation=I

For a price chart with our ratings and target price changes for GLPG go to <http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=GLPG>

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