Quick Take

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Galapagos N.V. ADR (GLPG- $130.44)

Rating: Overweight

Price Target: $130.00

The ball is back in GLPG's court; FDA update lifts key overhang

Market Data

Market Cap (M)	$7,124
52-Week Range	$131.00-$85.00
Avg Daily Trad Vol (3 mos)	122,981
Shares Out (M)	54.6

Takeaways

- *We expect GLPG shares to trade up today on the positive news that GILD (Young, OW) and GLPG can file filgotinib in the US in 2019.*
- ***We think FDA update is best case timeline scenario, which is a key positive for filgotinib's competitive positioning.*** *A filing by YE '19 suggests filgotinib can launch in the US as early as late 2020 (vs. we think investors had roughly assumed a ~2022 US launch). This shortens the timing lead competitor ABBV (NC)'s upadactinib has (US approval expected this summer) in RA. We note GILD has a priority review voucher (though they have not commented if it will be used for filgotinib).*
- ***Filing update lifts key overhang.*** *We think this answers a key investor debate around testicular safety and potential impacts to the US filing strategy. We think this sets the stage for GLPG to get credit for filgotinib in indications beyond RA and for pipeline programs beyond filgotinib where we continue to see meaningful potential.*
- ***From speaking to GILD management, the MANTA study is still ongoing, but the full MANTA study is not a condition for US filing.*** *Gilead has received the FDA meeting minutes and we think the company sounds highly confident filgotinib can be filed in the US this year.*
- ***Filgotinib UC Phase 3 data guided for 2Q 2020 is an important catalyst that we think could again surprise to the upside on data.*** *With more clarity around the US regulatory path forward, we think more credit can be given for near-term commercial sales in UC from a positive phase 3. We think filgotinib has a best in class risk-benefit profile, which we think will grow even more evident in indications beyond RA where higher doses are needed for competitive efficacy. Phase2 data in Sjogren's and lupus are also guided for later this year.*
- ***We continue to see best in class potential from filgotinib and underappreciated pipeline optionality from the wholly-owned pipeline beyond filgotinib.*** *A key part of our thesis on GLPG shares here post-positvie FINCH data is that there is more to the company's R&D engine than just filgotinib. We see several shots on very large goals with the OA, IPF and Toledo programs. If any one of these three programs materializes we see significant upside, as GLPG has significant (all or 50%+) economics in all three programs.*

Summary

GILD announced that a path forward for a US NDA filing in 2019 has been established with the FDA.

Investment Thesis

The Disclosure Section may be found on pages 4 - 5.

Our Galapagos thesis: We think that 2019 is the year filgotinib will differentiate itself among the JAKs. We think filgotinib has an attractive risk/benefit profile amongst the JAK inhibitors.

Valuation Summary

We value Galapagos shares on a probability-adjusted DCF.

Valuation

We use a probability adjusted DCF to value Galapagos shares. We assign a discount rate of 10% and a terminal growth rate of 0%, in line with peers of similar size and R&D capacity.

Risks

Key risks include greater-than-expected competition for GLPG's lead asset filgotinib and/or an unexpected clinical or regulatory setback. Key risks specific to filgotinib include:

-- Lack of efficacy in Phase 3 trials such as ulcerative colitis, Crohn's or psoriatic arthritis.

-- Greater-than-expected competition commercially, either from additional JAK inhibitors, novel biologics, or biosimilar entrants.

-- Testicular toxicity (only seen pre-clinically) is seen clinically with filgotinib.

Company Description

Galapagos is a clinical-stage biotechnology company. The company's lead asset, filgotinib, is partnered with Gilead (OW, covered by A. Young) and is in development for a variety of diseases in the inflammation and immunology (I&I) space such as rheumatoid arthritis, ulcerative colitis, and Crohn's, among many others. Other programs in development include the wholly owned idiopathic pulmonary disease (IPF) franchise, which has entered Phase 3.

Disclosures Appendix

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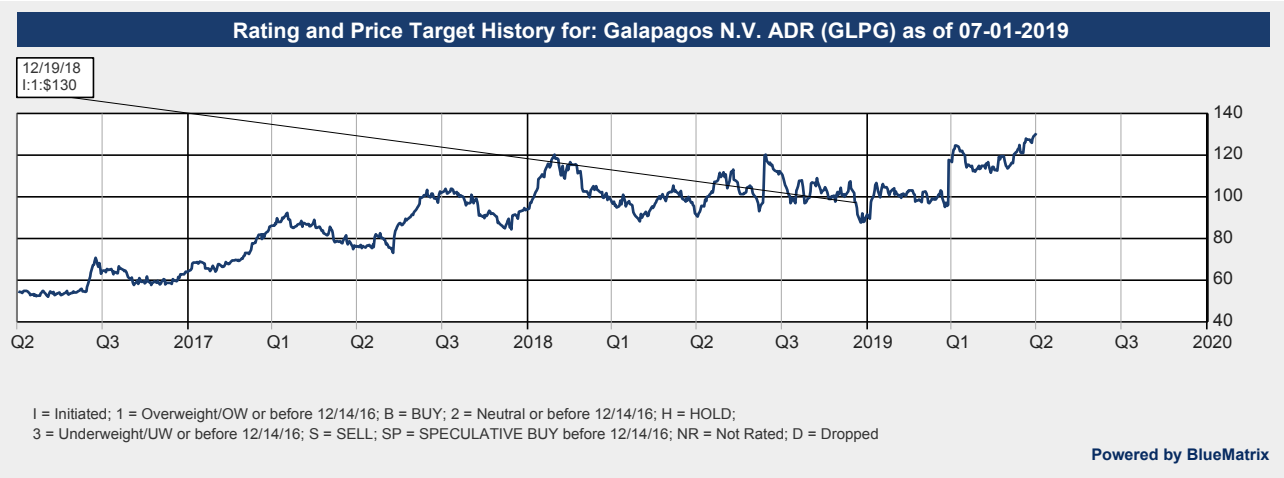

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Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [1/B]	**169**	**77.88**	**81**	**47.93**
HOLD [2]	**48**	**22.12**	**5**	**10.42**
SELL [SL/3]	**0**	**0.00**	**0**	**0.00**

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