

Galapagos Risk Reward

Filgotinib in RA and Crohn's; CF Pipeline Drive Risk-Reward



Source: Thomson Reuters, Morgan Stanley Research

Price Target **\$92**

We derive our PT from a discounted cash flow analysis that uses a WACC of 12.5% with cash flow forecasts through the 2030E expiration of the filgotinib patents. The main drivers are filgotinib royalties/milestones and CF program royalties/milestones.

Bull **\$122**

DCF

Filgotinib and CF assets are still the major driver, but we assume greater share in RA. We assume: 1) ~\$1.3B in royalties on sales of filgotinib in RA and ~\$300M in royalties on sales of filgotinib in Crohn's by 2030E; 2) Total filgotinib milestone payments of ~\$1.7B; 3) CF program royalties of ~\$500M by 2030E; 4) CF program development/commercial milestones of \$600M.

Base **\$92**

DCF

Filgotinib and CF assets drive our forecast. We assume: 1) ~\$875M in royalties on sales of filgotinib in RA and ~\$200M in royalties on sales of filgotinib in Crohn's by 2030E; 2) Total filgotinib development/commercial milestones of ~\$1.7B; 3) CF program royalties of ~\$500M by 2030E; 4) CF program development/commercial milestones of \$600M.

Bear **\$19**

DCF

Filgotinib and the CF pipeline assets fail but management continues to invest in R&D. We assume the cash/share value.

Investment Thesis

- We are Overweight Galapagos as we believe that filgotinib and the CF pipeline are differentiated and can take share.
- Filgotinib has a differentiated profile versus its oral competitors - both Xeljanz and baracitinib. We believe it has best in class efficacy with a cleaner safety profile, especially on anemia. With additional positive data generated in Crohn's, we model peak filgotinib sales in RA and Crohn's of ~\$4.5B by 2030E.
- The CF franchise has a competitive emerging profile with preclinical data suggesting CFTR restoration rates above Kalydeco. We believe there is significant unmet need for new CFTR modulators/potentiators.

Key Value Drivers

- The main drivers are advancement of filgotinib in RA and Crohn's and the CF pipeline.

Risks to Achieving Price Target

- Development Risk: Phase III RA studies take significant time and the Phase II profile does not assure unknown side-effects in the larger Phase III program. Further, the CF assets are just entering the clinic, so safety/efficacy are not well understood.
- Approval Risk: Regulatory approval is not assured and there is potential for failure to gain approval in one or more geographies.
- Commercial Risk: The RA and CF markets are competitive with a number of marketed agents along with agents in development.

Catalyst Calendar

Exhibit 62: Galapagos Catalyst Calendar

Drug	Type	Milestone	Timing
CF dual combination	Trial update	Completion of dual combination study of GLPG2451+GLPG2222 in healthy volunteers	2Q17
CF triple combination	Trial update	Initiation of triple combination study of GLPG2451+GLPG2222+GLPG2737 in healthy volunteers	2Q17
GLPG2451	PhI data	PhI CF data	1H17
GLPG1972	Regulatory event	File US IND for GLPG1972 in osteoarthritis; start PhIb in the US	1H17
Figotinib	PhI data	Presentation of biomarker data from PhII FITZROY study of figotinib in Crohn's at DDW	May 6-9, 2017
Figotinib	PhI data	DARWIN 3 (long-term extension study) data at EULAR 2017	June 14-17, 2017
CF triple combination	Trial update	Initiate study of triple combo in CF patients	Mid-2017
CF triple combination	Trial update	Completion of triple combination study in healthy volunteers	3Q17
GLPG1690	PhI data	PhIIa topline data in IPF	2H17
MOR106	PhI data	PhI topline atopic dermatitis data	2H17
GLPG2938	PhI launch	Initiate PhI study in IPF	2H17
GLPG2851	PhI launch	Initiate PhI with additional first-generation corrector GLPG2851	2H17
GLPG3221	PhI launch	Initiate PhI study with second-generation corrector candidate GLPG3221	2H17
GLPG2534	PhI launch	Initiate PhI study in atopic dermatitis	2H17
Figotinib	PhI data	Presentation of biomarker data from PhII FITZROY study of figotinib in Crohn's at UEGW	Oct 28 - Nov 1, 2017
Figotinib	PhI data	DARWIN 3 (long-term extension study) data at ACR 2017	November 3-8, 2017
Figotinib	Trial updates	Start multiple proof-of-concept studies in additional undisclosed indications	2017

Source: Company Data