First Take

Galapagos NV (GLPG)

July 24, 2020

Price: $200.40; Market Cap (M): $13,077; *7/23/2020 Close*

Rating: Buy; Price Target: $270.00

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A Step Towards Potential Commercial Differentiation

First JAKi to receive recommendation for high-dose approval. On July 23, 2020, CHMP adopted a positive opinion recommending marketing authorization for filgotinib (brand name Jyseleca), for treatment of moderate to severe rheumatoid arthritis. The final commission decision is expected during 3Q20. Importantly, CHMP's scientific opinion spans both the 100 and 200 mg doses, which if confirmed would be differentiated vs. Rinvoq (AbbVie; ABBV; not rated) and Olumiant (Eli Lilly; LLY; not rated), both approved at lower doses primarily due to JAKi associated infections and PE/DVT concerns. To-date, Jyseleca's safety profile has been consistent with its MOA, i.e., minimal impact on the EPO or JAK2 pathways, which translates into a differentiated hematologic and DVT/PE profile, the potential cornerstone in the upcoming commercial battle. Overall, we view the CHMP recommendation as incrementally positive and look forward to both the EMA and FDA label during 2H20 for differentiation vs. other JAK1's. Note, Galapagos recently initiated two additional Phase3 studies with Filgotinib in Ankylosing Spondylitis: (1) SEALION1-IR: in patients with inadequate response to biologic DMARD, (N=408, NCT04483700); and (2) SEALION2-NAIVE: in DMARD naive patients (N=576, NCT04483687).

Valuation and risks to our investment thesis. We reiterate our Buy rating and 12-month price target of $270 on shares of Galapagos. Our target is derived from a 12-year DCF-based, sum-of-the-parts analysis, which includes a beta of 1.41, terminal growth rate of -3.0%, risk premium of 4.93%, calculated WACC of 8.2%, and tax rate of 20% beginning in FY 2025. Filgotinib (81%), GLPG1690 and GLPG1972 (2% each) together make up about 85% of our value, with the remainder derived from the probability-adjusted, filgotinib-related milestone payments. For filgotinib, we assume probability of approvals of: 80% for RA, and 80% (increased from 65% following Phase 3 win) for UC. We currently peg success in Crohn's at 50%, 60% for PsA and AS each, 35% ‘1690, and 10% for ‘1972. Key risks include: emergence of safety concerns, clinical risks, regulatory risks, COVID-19 disruptions, and financial risks. Furthermore, regulatory and commercial strategy for filgotinib is under the control of partner, Gilead, not an established player in autoimmune indications. Hence, Gilead may not be able to drive rapid adoption of filgotinib, especially if the overall profile is relatively undifferentiated from AbbVie’s upadacitinib, in our view. Hence, our estimates could be negatively impacted if AbbVie successfully leverages its market positioning with Humira during the launch of RINVOQ.

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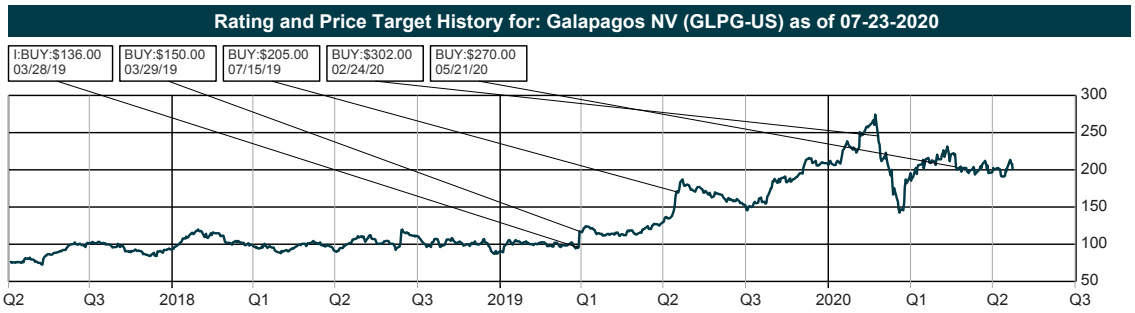

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Distribution of Ratings Table as of July 23, 2020				
			IB Service/Past 12 Months	
Ratings	Count	Percent	Count	Percent
Buy	399	90.27%	151	37.84%
Neutral	40	9.05%	9	22.50%
Sell	0	0.00%	0	0.00%
Under Review	3	0.68%	3	100.00%

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