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GLPG.AS - Q4 2015 Galapagos NV Earnings Call

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**Onno van de Stolpe** *Galapagos NV - CEO*

**Bart Filius** *Galapagos NV - CFO*

## CONFERENCE CALL PARTICIPANTS

**Operator**

**Phil Nadeau** *Cowen & Company - Analyst*

**Peter Welford** *Jefferies - Analyst*

**Roderick Verhelst** *Degroof Petercam - Analyst*

**Jan de Kerpel** *KBC Securities - Analyst*

**Sachin Soni** *Kempen & Company - Analyst*

**Hugo Solvet** *Bryan, Garnier - Analyst*

**Mike Cooper** *Trinity Delta - Analyst*

## PRESENTATION

**Operator**

Good day, and welcome to the Galapagos Webcast. At this time, I would like to turn the conference over to Elizabeth Goodwin. Please go ahead Madam.

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**Elizabeth Goodwin** - *Galapagos NV - Head of Corporate Communications & IR*

Welcome all to the audio webcast of Galapagos' 2015 Full Year Results. I'm Elizabeth Goodwin, Investor Relations. I'll be hosting today's event. This webcast is accessible via the Galapagos website homepage and will be archived for one year starting later today.

So that your questions can be included, we request that you call into the telephone number given in today's press release, that's 32 for Belgium, 2 6200138 and the code is the press release as well.

I'd like to remind everyone that we will be making forward-looking statements during today's audio conference. These forward-looking statements include remarks concerning future developments of the Company and possible changes in the industry and competitive environment. Because these forward-looking statements involve risks and uncertainties, Galapagos' actual results may differ materially from the results expressed or implied in these statements.

Today's speakers will be Onno van de Stolpe, Chief Executive Officer of Galapagos; and Bart Filius, Chief Financial Officer. They will take you through Galapagos' operational and financial highlights for the full year 2015 and the outlook for 2016. You will see a PowerPoint presentation on screen during this presentation. We estimate that the presentation will take about 20 minutes and this will be followed by a Q&A session with Bart and Onno.

And at this point, I'd now like to hand over to Onno.

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**Onno van de Stolpe** - *Galapagos NV - CEO*

Thank you Elizabeth. Pleasure to present the 2015 results and the outlook for 2016.

Let's first look back at the stellar year that the Company has had in 2015. We showed fantastic results with filgotinib, our JAK1 inhibitor in both rheumatoid arthritis as well as Crohn's disease in the DARWIN and FITZROY studies. That was not the only thing about filgotinib. We had a year with ups and downs with regard to the commercial side of it. AbbVie decided not to opt in the licensing of filgotinib and we were able to replace AbbVie with Gilead by year-end in a transformational deal, that I'll discuss in more detail. So, all came together in 2015 for filgotinib and we're now ready to enter the Phase 3 period with this molecule.

But not only filgotinib was in the spotlight, also cystic fibrosis made great progress over the year towards the triple combination therapy for the Class II mutations and also for Class III mutation, we have a molecule that is currently in Phase 2. So also there, we could show a lot of progress in our development program.

In the rest of the year, we were also able to list the Company on the NASDAQ at a fantastic IPO, where we raised the largest amount of money for a biotech company over the last 10 years on NSADAQ. So, a very successful placement. And that is important because we have an increasing and expanding pipeline of discovery programs and development programs and we need the resources to move these programs forward. So, if we look back in 2015, we clearly made very important steps towards becoming a fully integrated biopharma company, especially the step towards the NASDAQ as well as the commercial rights that we were able to retain in the Gilead deal will enable us to move towards an integrated biopharma company in the coming years.

So, if we look at the deal we made with Gilead, I think it's important to highlight what was part of that deal. The first step is that, we clearly stayed involved in the further development of the drug for inflammatory diseases. So, we co-develop filgotinib together with Gilead and therefore we also contribute 20% of all R&D costs that will be incurred over the next couple of years. Gilead paid us $725 million upfront, this was a $300 million license fee and $425 million in equity at EUR58 a share, that gave them almost 15% of the Company, so Gilead is now the largest shareholder of Galapagos.

On top of that, we were able to negotiate success-based milestones, totaling $1.35 billion. They will come in the coming years, starting in 2016, with going through 2017, 2018, 2019 and later based on starting of trials, filing registration and also commercial milestones. For a large territory, we were able to negotiate a co-promotion arrangement where Galapagos will build up its own sales force. This will be done in the big five European markets as well as the Benelux and in the areas where we have a co-promotion, we will split the profits 50-50. So, very important step towards the next phase in the evolution of Galapagos. In all the other areas, we'll have tiered royalties starting at 20% and moving up based on sales.

We have had a lot of questions why, what the reasons were that we choose Gilead as a partner, and there were some very compelling reasons for us to select them among a number of candidates that we're interested in partnering filgotinib. And clearly one of the most important reasons was the chemistry between the teams. There was a very good from day one interaction between the development team of Galapagos and the team that Gilead provided for the due diligence and the negotiations, and that has helped to get a level of trust that made us comfortable to do deal with this partner.

But Gilead clearly is an impressive company with respect to building franchises with HIV, they have built a worldwide franchise from scratch and we are very impressed by the way this company operates. So also from that point of view, we believe they are an excellent partner to build out the information franchise around the filgotinib. And for us very important was that filgotinib will be the flagship product in the information portfolio of Gilead. So, they will attribute their A-team to the further development and to the commercialization of this product and we feel very comfortable that we are completely aligned with Gilead to get the maximum out of the opportunities of filgotinib in all different disease areas. So, we are very, very excited that ultimately we were able to sign this deal with this partner.

So, Gilead is now in charge of moving filgotinib forward in Phase 3. They are in control, they will start Phase 3 in the first half of this year for RA and in the second half of the year for Crohn's. We're awaiting more data on the Crohn's study in the second 10 weeks of the FITZROY study. And Gilead has also indicated that they're very eager to explore opportunities of filgotinib with other assets that they have in their portfolio to increase efficacy

in inflammatory diseases. So, a lot of news flow will flow in, in 2016 around different indications and different combinations with filgotinib in clinical trials.

The second one I want to highlight is our autotaxin inhibitor 1690 that we are developing for idiopathic pulmonary fibrosis, where we're starting a Phase 2 study. We're excited this program is proprietary to Galapagos and it is in the program, but ultimately if we're successful in bringing this further through the development, good market is under the Galapagos label and because of the fact that it is relatively small patient population, and we could manage by Galapagos without the partner to bring this to the market. So, great opportunity for us.

And then cystic fibrosis, clearly in the spotlight, because we're getting a clarity on how the treatment for the Class II patients will look like. For Class III, it's clearly you need a potentiator. We have a potentiator 1837 that is in clinical trials at the moment. I'll have a slide on that. But for the Class II, you need a combination of three different molecules, a potentiator and two correctors, that the three of them in one pill will ultimately bring relief for these patients. And we have all three ingredients ready. They are moving into a clinical trial. The first one, the corrector 2222 is in volunteers, the other ones will follow in the second half of the year. And we hope to start combination, the three-fourth combination therapy in the delta [F508] Class II patients by the end of the first half of 2017.

A couple of words on other programs. Osteoarthritis, we have a novel mode of action. We haven't disclosed that product yet, that we are doing in combination with Servier, a French company, where we will start this half year the Phase 1. It's an exciting disease modifying program for osteoarthritis and interesting here is that we have the unencumbered US rights on this drug.

And on MorphoSys, our friends in Germany, we have an antibody development around the targets which Galapagos has done all the biology, it's a 50-50 owned program. We're developing that for inflation, nor the target nor the exact indication has been disclosed. So, from that point of view, that for you will remain a question mark for a while to come.

So, if we go to 1837, our program for cystic fibrosis for the Class III gating mutation. We can tell that the trial, the trial is named SAPHIRA is on track. We are doing a dose escalation of four weeks with 1837, so we're testing different dosages during this period with a follow-up period afterwards and trial is divided in two different classes, one is for the G551D population which of the gating mutations, is the largest group of patients, about 4% of all CF patients have on one allele, the G551D mutation. And then we're doing also the trial SAPHIRA 2 in the S1251N mutation, which is also a gating mutation. Both trials are underway. We have the first patients recruited. We are recruiting in six EU countries and Australia. We're including Kalydeco patients or patients that are on Kalydeco, as well as naive patients.

And the primary endpoint clearly is going to be safety and tolerability with clearly us and the investors will be looking at the secondary endpoints, where we look at the efficacy of our potentiator in these gating mutation patients. And where are we looking for? We're looking for sweat chloride, lung function, which is FEV1 as well as plasma levels. This trial is underway. It will take its time to recruit the patients, but we're confident that in the second half of this year, we can provide with the topline data on this trial, very exciting for us the first clinical data on in-patients of our first CF drug.

With that, I would like to hand it over to Bart, to give you the background on the financials of the year.

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**Bart Filius** - *Galapagos NV - CFO*

Thank you, Onno, and good afternoon or good morning, if you're in US, to everyone on the phone. Thanks for joining today. I'm pleased to give you a bit of background on the financials for the full year 2015. And I'd like to start off with, what I find is the most relevant parameter to look at in our financials, which is our cash position and our cash burn over the year.

As you can see on this slide, we have ended the year with EUR350 million of cash, which is coming from EUR200 million that we had at the end of 2014. Couple of elements that have led to this increase of EUR150 million. First of all, Onno already alluded to this, we've had an excellent transaction at NASDAQ and the IPO netted EUR260 million. We had some warrant exercises, netting EUR12 million and those two, you've seen already in our Q3 results. And we had a cash burn of EUR122 million during the year, which is fully in line with our guidance that we gave of a cash burn between EUR110 million and EUR130 million at the beginning of the year 2015.

So, cash burn in line with guidance, good cash position at the end of the year, but I think more importantly, I would add is our cash position after the closure of the Gilead transaction on the 19th of January. And our cash position was a little over EUR1 billion, so roughly EUR22 per share.

On cash good position for Galapagos to be in then, let me give you some background on the other elements of our P&L. And I'll start off with revenues. This is a slide that you've seen in similar formats albeit with slightly different numbers every quarter over the last year. This is describing the evolution of our topline compared to 2014 compared to 2015. Our topline has gone down. There's two effects which are really noteworthy in there. First of all, improving an accounting effect is that the amount of differed revenues that we've recognized in 2015 is lower than that in 2014, that's the green bar at the top. This is deferred revenue that is still resulting from the deals that we had with AbbVie in 2012 and 2013, regarding filgotinib as well as regarding cystic fibrosis. And with the EUR26 million that we have amortized in 2015 and recognized in our P&L, we've depleted all the upfronts that were in the balance sheet still from our AbbVie transactions. So, you will see this not recurring, but obviously you'll see some recurring from beginning of transaction and I'll talk about that in a few seconds.

The second element on this slide which is a change compared to last year is that our milestones are slightly lower. This is really reflecting the fact that our pipeline has become increasingly more proprietary. So, less milestones from third-parties against more expenses that we invest ourselves, which brings me then to our operating expenses. I split them out in research, developments and SG&A, again comparing to 2015 and to 2014. It's an increase that again you've seen in all of the quarters that we have foreseen for the full year 2015. Most increase in research expenses, but most importantly, our increase in expenses is driven by the development area, where both cystic fibrosis, where we've transitioned into developments several molecules in 2015, as well as our investments in 2015 in the DARWIN trails and the FITZROY trials for filgotinib, have led to this increase to EUR74 million.

SG&A has gone up also quite a bit. In absolute terms, the gap is not as big, but in percentage terms that's quite a significant rise. I'd like to add to this that this is to a large extent, a non-cash result of the increase of the Galapagos share price, because both are warrants and deferred bonuses for senior management at the Company are linked to the Galapagos share price. And the good performance that we had in 2015 leads to an increase actually in costs in our P&L.

Then, I need to give a bit of background on a lot of complicated accounting topic, which is around the Gilead transaction and then more specifically, around the financial asset which we have recognized in December upon signing of the Gilead deal. I think the key message that I'd like to have on this slide is that, we're all talking about accounting entries not about cash, so that people should keep in mind when reviewing this, but it has impacted meaningfully our net result in 2015 as it will also meaningfully impact our net results in a positive sense in the first quarter of 2016. So if I look at this slide at the right, you see EUR65.9 million, this number actually reflects the premium that Gilead has paid comparing the EUR58 that was contracted, compared to the share price upon closing.

And that build up in three different components. First of all, upon signing, we've recognized a financial asset worth EUR39 million in our balance sheet. This is the premium between EUR58 and the actual share price, which was EUR52 at the time of signing on 16th of December. Because this is the financial assets up until the moment that's actually the contract is fully completed and the cash has been transferred. We need to re-value this at the end of each closing periods. So first, we have seen an increase in the Galapagos share price between the signing in December and 31st of December, which has led to a negative entry and negative value on our P&L of EUR30 million. And then, in the weeks between the 1st of January, 2016 and the actual closing of this transaction, we've seen a decrease of the share price of Galapagos, hence an increase of the premium, hence a positive P&L impact, which is to be expected in Q1 2016 of EUR57.5 million.

So, the net of these two variations is the EUR26.8 million that you see in the right. Again, this positive P&L impact is the net of what is recognized in 2015 and 2016. The EUR39 million is putting our balance sheet as deferred revenues and this will be treated in the same manner as the $300 million upfront, which was paid by Gilead upon the closing of the transaction. And this number -- this amount will be depreciated or amortized, I should say, over the next four to five years. And this will be amortized in line with the actual costs that we are investing in filgotinib over the next four to five years, prorated to the actual levels per year. And so that was around the non-cash impacts on this particular financial assets, which has again influenced our net results.

On the next slide, you see this comparison again between 2014 and 2015. This is in 2014, the results from continued operations, in this year we had sold the service division to Charles River, so this was not part of continued operations anymore. You see coming back an operational evolution,

this is effectively the negative P&L comparison between 2014 and 2015, directly a result of lower revenues and higher operating expenses that I described earlier. And then you see coming back again the EUR30 million non-cash financial assets adjustment leading to a net result of minus EUR118 million for the full year 2015.

That completes the overview of the results for 2015. Then a few words on guidance for 2016, financial guidance and then Onno will take over with regard to the -- I would call the qualitative guidance. In terms of financials, we expect the cash flow which is slightly lower than the year 2015 between EUR100 million and EUR120 million. Importantly, to add, that this excludes any cash income from filgotinib, both any cash income that we have actually received because of the upfronts payment in January, but also including any potential cash income that will come from milestones during 2016.

So, why is it lower, it's actually a mix of two effects. First of all, in 2015, we were spending 100% of the cost on filgotinib on the DARWIN and FITZROY trials, whereas in 2016, the actual expense is going up, but we are investing only 20% in this alliance with Gilead. And on the other hand, lower spend on filgotinib in our P&L and on the other hand an increased spend on cystic fibrosis and on all the proprietary programs that Onno was describing earlier.

With that, Onno I give it back to you.

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**Onno van de Stolpe** - *Galapagos NV - CEO*

Thank you. But let me end with some non-financial expectations for 2016. Clearly, we got some exciting near-term events that are going to happen. Looking forward to the discussions with EMA and FDA regarding the end of Phase 2 meetings and the planning of the Phase 2, regarding not only RA but also Crohn's. The meetings on RA have been scheduled and will be happening relatively soon, but also Crohn's is anticipated very shortly, soon after we have released the 20 week data, so that we can start the Phase 3 for close also in 2016. But very eager to move Crohn's forward as fast as possible, with potential actually that Crohn's might reach to market even earlier than RA.

But that's not all. Gilead has been very vocal about the fact that they are interested in exploring filgotinib combinations with other molecules that they have in their pipeline, including their Syk inhibitor. We're excited about it because it might change the paradigm in efficacy, regarding treatment in RA and possibly also in Crohn's. So, we hope that this year we'll see some initiatives in that respect as well.

And then a question we've received a lot since AbbVie decided not to in-license filgotinib. How our relation is with regard to cystic fibrosis and I can tell you and assure you that, that relation is sound and good. We have been renegotiating the CF alliance because the alliance has become much bigger or the program has become much bigger than what we had anticipated. When we signed contract a couple of years back, at that time we were only thinking about the dual for the Class II mutations, where as we now talking about a triple combo therapy, which means that, a number of the terms had to be re-discussed with AbbVie and we hope to announce an expanded alliance around CF shortly with them.

If we go to the news flow regarding our pipeline, you see that we have a lot of data coming up in the first half as well as in the second half. I've talked extensively already about RA and Crohn's for filgotinib. With CF, we anticipate the results of our first corrector 2222 in the first half. In the second half, we expect the potentiator 1837 in the Class III mutation, as well as our C2 corrector that will go into Phase 1 and the result should be there as well before the end of the year.

As I said at the beginning, in IPF 1690, we'll be active in a Phase 2a, an exploratory study and by the end of the year, we should have the full Phase 2 recruited. So early 2017, that data will be released and we are very excited about that program. And as indicated in osteoarthritis, we're moving forward with Phase 1 with 1972 in collaboration with Servier. Servier has an option to license in this molecule at the Phase 1, which will trigger a milestone, an interesting for Galapagos downstream. Other than that, we get further milestones and royalties, so it will be that we have the unencumbered US rights. So, if this releases data on the Phase 2, we're sure we have a great asset in our hand to see if we find a partner or develop with ourselves further in the United States.

So with that, I would like to end the formal part of the presentation. It's clear that our clinical programs are on track. Our discovery programs are progressing to reach the clinic. We will be talking more about these programs at our upcoming R&D event that shortly we will release the date.

And our target discovery, as I've said previously, when we did NASDAQ listing, we're giving that a boost with more people working with our SilenceSelect target discovery platform to come up with new mode of action in different disease areas, also that will be discussed at the R&D Day. And all of this is possible thanks to the extremely strong balance sheet that Galapagos now has. Thanks to the NASDAQ listing as well as the deal with the Gilead.

With that, I would like to hand it back to Elizabeth.

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**Elizabeth Goodwin** - *Galapagos NV - Head of Corporate Communications & IR*

All right. Thank you very much Onno and Bart. That really does conclude the presentation part. I'd now like to ask the operator Sylvia, to connect us to callers who have questions for Onno and Bart.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Phil Nadeau, Cowen & Company.

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**Phil Nadeau** - *Cowen & Company - Analyst*

Good morning. Thanks for taking my questions. First one on filgotinib and the Phase 2 meeting with the FDA for rheumatoid arthritis, could you give us an update on what the widest thinking is of the design of the Phase 3 program, number of trials and maybe, patients to be enrolled, and perhaps, an update on the dosing question?

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**Onno van de Stolpe** - *Galapagos NV - CEO*

Well, I cannot give you a lot of information on that yet. We are awaiting the discussions with the FDA. Clearly, we are interested to move the 200-milligram dose forward. We're confident regarding that dosing, the safety and clearly the efficacy, and the Phase 3 design, is hopefully based on that dosing. But we have to wait for discussions with both the EMA and FDA before going into detail, how the trial design, number of patients, et cetera is going to be. So, I have to refrain from getting into more detail, I feel sorry about that.

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**Phil Nadeau** - *Cowen & Company - Analyst*

That's understood, Onno, and just one second question on the finances. You mentioned that the guidance doesn't include any cash payments associated with filgotinib. Could you give us some idea of the size of the milestone that would be associated with Phase 3 initiation in RA and Crohn's?

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**Bart Filius** - *Galapagos NV - CFO*

Hi Phil, this Bart Filius. You asked the questions that we have difficulties on giving disclosure on. To be honest, we have not been able to disclose the detail of the milestones when we signed the deal with Gilead and had agreed that we will not give up those details going forward either. I can reiterate the $1.35 billion, which is obviously the total pack, but that doesn't give you yet a lot of insight into the short-term milestone potential, but it's meaningful for us at least, but we cannot disclose them.

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**Operator**

Peter Welford, Jefferies.

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**Peter Welford** - *Jefferies - Analyst*

Hi, thanks for taking my questions. I'll stick with Bart for a minute first, just regards to the cash burn outlook of EUR100 million to EUR120 million. You said that excludes income from filgotinib and I understand that, but does it assume a certain degree of milestone income from the AbbVie cystic fibrosis alliance within that or are there any potential milestones connected to that also excluded from the outlook? And then just going back to the cystic fibrosis partnership, just wondering on the SAPHIRA Phase 2 program there, our patients who've had prior Kalydeco, do they have to be responders to the drug or -- I guess I'm just thinking patients who either don't respond or had perhaps an adverse reaction to that drug, are they screened out of that trial or what are the inclusion-exclusion criteria with regards to prior Kalydeco use?

And then equally going forward, you mentioned that a triple combo should be in the clinic hopefully by the end of first half. Are you committed to 1837 being part of that triple combo or at this stage, is the plan that the entire pool of asset, including both potentiators and all the correctors, will be assessed during early 2017? And in which case, what gives you the confidence that you'll have the correct dosing data by the end of the first half to make the right dose decisions for the Phase 2 triple combo? Thank you.

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**Bart Filius** - *Galapagos NV - CFO*

Okay. Let me start off with the answer on the outlook and then Onno, I'll let you answer the questions on cystic fibrosis. So, the cash burn outlook includes all other except the income -- cash income from filgotinib. So that includes our expenses, but it also includes potential of our milestones as well as for example tax credits that we get paid back by the French and Belgium governments. So, it's a net result of all other except for the filgotinib cash income.

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**Onno van de Stolpe** - *Galapagos NV - CEO*

Okay. Peter, it's Onno, regarding the SAPHIRA inclusion-exclusion criteria, I'm not going to give you too much detail, but clearly we will include Kalydeco -- patient that are using Kalydeco and have an active response to Kalydeco. They will be going through a wash-out period and then getting our drug. We also will have naive patients and that's going to be a combination of both.

Regarding 1837 as the potentiator for the triple combination, that is a possibility but not a decision yet. We are developing the lead programs for the C1, the C2 and the potentiator in parallel with the backup. So, we are developing actually six molecules in parallel to be able to make the best choice beginning next year or after the first quarter to move into Phase 2. And in the interim, we plan to do as many combination analysis and studies to make sure that we got the right dosing regimen. We know it's all a short -- it's a short period of time to get this in the triple combo, but we're confident that based on the data that we got from the several assays as well as that we'll get from the case studies in Phase 1, that we can make the right combination of the three. So with that, now at this point in time, we don't commit to any of the molecules yet, that's why we are doing the parallel track for all three of them. So we keep all the options open and can bring the best triple combination therapy in patients.

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**Operator**

Jan de Kerpel, KBC Securities.

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**Jan de Kerpel** - *KBC Securities - Analyst*

Hello. Thank you also for taking my questions. First question is on cystic fibrosis. You already touched on it previously. I was wondering what is actually the argumentation that you're using to get people off Kalydeco because they are responders apparently it seems? What are the key reasons

for these physicians or patients to do that? And also, can you briefly touch on the fact that you're not recruiting patients in the US was the reason for that?

And then secondly, Onno a question for you, more on the strategic level, you guys have a massive amount of cash, you're going to use a bit over EUR100 million in the coming year, so that at least another EUR900 million on the bank, can we expect the Company this year for instance, to strengthen its pipeline or its platform via external assets? Can you give us your thinking on how to use that money? Thank you.

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**Onno van de Stolpe** - *Galapagos NV - CEO*

Hey Jan, thank you for your questions. Your first question is, why do people go off Kalydeco to join our trial, I'm not going to answer that. The reason is, we are in clear competition here with Vertex. We have investigated that, that are able to bring us patients but I'm not going to give you any more detail on that at this point in time. Why we didn't include US for SAPHIRA and well, often we do the initial Phase 2 trial outside the US. We've done that with filgotinib as well, where we went to Eastern Europe and got a very successful Phase 2 study. Of course, the US is heavily dominated by Vertex with regard to this class of patients. So, it made sense for us to stay in Europe, and we added Australia to have one non-EU country part of this.

Regarding what we're going to do with the EUR1 billion, we will be very carefully managing this money. Part of it, of course, will be used for the further development of our pipeline as well as for the building of the commercial infrastructure to market filgotinib later on and, of course, also market the CF assets in the Benelux, so we have the co-promotion arrangement with AbbVie. But clearly, we are always on the lookout for opportunities outside, being it an acquisition or in-licensing to strengthen our pipeline. And of course, with this kind of money in the bank, we are able to evaluate more opportunities than previously when we didn't have that kind of cash available. So, the money is clearly not burning a hole in our pocket at all. We will be very careful in making a move, but clearly, we are interested to further expand the pipeline going forward, especially with the choice that we have made to further integrate into a fully-integrated pharma company.

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**Jan de Kerpel** - *KBC Securities - Analyst*

Okay, thanks. Could we expect something this year to occur in terms of in-licensing or what's the current situation there?

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**Onno van de Stolpe** - *Galapagos NV - CEO*

Jan, I'm not going to answer that, as you know, but (multiple speakers) sometimes that don't happen and I'm not going to say any -- predict anything. Last year, I predicted to do the Gilead deal before the end of the year and we did. So, I'll keep with that one. That was a good one. So, I'll not give you any dates on this one.

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**Operator**

Roderick Verhelst, Degroof Petercam.

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**Roderick Verhelst** - *Degroof Petercam - Analyst*

Thank you. Most of my questions have been answered but maybe to touch back on the combination treatment. You hinted that with filgotinib, Gilead is working heavily on an MMP9 inhibitor for ulcerative colitis, Crohn's disease and RA, is this the target they want to combine which filgotinib or is it really, specifically with the Syk inhibitor that you also mentioned? Thank you.

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**Onno van de Stolpe** - *Galapagos NV - CEO*

Thanks Roderick. Of course, this is really up to Gilead to make decisions on what to exploit in combination with filgotinib, but clearly they will be evaluating what they have in their portfolio and that includes Syk inhibitor as well as MMP9, that's correct.

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**Operator**

(Operator Instructions) Sachin Soni, Kempen & Company.

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**Sachin Soni** - *Kempen & Company - Analyst*

Good afternoon, everyone. My question is regarding the economics around combination trials for Gilead. So, is it the case that this $1.3 billion assumes any combination trial as well? Would you need to contribute to those trial as well from the cost side? And how is the split of an eventual combination if the landscape is changing. If you could say something about that? Thanks a lot.

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**Onno van de Stolpe** - *Galapagos NV - CEO*

Yes Sachin, that's actually a good question. Thank you. We have had interesting discussions with Gilead around how to value the various components in a combination product, if they would actually reach the commercialization phase. To answer your first part of that question, combination products will be developed at cost by Gilead, not by Galapagos. We have agreed on a formula regarding the contribution that filgotinib in a combination product would have and we feel very comfortable with that formula. So, I think if they are able to come up with a combination product that substantially increase the efficacy and keep the safety profile at the similar level that we currently have, so a safe and more effective drug, that could really blow away the existing programs in this area and their solution lies in the whole treatment here in RA. So, we're very excited about it, we feel the economics that we agreed upon are good. So, I really -- I'm very, very positive about combination products and clearly Gilead has shown that they're extremely good at moving combination products forward. So, we have high hopes on that.

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**Sachin Soni** - *Kempen & Company - Analyst*

Absolutely. Thanks a lot for that, and a quick follow-up on the same thing. Do you see it is a risk, let's say filgotinib does well in Crohn's, but filgotinib plus MMP9 for the sake of argument does amazing that at the end of the day, economics you're going to get on filgotinib because of Crohn's is not going to be that attractive because it's not going to be used alone to begin with. Is it that a risk in itself or I'm thinking too much?

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**Onno van de Stolpe** - *Galapagos NV - CEO*

I think you cannot exclude any scenario in that, but be aware that the filgotinib in Crohn's and in RA is at a stage where we start Phase 3 now. Before you have explored the combination product in Phase 2, it will be years behind of the lead program. So, if the efficacy is far superior and the safety profile is as good, of course, a combination product might ultimately overtake filgotinib as a standalone product. But then, I anticipate that the increase in total revenues and total market penetration is going to be more than compensate the reduction in royalties that we will be facing.

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**Operator**

Mike Cooper, Trinity Delta.

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**Mike Cooper** - *Trinity Delta - Analyst*

Hi, good afternoon, everyone. Just follow-on question to the previous one regarding the business to run the plans. Might you consider acquiring a company with a sales force to help you achieve your goal of becoming fully integrated pharmaceutical company?

**Onno van de Stolpe** - *Galapagos NV - CEO*

Yes, I think that could be an interesting opportunity. Of course, Galapagos is a Company that's focused on innovation and new mode of actions. We would not like to change that image. And most companies that are available that have a sales force often don't have the proprietary innovative programs. So, probably there might be a disconnect there. But if we find a company that has an interesting product and an effective sales force, clearly, that would be very attractive to us.

**Operator**

(Operator Instructions) Hugo Solvet, Bryan, Garnier.

**Hugo Solvet** - *Bryan, Garnier - Analyst*

Hi, hello, thank you for taking my question. I just have one regarding the extension of the view with AbbVie for the CF program. Would you negotiate for financials or extension of territories in which you will have the exclusive rights, maybe both would appreciate your views and thoughts on that? And more about like to which extent you believe you are willing to renegotiate? Thank you.

**Bart Filius** - *Galapagos NV - CFO*

Well, I can be little bit more specific. We have agreement on the financial terms with AbbVie, it's just these writing it up in a contract we need to get that sorted out, it will take some time. The expansion is really about the fact that, we are going one with the triple versus a dual and with the fact that we have decided to move all programs in the clinic and not keep the backups on the shelf at kind of the states, which means that the size has greatly increased, the costs have increased and the risks have increased and we need to be compensated by that through a substantial increase in milestones. And we have agreement on that and that answers your question.

No, there are no change in commercial rights regarding the outcome of (inaudible). Also happy with how we made the deal with time with AbbVie, we keep China and South Korea as well as co-marketing rights in the Benelux, we got a good royalty agreement there between 15% and 20%. So, we are comfortable in moving at the same basis forward except that in the -- with regard to milestones, we wanted to renegotiate that whole deal.

**Operator**

As there are no further questions, I'd like now to turn the call back to you, Elizabeth Goodwin.

**Elizabeth Goodwin** - *Galapagos NV - Head of Corporate Communications & IR*

Thanks very much and thanks everybody who participated today. Our next results are first quarter of 2016 on April 29. I'd like to just remind you of that and look forward to speaking with you then. Thank you very much, and goodbye.

**Operator**

Thank you. That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.