Financial statements

Consolidated interim financial statements for the first quarter 2020

Unaudited condensed consolidated interim financial statements for the first three months of 2020

Consolidated statements of income and comprehensive income

Consolidated income statement

	Three months ended 31 March	
(thousands of €, except per share data)	2020	2019
Revenues	98,173	33,047
Other income	8,743	7,872
Total revenues and other income	**106,916**	**40,919**
Research and development expenditure	(116,763)	(83,195)
Sales and marketing expenses	(9,836)	(1,746)
General and administrative expenses	(24,902)	(9,221)
Total operating expenses	**(151,501)**	**(94,161)**
Operating loss	**(44,585)**	**(53,242)**
Fair value re-measurement of warrants	(20,529)	-
Other financial income	39,722	6,999
Other financial expenses	(24,873)	(2,345)
Loss before tax	**(50,266)**	**(48,588)**
Income taxes	(336)	(68)
Net loss	**(50,601)**	**(48,656)**
Net loss attributable to:		
Owners of the parent	(50,601)	(48,656)
Basic and diluted loss per share	**(0.78)**	**(0.89)**

The accompanying notes form an integral part of these condensed consolidated financial statements.

Consolidated statement of comprehensive income/loss (–)

	Three months ended 31 March	
(thousands of €)	**2020**	2019
Net loss	**(50,601)**	**(48,656)**
Items that may be reclassified subsequently to profit or loss:		
Translation differences, arisen from translating foreign activities	401	267
Other comprehensive income/loss (-), net of income tax	**401**	**267**
Total comprehensive loss attributable to:		
Owners of the parent	(50,200)	(48,389)

The accompanying notes form an integral part of these condensed consolidated financial statements.

Consolidated statements of financial position

(thousands of €)	31 March 2020	31 December 2019
Assets		
Intangible assets	33,856	24,927
Property, plant and equipment	66,979	66,052
Deferred tax assets	4,206	4,205
Non-current R&D incentives receivables	93,156	93,407
Other non-current assets	13,945	14,091
Non-current assets	**212,142**	**202,682**
Trade and other receivables	27,096	54,009
Current R&D incentives receivables	22,084	21,949
Current financial investments	2,978,805	3,919,216
Cash and cash equivalents	2,743,573	1,861,616
Other current assets	8,705	9,138
Current assets	**5,780,264**	**5,865,927**
Total assets	**5,992,406**	**6,068,609**
Equity and liabilities		
Share capital	288,106	287,282
Share premium account	2,708,114	2,703,583
Other reserves	(4,919)	(4,842)
Translation differences	(663)	(1,142)
Accumulated losses	(150,597)	(109,223)
Total equity	**2,840,041**	**2,875,658**
Retirement benefit liabilities	8,444	8,263
Non-current lease liabilities	18,856	19,558
Other non-current liabilities	8,113	6,989
Non-current deferred income	2,494,327	2,586,348
Non-current liabilities	**2,529,740**	**2,621,158**

(thousands of €)	31 March 2020	31 December 2019
Current lease liabilities	6,210	5,826
Trade and other liabilities	169,477	143,434
Current tax payable	1,141	2,037
Current financial instruments	26,727	6,198
Current deferred income	419,071	414,298
Current liabilities	**622,626**	**571,793**
Total liabilities	**3,152,366**	**3,192,951**
Total equity and liabilities	**5,992,406**	**6,068,609**

The accompanying notes form an integral part of these condensed consolidated financial statements.

Consolidated cash flow statements

	Three months ended 31 March	
(thousands of €)	**2020**	2019
Net loss of the period	**(50,601)**	**(48,656)**
Adjustment for non-cash transactions	22,935	5,524
Adjustment for items to disclose separately under operating cash flow	(747)	(1,517)
Adjustment for items to disclose under investing and financing cash flows	(2,596)	(3)
Change in working capital other than deferred income	52,481	(2,294)
Decrease in deferred income	(91,677)	(25,979)
Cash used in operations	**(70,205)**	**(72,925)**
Interest paid	(171)	(327)
Interest received	2,745	1,565
Corporate taxes paid	(1,243)	(11)
Net cash flows used in operating activities	**(68,874)**	**(71,698)**
Purchase of property, plant and equipment	(2,866)	(2,103)
Purchase of and expenditure in intangible fixed assets	(10,159)	(1,201)
Proceeds from disposal of property, plant and equipment	-	1
Purchase of current financial investments	(2,187,948)	-
Interest received related to current financial investments	2,596	-
Sale of current financial investments	3,130,686	-
Acquisition of financial assets	(2,670)	(177)
Proceeds from sale of financial assets held at fair value through profit or loss	-	82
Net cash flows generated/used (-) in investing activities	**929,640**	**(3,398)**
Payment of lease liabilities	(1,425)	(1,248)
Proceeds from capital and share premium increases from exercise of warrants	5,355	3,481
Net cash flows generated in financing activities	**3,930**	**2,233**
Increase/decrease (-) in cash and cash equivalents	**864,695**	**(72,863)**

	Three months ended 31 March	
(thousands of €)	2020	2019
Cash and cash equivalents at beginning of year	**1,861,616**	**1,290,796**
Increase/decrease (-) in cash and cash equivalents	**864,695**	**(72,863)**
Effect of exchange rate differences on cash and cash equivalents	**17,261**	**4,968**
Cash and cash equivalents at end of the period	**2,743,573**	**1,222,901**

The accompanying notes form an integral part of these condensed consolidated financial statements.

	31 March	
(thousands of €)	2020	2019
Current financial investments	2,978,805	-
Cash and cash equivalents	2,743,573	1,222,901
Current financial investments and cash and cash equivalents	**5,722,378**	**1,222,901**

The accompanying notes form an integral part of these condensed consolidated financial statements.

Consolidated statements of changes in equity

(thousands of €)	Share capital	Share premium account	Translation differences	Other reserves	Accum. losses	Total
On 1 January 2019	**236,540**	**1,277,780**	**(1,557)**	**(735)**	**(297,779)**	**1,214,249**
Change in accounting policy (modified retrospective application IFRS 16)					416	416
Restated total equity at 1 January 2019	**236,540**	**1,277,780**	**(1,557)**	**(735)**	**(297,363)**	**1,214,665**
Net loss					(48,656)	(48,656)
Other comprehensive income/loss (-)			267			267
Total comprehensive income/loss (-)			**267**	**-**	**(48,656)**	**(48,389)**
Share-based compensation					6,000	6,000
Exercise of warrants	808	2,673				3,481
On 31 March 2019	**237,348**	**1,280,452**	**(1,290)**	**(735)**	**(340,020)**	**1,175,755**
On 1 January 2020	**287,282**	**2,703,583**	**(1,142)**	**(4,842)**	**(109,223)**	**2,875,658**
Net loss					**(50,601)**	**(50,601)**
Other comprehensive income/loss (-)			478	(77)		401
Total comprehensive income/loss (-)			**478**	**(77)**	**(50,601)**	**(50,200)**
Share-based compensation					9,227	9,227
Exercise of warrants	824	4,531				5,355
On 31 March 2020	**288,106**	**2,708,114**	**(663)**	**(4,919)**	**(150,597)**	**2,840,041**

The accompanying notes form an integral part of these condensed consolidated financial statements.

Notes to the unaudited condensed consolidated interim financial statements for the first three months of 2020

Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union and as issued by the IASB. The condensed consolidated interim financial statements do not contain all information required for an annual report and should therefore be read in conjunction with Galapagos' Annual Report 2019.

The condensed consolidated interim financial statements were subject to a limited review by the statutory auditor, but have not been audited.

Significant accounting policies

There were no significant changes in accounting policies applied by us in these condensed consolidated interim financial statements compared to those used in the most recent annual consolidated financial statements of 31 December 2019.

New standards and interpretations applicable for the annual period beginning on 1 January 2020 did not have any impact on our condensed consolidated interim financial statements.

We have not early adopted any other standard, interpretation, or amendment that has been issued but is not yet effective.

New accounting policies as a result of recent transactions:

Financial assets at amortized cost

Current financial investments measured at amortized cost

Current financial investments measured at amortized cost include treasury bills that have a maturity equal or less than 12 months. We apply settlement date accounting for the recognition and de-recognition of current financial investments measured at amortized cost.

Details of the unaudited condensed consolidated interim results

Revenues and other income

Revenues

The following table summarizes our revenues for the three months ended 31 March 2020 and 2019.

	Three months ended 31 March		
(thousands of €)	Over time	2020	2019
Recognition of non-refundable upfront payments and license fees		**88,287**	**20,232**
Gilead collaboration agreement for filgotinib	✓	32,105	19,787
Gilead collaboration agreement for drug discovery platform	✓	56,182	-
AbbVie collaboration agreement for CF	✓	-	444
Milestone payments		**3,272**	**5,302**
Gilead collaboration agreement for filgotinib	✓	3,272	4,834
AbbVie collaboration agreement for CF	✓	-	468
Reimbursement income		**3,193**	**5,135**
Novartis collaboration agreement for MOR106	✓	3,193	4,680
AbbVie collaboration agreement for CF	✓	-	456
Other revenues		**3,420**	**2,378**
Fee-for-services revenues	✓	3,355	2,312
Other revenues		66	66
Total revenues		**98,173**	**33,047**

Revenues (€98.2 million for the first three months of 2020, compared to €33.0 million for the first three months of 2019) were higher due to the revenue recognition of the upfront payment received in August 2019 from Gilead related to (i) the access and option rights to our drug discovery platform, and (ii) additional consideration received for the extended cost sharing for filgotinib.

The rollforward of the outstanding balance of the current and non-current deferred income between 1 January 2020 and 31 March 2020 can be summarized as follows:

(thousands of €)	Total	Gilead collaboration agreement for filgotinib	Gilead collaboration agreement for drug discovery platform[1]	Deferred income related to contracts in our fee-for-service segment	Other
On 1 January 2020	**3,000,646**	**780,261**	**2,220,013**	**362**	**10**
Significant financing component[2]	4,435	4,435			
Revenue recognition of upfront	(88,287)	(32,105)	(56,182)		
Revenue recognition of milestones	(3,272)	(3,272)			
Other movements	(124)			(114)	(10)
On 31 March 2020	**2,913,398**	**749,319**	**2,163,831**	**248**	**-**

(1) The outstanding balance at 1 January 2020 and at 31 March 2020 comprise the issuance liability for subsequent warrant B and the upfront payment allocated to the drug discovery platform.

(2) With regard to the additional consideration received for the extended cost sharing for filgotinib, we assume the existence of a significant financing component reflecting the time value of money on the estimated recognition period.

Other income

Other income increased by €0.9 million, mainly driven by higher incentives income from the government for R&D activities.

Results

We realized a net loss of €50.6 million for the first three months of 2020, compared to a net loss of €48.7 million in the first three months of 2019.

We reported an operating loss amounting to €44.6 million for the first three months of 2020, compared to an operating loss of €53.2 million for the first three months of 2019.

Our R&D expenditure in the first three months of 2020 amounted to €116.8 million, compared to €83.2 million in the first three months of 2019. This planned increase was mainly due to an increase of €19.4 million in subcontracting costs primarily related to our filgotinib program, our Toledo program and other clinical programs. Furthermore, personnel costs increased explained by a planned headcount increase.

The cost increase for filgotinib for the first three months of 2020 compared to the same period in 2019, was mainly due to the increased cost share from 20/80 to 50/50 on the global development activities effective as from the closing of our collaboration agreement with Gilead on 23 August 2019. As from this date, we also started to share the development costs equally with Gilead for ziritaxestat (GLPG1690), while those costs were carried fully by us before, which is the main driver of the decrease in our costs for this program.

The table below summarizes our R&D expenditure for the three months ended 31 March 2020 and 2019, broken down by program.

	Three months ended 31 March	
(thousands of €)	2020	2019
Filgotinib program	(29,296)	(14,400)
IPF program on ziritaxestat (GLPG1690)	(13,783)	(20,013)
OA program on GLPG1972	(6,427)	(3,861)
Toledo program	(16,871)	(7,775)
AtD program on MOR106	(4,248)	(5,490)
CF program	-	(1,343)
Other programs	(46,138)	(30,313)
Total research and development expenditure	**(116,763)**	**(83,195)**

Our G&A and S&M expenses were €34.7 million in the first three months of 2020, compared to €11.0 million in the first three months of 2019. This increase mainly resulted from higher personnel costs due to a planned headcount increase and increased costs from the preparation of the commercial launch of filgotinib in Europe.

We reported a non-cash fair value loss from the re-measurement of initial warrant B issued to Gilead, amounting to €20.5 million, mainly due to the increased implied volatility of the Galapagos share price.

Net other financial income in the first three months of 2020 amounted to €14.8 million, compared to net other financial income of €4.7 million for the first three months of 2019, which was primarily attributable to €34.3 million of unrealized exchange gain on our cash position in U.S. dollars, partly compensated by a fair value loss on current financial investments of €14.5 million.

Segment information

We have two reportable segments: R&D and our fee-for-service business Fidelta, located in Croatia.

	Segment information for the three months ended 31 March 2020			
(thousands of €)	R&D	Fee-for-services	Inter-segment elimination	Group
External revenue	94,817	3,356		98,173
Internal revenue		2,092	(2,092)	-
Other income	8,743	-		8,743
Revenues & other income	**103,560**	**5,448**	**(2,092)**	**106,916**
Operating result	**(46,170)**	**1,585**		**(44,585)**
Financial (expenses)/income				(5,681)
Result before tax				**(50,266)**
Income taxes				(336)
Net loss				**(50,601)**

	Segment information for the three months ended 31 March 2019			
(thousands of €)	R&D	Fee-for-services	Inter-segment elimination	Group
External revenue	30,735	2,312		33,047
Internal revenue		1,481	(1,481)	-
Other income	7,865	7		7,872
Revenues & other income	**38,600**	**3,800**	**(1,481)**	**40,919**
Segment result	**(46,967)**	**(276)**		**(47,242)**
Unallocated expenses[1]				(6,000)
Operating loss				**(53,242)**
Financial (expenses)/income				4,655
Result before tax				**(48,588)**
Income taxes				(68)
Net loss				**(48,656)**

(1) Unallocated expenses consist mainly of expenses for warrant plans under IFRS 2 Share based payments.

The basis of accounting for any transactions between reportable segments is consistent with the valuation rules and with transactions with third parties.

Liquid assets position

Cash and cash equivalents and current financial investments totaled €5,722.4 million on 31 March 2020.

A net decrease of €58.4 million in cash and cash equivalents and current financial investments was recorded during the first three months of 2020, compared to a net decrease of €67.9 million during the first three months of 2019. This net decrease was composed of (i) €83.4 million of operational cash burn, (ii) €5.4 million of cash proceeds from capital and share premium increase from exercise of warrants in the first three months of 2020, (iii) €19.6 million of unrealized positive exchange rate differences and fair value losses on current financial investments.

The operational cash burn (or operational cash flow if this performance measure is positive) is a financial measure that is not calculated in accordance with IFRS. Operational cash burn/ cash flow is defined as the increase or decrease in our cash and cash equivalents (excluding the effect of exchange rate differences on cash and cash equivalents), minus:

i.the net proceeds, if any, from share capital and share premium increases included in the net cash flows generated / used (–) in financing activities

ii.the net proceeds or cash used, if any, in acquisitions or disposals of businesses; the movement in restricted cash and movement in current financial investments, if any, included in the net cash flows generated / used (–) in investing activities. This alternative performance measure is in our view an important metric for a biotech company in the development stage.

The following table represents a reconciliation of the operational cash burn:

	Three months ended 31 March	
(thousands of €)	**2020**	2019
Increase/decrease (-) in cash and cash equivalents (excluding effect of exchange differences)	864,695	(72,863)
Less:		
Net proceeds from capital and share premium increases	(5,355)	(3,481)
Net sale of current financial investments	(942,738)	-
Total operational cash burn	**(83,398)**	**(76,344)**

Cash and cash equivalents and current financial investments comprised cash at banks, short-term bank deposits, treasury bills, a short-term bond fund and money market funds. The short-term bank deposits and money market funds are readily convertible to cash and are subject to an insignificant risk of changes in value. Our cash management strategy may allow short-term deposits with an original maturity exceeding three months while monitoring all liquidity aspects. Cash and cash equivalents comprised €1,123.1 million of term deposits that are available upon maximum three month notice period. Cash at banks were mainly composed of savings accounts and current accounts. We maintain our bank deposits in highly rated financial institutions to reduce credit risk.

Cash invested in highly liquid money market funds represented €1,451.6 million and are presented as current financial investments on 31 March 2020 because we are not using them for meeting short-term cash commitments. The current financial investments also include a short-term bond fund and treasury bills. We also made additional purchases of treasury bills just before and on 31 March 2020 for a total amount of €379.7 million. These funds were still presented as cash and cash equivalents on 31 March 2020 because these transactions will only be settled at the beginning of April 2020.

	31 March	31 December
(thousands of €)	**2020**	2019
Cash at banks	1,620,488	907,939
Term deposits	1,123,085	953,677
Total cash and cash equivalents	**2,743,573**	**1,861,616**

On 31 March 2020, our cash and cash equivalents and current financial investments included $1,496.8 million held in U.S. dollars which could generate foreign exchange gains or losses in our financial results in accordance with the fluctuation of the EUR/U.S. dollar exchange rate as our functional currency is EUR. The foreign exchange loss (–) / gain in case of a 10% change in the EUR/U.S. dollar exchange rate amounts to €136.6 million.

Finally, our balance sheet held R&D incentives receivables from the French government *(Crédit d'Impôt Recherche)*, to be received in four yearly tranches, and R&D incentives receivables from the Belgian Government, for a total of €115.2 million as at 31 March 2020.

Capital increase

On 31 March 2020, Galapagos NV's share capital was represented by 64,819,022 shares. All shares were issued, fully paid up and of the same class. The below table summarizes our capital increases for the period ended 31 March 2020.

(thousands of €, except share data)	Number of shares	Share capital	Share premium	Share capital and share premium	Average exercise price warrants (in €/warrant)	Closing share price on date of capital increase (in €/share)
On 1 January 2020	64,666,802	287,282	2,703,583	2,911,912		
17 March 2020: exercise of warrants	152,220	824	4,531	5,355	35.18	141.40
On 31 March 2020	64,819,022	288,105	2,708,114	2,917,266		

Note to the cash flow statement

(thousands of €)	Three months ended 31 March 2020	2019
Adjustment for non-cash transactions		
Depreciation and amortization	4,189	2,758
Share-based compensation expenses	9,227	6,000
Increase in retirement benefit obligations and provisions	90	87
Unrealized exchange results and non-cash other financial expenses	(32,856)	(4,777)
Discounting effect of deferred income	4,435	-
Fair value re-measurement of warrants	20,529	-
Net fair value adjustment current financial investments	14,507	-
Fair value adjustment financial assets held at fair value through profit or loss	2,745	1,455
Other non-cash costs	70	-
Total adjustment for non-cash transactions	**22,935**	**5,524**
Adjustment for items to disclose separately under operating cash flow		
Interest expense	1,007	237
Interest income	(2,090)	(1,822)
Tax expense	336	68
Total adjustment for items to disclose separately under operating cash flow	**(747)**	**(1,517)**
Adjustment for items to disclose under investing and financing cash flows		
Gain on sale of assets	-	(3)
Interest income on current financial investments	(2,596)	-
Total adjustment for items to disclose separately under investing and financing cash flow	**(2,596)**	**(3)**
Change in working capital other than deferred income		
Increase (-)/decrease in inventories	(62)	2
Decrease/increase (-) in receivables	27,581	(1,239)
Increase/decrease (-) in liabilities	24,962	(1,057)
Total change in working capital other than deferred income	**52,481**	**(2,294)**

Fair value re-measurements

Gilead warrant B

The issuance of initial warrant B was approved on 22 October 2019 by the extraordinary general meeting of shareholders and is not yet exercised by Gilead at 31 March 2020. The fair value measurement of this financial liability is categorized as level 3 in the fair value hierarchy. Initial warrant B has been valued on the basis of a Longstaff-Schwartz Monte Carlo model. The input data used in the model were derived from market observations (volatility, discount rate and share price) and from management estimates (number of shares to be issued and applied discount for lack of marketability). The recognized fair value loss of €20.5 million was mainly the result of an increase in the implied volatility of our share price between 31 December 2019 and 31 March 2020. The fair value of the financial liability related to the initial warrant B amounted to €26.7 million on 31 March 2020 and was presented as a current financial instrument.

Subsequent warrant B is still subject to approval by an extraordinary general meeting of shareholders and is therefore still presented as warrant issuance liability in our deferred income.

Contingencies and commitments

Contractual obligations and commitments

We have certain purchase commitments principally with CRO subcontractors and certain collaboration partners.

On 31 March 2020, we had outstanding obligations for purchase commitments, which become due as follows:

(thousands of €)	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Purchase commitments	266,330	192,869	66,291	6,912	258

In addition we have engaged a property developer for the construction of a building in Leiden.

At 31 March 2020, we were committed to leases which have not yet started. The total future cash outflows for leases that had not yet commenced were as follows:

(thousands of €)	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Lease commitments not commenced	8,986	5,793	1,502	1,502	188

In addition to the table above, we have a contractual cost sharing obligation related to our collaboration agreement with Gilead for filgotinib. The contractual cost sharing commitment amounted to €602.8 million at 31 March 2020 for which we have direct purchase commitments of €25.8 million at 31 March 2020 reflected in the table above.

Contingent liabilities and assets

We refer to our Annual Report 2019 for a description of our contingent liabilities and assets.

Events after the end of the reporting period

On 17 April 2020, the board of directors of Galapagos approved "Subscription Right Plan 2020 RMV", a subscription right[3] plan intended for the employees of its French subsidiary, Galapagos SASU, and "Subscription Right Plan 2020", a subscription right plan intended for other members of the personnel of the company and its subsidiaries, within the framework of the authorized capital. Under these subscription right plans, 2,280,500 subscription rights were created, subject to acceptances, and offered to the beneficiaries of the plans. The subscription rights have an exercise term of eight years as of the date of the offer and have an exercise price of €168.42 (the average closing price of the share on Euronext Amsterdam and Brussels during the thirty days preceding the date of the offer). The subscription rights are not transferable and can in principle not be exercised prior to 1 January 2024. Each subscription right gives the right to subscribe to one new Galapagos share.

Approval of interim financial statements

The interim financial statements were approved by the management board on 5 May 2020.

[3] "Subscription rights" is the new term for instruments formerly referred to as "warrants", under the revised Belgian Code of Companies and Associations.