

Catalent, Inc.

F2Q24 Recap: Sales ahead, but adj. EBITDA below Street; Update model; No rating

Reiterate Rating: NO RATING | PO: NA | Price: 56.55 USD

F2Q sales ~2% ahead, but margin expansion lower

Catalent (CTLT) reported F2Q24 results this morning. Total revenues of \$1.03bn were ahead of BofAe/Street \$1.00/1.02bn as both Biologics and Pharma & Consumer Health (PCH) beat. However, margins were muted, with gross margin contracting 1,810bps yoy to 15.6% vs BofAe/Street (Visible Alpha) 21.0/22.4%. Adj. EBITDA of \$124mn (12.0% margin) was also below BofAe/Street \$133/\$129mn. This flowed down to Adj. loss per share of (24)c, below BofAe/Street +1c/(2)c. CTLT ended F2Q with net leverage of 10.3x, (vs. 7.6x in F1Q).

Little color given recent deal; Update estimates

Due to the pending acquisition of CTLT by Novo Holdings ([see our 1/5/23 note for more details on the deal](#)), there was no conference call and very little color on the business, and the company did not comment on forward guidance. We update our FY24-FY26E estimates, raising sales but lowering adj. EBITDA and adj. EPS for more conservative margin assumptions. Due to the pending deal, which is expected to close by the end of 2024, we remain at No Rating, as shares are no longer trading on fundamentals.

Deal boosts NVO capacity; Regulatory scrutiny likely

As part of the transaction, Novo Holdings said it intends to sell three of CTLT's biologics CDMO (Contract Development Manufacturing Organization) sites (located in Anagni, Italy; Bloomington, Indiana; and Brussels, Belgium) to Novo Nordisk (NVO, covered by Sachin Jain and Graham Parry) for \$11bn. NVO Mgmt. has stated that they would honor current customer obligations at the three CTLT sites it is acquiring. For additional color on NVO's plans, [please see takeaways from a recent roadshow with NVO management from BofA's European Pharma Team here](#). That said, we note that some of CTLT's large pharma customers (e.g., LLY) are also rivals of NVO, and so it remains to be seen what degree of regulatory scrutiny the deal would receive.

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.84	1.01	0.70	1.85	2.50
GAAP EPS	2.80	(1.28)	(5.75)	(0.60)	0.06
EPS Change (YoY)	25.9%	-73.7%	-30.7%	164.3%	35.1%
Consensus EPS (Bloomberg)			0.73	1.56	2.13
DPS	0	0	0	0	0
Valuation (Jun)					
P/E	14.7x	56.0x	80.8x	30.6x	22.6x
GAAP P/E	20.2x	NM	NM	NM	942.5x
EV / EBITDA*	9.5x	17.1x	16.8x	12.5x	10.9x
Free Cash Flow Yield*	-2.2%	-3.1%	0.5%	6.7%	0.2%

* For full definitions of *IQmethod*SM measures, see page 5.

09 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	4,370.2	4,400.0
2025E Rev (m)	4,720.0	4,755.0
2026E Rev (m)	5,145.0	5,185.0
2024E EPS	0.81	0.70
2025E EPS	2.10	1.85
2026E EPS	2.80	2.50

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Stock Data

Price	56.55 USD
Price Objective	NA
Date Established	NA
Investment Opinion	-6-
52-Week Range	31.45 USD - 74.49 USD
Mrkt Val (mn) / Shares Out (mn)	10,236 USD / 181.0
Free Float	96.9%
Average Daily Value (mn)	173.79 USD
BofA Ticker / Exchange	CTLT / NYS
Bloomberg / Reuters	CTLT US / CTLT.N
ROE (2024E)	2.7%
Net Dbt to Eqty (Jun-2023A)	98.6%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to

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Timestamp: 09 February 2024 07:33PM EST

iQprofileSM Catalent, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.2%	2.2%	2.6%	4.5%	5.2%
Return on Equity	15.3%	3.9%	2.7%	6.4%	7.6%
Operating Margin	19.4%	6.7%	6.4%	10.9%	12.6%
Free Cash Flow	(221)	(314)	52	685	23

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.6x	1.4x	3.7x	3.3x	1.0x
Asset Replacement Ratio	1.7x	1.4x	0.9x	0.9x	0.9x
Tax Rate	14.2%	26.3%	4.8%	12.5%	15.0%
Net Debt-to-Equity Ratio	78.3%	98.6%	95.2%	65.9%	60.2%
Interest Cover	7.6x	1.6x	1.1x	2.1x	2.8x

Income Statement Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,828	4,276	4,400	4,755	5,185
% Change	20.8%	-11.4%	2.9%	8.1%	9.0%
Gross Profit	1,640	1,060	934	1,158	1,371
% Change	21.4%	-35.4%	-11.9%	24.0%	18.4%
EBITDA	1,285	714	727	978	1,118
% Change	26.0%	-44.5%	1.8%	34.5%	14.3%
Net Interest & Other Income	(330)	(601)	(1,388)	(645)	(640)
Net Income (Adjusted)	694	183	128	339	462
% Change	26.5%	-73.6%	-30.2%	165.7%	36.0%

Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	506	(232)	(1,051)	(110)	11
Depreciation & Amortization	378	422	481	485	490
Change in Working Capital	(612)	(64)	(1)	(101)	(128)
Deferred Taxation Charge	14	14	0	0	0
Other Adjustments, Net	153	121	1,042	840	91
Capital Expenditure	(660)	(575)	(418)	(428)	(441)
Free Cash Flow	-221	-314	52	685	23
% Change	12.9%	-42.3%	NM	NM	-96.7%
Share / Issue Repurchase	26	4	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	1,022	481	(250)	(250)	(250)

Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	449	280	83	518	291
Trade Receivables	1,051	977	990	1,070	1,167
Other Current Assets	1,416	1,422	1,440	1,523	1,636
Property, Plant & Equipment	3,127	3,699	3,636	3,579	3,530
Other Non-Current Assets	4,464	4,404	4,532	4,897	5,340
Total Assets	10,507	10,782	10,680	11,587	11,963
Short-Term Debt	31	536	536	536	536
Other Current Liabilities	1,041	971	1,001	1,062	1,144
Long-Term Debt	4,171	4,313	4,063	3,813	3,563
Other Non-Current Liabilities	469	327	336	364	397
Total Liabilities	5,712	6,147	5,936	5,775	5,639
Total Equity	4,795	4,635	4,744	5,812	6,324
Total Equity & Liabilities	10,507	10,782	10,680	11,587	11,963

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Healthcare Technology & Distribution

Company Description

Catalent (CTLT) is a contract development and manufacturing organization (CDMO) for the pharmaceutical and biotech industries. The company offers advanced drug delivery technologies as well as drug development and manufacturing solutions for pharmaceuticals, biologics, and consumer health products. Through its services and expertise, CTLT seeks to help customers bring products to market faster, enhance product performance, and provide reliable clinical and commercial product supply.

Investment Rationale

We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

Stock Data

Average Daily Volume

3,073,172

Quarterly Earnings Estimates

	2023	2024
Q1	0.34A	-0.10E
Q2	0.67A	-0.24E
Q3	-0.09A	0.16E
Q4	0.09A	0.88E



Price objective basis & risk

Catalent, Inc. (CTLT)

We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

Analyst Certification

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US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Brucker Corporation	BRKR	BRKR US	Derik de Bruin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Derik de Bruin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Guardant Health	GH	GH US	Derik de Bruin
	ICON plc	ICLR	ICLR US	Derik de Bruin
	IQVIA Holdings Inc	IQV	IQV US	Derik de Bruin
	LabCorp	LH	LH US	Derik de Bruin
	Marava	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Derik de Bruin
	Qiagen N.V.	XQGNF	QIA GY	Derik de Bruin
	Quest Diagnostics	DGX	DGX US	Derik de Bruin
	Stevanato Group S.p.A.	STVN	STVN US	Derik de Bruin
	Thermo Fisher Scientific	TMO	TMO US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
NEUTRAL				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	Revvity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin
UNDERPERFORM				
	Align Technology	ALGN	ALGN US	Michael Ryskin
	Fortrea	FTRE	FTRE US	Derik de Bruin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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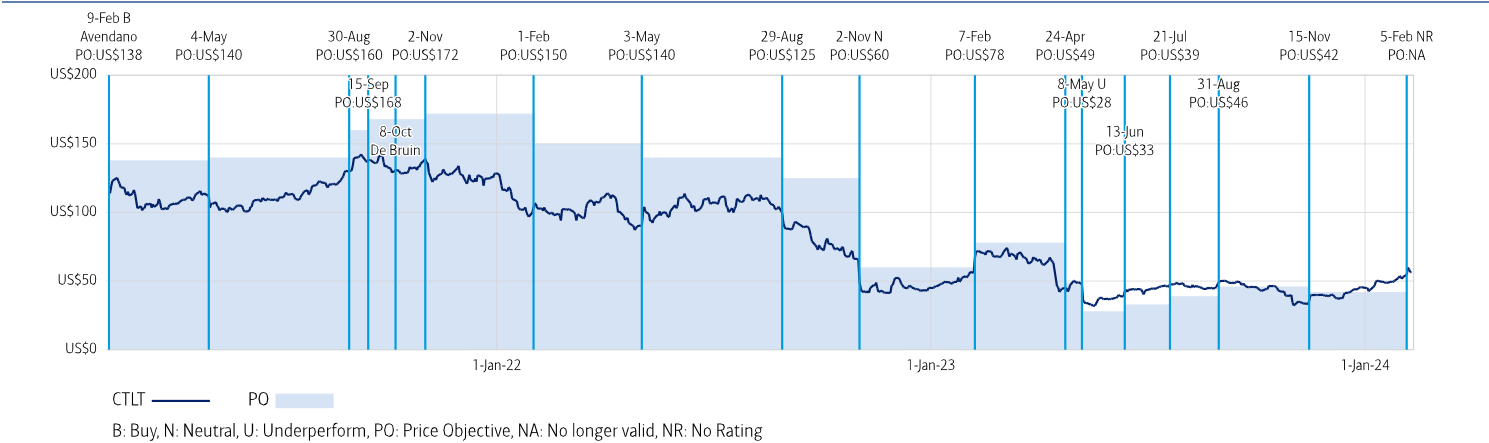
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Catalent, Inc. (CTLT) Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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