

## Catalent, Inc. (CTLT)

Overweight

Strong Organic Growth; Long Term Growth Targets on Track

### CONCLUSION

FX headwinds aside, Catalent beat estimates this quarter and also provided directional guidance that the company is operationally where it needs to be to maintain its long term 4%-6% growth target. Reiterate Overweight rating and \$33 price target.

- **The Numbers.** Revenue of \$447M was below our estimate of \$456M and consensus of \$453M. Revenue declined by 1% y/y; however, it would have increased by 8% on a constant currency basis. EPS of \$0.46 was a penny shy of our estimate and beat consensus by three cents. Adjusted EBITDA of \$111M beat our estimate of \$109M and increased y/y by 4%. Overall mix shift toward more profitable products combined with lower interest expense (43% reduction y/y) is driving margin expansion. The company lowered revenue guidance from \$1.82-1.86B to \$1.80-1.83B, and adjusted net income from \$204-214M to \$197-205M. Fx headwinds are expected to negatively impact revenue by \$12-16M, and EBITDA by \$4-8M.
- **Pharmapak Technologies should accelerate growth in Australia, in our view.** Management indicated that the ability to offer end-to-end manufacturing and packing solutions is helping the company generate new business more rapidly in Australia than if they offered the manufacturing of oral-doses alone. Overall the three FY15 acquisitions (Pharmapak, Micron, and Redwood) are expected to positively impact revenue by \$3-5M and EBITDA by \$1-2M this fiscal year.
- **Micron is expected to add more meaningful growth in two-to-three years and beyond.** Micron provides particle size formulation and final dose form services. After client projects are complete, Catalent can continue the client relationship through commercialization and onward. Acquiring Micron directly expanded Catalent's long term pipeline, in our view.

### RISKS TO ACHIEVEMENT OF PRICE TARGET

Failure to integrate acquisitions, pharma and biotech slowdown of outsourced R&D and manufacturing, domestic and foreign regulatory constraints.

### COMPANY DESCRIPTION

Catalent is a leading global provider of advanced delivery technologies and development solutions for drugs, biologics, and consumer health products.

PRICE: US\$29.18

TARGET: US\$33.00

11.9x CY16E EV/EBITDA

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$33.00
FY15E Rev (mil)	US\$1,853.5	US\$1,822.1
FY16E Rev (mil)	US\$1,941.4	US\$1,907.8
FY15E EPS	US\$1.79	US\$1.59
FY16E EPS	US\$2.15	US\$1.91
52-Week High / Low	US\$31.66 / US\$19.30	
Shares Out (mil)	126.3	
Market Cap. (mil)	US\$3,685.4	
Avg Daily Vol (ooo)	585	
Book Value/Share	US\$3.71	
Net Cash Per Share	US\$(13.98)	
Debt to Total Capital	0.8%	
Yield	0.00%	
Fiscal Year End	Jun	

### Price Performance - 1 Year



Source: Bloomberg

YEAR	REVENUE (US\$ m)								EARNINGS PER SHARE (US\$)							
	Sep	Dec	Mar	Jun	FY	CY	FY RM	CY RM	Sep	Dec	Mar	Jun	FY	CY	FY P/E	CY P/E
2014A	414.3	440.7	453.1	519.6	1,827.7	1,846.8	2.0x	2.0x	—	—	—	—	—	NA	NA	NA
2015E	418.3A	455.8A	446.6A	501.4	1,822.1	1,842.3	2.0x	2.0x	0.13A	0.45A	0.46A	0.57	1.59	1.58	18.4x	18.5x
2016E	422.5	471.8	475.5	538.0	1,907.8	1,928.5	1.9x	1.9x	0.28	0.37	0.46	0.79	1.91	2.11	15.3x	13.8x

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Exhibit 1

	Q3A Mar-15			Y/Y Change	Seq. Change
	PJC Est.	Actual	% Diff		
<b>Revenues:</b>					
Oral Technologies	281,554	284,000	1%	-1%	2%
Medication Delivery Solutions	69,324	61,200	-12%	-6%	-17%
Development and Clinical Svcs	107,848	103,700	-4%	0%	-4%
<b>Total Revenue</b>	<b>456,086</b>	<b>446,600</b>	<b>-2%</b>	<b>-1%</b>	<b>-2%</b>
<b>Gross Profit</b>	<b>164,102</b>	<b>152,200</b>	<b>-7%</b>	<b>0%</b>	<b>-2%</b>
<b>Expenses</b>					
Selling, General & Administrative	79,815	80,900	1%	-8%	-8%
Operating Income	84,287	65,800	-22%	9%	5%
<b>Adjusted EBITDA:</b>					
Oral Technologies	78,835	81,700	4%	7%	9%
Medication Delivery Solutions	19,411	10,900	-44%	-31%	-40%
Development and Clinical Svcs	26,962	23,800	-12%	3%	9%
<b>Adjusted EBITDA:</b>	<b>108,608</b>	<b>110,500</b>	<b>2%</b>	<b>4%</b>	<b>-2%</b>
<b>Adjusted Net Income</b>	<b>62,481</b>	<b>57,600</b>	<b>-8%</b>	<b>nm</b>	<b>3%</b>
<b>Adjusted EPS</b>	<b>0.49</b>	<b>0.46</b>	<b>-6%</b>	<b>nm</b>	<b>nm</b>
Diluted Shares	128,801	126,300	-2%	nm	0%

Source: PJC Analysis and Company Reports.

**Catalent**

\$ in thousands, except per share data

**Income Statement**

Last update: 5/3/15

**Revenue**

Oral Technologies  
Medication Delivery Solutions  
Development and Clinical Svcs  
Revenue Elimination

**Total Revenue**

Cost of Sales

Gross Profit

Selling, General & Administrative

Impairment charges and (gain)/loss on sale of assets

Restructuring/other

Property/casualty (gain)/loss, net

**Operating Earnings**

**Segment EBITDA**

Oral Technologies

Medication Delivery Solutions

Development and Clinical Svcs

Unallocated Costs

EBITDA from continuing operations

EBITDA adjustments:

Equity compensation

Impairment charges and (gain)/loss on asset sale

Financing related expenses and other

US GAAP restructuring

Acquisition, integration, and other special items

Fx loss / (gain)

Other adjustments

Sponsor monitoring fee

**Total EBITDA adjustments**

**Total Adjusted EBITDA**

Interest Expense

Other (income)/expense, net

Earnings/(loss) from continuing operations before income taxes

Income tax expense/(benefit)

**Earnings/(loss) from continuing operations**

Net earnings/(loss) from discontinued operations, net of tax

Net earnings/(loss)

Minority Interest

**Net earnings/(loss) attributable to Catalent**

Net Earnings to Adjusted Net Income:

**Net Income to Adj. Net Income Reconciliation**

Earnings / (loss) from continuing operations

Amortization

Income tax (benefit) / provision

Cash taxes (paid) / refunded

Noncontrolling interest, net of tax

Equity compensation

Impairment charges and (gain) / loss on sale of assets

Financing related expenses

U.S. GAAP Restructuring

Acquisition, integration and other special items

Foreign Exchange loss (gain) (included in other, net)

Other adjustments

Sponsor monitoring fee

Et. Cash tax (savings)/exp. Attributable to reconciling items

**Adjusted Net Income/(loss)**

**Adjusted EPS**

*Diluted shares outstanding*

**Calendar Year:**

Revenue

y/y Growth %

EBITDA

y/y Growth %

Interest expense

Operating Earnings

Net Income

Adj Net Income

Adj EPS

Development and Clin Svcs Revenue

Development and Clin Svcs EBITDA

DCS EBITDA Mgn

**Analysis:**

Total Gross Profit

Selling, General, & Admin Expenses

Total Operating Expenses

Operating Margin

EBITDA Margin - Oral Technologies

EBITDA Margin - Medication Delivery Solutions

EBITDA Margin - Development and Clinical Svcs

EBITDA Margin - Total

Incremental EBITDA Margin

Income tax rate

Interest Coverage Ratio

**y/y growth:**

Revenue- Oral Technologies

Revenue- Medication Delivery Solutions

Revenue- Development and Clinical Svcs

Revenue - Total

EBITDA - Oral Technologies

EBITDA - Medication Delivery Solutions

EBITDA - Development and Clinical Svcs

Total Adj EBITDA

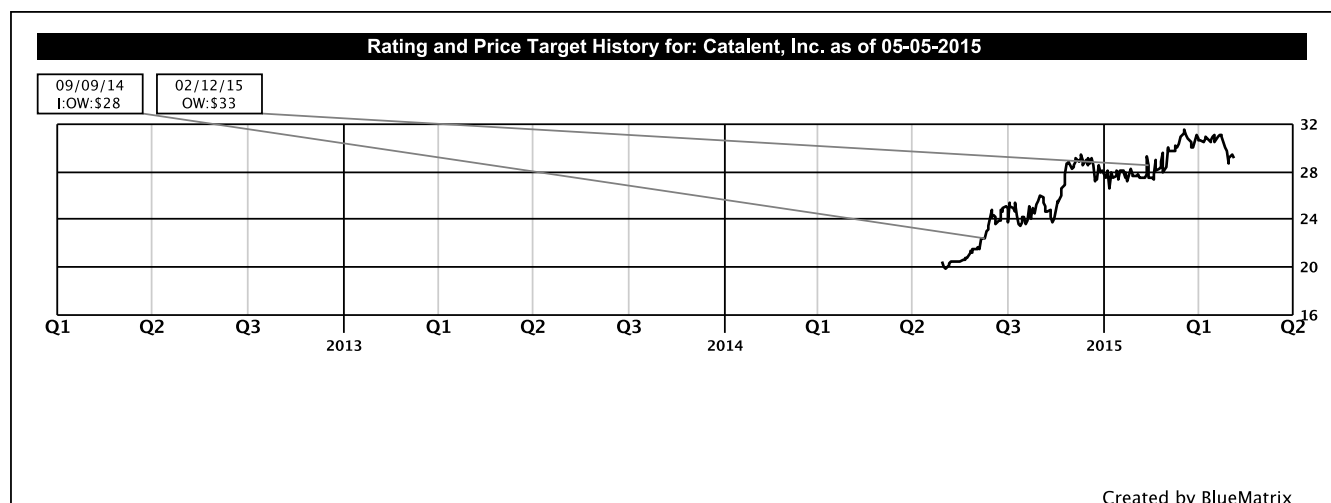
Source: Company Reports, Piper Jaffray Research

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	FYA 2014A	Q1A Sep-14	Q2A Dec-14	Q3A Mar-15	Q4E Jun-15	FYE 2015E	Q1E Sep-15	Q2E Dec-15	Q3E Mar-16	Q4E Jun-16	FYE 2016E
1,180,200	261,100	277,200	284,000	334,176	1,156,476	261,100	282,744	301,040	357,568	1,202,452	
246,100	56,900	73,700	61,200	64,077	255,877	59,176	81,070	64,872	67,922	273,040	
412,200	103,100	107,800	103,700	105,400	420,000	105,162	111,034	111,996	114,886	443,078	
(10,800)	(2,800)	(2,900)	(2,300)	(2,240)	(10,240)	(2,940)	(3,045)	(2,415)	(2,352)	(10,752)	
1,827,700	418,300	455,800	446,600	501,413	1,822,113	422,498	471,803	475,493	538,024	1,907,818	
598,600	293,000	299,700	294,400	190,537	624,137	128,862	150,977	166,802	209,829	656,470	
334,800	81,400	88,100	80,900	85,240	335,640	80,104	88,834	90,344	80,704	339,986	
	1,400	2,100	5,200	-	-	-	-	-	-	-	
240,900	42,500	62,400	65,800	105,297	275,997	48,757	62,143	76,458	129,126	316,484	
324,400	57,700	74,700	81,700	97,746	311,846	57,442	70,686	81,281	107,270	316,679	
48,700	9,900	18,100	10,900	14,097	52,997	14,202	23,510	18,813	19,697	76,223	
83,500	21,400	21,900	23,800	28,458	95,558	21,032	22,207	27,999	31,019	102,257	
(82,100)	(52,400)	(13,000)	(16,300)	(25,000)	(106,700)	(25,000)	(25,000)	(25,000)	(25,000)	(100,000)	
374,400	36,600	101,700	100,100	115,301	353,701	67,677	91,403	103,093	132,987	395,159	
4,500	1,500	2,700	2,200	2,200	8,600	2,000	2,000	2,000	2,000	8,000	
3,200	-	3,500	300	-	3,800	-	-	-	-	-	
11,000	20,600	1,200	-	-	21,800	-	-	-	-	-	
19,700	1,400	2,100	5,200	5,200	13,900	5,200	5,200	5,200	5,200	20,800	
9,800	3,200	4,400	2,500	2,500	12,600	2,500	2,500	2,500	2,500	10,000	
(3,500)	(3,700)	500	(1,000)	(1,000)	(5,200)	(1,000)	(1,000)	(1,000)	(1,000)	(4,000)	
300	23,800	(3,200)	1,200	1,200	23,000	11,000	11,000	11,000	11,000	44,000	
12,900	-	-	-	-	-	-	-	-	-	-	
(24,300)	-46,800	-11,200	-10,400	-10,100	-78,500	-19,700	-19,700	-19,700	-19,700	-78,800	
432,300	83,400	112,900	110,500	125,401	432,201	87,377	111,103	122,793	152,687	473,959	
163,100	35,500	23,900	23,000	23,500	105,900	20,000	20,000	20,000	20,000	80,000	
67,400	41,300	(3,600)	800	7,600	46,100	28,757	42,143	56,458	109,126	236,484	
67,400	(34,300)	42,100	42,000	74,197	123,997	28,757	42,143	56,458	109,126	236,484	
49,500	(14,000)	(4,100)	11,200	22,259	15,359	11,503	16,857	22,583	43,650	94,594	
17,900	(20,300)	46,200	30,800	51,938	108,638	17,254	25,286	33,875	65,475	141,890	
(2,700)	400	(200)	-	(1,700)	(1,500)	(400)	(600)	(1,700)	(1,700)	(4,400)	
15,200	(19,900)	46,000	30,800	50,238	107,138	16,854	24,686	32,175	63,775	137,490	
(1,000)	(400)	(500)	(700)	(400)	(2,000)	(100)	(300)	(400)	(400)	(1,200)	
16,200	(19,500)	46,500	31,500	50,638	109,138	16,954	24,986	32,575	64,175	138,690	
17,900	(20,300)	46,200	30,800	51,938	108,638	17,254	25,286	33,875	65,475	141,890	
42,500	11,300	11,600	11,800	11,900	46,500	11,300	11,600	11,800	11,800	46,500	
49,500	(14,000)	(4,100)	11,200	22,259	15,359	11,503	16,857	22,583	43,650	94,594	
(21,100)	(9,900)	(8,200)	(5,600)	(13,355)	(37,055)	(5,751)	(8,429)	(11,292)	(21,825)	(47,297)	
1,000	400	500	700	400	2,000	100	300	400	400	1,200	
4,500	1,500	2,700	2,200	2,200	8,600	1,500	1,500	1,500	1,500	6,000	
3,200	-	3,500	300	-	3,800	-	-	-	-	-	
11,000	20,600	1,200	-	-	21,800	-	-	-	-	-	
19,700	1,400	2,100	5,200	1,400	10,100	-	-	-	-	-	
9,800	3,200	4,400	2,500	1,000	11,100	-	-	-	-	-	
(3,500)	(3,700)	500	(1,000)	-	(4,200)	-	-	-	-	-	
300	23,800	(3,200)	1,200	-	21,800	-	-	-	-	-	
12,900	-	-	-	-	-	-	-	-	-	-	
(5,300)	-900	-1300	-1700	-2600	(6,500)	-700	-600	-1400	-2600	(5,300)	
142,400	13,400	55,900	57,600	75,041	201,941	35,206	46,514	57,466	98,401	237,587	
	0.13	0.44	0.46	0.57	1.59	0.28	0.37	0.46	0.79	1.91	
74,801	105,535	126,000	126,300	132,700	122,634	123,971	124,095	124,219	124,343	124,157	
1,846,800					201,000	1.63					
2%					1,842,314	-0.2%					
453,100					434,381	-4.1%					
12%			-43%		-	-					
266,200					281,997						
60,900					124,078						
207,240					201,640						
na					\$ 1.58					\$ 2.11	
420,000					425,296						
92,600					95,497						
22%					22%					25%	
33%	30.0%	34.2%	34.1%	38.0%	34%	30.5%	32.0%	35.1%	39.000%	34%	
18%	19.5%	19.3%	18.1%	17.0%	18%	19.0%	18.8%	19.0%	15.0%	18%	
13%	17%	17%	17%	21%	15%	12%	13%	16%	24%	17%	
27%	22%	27%	29%	29%	27%	22.0%	25.0%	27.0%	30.0%	28%	
20%	17%	25%	18%	22%	21%	24.0%	29.0%	29.0%	29.0%	26%	
20%	21%	20%	23%	23%	20%	20.0%	20.0%	25.0%	23%	20%	
23.7%	20%	25%	25%	25%	23.7%	21%	24%	26%	28%	24.8%	
72%	30%	129%	-68%	30%	2%	95%	-11%	43%	75%	49%	
	41%	-10%	27%	35%	12%	40%	40%	40%	40%	40%	
-1%	1%	-3%	-1%	-4%	-2%	0%	2%	6%	7%	4%	
12%	1%	33%	-6%	-7%	4%	4%	10%	6%	6.00%	7%	
2%	2%	6%	0%	0%	2%	2%	3%	8%	9.00%	7%	
2%	1%	3%	-1%	-4%	0%	1%	4%	6%	7%	5%	
3%	-4%	0%	7%	-14%	-4%	0%	-5%	-1%	10%	2%	
55%	21%	162%	-31%	-21%	9%	43%	30%	73%	40%	44%	
11%	36%	18%	3%	8%	14%	-2%	1%	18%	9%	7%	
12%	-1%	21%	4%	-17%	-4%	5%	-2%	11%	22%	10%	

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D: Discontinuing Coverage  
S: Suspending Coverage  
OW: Overweight  
N: Neutral  
UW: Underweight  
NA: Not Available  
UR: Under Review

Distribution of Ratings/IB Services Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	378	61.26	101	26.72
HOLD [N]	224	36.30	14	6.25
SELL [UW]	15	2.43	0	0.00

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## Analyst Certification — Sean W. Wieland, Sr Research Analyst — Nina Dekka, Research Analyst

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- **Neutral (N):** Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.
- **Underweight (UW):** Anticipated to underperform relative to the median of the group of stocks covered by the analyst.

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