

Morgan Stanley & Co. LLC

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Stock Rating
Overweight

Industry View
In-Line

October 2, 2014

Catalent, Inc. Biologics Opportunity Materializing

Catalent's acquisition of the remainder of Redwood Biosciences and the SMARTag ADC technology and validation of the technology over the past 12-months are a positive step in establishing CTLT's position in the area of biologics and in line with our OW thesis. We view the acquisition positively and will look for an increase in biologics development deals to follow.

Acquisition of the remaining ~75% of Redwood Biosciences includes the SMARTag technology platform. The SMARTag antibody drug conjugate (ADC) technology enables CTLT development clients to more effectively develop tumor-targeting treatments. Terms of the acquisition were not disclosed; CTLT had owned a 25% minority stake with exclusive licensing for SMARTag and option to purchase a larger stake in the company since 4/2013.

Importantly, acquisition follows successful technology milestone achievements over the past ~12-months. We highlighted in our initiation report the validation of the SMARTag technology as a key catalyst to watch for. With the technology showing promise for the development of ADCs, we view an increased likelihood of new development deals with drug manufacturers, which initially could bring in revenue streams of up to ~\$2 million (0.5% of DCS segment sales) per deal. In our model, we estimate growth in biologics contributes ~2% to annual EBITDA growth starting in FY16 (for more, see page 13 of our 9/9 report, CTLT: Breaking the Softgel Mold).

Next Catalyst: 1FQ15 earnings, by mid-November. We model 1FQ15 EBITDA of \$80.5 million (reflecting softgel softness including not having exclusivity on generic Lovaza), down -2% y/y vs. consensus of \$79.6 million. On the call we will look for more color on expected contribution from the Redwood acquisition, an update on the FY15 outlook, and commentary on future M&A activity.

Key Ratios and Statistics

Reuters: CTLT.N Bloomberg: CTLT US

Healthcare Services & Distribution / United States of America

Shr price, close (Oct 1, 2014)	\$41.87
Mkt cap, curr (mm)	\$3,313
52-Week Range	\$25.37-19.30

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Catalent, Inc.



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Global Stock Ratings Distribution

October 2, 2014

Catalent, Inc.

(as of September 30, 2014)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1113	35%	353	40%	32%
Equal-weight/Hold	1390	44%	410	47%	29%
Not-Rated/Hold	109	3%	21	2%	19%
Underweight/Sell	575	18%	96	11%	17%
Total	3,187		880		

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Stock Price, Price Target and Rating History (See Rating Definitions)

October 2, 2014

Catalent, Inc.



Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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October 2, 2014

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Industry Coverage: Healthcare Services & Distribution

Company (Ticker)	Rating (as of)	Price* (10/01/2014)
Ricky R Goldwasser		
Albany Molecular Research, Inc (AMRI.O)	O (04/09/2014)	\$21.87
Allscripts Healthcare Solutions Inc. (MDRX.O)	O (04/26/2013)	\$13.48
AmerisourceBergen Corp. (ABC.N)	E (04/13/2012)	\$76.69
CVS/Caremark Corp. (CVS.N)	O (11/04/2011)	\$79.14
Cardinal Health Inc (CAH.N)	O (01/07/2010)	\$74.58
Catalent, Inc. (CTLT.N)	O (09/09/2014)	\$23.85
Catamaran Corp (CTRX.O)	E (09/23/2013)	\$41.87
Cerner Corporation (CERN.O)	E (08/17/2012)	\$58.38
Charles River Laboratories International (CRL.N)	E (03/03/2010)	\$59.12
Covance Inc. (CVD.N)	E (09/15/2010)	\$77.08
Express Scripts, Inc. (ESRX.O)	O (01/07/2010)	\$70.07
Laboratory Corp. of America Holdings (LH.N)	U (03/19/2010)	\$101.18
McKesson Corporation (MCK.N)	O (10/25/2013)	\$192.57
Quality Systems Inc (QSII.O)	U (04/23/2014)	\$13.85
Quest Diagnostics Inc. (DGX.N)	U (07/09/2013)	\$60.32
Quintiles Transnational Holdings Inc (Q.N)	O (06/18/2013)	\$54.56
Walgreens (WAG.N)	O (09/23/2013)	\$59.04
athenahealth Inc (ATHN.O)	O (04/23/2014)	\$127.5

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* Historical prices are not split adjusted.