

Equity Research

Catalent, Inc.

CTLT: FQ2 2015 Earnings Full Analysis

• **What to do from here.** CTLT posted a strong FQ2 as typical quarterly volatility worked in the company's favor this time, with a smaller contribution from better underlying trends in certain business lines. FY2015 guidance was reduced substantially due to FX, slightly offset by the aforementioned better underlying trends. Looking through all the noise, however, we believe the long-term outlook is unchanged: MSD revenue growth with long-term margin expansion driven by operating leverage. While valuation has gotten richer (along with the rest of the group), we still like the long-term outlook and raise our valuation range to \$33-35 from \$30-32. Tweaking 2016E EPS to \$1.88 from \$1.89.

• **Financial highlights.** CTLT posted revenue of \$456MM vs. consensus of \$452MM and EPS of \$0.42 vs. our estimate of \$0.31 (includes stock comp). The revenue beat was driven by significant strength in the MDS segment (demand for blow/fill/seal as well as a favorable impact from timing-related items), partially offset by a much larger-than-expected FX headwind in the OT and MDS segments. Margins were much better-than-expected driven heavily by mix in each segment. See Exhibit 1 for additional detail.

• **Guidance highlights.** As shown in Exhibit 2, the company reduced revenue guidance by about \$62MM at the midpoint, which includes a \$90-100MM headwind from FX, partially offset by a \$15-20MM contribution from the Micron acquisition and a \$10-15MM improvement in the base business. EBITDA and net income guidance were reduced by about \$16MM at the midpoint for the same reasons. The effect of the guidance is to make FY2015 more front-end-loaded than is typical, given that some revenue appears to have been pulled forward into FQ2.

Valuation Range: \$33.00 to \$35.00 from \$30.00 to \$32.00

Our valuation range is DCF-based (WACC = 8.0%; terminal NOPLAT growth = 2%) and represents 17x our CY2016 EPS estimate. Risks include (1) short-term volatility, due to general order lumpiness; (2) potential for regulatory missteps; (3) weak product sales by customers; (4) control company status; (5) high leverage; and (6) FX volatility.

Investment Thesis:

We believe the Pharma Services sector has favorable long-term trends, and within that space, Catalent is positioned relative to peers with a stable and diversified business model, although one with lower growth. Considering these factors, we view CTLT's valuation as reasonably attractive, with room for expanding multiples if Catalent successfully executes on growth opportunities to move its long-term growth profile higher.

Outperform / V

Sector: Pharmaceutical Services

Overweight

Earnings Estimate Revised Down

EPS	2014A	2015E		2016E	
		Curr.	Prior	Curr.	Prior
Q1 (Sep.)	NE	0.15 A	NC	0.26	NC
Q2 (Dec.)	NE	0.42 A	0.31	0.45	0.34
Q3 (Mar.)	NE	0.41	0.46	0.46	0.50
Q4 (June)	NE	0.67	0.73	0.71	0.79
FY	1.86	1.69	NC	1.88	1.89
CY	\$1.89	\$1.79		\$1.96	
FY P/EPS	15.8x	17.4x		15.6x	
Rev.(MM)	\$1,828	\$1,837		\$1,911	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, * = Company is on the Priority Stock List

Excludes amortization of acquired intangible assets

Ticker	CTLT
Price (02/11/2015)	\$29.32
52-Week Range:	\$19-31
Shares Outstanding: (MM)	126.0
Market Cap.: (MM)	\$3,694.3
S&P 500:	2,068.53
Avg. Daily Vol.:	371,225
Dividend/Yield:	\$0.00/0.0%
LT Debt: (MM)	\$1,817.0
LT Debt/Total Cap.:	4.1%
ROE:	NE
3-5 Yr. Est. Growth Rate:	7.0%
CY 2015 Est. P/EPS-to-Growth:	2.3x
Last Reporting Date:	02/11/2015
	After Close

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Please see page 5 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 02/11/15 unless otherwise stated.

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Together we'll go far



Exhibit 1. FQ2 2015 Variance Table

FY ending June In millions except EPS	Actual		Est	Actual	Cons	Yr / Yr	Seq	Notes
	F2Q14	F1Q15	F2Q15	F2Q15	F2Q15	change	change	
Net revenue	\$ 441	\$ 418	\$ 454	\$ 456	\$ 452	3.4%	9.0%	
Cost of revenue	303	293	314	300		(1.2%)	2.3%	
Gross profit	137	125	141	156		13.6%	24.6%	
SG&A	71	67	74	75		6.1%	12.6%	
Operating income	66	58	67	81		21.7%	38.4%	
Interest expense, net	42	36	25	24				
Other expense (income)	(1)	(3)	-	(5)				
Pretax income	26	26	42	62		135.5%	137.3%	
Income tax expense (benefit)	(3)	11	3	9				
Earnings/(loss) from continuing ops	\$ 29	\$ 15	\$ 38	\$ 52		80.9%	245.4%	
Minority interest, net of tax	(0)	(0)	(0)	(1)				
Net earnings (loss) to Catalent	\$ 29	\$ 16	\$ 39	\$ 53		80.7%	239.7%	
Non-GAAP EPS	\$ 0.39	\$ 0.15	\$ 0.31	\$ 0.42		7.7%	184.7%	
Non-GAAP EPS (company method)	\$ 0.37	\$ 0.13	\$ 0.32	\$ 0.44	\$ 0.34			
Diluted shares outstanding	75.0	105.5	124.9	126.0		67.9%	19.3%	
EBITDA	\$ 93	\$ 82	\$ 90	\$ 104		12.0%	27.2%	
MARGIN ANALYSIS						Yr / Yr	Seq	
Cost of revenue / net revenue	68.8%	70.0%	69.0%	65.8%		(310) bps	(430) bps	
Gross margin	31.2%	30.0%	31.0%	34.2%		310 bps	430 bps	
SG&A / net revenue	16.1%	16.0%	16.4%	16.5%		40 bps	50 bps	
Operating margin	15.1%	14.0%	14.6%	17.7%		270 bps	380 bps	
Pretax margin	5.9%	6.2%	9.1%	13.5%		760 bps	730 bps	
Tax rate	(10.5%)	41.7%	8.0%	15.1%		2560 bps	(2660) bps	
Net margin	6.6%	3.7%	8.5%	11.6%		500 bps	790 bps	
EBITDA margin	21.1%	19.6%	19.7%	22.9%		180 bps	330 bps	
SEGMENT ANALYSIS						Yr / Yr	Seq	
Oral Technologies	\$ 286	\$ 261	\$ 288	\$ 277		(3.0%)	6.2%	*OT - 67% of revenue; Rev and EBITDA in-line with prior year; Strong rev and EBITDA in LA and NA w/ favorable product mix; Declines in Europe & APAC; Mix shift from Prescription softgel to Consumer Health expected in near term *Modified Release - 33% of revenue; Strong profit share revenue from product participation; Favorable product mix shift within controlled release and strong product participation drove EBITDA
Growth: core	1.1%	1.5%	2.0%	2.3%				
Growth: FX	(1.5%)	(1.4%)	(2.3%)	(6.3%)				
Growth: acq/div	(1.0%)	0.8%	1.0%	1.0%				
Growth: total	(1.5%)	0.8%	0.8%	(3.0%)				
Adj. EBITDA	\$ 75	\$ 58	\$ 69	\$ 75		0.1%	29.5%	
Margin	26.1%	22.1%	24.0%	26.9%		80 bps	480 bps	
Medication Delivery Solutions	\$ 55	\$ 57	\$ 62	\$ 74		33.3%	29.5%	
Growth: core	3.2%	0.7%	6.0%	33.6%				
Growth: FX	2.1%	0.0%	(1.9%)	(4.9%)				
Growth: acq/div	0.0%	0.0%	7.2%	4.5%				
Growth: total	5.3%	0.7%	11.3%	33.3%				
Adj. EBITDA	\$ 7	\$ 10	\$ 10	\$ 18		158.6%	82.8%	
Margin	12.7%	17.4%	16.0%	24.6%		1190 bps	720 bps	
Development & Clinical Services	\$ 102	\$ 103	\$ 108	\$ 108		5.6%	4.6%	
Growth: core	5.1%	(0.7%)	8.0%	7.0%				*Clinical Services - revenue in-line with prior year but DD EBITDA growth due to favorable product mix *Analytical Services - revenue and EBITDA growth driven by higher project volumes in the US and growth of integrated oral solids development & supply biz
Growth: FX	0.8%	2.8%	(2.6%)	(1.4%)				
Growth: acq/div	0.0%	0.0%	0.0%	0.0%				
Growth: total	5.9%	2.1%	5.4%	5.6%				
Adj. EBITDA	\$ 19	\$ 21	\$ 19	\$ 22		18.4%	2.3%	
Margin	18.1%	20.8%	18.0%	20.3%		220 bps	(40) bps	
Intracompany Eliminations	\$ (3)	\$ (3)	\$ (3)	\$ (3)				
% of total	(0.6%)	(0.7%)	(0.6%)	(0.6%)				
Total Revenue	\$ 441	\$ 418	\$ 454	\$ 456		3.4%	9.0%	
Growth: core	2.3%	0.7%	3.8%	7.2%				
Growth: FX	(0.6%)	(0.2%)	(2.3%)	(5.0%)				
Growth: acq/div	(0.7%)	0.5%	1.6%	1.2%				
Growth: total	1.1%	1.0%	3.1%	3.4%				
Corporate expenses	\$ (7)	\$ (7)	\$ (7)	\$ (10)		49.3%	49.3%	
% of total revenue	1.6%	1.6%	1.6%	2.3%				

Source: Company filings & Wells Fargo Securities, LLC estimates

Revenue & EPS consensus are First Call via FactSet; Other consensus figures from StreetAccount consensus

Exhibit 2. Guidance Highlights

Guidance	FQ1 2015	FQ2 2015	FQ3 2015	FQ4 2015	FY 2015	Notes
Consolidated Revenue (MM)						
9/4/2014					\$1,890-1,915	Modestly improved outlook; 2H weighted; ~3% FX HW (\$90-100)MM FX; +\$10-15MM base biz; +\$15-20 acq
11/13/2014					\$1,890-1,915	
2/11/2015					\$1,820-1,860	
Adjusted EBITDA (MM)						
9/4/2014					\$450-460	Slightly less than 3% FX HW (\$20-30)MM FX; +\$5-10MM base biz; +\$1-3 acq
11/13/2014					\$450-460	
2/11/2015					\$434-444	
Interest (MM)						
7/15/2014					\$91-96	\$23-25
11/13/2014					~\$105	
Cash Taxes (MM)						
3/14/2014					\$36	See note; Will change due to refi
7/15/2014					\$27-32	
Adj. Net Income (MM)						
9/4/2014					\$215-225	
11/13/2014					\$215-225	
2/11/2015					\$204-214	
Shares (MM)						
9/4/2014				119		Does not include any shoe (could be up to 6MM)
11/13/2014					123.6	
2/11/2015					122-124	
Capex (MM)						
9/4/2014					\$115-125	
11/13/2014					\$115-125	
2/11/2015					\$120-130	

Source: Company press releases and transcripts; Wells Fargo Securities, LLC

Exhibit 3. Earnings Model

In millions, except EPS

NON-GAAP INCOME STATEMENT	2011	2012	2013	FQ1	FQ2	FQ3	FQ4	2014	FQ1	FQ2	FQ3E	FQ4E	2015E	2016E
Net revenue	\$ 1,532	\$ 1,695	\$ 1,800	\$ 414	\$ 441	\$ 453	\$ 520	\$ 1,828	\$ 418	\$ 456	\$ 452	\$ 511	\$ 1,837	\$ 1,911
Cost of revenue	1,030	1,136	1,232	295	303	301	329	1,229	293	300	303	329	1,224	1,271
Gross profit	502	559	569	119	137	152	190	599	125	156	149	183	613	640
SG&A	235	268	265	64	71	71	64	269	67	75	71	67	280	270
Operating income	268	291	304	55	66	81	127	329	58	81	79	116	333	370
Interest expense, net	166	183	203	41	42	40	40	163	36	24	24	24	107	94
Other expense (income)	26	(4)	8	(1)	(1)	5	(3)	(1)	(3)	(5)	-	-	(8)	-
Pretax income	76	112	92	15	26	36	90	167	26	62	55	92	234	276
Income tax expense (benefit)	26	28	18	17	(3)	2	10	26	11	9	4	6	30	34
Earnings/(loss) from cont. ops	\$ 50	\$ 83	\$ 74	\$ (1)	\$ 29	\$ 33	\$ 79	\$ 140	\$ 15	\$ 52	\$ 51	\$ 85	\$ 204	\$ 242
Minority interest, net of tax	4	1	(0)	(0)	(0)	(0)	(0)	(1)	(0)	(1)	(1)	(1)	(2)	(1)
Net earnings (loss) to Catalent	\$ 46	\$ 82	\$ 74	\$ (1)	\$ 29	\$ 34	\$ 79	\$ 141	\$ 16	\$ 53	\$ 52	\$ 86	\$ 206	\$ 243
Adjustments to net income	100	122	124	(3)	48	27	52	125	35	6	12	12	66	52
GAAP net income	\$ (54)	\$ (40)	\$ (50)	\$ 2	\$ (19)	\$ 7	\$ 27	\$ 16	\$ (20)	\$ 47	\$ 39	\$ 74	\$ 140	\$ 191
Non-GAAP EPS	\$ 0.62	\$ 1.09	\$ 0.99	\$ (0.01)	\$ 0.39			\$ 1.86	\$ 0.15	\$ 0.42	\$ 0.41	\$ 0.67	\$ 1.69	\$ 1.88
Non-GAAP EPS (company method)	\$ 0.99	\$ 1.08	\$ 1.10	\$ (0.02)	\$ 0.37			\$ 1.87	\$ 0.13	\$ 0.44	\$ 0.42	\$ 0.68	\$ 1.72	\$ 1.92
GAAP EPS	\$ (0.72)	\$ (0.53)	\$ (0.66)	\$ 0.02	\$ (0.26)			\$ 0.21	\$ (0.18)	\$ 0.37	\$ 0.31	\$ 0.58	\$ 1.15	\$ 1.48
Diluted shares outstanding	74.7	75.4	75.0	76.1	75.0			76.1	105.5	126.0	126.7	127.5	121.9	128.9
EBITDA	\$ 354	\$ 387	\$ 412	\$ 82	\$ 93	\$ 105	\$ 150	\$ 430	\$ 82	\$ 104	\$ 102	\$ 139	\$ 428	\$ 480
MARGIN ANALYSIS	2011	2012	2013	FQ1	FQ2	FQ3	FQ4	2014	FQ1	FQ2	FQ3E	FQ4E	2015E	2016E
Cost of revenue / net revenue	67.2%	67.0%	68.4%	71.2%	68.8%	66.5%	63.4%	67.2%	70.0%	65.8%	67.0%	64.3%	66.6%	66.5%
Gross margin	32.8%	33.0%	31.6%	28.8%	31.2%	33.5%	36.6%	32.8%	30.0%	34.2%	33.0%	35.7%	33.4%	33.5%
SG&A / net revenue	15.3%	15.8%	14.7%	15.4%	16.1%	15.6%	12.2%	14.7%	16.0%	16.5%	15.6%	13.1%	15.2%	14.1%
Operating margin	17.5%	17.2%	16.9%	13.3%	15.1%	17.9%	24.4%	18.0%	14.0%	17.7%	17.4%	22.6%	18.1%	19.4%
Pretax margin	5.0%	6.6%	5.1%	3.7%	5.9%	7.8%	17.3%	9.1%	6.2%	13.5%	12.2%	18.0%	12.8%	14.5%
Tax rate	33.8%	25.3%	19.6%	107.3%	(10.5%)	6.2%	11.6%	15.8%	41.7%	15.1%	7.0%	7.0%	12.9%	12.4%
Net margin	3.0%	4.8%	4.1%	(0.2%)	6.6%	7.4%	15.3%	7.7%	3.7%	11.6%	11.4%	16.8%	11.2%	12.7%
EBITDA margin	23.1%	22.8%	22.9%	19.7%	21.1%	23.2%	28.8%	23.5%	19.6%	22.9%	22.6%	27.2%	23.3%	25.1%
CHANGE ANALYSIS (YR / YR)	2011	2012	2013	FQ1	FQ2	FQ3	FQ4	2014	FQ1	FQ2	FQ3E	FQ4E	2015E	2016E
Net revenue	3.5%	10.6%	6.2%	0.6%	1.1%	1.4%	2.9%	1.5%	1.0%	3.4%	(0.3%)	(1.6%)	0.5%	4.0%
Cost of revenues	(0.9%)	10.3%	8.4%	0.2%	2.4%	(2.6%)	(0.7%)	(0.2%)	(0.7%)	(1.2%)	0.4%	(0.1%)	(0.4%)	3.8%
Gross profit	13.9%	11.3%	1.8%	1.4%	(1.9%)	10.4%	9.6%	5.3%	5.1%	13.6%	(1.7%)	(4.0%)	2.4%	4.4%
SG&A	7.5%	14.2%	(1.0%)	1.1%	3.0%	9.8%	(7.2%)	1.6%	4.5%	6.1%	(0.3%)	5.4%	3.9%	(3.6%)
Operating income	20.1%	8.7%	4.3%	1.8%	(6.6%)	11.0%	20.4%	8.5%	5.8%	21.7%	(3.0%)	(8.8%)	1.2%	11.1%
Pretax income	10.1%	46.6%	(17.5%)	5033.3%	56.0%	211.4%	41.0%	81.1%	68.8%	135.5%	54.8%	2.4%	40.6%	17.8%
Net income	8.8%	76.8%	(9.7%)	(85.6%)	71.2%	501.5%	35.8%	90.7%	(1629.4%)	80.7%	53.3%	8.2%	45.7%	17.8%
Non-GAAP EPS	NA	75.1%	(9.2%)					87.8%					(9.0%)	11.4%
Diluted shares outstanding	NA	0.9%	(0.5%)					1.5%					60.1%	5.8%
EBITDA	59.0%	9.1%	6.6%	0.5%	(5.9%)	4.2%	14.1%	4.2%	0.7%	12.0%	(3.0%)	(7.2%)	(0.5%)	12.2%
SEGMENT ANALYSIS	2011	2012	2013	FQ1	FQ2	FQ3	FQ4	2014	FQ1	FQ2	FQ3E	FQ4E	2015E	2016E
Oral Technologies	\$ 1,160	\$ 1,220	\$ 1,186	\$ 259	\$ 286	\$ 287	\$ 348	\$ 1,180	\$ 261	\$ 277	\$ 275	\$ 332	\$ 1,145	\$ 1,182
Growth: core	2.7%	6.4%	(0.2%)	4.7%	1.1%	(4.2%)	4.2%	1.4%	1.5%	2.3%	3.0%	3.0%	2.5%	5.5%
Growth: FX	0.8%	(1.1%)	(2.6%)	(1.0%)	(1.5%)	(1.9%)	(1.5%)	(1.5%)	(1.4%)	(6.3%)	(7.4%)	(7.6%)	(5.9%)	(2.3%)
Growth: acq/div	0.0%	0.0%	0.0%	(4.0%)	(1.0%)	0.8%	1.8%	(0.4%)	0.8%	1.0%	0.0%	0.0%	0.4%	0.0%
Growth: total	3.5%	5.2%	(2.8%)	(0.3%)	(1.5%)	(5.2%)	4.4%	(0.5%)	0.8%	(3.0%)	(4.4%)	(4.6%)	(3.0%)	3.2%
Adj. EBITDA	\$ 308	\$ 335	\$ 316	\$ 60	\$ 75	\$ 76	\$ 113	\$ 324	\$ 58	\$ 75	\$ 74	\$ 106	\$ 313	\$ 330
Margin	26.6%	27.4%	26.6%	23.3%	26.1%	26.5%	32.5%	27.5%	22.1%	26.9%	27.0%	32.0%	27.3%	27.9%
Medication Delivery Solutions	\$ 239	\$ 224	\$ 219	\$ 57	\$ 55	\$ 65	\$ 69	\$ 246	\$ 57	\$ 74	\$ 70	\$ 70	\$ 270	\$ 282
Growth: core	2.9%	(5.3%)	(0.9%)	22.0%	3.2%	18.9%	0.6%	10.1%	0.7%	38.2%	15.0%	10.0%	15.5%	7.0%
Growth: FX	(1.2%)	(0.8%)	(1.2%)	3.8%	2.1%	2.4%	0.6%	2.1%	0.0%	(4.9%)	(8.5%)	(8.6%)	(5.8%)	(2.6%)
Growth: acq/div	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Growth: total	1.7%	(6.2%)	(2.1%)	25.8%	5.3%	21.3%	1.2%	12.2%	0.7%	33.3%	6.5%	1.4%	9.8%	4.4%
Adj. EBITDA	\$ 34	\$ 28	\$ 32	\$ 8	\$ 7	\$ 16	\$ 18	\$ 49	\$ 10	\$ 18	\$ 16	\$ 17	\$ 61	\$ 66
Margin	14.0%	12.3%	14.4%	14.5%	12.7%	24.0%	25.8%	19.8%	17.4%	24.6%	23.0%	25.0%	22.8%	23.3%
Development & Clinical Services	\$ 157	\$ 268	\$ 405	\$ 101	\$ 102	\$ 104	\$ 105	\$ 412	\$ 103	\$ 108	\$ 110	\$ 113	\$ 434	\$ 458
Growth: core	8.8%	28.9%	7.8%	(7.3%)	5.1%	9.0%	(4.1%)	0.2%	(0.7%)	4.5%	6.0%	6.0%	4.0%	5.0%
Growth: FX	(0.5%)	(1.3%)	(0.4%)	0.2%	0.8%	2.5%	2.9%	1.6%	2.8%	(1.4%)	(4.7%)	(4.9%)	(2.1%)	(1.4%)
Growth: acq/div	0.0%	43.2%	43.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.4%	4.8%	5.7%	3.3%	2.1%
Growth: total	8.4%	70.9%	50.9%	(7.1%)	5.9%	11.5%	(1.2%)	1.8%	2.1%	5.6%	6.1%	6.8%	5.2%	5.7%
Adj. EBITDA	\$ 30	\$ 53	\$ 75	\$ 16	\$ 19	\$ 23	\$ 26	\$ 84	\$ 21	\$ 22	\$ 23	\$ 25	\$ 91	\$ 99
Margin	19.2%	19.8%	18.5%	15.5%	18.1%	22.2%	25.0%	20.3%	20.8%	20.3%	21.0%	22.0%	21.0%	21.5%
Intracompany Eliminations	\$ (23)	\$ (18)	\$ (10)	\$ (2)	\$ (3)	\$ (3)	\$ (3)	\$ (11)	\$ (3)	\$ (3)	\$ (3)	\$ (3)	\$ (12)	\$ (12)
% of total	(1.5%)	(1.0%)	(0.6%)	(0.5%)	(0.6%)	(0.7%)	(0.5%)	(0.6%)	(0.7%)	(0.6%)	(0.6%)	(0.6%)	(0.6%)	(0.6%)
Total Revenue	\$ 1,533	\$ 1,695	\$ 1,800	\$ 414	\$ 441	\$ 453	\$ 520	\$ 1,828	\$ 418	\$ 456	\$ 452	\$ 511	\$ 1,837	\$ 1,911
Growth: core	3.1%	7.3%	1.4%	3.3%	2.3%	1.3%	2.0%	2.2%	0.7%	7.2%	5.6%	4.5%	4.6%	5.6%
Growth: FX	(0.8%)	(1.1%)	(2.1%)	(0.2%)	(0.6%)	(0.5%)	(0.3%)	(0.4%)	(0.2%)	(5.0%)	(7.0%)	(7.2%)	(5.0%)	(2.1%)
Growth: acq/div	0.0%	4.4%	6.9%	(2.5%)	(0.7%)	0.6%	1.2%	(0.3%)	0.5%	1.2%	1.1%	1.2%	1.0%	0.5%
Growth: total	3.5%	10.6%	6.2%	0.6%	1.1%	1.4%	2.9%	1.5%	1.0%	3.4%	(0.3%)	(1.6%)	0.5%	4.0%
Corporate expenses	\$ (372)	\$ (28)	\$ (10)	\$ (3)	\$ (7)	\$ (10)	\$ (7)	\$ (27)	\$ (7)	\$ (10)	\$ (10)	\$ (8)	\$ (36)	\$ (10)
% of total revenue	24.3%	1.7%	0.5%	0.7%	1.6%	2.2%	1.4%	1.5%	1.6%	2.3%	2.3%	1.6%	1.9%	0.5%

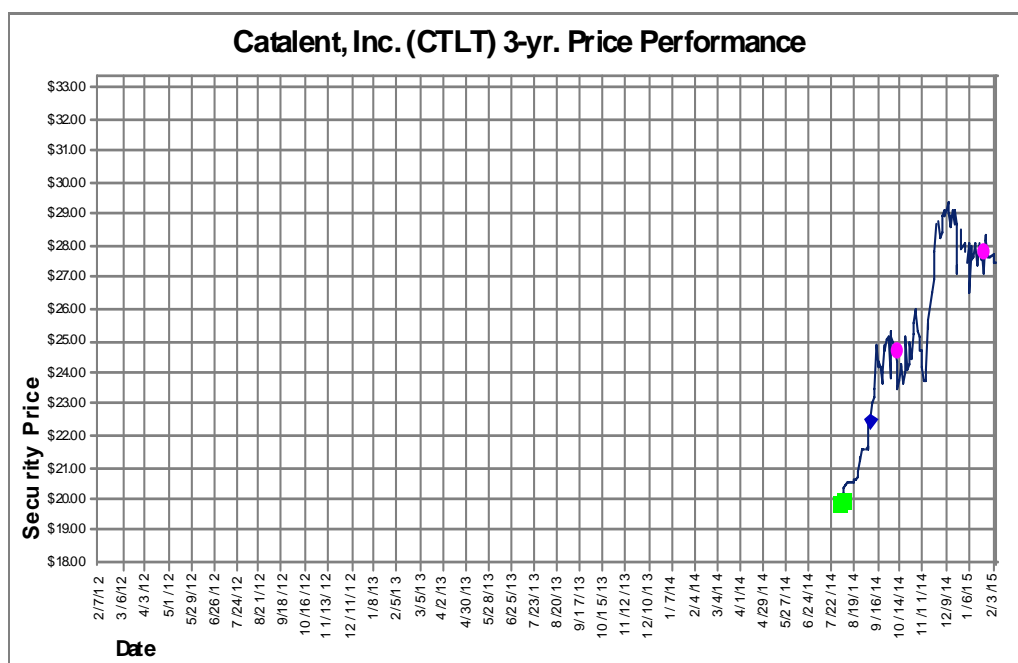
Source for all: Company data and Wells Fargo Securities, LLC estimates

Note: Divestitures made between FY 2008 and FY 2012 are treated as discontinued ops throughout this model

Company Description:

Somerset, New Jersey-based Catalent, Inc. (NYSE: CTLT) leverages its proprietary drug delivery technologies to provide contract manufacturing services of final dose form pharmaceutical and consumer health products. Catalent also offers logistics and chemistry, manufacturing, and control (CMC) services for drugs in development.

The company has three segments: Oral Technologies (OT), Medication Delivery Solutions (MDS), and Development and Clinical Services (DCS). OT and MDS are sometimes referred to jointly as the Advanced Delivery Technologies (ADT) business. The OT segment primarily provides oral dose form manufacturing leveraging Catalent's softgel and modified release technologies. The MDS segment primarily provides dose form manufacturing for drugs administered via injection, inhalation, and ophthalmic routes, leveraging both traditional and advanced technologies. The DCS business provides manufacturing and logistics services for drugs in clinical trials as well as analytical testing for drug development.

Required Disclosures

	Date	Publication Price (\$)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price (\$)
□	7/31/2014		IPO at \$20.50			
	9/9/2014		Evans			
◆	9/9/2014	22.50	1	25.00	27.00	22.48
◆	10/8/2014	24.77	1	27.00	29.00	24.77
●	1/22/2015	27.53	1	30.00	32.00	27.91

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼ Rating Downgrade

▲ Rating Upgrade

● Valuation Range Change

◆ Initiation, Resumption, Drop or Suspend

■ Analyst Change

□ Split Adjustment

Rating Code Key

1 Outperform/Buy

2 Market Perform/Hold

3 Underperform/Sell

SR Suspended

NR Not Rated

NE No Estimate

Additional Information Available Upon Request

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- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

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CTLT: Risks include (1) short-term volatility, due to general order lumpiness; (2) potential for regulatory missteps; (3) weak product sales by customers; (4) control company status; (5) high leverage; and (6) FX volatility.

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3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: February 11, 2015

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