# Morgan Stanley

October 2, 2014

Stock Rating
Overweight
Industry View
In-Line

## 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

~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.

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#### **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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## Morgan Stanley

#### MORGAN STANLEY RESEARCH

October 2, 2014 Catalent, Inc.

(as of September 30, 2014)

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	Coverage Universe		Investment Banking Clients (IBC)		
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Stock Rating Category	Count	Total	Count	Total IBC	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.

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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.

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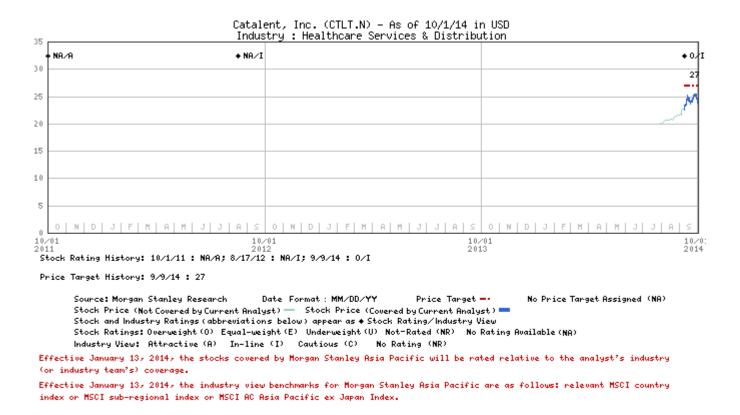
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant

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

October 2, 2014 Catalent, Inc.



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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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