Initiation
Overweight

CTLT, CTLT US
Price: $22.50

Price Target: $28.00

Catalent

Leading the Market for Drug Delivery Technologies; Initiate With Overweight And $28 PT

We are initiating coverage on Catalent (CTLT) with an Overweight rating and December 2015 PT of $28. As a global leader in the drug delivery outsourcing market, Catalent sits at the nexus of several secular trends, including growing demand from biopharma companies for complex dose forms, and low outsourcing penetration rates. We expect CTLT's differentiated and diversified operating platform, coupled with sticky customer relationships, to drive consistent top-line growth with industry-leading margins, with deleveraging and M&A driving HSD EPS growth going forward.

- **CTLT is the leading provider of drug delivery technologies with an attractive industry backdrop.** 50%+ of all drugs sold and being developed require complex dose forms and advanced delivery technologies, with current outsourcing penetration in the 15-30% range, which provides a significant runway for MSD growth. Within this attractive market, CTLT is the leading global provider, earning revenue from ~80% of the top-200 compounds in the past three years. CTLT's addressable market in development is also expected to outpace global R&D spending, while providing an early touch point in the drug development lifecycle.
- **Differentiated and diversified operating platform coupled with long-standing customer relationships should drive consistent top-line growth with industry-leading margins.** Catalent offers an end-to-end solution over the entire drug lifecycle along with deep regulatory expertise, making the company a preferred outsourcing partner. In FY13, the top-20 products represented ~25% of revenues, with no product contributing >3% and no customer accounting for >10% of sales. As their technology is integrated with customer molecules to yield final dose forms, CTLT is generally included in regulatory filings, resulting in ~70% of the ADT revenue covered by long-duration commercial supply agreements with initial terms of 3-10 years and regular renewals of 1-3 years. We expect revenues to grow at ~5% CAGR through 2019 with industry leading EBITDA margins of 24-25%.
- **Deleveraging and accretive M&A further cushion the bottom line.** Beyond the IPO-driven debt pay-down, the company is committed to using its healthy FCF to supplement organic growth via targeted M&A and further reduce leverage over time (we expect net debt/EBITDA of <3.5x by the end of FY15). As a result, we forecast the bottom line to grow at ~9% CAGR over the next five years.
- **Compelling valuation despite outperformance.** Our December 2015 DCF-derived PT of $28 assumes a WACC of 9.5% and terminal growth of 1.5%. The current price of $22.50 implies a 2015 P/E multiple of 12x, a 35% discount to peers.

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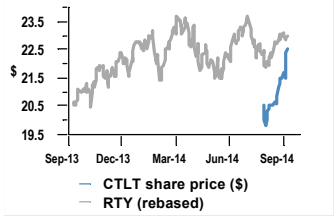
Price Performance



	YTD	1m	3m	12m
Abs	9.8%	9.6%	9.8%	9.8%
Rel	9.1%	6.0%	9.2%	-2.3%

Catalent (CTLT;CTLT US)

FYE Jun	2013A	2014A	2015E	2016E	2017E
Adjusted EBITDA ($ mn)					
Q1 (Sep)	70	82	82	94	111
Q2 (Dec)	72	93	99	103	121
Q3 (Mar)	79	106	124	133	132
Q4 (Jun)	111	151	149	152	153
FY	332	432	454	483	517

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	22.50
Date Of Price	08 Sep 14
52-week Range ($)	22.80-19.30
Market Cap ($ mn)	2,724.67
Fiscal Year End	Jun
Shares O/S (mn)	121
Price Target ($)	28.00
Price Target End Date	31-Dec-15

See page 34 for analyst certification and important disclosures.

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Investment Thesis

Catalent (CTLT)

Overweight

Catalent is a leading global provider of drug delivery technologies and development solutions with an attractive industry backdrop

Catalent is a leading global provider of advanced drug delivery technologies and development solutions for drugs. Their oral, injectable and respiratory delivery technologies address the full diversity of the pharmaceutical industry, including small molecules, large molecule biologics and consumer health products. Over 50% of current pharma Rx sales are derived from products requiring complex dose forms, while 60-90% of the industry's development pipeline needs Advanced Delivery Technologies (ADT), with outsourcing penetration rates for drug delivery functions in the ~15-30% range today, significantly lower than those in the CRO sector and pointing to a significant runway for consistent growth in the MSD range. In this attractive and fragmented market, Catalent is the leading global provider (~4x larger than the closest ADT competitor), earning revenue from ~80% of the top-200 largest selling compounds in the past three years and doing business with 83 of the top 100 branded drug marketers, 19 of the top 20 generics marketers, 38 of the top 50 biologics marketers and 24 of the top 25 consumer health marketers globally. Within Development & Clinical Solutions (DCS), Catalent's addressable market is expected to outpace global R&D spending and grow in the HSD range, while providing an early touch point in the drug development lifecycle. Despite its leading position, Catalent continues to innovate, with 480+ programs in active development.

An end-to-end solution over the entire drug lifecycle and deep regulatory expertise are key competitive differentiators

Catalent's proprietary and patented technologies within ADT include softgel capsules, Zydis oral dissolving tablets, and blow-fill-seal unit dose liquids and prefilled syringes. Within DCS, offerings include the Optiform, Gene Product Expression (GPEx) and SMARTag platforms for the development of small molecules, biologics and antibody drug conjugates, respectively, along with formulation, analytical services, early-stage development, clinical trial supply, and regulatory consulting. The latter segment provides an early touch point with customers, and together with the delivery expertise, provides an end-to-end solution across the lifecycle of a drug, from development to late-stage trials and commercialization, as well as transitioning to a potential generic launch and/or OTC conversion. Moreover, regulatory expertise is a critical element of the competitive differentiation relative to peers. In addition to ~1,000 employees focused on quality and compliance, over the past five years, CTLT has successfully completed 200+ regulatory and ~500 customer and internal audits on an annual basis.

Catalent has developed long-standing customer relationships, resulting in a steady recurring revenue model with above-average visibility

Driven by these key differentiators, Catalent is a preferred partner for drug delivery and development solutions for the biopharmaceutical industry. Due to the close integration of the technology with customer molecules to yield final dose forms, the company is generally included in regulatory filings. As a result, it is difficult for clients to switch away from Catalent in the midst of a drug's lifecycle, resulting in ~70% of the ADT revenue covered by long-duration commercial supply agreements, which typically come with initial terms of 3-10 years with regular renewals of 1-3 years. In the near term, the ADT business had healthy backlog levels of ~$408M as

of F4Q14 (vs. $376M in F4Q13), while the LTM B2B for the DCS business has also seen a sequential uptick to 1.25x as of F4Q14 (vs. 1.05x in F4Q13) along with a backlog of $374M (vs. $273M in F4Q13). We note that ADT backlog has a 60-90 day duration and represents only firm orders and contractual agreements, while DCS backlog has a typical duration of 6-8 quarters (similar to CROs).

Catalent's inherently stable and diversified operating platform effectively provides a degree of insulation from customer/product-specific disruptions

As Catalent's revenue is primarily driven by drug volumes, loss of exclusivity on a drug does not have a significant impact on the business. Moreover, Catalent produces ~7,000 distinct items across multiple categories, including branded and generic prescription drugs, biologics, OTC and consumer health offerings. In FY13, the top-20 products represented ~25% of revenue, with no individual product contributing >3%. Catalent has more than 1,000 customers in 80+ countries, with no single customer accounting for >10% of total sales or accounts receivable. This volume-driven business model and degree of product/customer diversification insulates CTLT from pressures faced by smaller peers, as well those related to biopharma consolidation that can lead to disruptions and delays for typical CROs.

We forecast MSD top-line growth with sustainable industry-leading margins

We forecast Catalent's revenue to grow at ~5% over the next 5 years driven by a secular shift towards more complex dosing forms, stable R&D budgets and increased outsourcing penetration within drug delivery and development coupled with a diversified and differentiated platform, regulatory expertise and long-standing customer relationships. We note that despite the majority of branded, generics and consumer/OTC drug manufacturers being the clients, significant opportunities for further penetration remain, with ~75% of the top-50 customers utilizing <1/2 of the offerings. Furthermore, we expect that IP related to the proprietary drug delivery technologies and development solution platforms to sustain industry-leading EBITDA margins in the 24-25% range.

Deleveraging and accretive M&A provide path to years of HSD EPS growth

Catalent plans to use the IPO proceeds to pay down higher cost debt (lowering FY15 interest expense by ~$60M y/y) and reduce the leverage ratio to <5x. Beyond this paydown, the company is committed to using its healthy FCF to supplement organic growth via targeted M&A and further debt reduction over time (we expect net debt/EBITDA of < 3.5x by the end of FY15), both of which should cushion bottom-line growth. We note that the deal pipeline remains rich due to a fragmented industry (top-5 players have ~30% share in ADT and ~10% share in DCS) with few strategic buyers of sufficient scale. Catalent has a successful track record of acquiring bolt-on technologies (for example, Aptuit CTS within DCS and Eberbach within Softgel), as well as more recent geographic expansions (JYT, ShangPharma JV and Relthy), and we expect future deals to focus on similar themes. As such, we forecast the bottom line to grow at ~9% CAGR over the next five years.

Compelling valuation despite outperformance post IPO

Catalent has outperformed the S&P 500 by ~600 bps since its IPO on July 30th; despite the outperformance, we continue to see upside from current levels with our December 2015 DCF-derived PT of $28 representing ~25% upside from yesterday's close. On a relative basis, the current price of $22.50 implies a 2015 P/E multiple of 12x, a 35% discount to peers, which we expect will narrow over time.

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Risks to Rating and Price Target

Product and regulatory risk is inherent to the industry and business model

While the company seeks to manage risk via product liability insurance, contractual indemnities and liability limitation clauses, there can be significant legal and reputational costs depending on the severity of the issue. The company is also subject to supervision from the FDA and other regulatory authorities, which can result in launch delays or disruptions due to warning letters, product recalls, and other issues.

Biopharmaceutical consolidation and R&D budget cuts

The prior wave of biopharma consolidation in the early 2000s proved to be disruptive to providers of outsourcing to the industry. Although the current cycle is expected to be different, given healthier pipelines and drivers of consolidation other than operating synergies (such as tax inversions and plugging portfolio gaps), M&A in Catalent's customer base could lead to decision delays and other near-term disruptions. Furthermore, unexpected product failures, generic entry or government austerity and reduced reimbursement rates might lead customers to cut R&D budgets, adversely impacting revenue growth and outsourcing penetration rates.

Quarterly fluctuations can arise from factors not always in Catalent's control

While Catalent's diversified operating platform and long-term contracts ensure a degree of insulation from individual product/customer disruptions, quarterly results can be subject to fluctuations arising from factors not always in their control, including mix, customer inventory levels, order push-outs, or contract renewals with lower pricing (in lieu of longer duration). The lack of disclosure around individual contracts and renewal timelines also adds an element of uncertainty to the model.

Capital allocation priorities & controlled company status pose incremental risk

Even after the debt paydown using IPO proceeds, Catalent will have a significant amount of debt on its balance sheet (part of which is variable), that could reduce its financial flexibility. We anticipate it will also seek additional bolt-on M&A opportunities, which bring risks with regard to value-destructive deals and disruption to the core business model. Finally, post-IPO, PE owners/insiders cumulatively own ~64% of outstanding shares (including ~55% by Blackstone), the sale of which, while subject to a 180-day lockup period, could pressure the stock price should investors choose to exit or trim positions after this time frame.

Company Description

Catalent is a leading global provider of advanced drug delivery technologies and development solutions for drugs. The oral, injectable and respiratory delivery technologies address the full diversity of the pharmaceutical industry including small molecules, large molecule biologics and consumer health products. Within drug delivery, the core technologies include softgel capsules, Zydis oral dissolving tablets, and blow-fill-seal unit dose liquids. On the development solutions side, the offerings include the Optiform, GPEx and SMARTag platforms for development of small molecules, biologics and antibody drug conjugates, respectively, along with formulation, analytical services, early stage development, clinical trial supply and regulatory consulting. Headquartered in Somerset, NJ, Catalent has ~8,300 employees and is listed on the NYSE under the ticker CTLT.

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Company and Industry Overview

Corporate History

In 1998, R.P. Scherer Corporation, the market leader in advanced oral drug delivery technologies, was acquired by Cardinal. A year later, Cardinal acquired Automatic Liquid Packaging, Inc., the market leader in blow-fill-seal technology for respiratory treatments, ophthalmics, and other areas, which was followed by the purchase of International Processing Corporation, a provider of oral solid dose forms in 2001. A year later, PTS entered the fee-for-service development solutions market with the acquisition of Magellan Labs, a leader in analytical sciences services for the U.S. pharmaceuticals industry. Finally, in 2003, Cardinal acquired Intercare Group PLC, through which the company expanded the European injectable manufacturing network.

Catalent was officially formed in April 2007, when the company was acquired by affiliates of Blackstone. Prior to that, the company formed the core of the Pharmaceutical Technologies and Services (PTS) segment of Cardinal Health. PTS was in turn created by Cardinal through a series of acquisitions, with the intent of creating a global outsourcing provider of specialized solutions to the pharmaceutical and biotechnology industry.

Subsequent to the 2007 acquisition by Blackstone, Catalent has also sold five businesses, including two injectable vial facilities in the United States, a French oral dose facility, a printed components business, and in FY12 the North American commercial packaging business, while consolidating operations at four other facilities as well. Also in FY12, Catalent acquired the Aptuit CTS business, combining it into the existing clinical service offerings, and also purchased the remaining 49% minority share ownership of the German softgel subsidiary from Gelita in pursuit of synergies related to market penetration and cost. In FY13, the company entered into two joint ventures in China, which provided majority control of both a softgel manufacturer and a newly established clinical supply business, and acquired a softgel manufacturing business (Relthy Laboratorios) in Brazil in October last year.

Prior to the IPO, the company was primarily funded by private equity investor Blackstone, which now owns 55% of shares outstanding following the offering. Headquartered in Somerset, NJ, Catalent has ~8,300 employees in ~30 manufacturing locations including 1,000+ scientists and technicians and another 1,000+ employees focused on quality and regulatory compliance. The company listed on the NYSE under the ticker CTLT in an IPO of 42.5M shares at $20.50 per share on July 31, 2014, for which J.P. Morgan was the joint book-runner.

Industry Overview

Catalent participates in nearly every sector of the $800B annual revenue global pharmaceutical industry, including, but not limited to, the prescription drug and biologic sectors, as well as consumer health, which includes the over-the-counter and vitamins and nutritional supplement sectors.

Global demand for both pharmaceutical and consumer healthcare products continues to increase, driven by:

- Expanded access to care arising from health reforms in two key large markets, China and the United States;

- Increased life expectancy in aging and increasingly obese populations in both developed markets and emerging markets;
- A rising number of affluent consumers in emerging markets.

As a result of these favorable macroeconomic drivers, all three categories of Catalent's customers stand to benefit:

Pharmaceutical manufacturers: Innovative pharmaceuticals, both drugs and biologics, continue to play a critical role in the global pharmaceutical market, despite payor pressures to control spending. With a record 4,000+ compounds in active clinical development, development and launch of new chemical and biologic molecules should sustain treatment innovation and growth in the industry, particularly for drugs targeting specialty and orphan conditions, and in biologics overall.

Generic manufacturers: As a result of efforts by payors to limit overall costs, generics share of value has reached more than 25%, with a share of volume in some developed markets of more than 80%.

Consumer health manufacturers: Sustained developed market demand and rapid growth in emerging economies is driving the consumer health products growth rate to more than double that of pharmaceuticals.

While benefiting from this strong demand, biopharmaceutical companies have been facing many challenges, including significant patent expirations and challenges, pricing pressures, increasingly complex discovery and development activities, and higher regulatory expectations. In response, many larger companies have been restructuring in-house approaches to R&D, manufacturing, sales and marketing, including realigning therapeutic class focus, scaling back on idle capacity resulting from generic conversions, and accessing specialized capabilities and capacity through outsourcing arrangements, a trend which is a key secular growth driver for Catalent.

With that as background, we now turn to the two key markets that are served by Catalent: (i) Advanced Delivery Technologies and (ii) Development Solutions.

Advanced Delivery Technologies Market

In order to better understand the underlying dynamics of the delivery technology market, it is critical to realize that drug delivery mechanisms can directly impact not just clinical outcomes, but also physician decisions and patient adoption rates. In this sense, the drug delivery method becomes a strategic variable of choice and a driver of competitive advantage for a biopharmaceutical manufacturer.

In particular, factors related to patient compliance are critical in a physician's choice of drug, and these factors are often directly related to the delivery technology used to administer the drug. In a 2013 physician survey conducted by Frost & Sullivan, ease of self administration, patient comfort and satisfaction were identified as “strategic drivers” in terms of a physician’s decision to select a particular drug (in addition to improved delivery to the targeted area).

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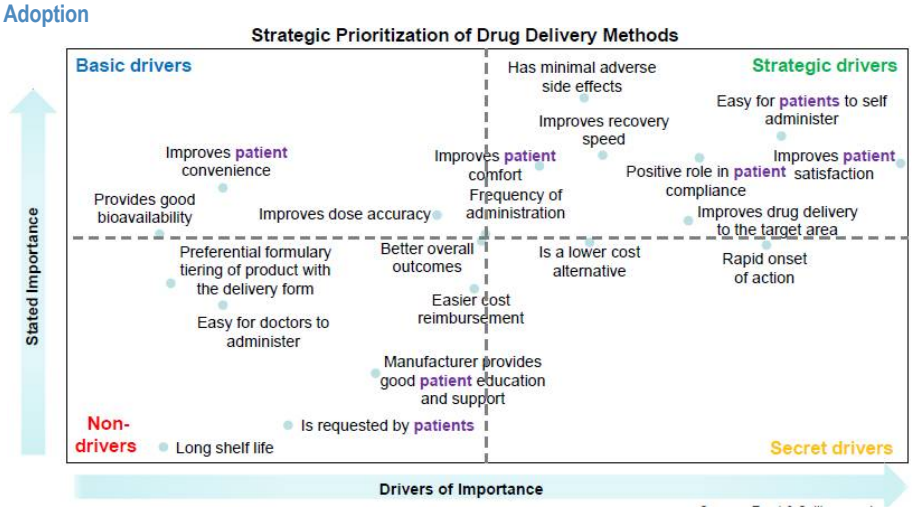
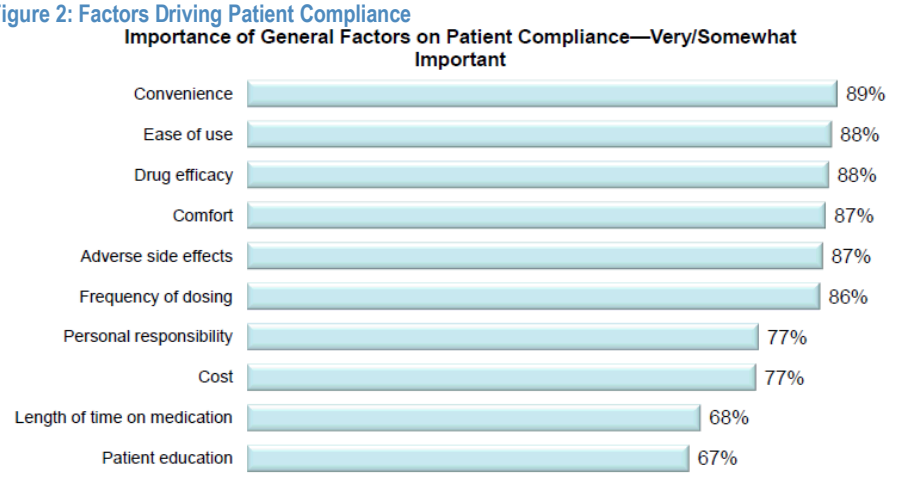
Figure 1: Drug Delivery Methods Can Be a Source of Competitive Advantage and Drive Physician Adoption



Source: Frost & Sullivan.

Figure 2: Factors Driving Patient Compliance



Source: Frost & Sullivan.

Moreover, novel drug delivery methods can also impact physician/patient switching behaviors across therapies. This can be particularly important in the case of a me-too drug for a therapeutic area for which several branded incumbents have already captured the market. In its 2013 physician survey, Frost & Sullivan found that while most branded drugs currently rely on oral delivery methods, physicians are likely to switch away to newer options if they offer less invasive alternatives such as nasal inhalations, transdermal patches and topical dosage forms. The risk of such switching is particularly significant for conditions such as migraines, multiple sclerosis and Type I diabetes.

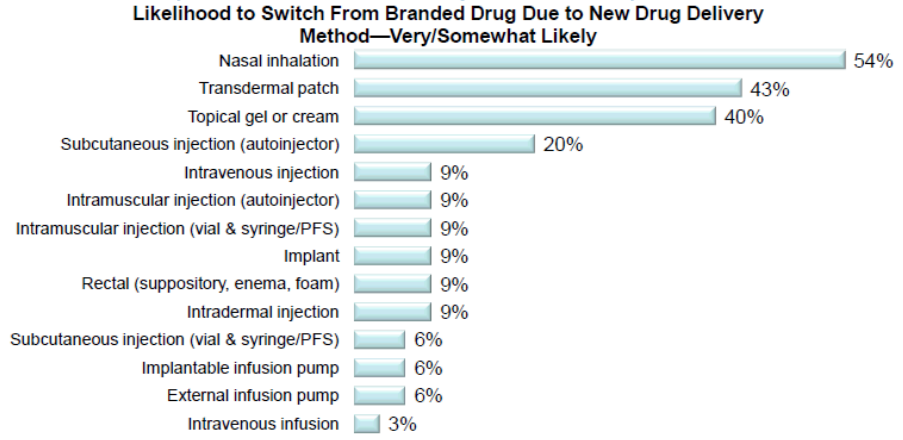
Figure 3: Novel Drug Delivery Methods Can Pose a Significant Risk to Existing Branded Drugs

Diseases	Current Methods Used in Branded Drugs	Most Threatening Drug Delivery Method to Branded Drugs	Threat Level
Afib arrhythmia	Oral	Transdermal patch	Moderate
Arterial thrombosis	Oral and subcutaneous injection	Transdermal patch	Moderate
Deep vein thrombosis	Oral and subcutaneous injection	Transdermal patch	Moderate
Ischemic heart disease	Oral, subcutaneous injection, IV injection/infusion, and transdermal	Topical gel or cream	Moderate
Alzheimer's disease	Oral and transdermal	Topical gel or cream	Moderate
Migraines	Oral	Nasal inhalation	Strong
Multiple sclerosis	Oral and subcutaneous and intramuscular injection	Transdermal patch	Strong
ADHD	Oral	Topical gel or cream	Moderate
Depression	Oral	Transdermal patch	Moderate
Schizophrenia	Oral and intramuscular injection	Transdermal patch	Moderate
Obesity	Oral and subcutaneous injection	Topical gel or cream	Moderate
Type 1 diabetes	Subcutaneous injection	Oral (capsule, pill, or tablet)	Strong
Type 2 diabetes	Oral and subcutaneous injection	Topical gel or cream	Moderate
Crohn's disease	Oral, subcutaneous injection, and IV infusion	Transdermal patch & Nasal inhalation (tie)	Moderate
Ulcerative colitis	Oral, subcutaneous injection, and rectal	Transdermal patch	Moderate
Psoriasis	Oral, subcutaneous injection, IV infusion, and topical	Transdermal patch	Moderate
Rheumatoid arthritis	Oral, subcutaneous injection, and IV infusion	Transdermal patch	Moderate

Strong (50% or more likely to switch) Moderate (20% to 49% likely to switch) Weak (Less than 20% likely to switch)

Source: Frost & Sullivan.

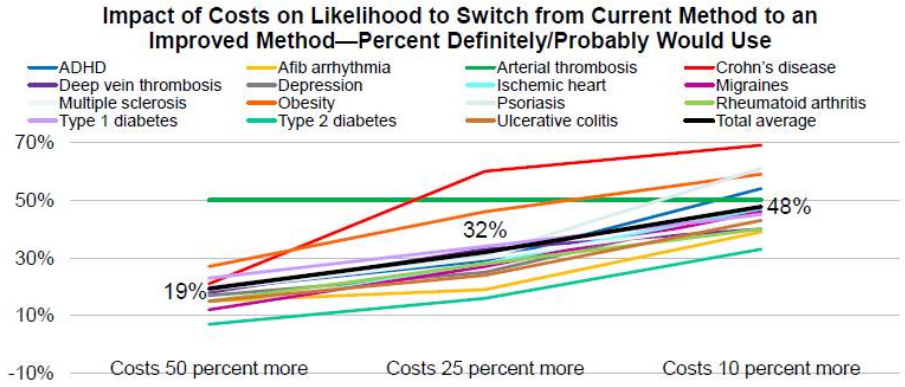
Figure 4: Case Study – Physician Likelihood of Switching Away from a Branded Drug for Migraine Based on Availability of Therapeutic Options Using Alternate Delivery Methods



Source: Frost & Sullivan.

Finally, these drug-delivery–related switching behaviors were found to be remarkably robust to potential cost increases associated with the new dosage form, suggesting that physicians/patients are willing to pay a premium price for a superior and/or more convenient delivery mechanism. Specifically, Frost & Sullivan found that on average, approximately one out of five patients would definitely/probably use a new and improved delivery method, *even at a cost increase of 50%* over their current therapy, with an increasing proportion willing to switch with decreased cost implications. At a cost increase of 10%, half the respondents stated that they would be likely to switch away from their current regimen.

Figure 5: Patients Are Willing to Absorb Cost Increases in Return for an Improved Delivery Method

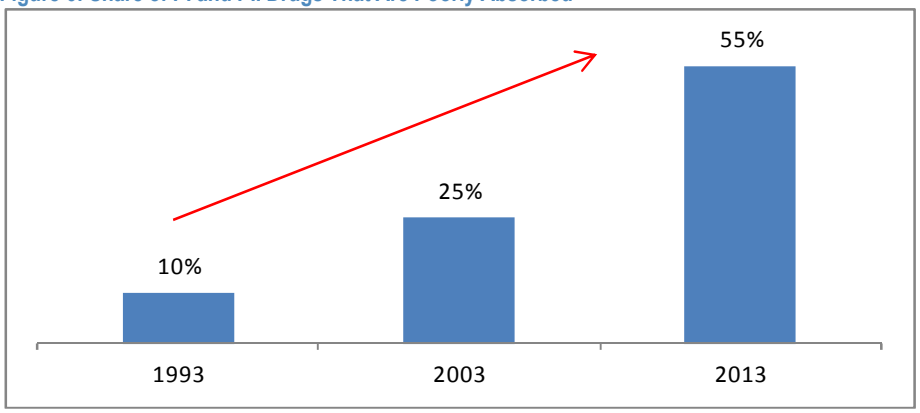


Source: Frost & Sullivan.

Given these findings, it is not surprising that biopharmaceutical manufacturers view drug delivery as a critical enabler in the successful development and commercialization of a drug, a fact that is evident from the two key trends noted below:

- **Significant use of complex dose forms in approved drugs on the market:** More than 50% of current prescription revenues come from dose forms that require more than simple, immediate-release tablets and oral solutions, with drugs and biologics frequently requiring specialized manufacturing and/or molecular profile modification. Specialized manufacturing relates to products that require some type of differentiated handling, such as sterile handling, worker protection for potency, active pharmaceutical ingredient segregation, unique/specialized processing, or hard-to-fill/finish end-dosing formats. Molecular profile modification relates to the use of proprietary or conventional formulation technologies, dose form design, functional excipients, and targeted delivery approaches to enable achievement of a drug's optimal clinical profile. While certain pharmaceutical companies have some portion of these capabilities in house, nearly all externally partner to access one or more of these capabilities as needed.

Figure 6: Share of PI and PII Drugs That Are Poorly Absorbed



Source: Company reports, ADIS R&D Insight and EvaluatePharma.

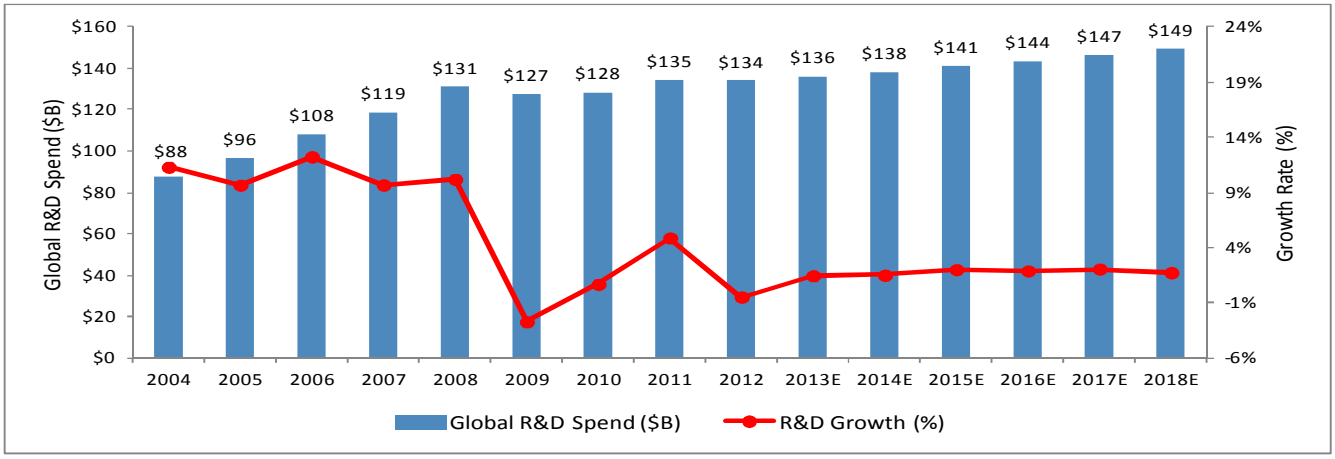
- **Increasing adoption of complex dose forms in development pipelines:** Most new oral molecules are poorly absorbed, while many new injectable biologics require advanced formulations. Consumer health products also benefit from novel dose forms to enable innovative new products or create new formats for existing products and extend a brand franchise. As a result, we expect an increasing share of molecules will require advanced delivery technologies, with industry estimates ranging from 60% to 90% of all new molecules entering development.

As such, we expect the advanced delivery technologies market to grow in the mid- to high-single-digit range on an annual basis going forward.

Development Solutions Market

The global pharmaceutical industry invests approximately $140B annually in R&D. In line with industry estimates, we expect global R&D spend to grow annually 1-2% to ~$150B over the next five years. Our bottom-up modeling of the drug development budgets of major biopharmaceutical companies in the U.S., Europe and Japan leads us to forecast clinical development budget growth tracking in the same low-single-digit range. Moreover, while underlying R&D budgets remain tight, R&D pipelines remain robust. According to Pharmaprojects, there are currently 10,479 drugs under active development, representing a growth rate of over 35% since 2007.

Figure 7: Global Biopharmaceutical R&D Budgets Are Expected to Grow in the Low-Single Digits over the Next Five Years



Source: EvaluatePharma, Parexel Consulting.

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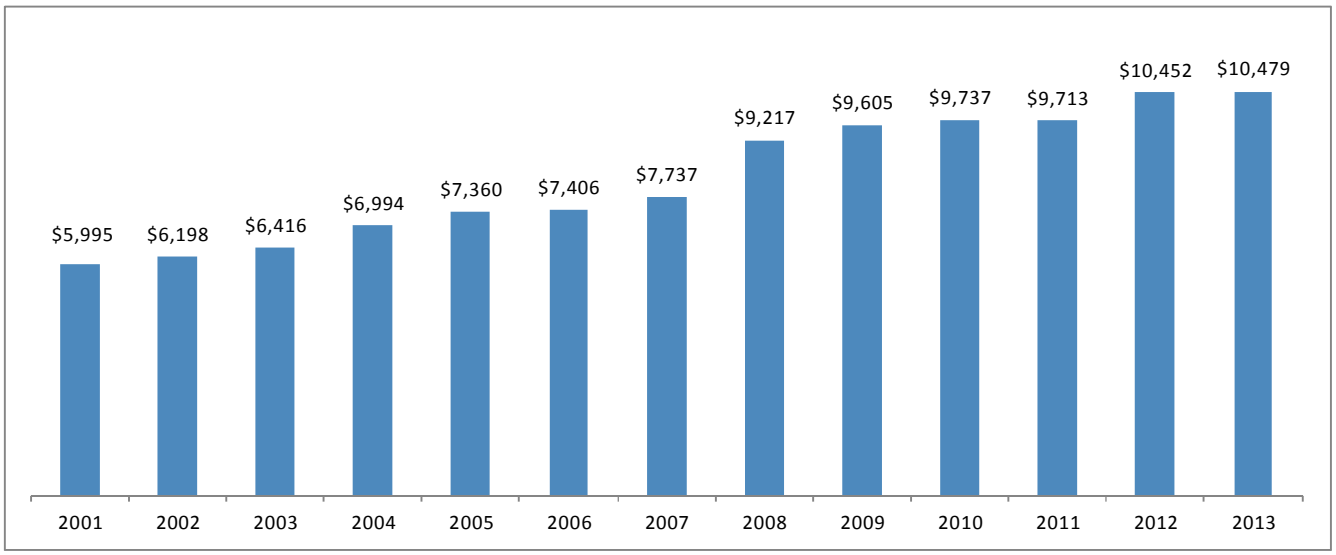
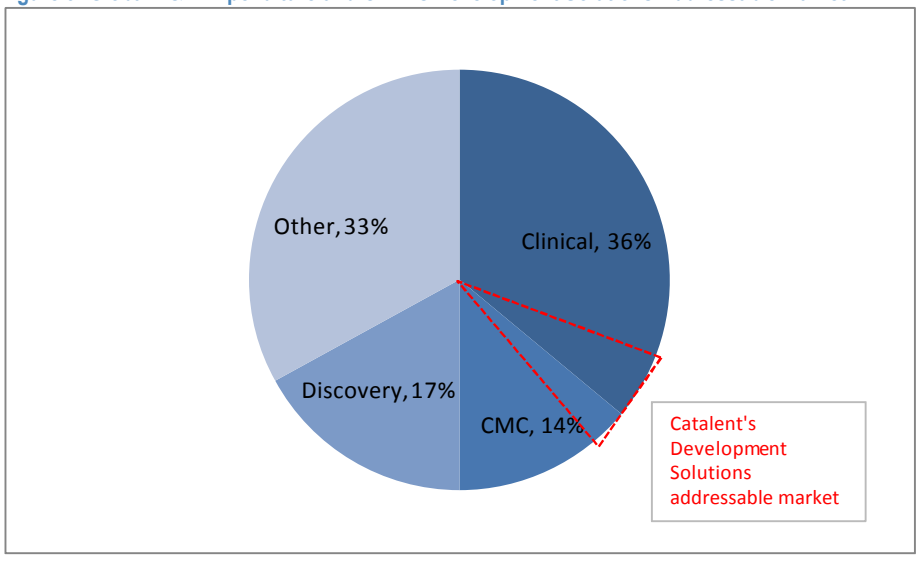
Figure 8: While Budgets Are Likely to Remain Tight, R&D Pipelines Remain Robust



Source: Citeline (Pharmaprojects).

Approximately 50% of overall R&D spend is on the combination of clinical research and chemistry, manufacturing and controls ("CMC") work. These areas are the most common areas of outsourcing, with large global and regional clinical research organizations such as Quintiles, Covance and others participating in clinical research spend (approximately 36% of total R&D), and providers of development sciences, clinical trial supplies and logistics such as Catalent, participating in the CMC spend (approximately 14% of total R&D). Driven by stable R&D budgets and rising outsourcing penetration rates, we expect the Development Solutions end market for Catalent to increase in the MSD-HSD range on an annual basis.

Figure 9: Global R&D Expenditure and CTLT's Development Solutions Addressable Market



Source: Company reports and J.P. Morgan estimates.

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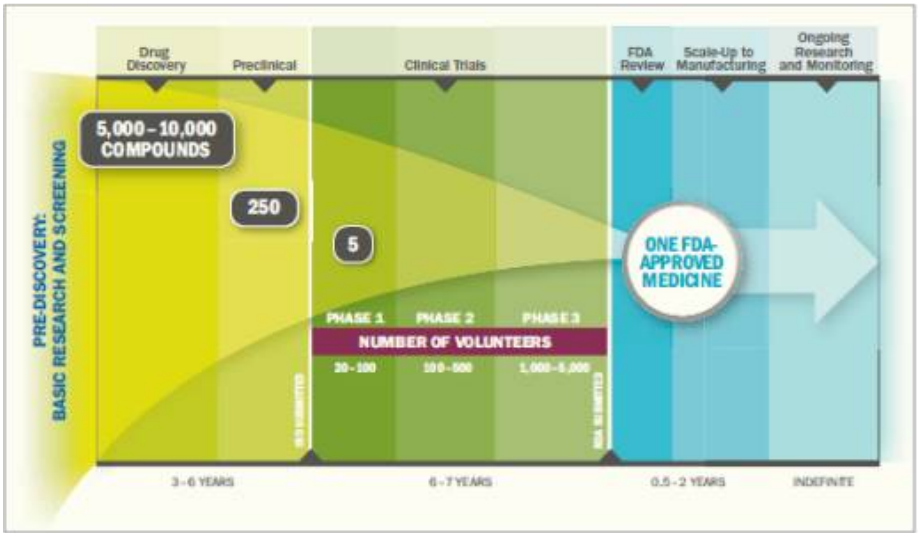
Outsourcing Penetration Rates in CTLT's Addressable Markets

The Rationale for Outsourcing

According to PhRMA estimates, on average it takes about 10-15 years for a new drug to complete the journey from initial discovery to commercialization. For every 5,000-10,000 compounds that enter the pipeline, only one receives approval. Moreover, clinical trial complexity and burden have increased significantly over the last decade.

Figure 10: The Drug Approval Process Is a Long and Complicated One, with the Odds of Success from Phase I to FDA Approval Estimated to Be ~10-20% (per PhRMA)



Source: PhRMA, Parexel Consulting, Tufts CSDD report (2010), BioMedTracker and Biotechnology Industry Association.

Figure 11: Clinical Trial Complexity and Burden Have Increased Significantly Across All Therapeutic Areas and Phases

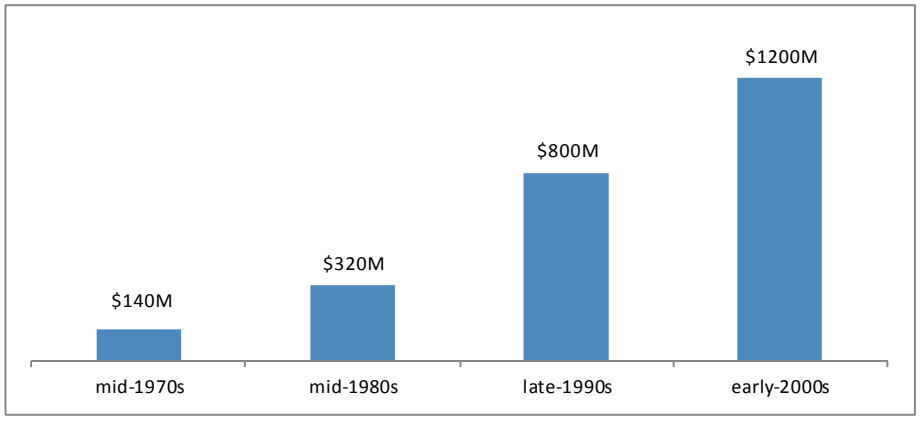
Clinical Trial Protocol Complexity and Burden	2000-03	2004-07	% Change
Unique procedures per protocol (median)	20.5	28.2	38%
Total procedures per protocol (median)	105.9	158.1	49%
Total investigative site work burden (median units)	28.9	44.6	54%
Total eligibility criteria	31	49	58%
Study volunteer enrollment rate	75%	59%	-21%
Study volunteer retention rate	69%	48%	-30%
Number of case report form pages per protocol (median)	55	180	227%
Time from protocol ready to last patient visit	413 weeks	714 weeks	72%

Source: Tufts Center for the Study of Drug Development, Parexel Consulting.

The drug approval process is extremely costly, with the average R&D investment for each new drug approximately $1.2B, driven by increasingly complex trials and surveillance burdens. Not surprisingly, while industry R&D spend has risen dramatically over the last decade, new drug approvals have been hard to come by. In fact, even for those drugs that do get approved, it is estimated that only two out of every ten ultimately return revenues that match or exceed R&D costs. In addition, drug companies face further top-line pressures driven by the patent cliff (estimated by EvaluatePharma to be ~$280B through 2018), reimbursement cuts and increasing generic penetration rates (over 80% of U.S. retail prescriptions according to IMS). With this backdrop, biopharmaceutical companies have been keen to cut capacity and

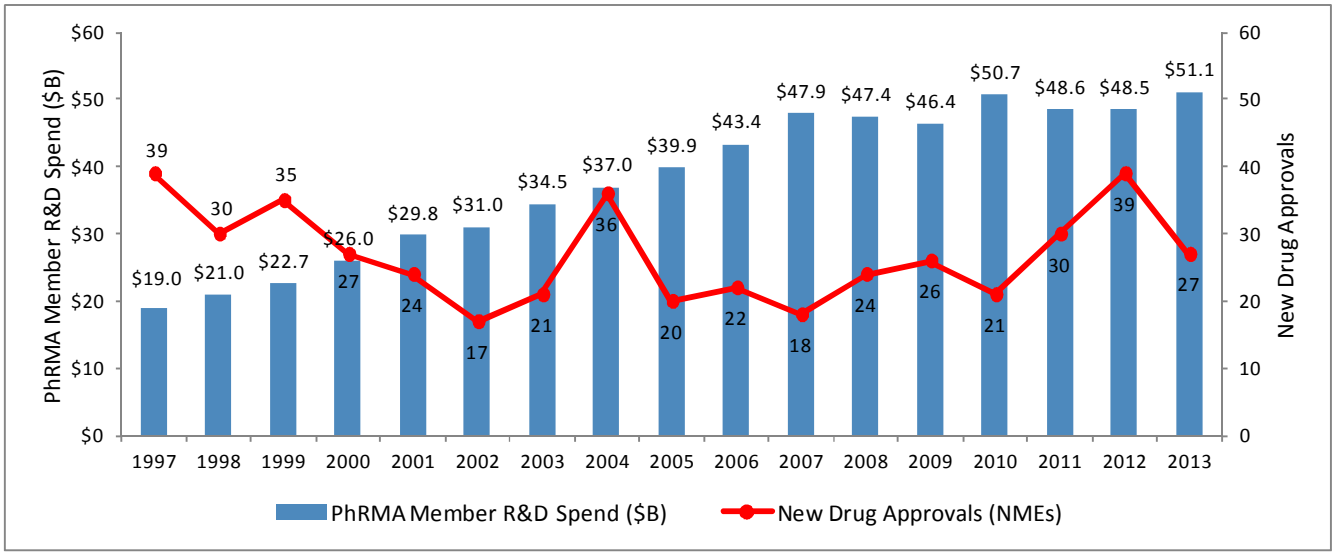
internal/fixed costs while transitioning to an external/flexible research model in order to improve margins and profitability. Shifting personnel and facilities from fixed to variable costs and buying services that may not be available in-house on an as-needed basis can generate significant cost savings.

Figure 12: Consequently, the Average Cost to Develop One New Drug (Including the Cost of Failures) Has Risen Dramatically over the Last Few Decades



Source: PhRMA. (Note: Cost estimates in constant dollar terms, year 2000.)

Figure 13: In Line with Costs, R&D Spending Has Increased Dramatically, While New Drug Approvals Have Been Harder to Come By



Source: PhRMA, FDA and J.P. Morgan analysis.

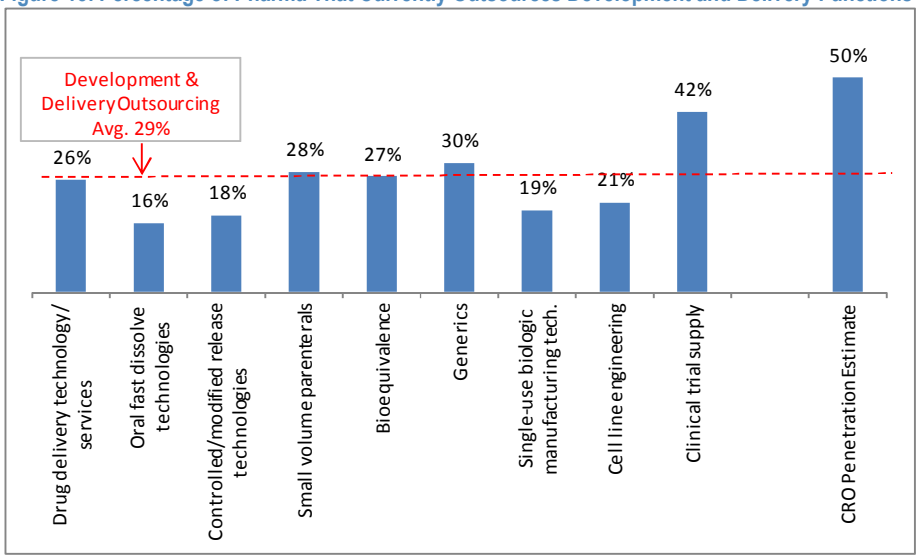
Figure 14: With an Eye on Declining Returns on In-House R&D, Biopharmaceutical Companies Have Been Looking to Cut Capacity and Costs

Date/Period	Company	Facilities Closed/Number of jobs cut	Comments
Dec-13	Novartis	Closing Canadian Plant and cutting 300 jobs	Cutting 300 workers at Ciba Vision plant in Canada that will close next year
Oct-13	Merck	8500 Job cuts	Slashing 8,500 more jobs in $2.5B global overhaul
May-13	Eli Lilly	~1000 Job cuts	Plans to cut 40% of US salesforce giving warning notices to 1,624 positions
Apr-13	Roche	170 Job cuts	Shedding 170 jobs in US and Germany in diagnostics restructuring
Apr-13	Covidien	183 Job cuts	Closing Argyle, NY plant in '14 cutting 183 jobs
Mar-13	AstraZeneca	550 Job cuts	Shutting down R&D efforts in AlderlyPark laying off 550 workers
Mar-13	Baxter	400 Job cuts	Eliminateing 400 jobs at an Aibonito plant, which makes injectable drugs
Feb-13	Abbott Laboratories	450 Job cuts	Laying off 450 jobs at a San Diego-area stent plant
Feb-13	Abbott Laboratories	200 Job cuts	200 layoffs from a plant in Ireland
Feb-13	GSK		Cutting EU and R&D spending with annual saving of $1.6 Billion by 2016
Dec-12	AstraZeneca	625 Job cuts	Cuts will save $1.6B annually by end of 2014
Nov-12	Bristol-Myers-Squibb	137 Job cuts	
Oct-12	Sanofi Aventis	Closing Cancer Research Center	Cancer Research
Oct-12	Pfizer	300 job cuts in Canada	Majority of the cuts in sales and marketing, especially primary care
Oct-12	Sanofi Aventis	900 Job cuts	Cuts over three years
Oct-12	Bristol-Myers-Squibb	479 Sales Job cuts	Related to Otsuka's marketing of Abilify
Oct-12	Abbott Laboratories	550 jobs affected	Related to AbbVie Spin
Oct-12	Roche	100 Jobs cuts in Diabetes restructuring	Related to Diagnostics restructuring
Aug-12	GSK	API plant in India; 330 jobs affected	Manufacturing
Jul-12	MedImmune	California sites, 200 job cuts by 2014	Infectious diseases and vaccines R&D
Jun-12	Pfizer	180 job cuts in Cork plants	
Jun-12	Roche	A Research site in New Jersey	
May-12	Sanofi Aventis	Kansas City manufacturing Plant	Manufacturing
Apr-12	Merck	Serono division's Geneva HQ	
Feb-12	AstraZeneca	R&D site in Sodertalje, Sweden	Neuroscience Research
Feb-12	AstraZeneca	Research Lab in Montreal, Canada	Neuroscience Research
Feb-12	AstraZeneca	Alderley Park Labs in Cheshire	General R&D cuts
Jan-12	Novartis	To reduce 2,000 of its US workforce	
Jan-12	Novartis	Nebraska Production Facility	Manufacturing
Jan-12	Johnson & Johnson	Research Center in Quebec	General R&D cuts
Jan-12	Takeda	2,800 job cuts by 2015	Sales, operations and administrative jobs, plus R&D sites and functions
Sep-11	Novartis	500 more jobs (estimated)	
Aug-11	Pfizer	Former King Pharmaceuticals (for Bristol manufacturing operations)	Manufacturing
Jul-11	Sanofi Aventis	Divested Dermik business incl.manufacturing facility in Laval,	
May-11	Bayer	Emeryville plant; will lead to 540 job cuts	Manufacturing facility
Mar-11	Novartis	500 jobs cut at Horsham, UK	Manufacturing site
Mar-11	Novartis	100 jobs cut at a manufacturing operation in Tlalpan, Mexico	
Feb-11	Pfizer	Sandwich	R&D site
Feb-11	Pfizer	1,100 job cuts in Groton due to restructuring	
Feb-11	GSK	50 job cuts at US neuroscience site	
Jan-11	Abbott Laboratories	1,900 job cuts	
Nov-10	CRL	Molecular Imaging facility in Ann Arbor	Imaging technology
Nov-10	CRL	Announced reduction of 4% or 300 layoffs in the preclinical services	
Nov-10	CVD	Vienna Facility	Toxicology
Nov-10	Novartis	1,400 job cuts	from the US general medicines business
Nov-10	Bayer	4,500 job cuts	
Nov-10	Roche	4,800 job cuts (6% of workforce)	
Oct-10	GSK	Manufacturing facility at County Cork, Ireland; 121 jobs to be axed	Manufacturing facility
Sep-10	Bristol-Myers-Squibb	840 job cuts	across all geographies and businesses
Sep-10	Abbott Laboratories	3,000 job cuts (3% of worksforce)	"to eliminate redundancies in research and development, manufacturing and
May-10	Pfizer	8 Manufacturing sites in Ireland, Puerto Rico and United States	Manufacturing
May-10	Takeda	1,400 job cuts	from US operations and Global R&D Center
Mar-10	AstraZeneca	UK research centre in Charnwood near Loughborough in 2010	R&D

Source: Company data and J.P. Morgan estimates.

We believe a combination of these trends will continue to drive penetration rates within the Development and Delivery end markets for the foreseeable future. Moreover, we note that outsourcing penetration rates in these end markets are significantly lower than those for CROs (15-30% vs. 40-50%, respectively), presenting a significant runway for future growth.

Figure 15: Percentage of Pharma That Currently Outsources Development and Delivery Functions



Source: Company reports, Frost & Sullivan and J.P. Morgan estimates.

CTLT Segment Overview

Catalent is a leading global provider of advanced drug delivery technologies and development solutions for drugs. Advanced delivery technologies require sophisticated know-how, often involve proprietary technology platforms, and would typically involve both development activity, including clinical supply and inclusion in New Drug Application submissions, and commercial supply activity. Providers such as Catalent, with strong regulatory track records, a history of consistent and reliable supply, and proven product approval and launch success have a distinct competitive advantage. On the Development Solutions side, global development and clinical activities are increasingly complex, with evolving global standards, and more complex multi-arm trials in multiple patient populations across both developed and emerging markets. An increasing share of new molecule discovery is coming from established and emerging Asian markets, with nearly 20% of active innovator compounds originating there. The increase in biologics in development adds manufacturing and logistics complexity, requiring specialized handling capabilities. All of these factors favor increased outsourcing to specialist providers.

Catalent's oral, injectable and respiratory delivery technologies address the full diversity of the pharmaceutical industry including small molecules, large molecule biologics and consumer health products. Within drug delivery, core technologies include softgel capsules, Zydis oral dissolving tablets, and blow-fill-seal unit dose liquids. On the development solutions side, offerings include the Optiform, GPEx and SMARTag platforms for development of small molecules, biologics and antibody drug conjugates, respectively, along with formulation, analytical services, early-stage development, clinical trial supply and regulatory consulting. Across both development and delivery, Catalent produces more than 70B doses for nearly 7,000 customer products. For financial reporting purposes, Catalent's business comprises of 3 segments: Oral Technologies (including Softgel and Modified Release Technologies), Medication Delivery Solutions and Development & Clinical Services.

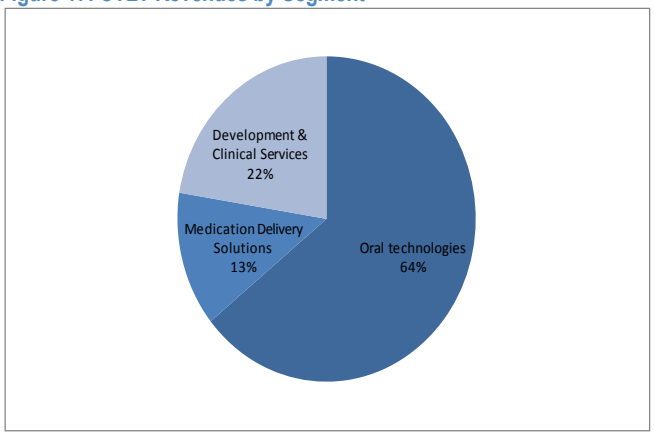
Figure 16: CTLT Business Snapshot

Platform	Advanced Delivery Technologies			Development Solutions
Segment	Oral Technologies		Medication Delivery Solutions	Development & Clinical Services
Product Group	Softgel	Modified Release		
FY14 Gross Revenue FY14 Segment EBITDA FY14 Segment EBITDA Margin	$857.5M $235.8M 28%	$358.2M $98.5M 28%	$246.1M $48.7M 20%	$412.2M $83.5M 20%
Key Technologies/Services	RP Scherer Softgels Liqui-Gels Optishell Optigel Lock Optigel Bio Optigel Mini Vegicaps	Zydis Optidose Optimelt	Blow/Fill/Seal Pre-Filled Syringes SMARTag GPEx	Development Services Analytical Services Stability Testing Inhalation Technologies Regulatory Consulting Clinical Supply Solutions
Leadership Positions	Oral Advanced Delivery Finished Dose Softgel Rx Softgels	Oral Advanced Delivery Finished Dose Outsourced ODT	Outsourced Blow/Fill/Seal	Integrated Development Clinical Trial Supplies Respiratory Development
Illustrative Competitors	Banner (Patheon / DSM "DPx") Swiss Caps (Aenova)	Haupt Rottendorf Patheon Pharma in-house capabilities	DFS: Vetter, Patheon, Baxter BFS: Unither, Holopak, Rite-Dose Pharma in-house capabilities	PPD AAI Almac ThermoFisher

Source: J.P. Morgan estimates, Company data.

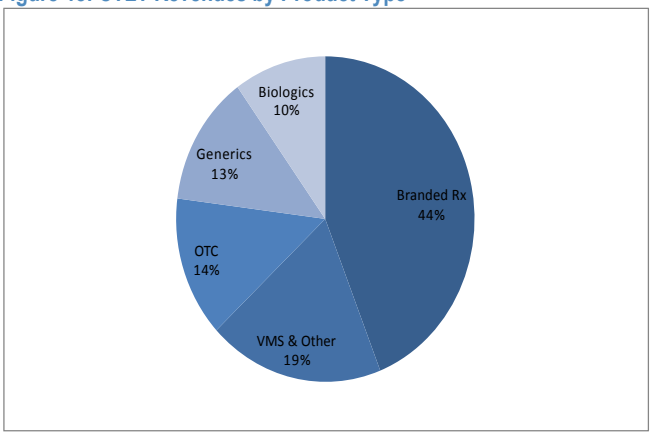
Note: Segment revenue and EBITDA are before inter-segment eliminations and adjustments. Softgel and Modified Release segment EBITDA are estimates from Oral Technology totals.

Figure 17: CTLT Revenues by Segment



Source: J.P. Morgan estimates, Company data.

Figure 18: CTLT Revenues by Product Type



Source: J.P. Morgan estimates, Company data.

We note that Catalent operates on a June 30 fiscal year-end. Also, Catalent's revenues and net income tend to be cyclical and are generally higher in the third and fourth quarters of each fiscal year (January-June). These fluctuations are primarily

the result of the timing of customers' annual operational maintenance periods at locations in Europe and the United Kingdom, the seasonality associated with pharmaceutical and biotechnology budgetary spending decisions, clinical trial and research and development schedules and, to a lesser extent, the time of the year some of the customers' products are in higher demand.

Oral Technologies

Catalent's Oral Technologies segment provides advanced oral delivery technologies, including formulation, development and manufacturing of oral dose forms for prescription and consumer health products across all phases of a molecule's lifecycle. These oral dose forms include softgel, modified release technologies and immediate release solid oral products. In FY14, Catalent generated approximately $820M in revenue from softgel products and approximately $360M in revenue from modified release technology products, with the Oral Technology segment representing ~64% of total net revenue for FY14 (before inter-segment eliminations), and ~71% of adjusted segment EBITDA .

Representative Oral Technologies customers include Pfizer, Novartis, Merck, GlaxoSmithKline, Eli Lilly, Johnson & Johnson and Actavis. The company has 14 Oral Technologies facilities in nine countries, including three in North America, five in Europe, three in South America and two in the Asia-Pacific region.

Softgel technologies

Through the Softgel Technologies business, Catalent provides formulation, development and manufacturing services for soft gelatin capsules, or "softgels," which the company first commercialized in the 1930s and has continually enhanced. The company is the market leader in overall softgel manufacturing, and holds the leading market position in the prescription arena with 11 sites globally in addition to being the largest supplier to the U.S. softgel market. CTLT holds the distinction of 50+ NDA approvals (more than all other providers combined) and 90% of NCE softgel approvals in the last 25 years, in addition to 99% OTD delivery. The principal softgel technologies include traditional softgel capsules (in which the shell is made from animal-derived materials) and VegiCaps and OptiShell capsules (in which the shell is made from vegetable-derived materials), which are used in a broad range of customer products, including prescription drugs, over-the-counter medications, and vitamins and supplements.

Softgel capsules encapsulate liquid, paste or oil-based active compounds in solution or suspension within an outer shell, filling and sealing the capsule simultaneously. The company performs all encapsulation within one of its softgel facilities, with active ingredients provided by customers or sourced directly. Softgels have historically been used to solve formulation challenges or technical issues for a specific drug, to help improve the clinical performance of compounds, to provide important market differentiation, particularly for over-the-counter compounds, and to provide safe handling of hormonal, potent and cytotoxic drugs. Catalent also participates in the softgel vitamin, mineral and supplement business in selected regions around the world, with softgels being a differentiated consumer-preferred format. With the 2001 introduction of the vegetable-derived softgel shell, VegiCaps capsules, consumer health manufacturers have been able to extend the softgel dose form to a broader range of active ingredients and serve patient/consumer populations that were previously inaccessible due to religious, dietary or cultural preferences. In recent years this platform has been extended to pharmaceutical active ingredients via

the OptiShell platform. The VegiCaps and OptiShell capsules are patent protected in most major global markets.

Physician and patient studies the company has conducted have demonstrated a preference for softgels versus traditional tablet and hard capsule dose forms in terms of ease of swallowing, real or perceived speed of delivery, ability to remove or eliminate unpleasant odor or taste and, from a physician perspective, perceived improved patient adherence with dosing regimens. They have also been used to successfully create line extensions for revitalizing existing brands, driving market share and incremental growth in the base business.

Modified release technologies

Catalent's Modified Release Technologies business provides formulation, development and manufacturing services for fast-dissolve tablets and both proprietary and conventional controlled release products.

The orally dissolving tablet business was launched in 1986 with the introduction of Zydis tablets, a unique oral dosage form that is freeze-dried in its package, can be swallowed without water, and typically dissolves in the mouth in less than three seconds. The Zydis technology is used in 20+ formulations in more than 50 countries, and is marketed by 6 of the top 10 pharma companies. Most often used for indications, drugs and patient groups that can benefit from rapid oral disintegration, the Zydis technology is utilized in a wide range of products and indications, including compliance-critical therapies (e.g., anti-psychotics) and treatments for a variety of central nervous system-related conditions such as migraines, Parkinson's Disease, schizophrenia, and pain relief. Zydis tablets continue to be used in new categories as well, including immunotherapies, vaccines and biologics delivery.

More recently, Catalent added three new technology platforms to the Modified Release Technologies business portfolio, including the highly flexible OptiDose tab-in-tab technology, already commercially proven in Japan; the OptiMelt hot melt extrusion technology; and the development stage LyoPan oral dissolving tablet technology. It also invested in a $35M expansion of its Winchester, KY, oral controlled-release facility, which had been running at capacity and where it sees significant opportunities for future growth. Similar to Softgel, payor pressure for differentiated products, patient preference/convenience and increasing use of complex formulations beyond biopharma in-house capabilities are driving growth in this market.

Medication Delivery Solutions

The Medication Delivery Solutions segment provides formulation, development and manufacturing services for delivery of drugs and biologics, administered via injection, inhalation and ophthalmic routes, using both traditional and advanced technologies. Catalent has four Medication Delivery Solutions manufacturing facilities, including two in North America and two in Europe. The Medication Delivery Solutions segment represented approximately 13% of total net revenue for FY14 (before inter-segment eliminations), and 11% of adjusted segment EBITDA.

Catalent's range of injectable manufacturing offerings includes filling drugs or biologics into pre-filled syringes, with flexibility to accommodate other formats, focused increasingly on complex pharmaceuticals and biologics. The complexity of the manufacturing process, the importance of experience and know-how, regulatory

compliance, and high start-up capital requirements create significant barriers to entry and, as a result, limit the number of competitors in the market. For example, blow-fill-seal is an advanced aseptic processing technology which uses a continuous process to form, fill with drug, and seal a plastic container in a sterile environment using the company's ADVASEPT technology. Using plastic versus glass reduces risk factors for sterility and particulate issues as well as breakage, with market research indicating a strong customer preference for the former. Blow-fill-seal units are currently used for a variety of pharmaceuticals in liquid form, such as respiratory, ophthalmic and otic products. Catalent is a leader in the outsourced blow-fill-seal market and operates one of the largest capacity commercial manufacturing blow-fill-seal facilities in the world. This business provides flexible and scalable solutions for unit-dose delivery of complex formulations such as suspensions and emulsions, products that are temperature, light and/or oxygen sensitive. Catalent also provides container design and manufacturing solutions. Representative customers include Pfizer, Sanofi-Aventis, Novartis, Roche and Teva.

Catalent's biologics offerings include formulation development and cell-line manufacturing based on the patented Gene Product Expression ("GPEx") technology, which is used to develop stable, high-yielding mammalian cell lines for both innovator and bio-similar biologic compounds. The technology is 3-12 months faster than other expression technologies with a high degree of reliability, and is being used by 40+ customers in ~30 ongoing clinical trials. In addition, the SMARTag next-generation antibody-drug conjugate (ADC) technology (which is currently in the development stage) will provide more precision targeting for delivery of drugs to tumors or other locations, with improved safety versus existing technologies. In FY13, the company opened the recently completed biologics facility in Madison, Wisconsin, with expanded capability and capacity to produce clinical scale biologic supplies. Catalent generated ~10% of its revenue from biologics in FY13, and the segment continues to benefit from faster biologics growth relative to the broader pharmaceutical market.

Development and Clinical Services

The Development and Clinical Services segment provides manufacturing, packaging, storage and inventory management for drugs and biologics in clinical trials. The company offers customers flexible solutions for clinical supplies production, and provides distribution and inventory management support for both simple and complex clinical trials. Catalent has nine Development and Clinical Services facilities, including three in North America, four in Europe and two in the Asia Pacific region. The Development & Clinical Services segment represented approximately 22% of total net revenue for FY14 (before inter-segment eliminations), and 18% of adjusted segment EBITDA.

The DCS segment includes dose form manufacturing or over-encapsulation where needed: supplying placebos, comparator drug procurement and clinical packages and kits for physicians and patients; inventory management; investigator kit ordering and fulfillment; and return supply reconciliation and reporting. Catalent supports clinical trials in all regions of the world through the facilities and distribution network. In February 2012, the company substantially expanded this business via the acquisition of the clinical trial supplies (CTS) business of Aptuit.

Catalent also offers analytical chemical and cell-based testing and scientific services, stability testing, respiratory products formulation and manufacturing, regulatory consulting, and bioanalytical testing for biologic products. The respiratory product

capabilities include development and manufacturing services for inhaled products for delivery via metered dose inhalers, dry powder inhalers and nasal sprays. CTLT invested ~$20M in expanding capability and capacity and established a Center of Excellence for Inhalation in Morrisville, NC. The company also provides formulation development and clinical and commercial manufacturing for conventional and specialty oral dose forms.

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Financial Outlook

Oral Technologies

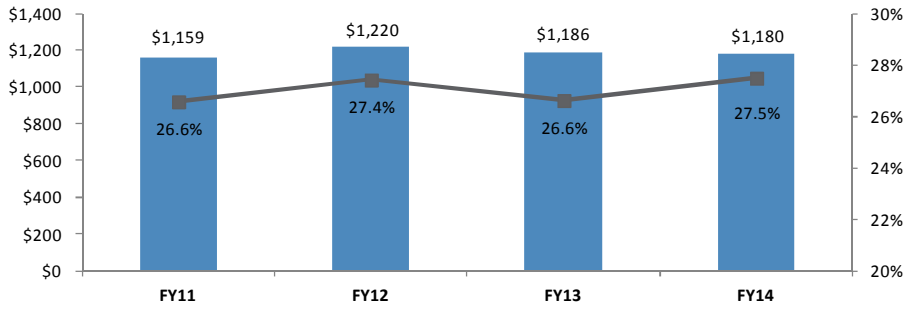
As stated earlier, the Oral Technologies business is comprised of Softgel (~70% of segment revenue) and Modified Release Technologies (~30% of segment revenue), and grew at ~2% constant currency in FY14 (adjusted for the exit of the EU packaging business mentioned below).

In terms of Softgel, this has historically been a stable grower for Catalent, with constant currency growth in the ~5% range in seven of the last eleven quarters, and relatively good visibility with firm orders for the next 90 days. We expect this segment to grow in the 4-5% range on an annual basis going forward driven by `a robust product pipeline, with some quarter-to-quarter volatility possible due to one-time issues such as isolated contract renewals at a lower price point or timing-related factors.

For Modified Release Technologies, recent growth has been hampered by a decrease in demand for certain Zydis products and the June 2013 exit of the non-core EU commercial packaging business due to a plant fire (which contributed ~$32M in revenue per year with insignificant EBIDTA margins). In line with Softgel, we forecast a similar MSD growth rate for the MRT segment going forward, now that the company is building momentum in the Zydis franchise via new product introductions (such as tablets for immunotherapies, vaccines and biologics delivery), has expanded the Winchester facility, and anniversaried the impact of the EU packaging business exit.

From a margin perspective, we expect EBITDA margins for the Oral Technologies segment to be roughly flat at ~27% going forward.

Figure 19: Oral Technologies: Historical Revenue ($M) and EBITDA Margin (%)



Source: Company reports and J.P. Morgan estimates.

Medicated Delivery Solutions

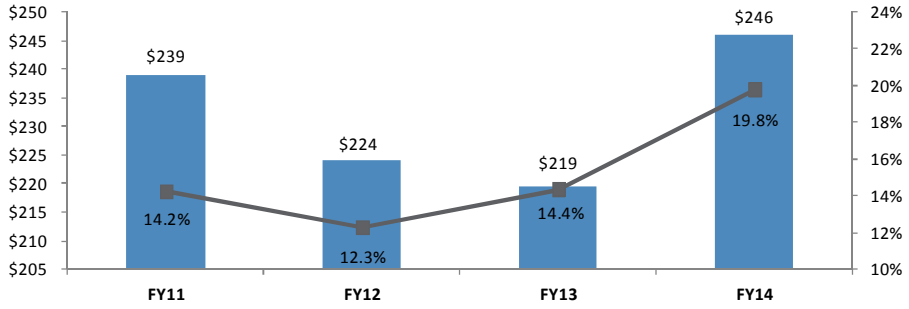
Catalent has witnessed strong recent growth in the Medicated Delivery Solutions (MDS) business driven by a rebound in demand for pre-filled syringes (which saw softness in FY12 and FY13) in the European operation along with a continued expansion in products utilizing the proprietary blow-fill-seal technologies (including higher-margin specialty products with respiratory, ophthalmic, injectable and nasal applications).

The segment grew ~10% constant currency in FY14 (off an admittedly easy compare in the prior year), and we project 2-4% growth going forward, with upside driven by

a strong injectables pipeline, biologics growth in the HSD-LDD range and entry into the animal health market. Within biologics, we specifically highlight the development stage SMARTag next-gen antibody drug conjugate technology, which is capable of providing more precision targeting of drugs to tumors and other locations, while improving safety versus existing technologies.

The MDS segment saw ~540bps of margin expansion from FY13 to FY14, positively impacted by SG&A efficiencies and the strength in demand for injectable and blow-fill-seal products noted above. We expect EBITDA margins to further improve modestly from ~20% to ~21% over the next couple years driven by product mix and leveraging of fixed cost, coupled with a contribution from the animal health business.

Figure 20: Medicated Delivery Solutions: Historical Revenue ($M) and EBITDA Margin (%)



Source: Company reports and J.P. Morgan estimates.

Development and Clinical Solutions

The Development and Clinical Solutions business saw flat growth in FY14 driven by the impact of two site consolidations (undertaken in order to drive acquisition synergies), due to the hesitancy of customers to renew or place new business while Catalent transitioned clinical studies.

However, we note that the segment grew at 18% CAGR from FY11 through FY13 on an organic basis (ex-Aptuit, which contributed $68M and $122M in FY12 and FY13, respectively), driven by strong demand for Catalent's analytical and clinical services. Moreover, with the site consolidations now largely behind it, specialty/orphan product commercial launches and B2B coming in well above 1.0x, we expect the DCS business to grow in the MSD-HSD range.

Within DCS, EBITDA margins have improved ~ 170bps from ~18.6% in FY13 to ~20.3% in FY14 due to the strong demand and favorable revenue mix for analytical services. As such, we expect margins in the 20%+ range going forward as Catalent continues to leverage its fixed cost infrastructure.

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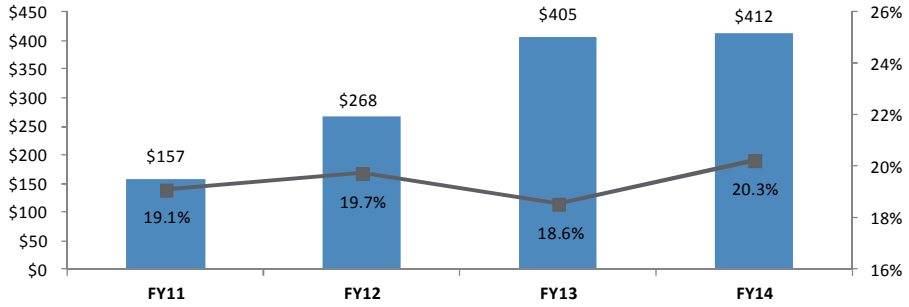
Figure 21: Development and Clinical Solutions: Historical Revenue ($M) and EBITDA Margin (%)



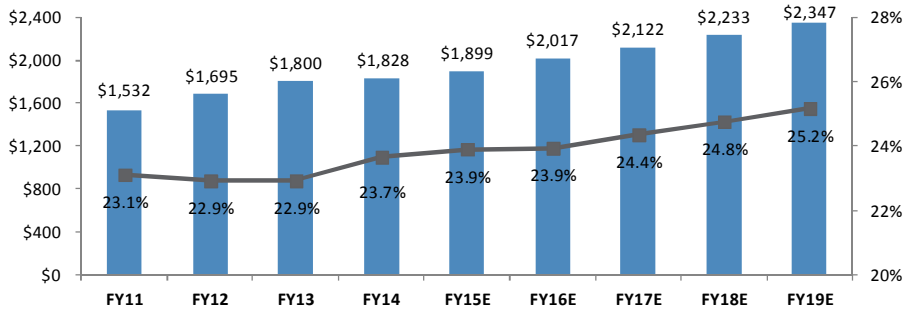
Source: Company reports and J.P. Morgan estimates.

Company Revenue and Margin Profile

On a consolidated basis, Catalent grew revenue ~3% in FY14 (adjusted for the exit of the EU commercial packaging business), driven by the strong growth in the Medicated Delivery Solutions segment. Based upon the segment level forecasts outlined above, we project revenue of ~$1.9B in FY15, growing at a CAGR of ~5% over the next five years.

Adjusted EBITDA margins grew from ~23% in FY12 and FY13 to ~24% in FY14. We project a relatively stable margin profile for the company in the near term, with FY15 adjusted margins of ~24% expected to expand by 20-40bps per year to ~25% through FY19.

Figure 22: Catalent Historical and Projected Revenue ($M) and Adjusted EBITDA Margin (%)

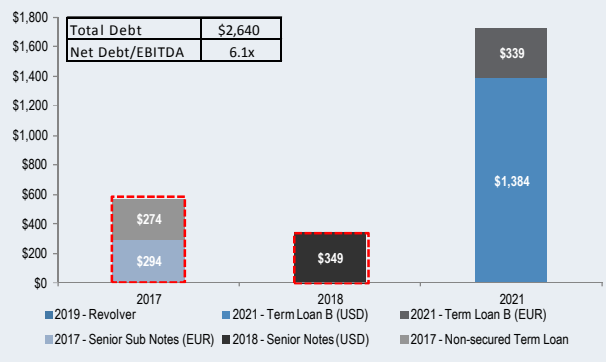


Source: Company reports and J.P. Morgan estimates.

Deleveraging and M&A

Catalent plans to use the IPO proceeds to pay down higher cost debt (lowering FY15 interest expense by ~$60M y/y) and reduce the leverage ratio to <5x. Beyond this, we expect the company to supplement organic growth via targeted M&A and further debt reduction over time (we expect net debt/EBITDA of < 3.5x by the end of FY15), both of which should cushion bottom-line growth. We note that we do not explicitly model a debt pay down beyond the FY15 timeframe (with the leverage ratio benefiting from growth in EBITDA), suggesting potential upside to our out-year estimates from lower interest expense.

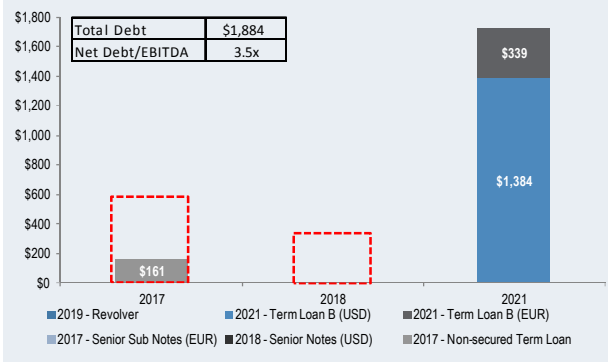
Figure 23: CTLT Pre-IPO Debt Profile



Source: J.P. Morgan estimates, Company data.

Note: Excludes $71M in other debt of unspecified maturities

Figure 24: CTLT Post-IPO Debt Profile

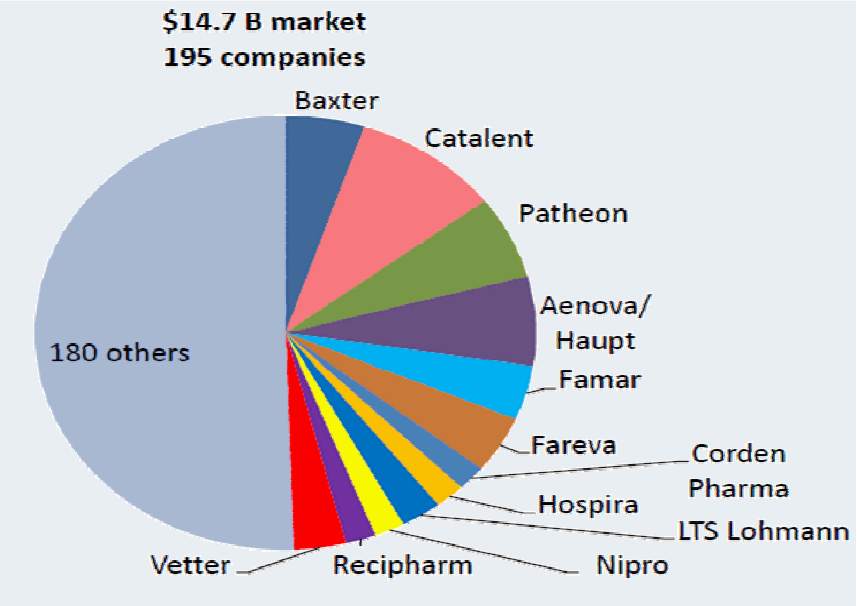


Source: J.P. Morgan estimates, Company data.

Note: Excludes $71M in other debt of unspecified maturities

We note that the M&A deal pipeline remains rich due to a fragmented industry (top-5 players have ~30% share in ADT and ~10% share in DCS) in which there are few strategic buyers of sufficient scale. Catalent has a successful track record of acquiring bolt-on technologies (example, Aptuit CTS within development and Eberbach within softgel), as well as more recent geographic expansion (JYT and the ShangPharma JV in China, and Relthy in Brazil), and we expect future deals to focus on similar themes (bolt-ons/tuck-ins, geographic presence and adjacencies).Examples include further consolidation in softgel and modified release technologies, creams and ointments, biologics opportunities (in protein enhancement), geographic expansion in China, Eastern Europe and Brazil, and eventual expansion over the next 3-4 years into adjacencies such as preclinical work and medical devices.

Figure 25: Pharmaceutical Outsourced Manufacturing Market



Source: PharmSource research, Company reports.

As such, we forecast the bottom line to outpace the top line and grow at ~9% CAGR over the next five years.

Valuation

Our preferred valuation metric is a discounted cash flow analysis using our base-case assumptions, which we then cross-check by using a multiple-based relative approach versus an appropriate group of peers.

We believe Catalent is compellingly valued at current levels with an attractive risk-reward profile. Our December 2015 price target on Catalent is $28, representing ~25% upside from current levels.

Absolute valuation

Our December 2015 DCF-derived price target of $28 assumes a CAPM-derived WACC discount rate of 9.6% and 1.5% terminal growth (see Figure 30). We also include a sensitivity analysis for the value of the equity relative to our WACC and terminal growth rate assumptions, the two most subjective metrics in our DCF analysis.

Relative valuation

For relative valuation, our preferred metric is forward EV/EBITDA and forward P/E, for companies that have achieved profitability such as Catalent.

Given the unique mix of drug delivery and development businesses that Catalent plays in, it is difficult to identify a set of directly comparable publicly traded companies. Our peer group for Catalent includes West Pharma (a global packaging and delivery systems manufacturer with a focus on small-volume parenterals) and Quintiles (a best-in-class global CRO with a focus on late-stage development), along with other CROs/CMOs such as Covance, Charles River, Icon, Parexel and Albany Molecular Research Inc. We believe these comps represent the best proxy for Catalent's sizeable addressable market that is currently only modestly penetrated, coupled with the company's global leadership position and long-duration customer relationships.

On a relative basis, Catalent currently trades at a CY2015E EV/EBITDA multiple of ~11x, roughly in line versus West Pharma at 10.5x and Quintiles and ~11x. On a 2015E P/E basis, the company trades at 12x, a significant discount to the peer group average of ~18.5x, as a result of more modest (but arguably stable) top-line growth expectations and the significant amount of leverage on its balance sheet. We believe that as the company continues to demonstrate stable top-line growth and sustains/modestly grows its industry-leading EBITDA margins while using FCF to pay down debt, this valuation discount will likely narrow over time. As such, our price target of $28 implies a 2015 P/E multiple of ~15x, representing a 19% discount relative to the same peer group (Figure 26 and Figure 27).

Figure 26: CTLT Relative Valuation

Company		Ticker	Price 9/8/14	Mkt Cap $M	EV $M	Price/Earnings 2014E	Price/Earnings 2015E	Price/Earnings 2016E	EV/EBITDA 2014E	EV/EBITDA 2015E	EV/EBITDA 2016E
Trading comps											
QUINTILES TRANSNATIONAL HOLD	Overweight	Q	$55.96	7,122	8,390	21.2x	19.1x	17.0x	12.1x	11.0x	10.0x
WEST PHARMACEUTICAL SERVICES	*Not Covered*	WST	$44.16	3,125	3,261	24.1x	21.0x	17.0x	11.4x	10.4x	N/A
ICON PLC	Neutral	ICLR	$53.40	3,289	2,968	20.2x	17.2x	15.2x	11.9x	10.3x	9.2x
CHARLES RIVER LABORATORIES	Overweight	CRL	$60.41	2,820	3,328	18.2x	16.9x	15.6x	11.3x	10.3x	9.8x
WUXI PHARMATECH CAYMAN-ADR	Overweight	WX	$36.17	2,587	2,275	19.6x	17.0x	14.7x	12.5x	10.9x	10.0x
PAREXEL INTERNATIONAL CORP	*Not Covered*	PRXL	$58.11	3,181	3,244	23.7x	19.9x	16.9x	10.6x	9.3x	8.3x
COVANCE INC	Overweight	CVD	$84.50	4,777	4,298	21.9x	19.0x	16.7x	10.0x	8.8x	8.0x
ALBANY MOLECULAR RESEARCH	Overweight	AMRI	$20.14	654	625	22.3x	17.6x	14.6x	10.2x	8.3x	7.3x
				All Peer Average:		**21.4x**	**18.5x**	**16.0x**	**11.3x**	**9.9x**	**9.0x**
CATALENT INC		**CTLT**	**$22.50**	**Implied Multiple**		**10.8x**	**12.0x**	**10.8x**	11.9x	11.1x	10.1x
				CTLT Premium (Discount) to Peer Average:		**(49%)**	**(35%)**	**(32%)**	**6%**	**12%**	**13%**
				JPMorgan December 2015 PT of $28		**13.5x**	**14.9x**	**13.4x**	13.6x	12.7x	11.6x
				Premium (Discount) to Peer Average at $28:		**(37%)**	**(19%)**	**(16%)**	**21%**	**28%**	**29%**

Source: J.P. Morgan estimates, Bloomberg, Company data.

Note: (i) We are Overweight on CRL, CVD, Q, WX and AMRI; we are Neutral on ICLR and do not cover PRXL and WST; (ii) We use Bloomberg consensus estimates for all stocks except CTLT.

Figure 27: Revenue Growth and EBITDA Margins – CTLT vs. Peers

Company		Ticker	Revenue Growth 2014E	Revenue Growth 2015E	Revenue Growth 2016E	EBITDA Margin 2014E	EBITDA Margin 2015E	EBITDA Margin 2016E
Trading comps								
QUINTILES TRANSNATIONAL HOLD	Overweight	Q	10%	9%	8%	17%	17%	17%
WEST PHARMACEUTICAL SERVICES	*Not Covered*	WST	6%	7%	8%	20%	20%	N/A
ICON PLC	Neutral	ICLR	13%	10%	10%	16%	17%	17%
CHARLES RIVER LABORATORIES	Overweight	CRL	11%	6%	4%	23%	23%	24%
WUXI PHARMATECH CAYMAN-ADR	Overweight	WX	16%	15%	13%	27%	27%	26%
PAREXEL INTERNATIONAL CORP	*Not Covered*	PRXL	10%	9%	8%	15%	16%	16%
COVANCE INC	Overweight	CVD	7%	8%	7%	17%	18%	18%
ALBANY MOLECULAR RESEARCH	Overweight	AMRI	24%	20%	7%	20%	20%	22%
		All Peer Average:	**12%**	**11%**	**8%**	**19%**	**20%**	**20%**
CATALENT INC		**CTLT**	**2%**	**6%**	**6%**	**24%**	**24%**	**25%**
		CTLT Comparison vs. Peer Average:	**(84%)**	**(45%)**	**(29%)**	**23%**	**22%**	**25%**

Source: J.P. Morgan estimates, Bloomberg, Company data.

Note: (i) We are Overweight on CRL, CVD, Q, WX and AMRI; we are Neutral on ICLR and do not cover PRXL and WST; (ii) We use Bloomberg consensus estimates for all stocks except CTLT.

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Appendix I: Financial Model

Figure 28: CTLT Income Statement

Income Statement		F1QA	F2QA	F3QA	F4QA		F1QA	F2QA	F3QA	F4QA						CAGR	
USD $M	F2012A	Sep	Dec	Mar	Jun	F2013A	Sep	Dec	Mar	Jun	F2014A	F2015E	F2016E	F2017E	F2018E	'12-15	'15-20
Oral Technologies	1,220	260	290	303	333	1,186	259	286	287	348	1,180	1,217	1,283	1,343	1,406	-0.1%	4.7%
Medication Delivery Solutions	224	45	53	54	68	219	57	55	65	69	246	251	263	275	287	3.9%	4.5%
Developmental & Clinical Services	268	109	96	93	107	405	101	102	104	105	412	440	481	515	551	17.9%	7.5%
Total Revenue	**1,695**	**412**	**436**	**447**	**505**	**1,800**	**414**	**441**	**453**	**520**	**1,828**	**1,899**	**2,017**	**2,122**	**2,233**	**3.9%**	**5.4%**
Cost of Goods Sold	1,056	273	274	287	310	1,145	274	282	280	309	1,145	1,194	1,267	1,332	1,401		
Adj. Gross Profit	639	139	162	160	195	656	140	159	173	211	682	705	750	790	832	3.3%	5.5%
Adj. SG&A	299	66	70	67	73	275	65	71	74	65	276	297	313	318	324	-0.1%	2.3%
Adjusted EBITDA	**388**	**82**	**102**	**101**	**128**	**413**	**82**	**93**	**106**	**151**	**432**	**454**	**483**	**517**	**553**	**5.3%**	**6.8%**
Other Income (Expense)	179	54	65	62	47	228	40	40	46	48	174	90	81	81	81		
Pre-Tax Income	19	(22)	(20)	(14)	31	(24)	(5)	4	15	53	67	161	205	242	279		
Income Taxes	17	(2)	8	(0)	18	24	(7)	23	7	26	50	29	37	64	86		
GAAP Net Income	(40)	(20)	(27)	(19)	19	(47)	1	(19)	7	27	16	133	169	179	193		
Adjusted Net Income	39	(6)	21	8	61	84	(2)	28	38	77	141	209	241	251	265		
Diluted Shares Outstanding	0.0	0.0	0.0	0.0	0.0	0.0	74.8	74.8	74.8	74.8	76.1	121.1	125.7	126.1	126.5		
EPS - GAAP							0.02	(0.25)	0.11	0.36	0.20	1.06	1.34	1.41	1.52	N/A	13.0%
Adjusted EPS							**($0.02)**	**$0.37**	**$0.52**	**$1.03**	**$1.83**	**$1.72**	**$1.91**	**$1.98**	**$2.09**	**N/A**	**7.9%**
Adj. Gross Margin	37.7%	33.6%	37.2%	35.7%	38.6%	36.4%	33.8%	36.0%	38.2%	40.6%	37.3%	37.1%	37.2%	37.2%	37.3%	-0.5%	0.1%
change in gross margin (y/y, bp)	+0	-212	+2	-255	-53	-128	+15	-123	+245	+200	+93	-23	+8	+5	+3		
Adjusted SG&A	17.6%	15.9%	16.1%	15.0%	14.4%	15.3%	15.8%	16.2%	16.3%	12.5%	15.1%	15.7%	15.5%	15.0%	14.5%		
Adj. EBITDA Margin	22.9%	20.0%	23.3%	22.5%	25.4%	22.9%	19.8%	21.2%	23.4%	29.0%	23.7%	23.9%	23.9%	24.4%	24.8%	1.4%	1.4%
Tax Rate	88.7%	9.3%	-40.8%	0.7%	58.3%	-100.8%	137.5%	529.5%	45.2%	49.2%	73.4%	18.0%	18.0%	26.3%	31.0%		
Adj. Net Margin	4.8%	-1.4%	4.8%	2.9%	10.8%	4.6%	-0.4%	6.3%	8.6%	14.8%	7.8%	11.0%	11.9%	11.8%	11.8%	31.8%	3.4%
Reported Revenue Growth y/y	*5.1%*	*8.0%*	*10.8%*	*1.3%*	*5.6%*	*6.2%*	*0.6%*	*1.1%*	*1.4%*	*2.9%*	*1.5%*	*3.9%*	*6.2%*	*5.2%*	*5.2%*		
EBITDA Growth y/y	*9.8%*	*1.0%*	*17.4%*	*-7.4%*	*14.7%*	*6.3%*	*-0.1%*	*-8.2%*	*5.4%*	*17.6%*	*4.7%*	*5.0%*	*6.3%*	*7.1%*	*7.0%*		

Source: J.P. Morgan estimates, Company data.

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Figure 29: CTLT Balance Sheet and Cash Flow

Balance Sheet and Cash Flow		F1QA	F2QA	F3QA	F4QA		F1QA	F2QA	F3QA	F4QA						CAGR	
USD $M	**F2012A**	Sep	Dec	Mar	Jun	**F2013A**	Sep	Dec	Mar	Jun	**F2014A**	**F2015E**	**F2016E**	**F2017E**	**F2018E**	'12-15	'15-20
Balance Sheet																	
Cash + ST Investments	139	421	73	88	106	106	96	64	56	74	74	504	710	925	1,149		
Receivables	338	314	294	317	358	358	295	317	344	404	404	423	445	463	482		
Inventories	119	144	152	143	125	125	133	140	155	135	135	143	152	155	158		
Current Assets	705	987	617	632	678	678	617	612	627	688	688	1,143	1,382	1,618	1,864		
PP&E	810	823	828	807	815	815	827	838	838	873	873	878	887	899	914		
Non-Current Assets	2,434	2,479	2,472	2,390	2,379	2,379	2,425	2,461	2,464	2,403	2,403	2,372	2,348	2,331	2,320		
Accounts Payable	134	137	132	139	151	151	125	121	130	148	148	165	185	199	214		
Current Liabilities	439	734	382	389	410	410	349	406	413	453	453	445	465	479	494		
Long-Term Debt	2,640	2,658	2,667	2,646	2,657	2,657	2,674	2,672	2,674	2,685	2,685	1,955	1,955	1,955	1,955		
Non-Current Liabilities	3,050	3,067	3,078	3,050	3,057	3,057	3,075	3,076	3,074	3,005	3,005	2,275	2,275	2,275	2,275		
Shareholders Equity	(351)	(335)	(370)	(417)	(410)	(410)	(382)	(409)	(396)	(367)	(367)	796	991	1,196	1,415		
Net Cash (Debt)	**(2,545)**	**(2,584)**	**(2,627)**	**(2,588)**	**(2,585)**	**(2,585)**	**(2,608)**	**(2,667)**	**(2,646)**	**(2,636)**	**(2,636)**	**(1,452)**	**(1,245)**	**(1,030)**	**(806)**		
Net Debt/EBITDA	6.6x	6.6x	6.5x	6.5x	6.3x	6.3x	6.3x	6.6x	6.5x	6.1x	6.1x	3.2x	2.6x	2.0x	1.5x		
Cash Conversion Cycle (days)	67	71	67	65	57	64	67	71	76	66	76	74	71	67	64		
Cash Flow																	
Cash Flow from Operations	88	12	14	58	54	138	25	15	53	85	178	296	326	338	351	50.0%	11.2%
Capex	(104)	(25)	(28)	(32)	(38)	(123)	(19)	(21)	(22)	(60)	(122)	(114)	(119)	(123)	(127)	3.0%	4.7%
Cash Flow from Investments	(495)	(25)	(28)	(32)	(38)	(122)	(26)	(60)	(25)	(61)	(171)	(114)	(119)	(123)	(127)	-38.7%	4.7%
Sale (Repurchase) of Equity	1	0	0	0	1	1	0	0	0	0	0	1002	0	0	0		
Issuance (Reduction) of Debt	352	290	(333)	(9)	2	(50)	(13)	13	(37)	(6)	(42)	(755)	0	0	0		
Dividends Paid	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
Cash Flow from Financing	353	290	(333)	(8)	2	(49)	(13)	13	(37)	(6)	(42)	247	0	0	0	N/A	N/A

Source: J.P. Morgan estimates, Company data.

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Figure 30: CTLT DCF Analysis

Target Period: **Dec 2015**

Projected FY Ending Dec	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue ($M)	1,828	1,899	2,017	2,122	2,233	2,347	2,466	2,589	2,717	2,848	2,983	3,122
growth y/y		4%	6%	5%	5%	5%	5%	5%	5%	5%	5%	5%
EBIT ($M)	289	309	340	377	414	453	494	536	581	627	676	728
EBIT margin	16%	16%	17%	18%	19%	19%	20%	21%	21%	22%	23%	23%
Tax-affected EBIT ($M)	(160)	253	279	279	286	312	341	370	401	433	467	502
Free Cash Flow	**(129)**	**275**	**291**	**289**	**290**	**317**	**344**	**372**	**403**	**435**	**470**	**501**
growth y/y			6%	0%	0%	9%	8%	8%	8%	8%	8%	7%

Discount Rate	Discounted Cash Flows ($M) 2015-2024		PV of Terminal Value ($M) at a Perpetual Growth Rate of 0.5%	1.0%	1.5%	2.0%	2.5%		Enterprise Value ($M) 0.5%	1.0%	1.5%	2.0%	2.5%		Equivalent Terminal EBITDA Multiple (forward 12 mos) 0.5%	1.0%	1.5%	2.0%	2.5%
8.5%	2,291		2,900	3,109	3,347	3,623	3,944		5,191	5,400	5,638	5,913	6,235		5.7x	5.9x	6.1x	6.4x	6.8x
9.0%	2,238		2,613	2,790	2,991	3,220	3,485		4,851	5,028	5,229	5,458	5,723		5.3x	5.5x	5.7x	5.9x	6.2x
9.5%	2,187	+	2,362	2,514	**2,684**	2,877	3,098	=	4,549	4,701	**4,871**	5,064	5,285		5.0x	5.1x	**5.3x**	5.5x	5.8x
10.0%	2,138		2,143	2,274	2,419	2,583	2,769		4,281	4,411	4,557	4,721	4,907		4.7x	4.8x	5.0x	5.1x	5.3x
10.5%	2,090		1,950	2,063	2,189	2,329	2,486		4,040	4,153	4,278	4,419	4,576		4.4x	4.5x	4.7x	4.8x	5.0x

	Net Debt (Cash) ($M)		Equity Value ($M) 0.5%	1.0%	1.5%	2.0%	2.5%		Equity Value per Share 0.5%	1.0%	1.5%	2.0%	2.5%		Terminal Value as a % of Enterprise Value 0.5%	1.0%	1.5%	2.0%	2.5%
	1,452		3,739	3,948	4,186	4,462	4,783		$30.88	$32.60	$34.57	$36.84	$39.50		56%	58%	59%	61%	63%
	1,452		3,399	3,576	3,777	4,006	4,271		$28.07	$29.53	$31.19	$33.08	$35.27		54%	55%	57%	59%	61%
-	1,452	=	3,098	3,249	**3,419**	3,613	3,833	=	$25.58	$26.83	**$28.24**	$29.83	$31.65		52%	53%	**55%**	57%	59%
	1,452		2,829	2,960	3,105	3,269	3,455		$23.36	$24.44	$25.64	$27.00	$28.53		50%	52%	53%	55%	56%
	1,452		2,588	2,701	2,827	2,967	3,125		$21.38	$22.31	$23.34	$24.50	$25.80		48%	50%	51%	53%	54%

Source: J.P. Morgan estimates, Company data.

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Appendix II: Management Team and Board of Directors

Figure 31: CTLT Management Profile

Catalent management team	
John R. Chiminski President & Chief Executive Officer and Director	■ 20 years of experience at GE Healthcare in engineering, operations, and senior leadership roles ■ Served as President and Chief Executive Officer of GE Medical Diagnostics from 2007 to 2009
Matthew Walsh Executive Vice President and Chief Financial Officer	■ 20 years' experience in CFO and senior finance roles ■ Former President and CFO of Escala Group, Inc. from 2006-2008
Scott Houlton President, Development and Clinical Services	■ Former COO of Aptuit, Inc. and director for Aptuit Laurus, Inc. ■ Former VP of Clinical Supplies at Quintiles Transnational Corporation
Aris Gennadios President, Softgel Technologies	■ Served as VP and GM of Softgel Technologies and Consumer Health products ■ Former GM of the Oral Development Center at Cardinal Health
Barry Littlejohns President, Advanced Delivery Technologies	■ Led Catalent's Medication Delivery Solutions business from July 2011 to July 2013 ■ Former SVP of Operations and Business Development at Danish biotech company Genmab
William Downie Senior Vice President, Global Marketing & Sales	■ Former Group President, Medication Delivery Solutions, and SVP Global Sales & Marketing ■ Former VP and Global Leader of Molecular Imaging at GE Healthcare
Sharon Johnson Senior Vice President, Global Quality and Regulatory Affairs	■ Former VP of Quality for GE Healthcare, Medical Diagnostics in Buckinghamshire, England ■ Former Quality Director for Baxter Healthcare's Europe operations for four years
Samrat S. Khichi Senior Vice President, Chief Administrative Officer, General Counsel and Secretary	■ Served as Counsel in the M&A and Private Equity Group at O'Melveny & Myers ■ Was appointed by President George W. Bush to serve as a White House Fellow
Stephen Leonard Senior Vice President, Global Operations	■ Served as GM of Global Operations for GE Healthcare's Medical Diagnostics ■ 22 years of expertise at GE in areas such as plant management, global sourcing and supply chain
Kurt Nielsen Senior Vice President, Innovation & Growth and Chief Technology Officer	■ Served as EVP of Pharmaceuticals, VP of R&D at URLMutual Pharmaceutical Company ■ Held executive positions with TEVA Pharmaceuticals USA, McNeil Consumer Products and others
Lance Miyamoto Senior Vice President, Human Resources	■ 25 years of experience in delivering HR systems including compensation and career ■ Served as EVP of Comverse Technology Inc., EVP of HR for AOL LLC, a division of Time Warner

Source: Company data.

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Figure 32: CTLT Board of Directors

Board Member	Age	Committee Membership			Experience
		Audit	Compensation	Nom./Governance	
John Chiminsky	50				* >20 years experience at GE Healthcare in engineering, operations and in senior leadership * BS from Michigan State University, MS from Purdue University and MS in Management from Kellogg School of Management at Northwestern University
Bruce McEvoy	36		Member	Member	* MD at The Blackstone Group. Previous experience at General Atlantic and McKinsey & Company * MBA from Harvard Business School
Chinh Chu	47				* Senior MD at The Blackstone Group. Previous experience in M&A at Salomon Brothers * BS in Finance from University of Buffalo
James Quella	64		Chairman	Member	* Senior MD and Senior Operating Partner at The Blackstone Group. Previous experience in PE as Senior MD and Senior Operating Partner at DLJ Merchant Banking Partners - CSFB Private Equity and as Co-Vice Chairman of Mercer Management Consulting * BA from University of Chicago / University of Wisconsin and MBA from University of Chicago
Rolf Classon	68	Member			* Formerly Chairman of Executive Committee at Bayer HealthCare AG and President of Bayer Diagnostics. Currently Chairman of the Board at Auxilium Pharmaceuticals, Hill-Rom, Tecan Group and as member of the Board at Fresenius MedicalCare * Certificate in Chemical Engineering from Gothenburg School of Engineering and a Business degree from Gothenburg University
Melvin Booth	68	Member	Member	Chairman	* Former President/CEO at Medimmune and Human Genome Sciences. Leadership positions at Syntex and Millipore Corp. Currently Chairman of the board at Mallinckrodt plc and ERT, strategic advisor for life sciences at Genstar Capital * BS from Northwest Missouri State University
Jack Stahl	60	Chairman			* Former President/CEO at Revlon, former President/COO at Coca Cola Company. Board member at Coty Inc., Delhaize Group, Dr. Pepper Snapple Group and CVC Capital * BA in Economics from Emory University, Masters from the Wharton School at the University of Pennsylvania

Source: Company reports.

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Catalent: Summary of Financials

Income Statement - Annual	FY14A	FY15E	FY16E	FY17E	Income Statement - Quarterly	1Q15E	2Q15E	3Q15E	4Q15E
Revenues	1,828	1,899	2,017	2,122	Revenues	414	455	478	552
Cost of products sold	(1,229)	(1,282)	(1,353)	(1,417)	Cost of products sold	(295)	(313)	(316)	(358)
Gross profit	-	-	-	-	Gross profit	-	-	-	-
SG&A	(335)	(355)	(369)	(374)	SG&A	(83)	(91)	(86)	(94)
R&D	-	-	-	-	R&D	-	-	-	-
Operating income	241	251	287	323	Operating income	31	48	73	98
EBITDA	374	396	429	463	EBITDA	68	84	109	134
Net interest (income) / expense	(163)	(100)	(91)	(91)	Net interest (income) / expense	(31)	(23)	(23)	(23)
Other income / (expense)	(10)	10	10	10	Other income / (expense)	3	3	3	3
Income taxes	(50)	(29)	(37)	(64)	Income taxes	(0)	(5)	(10)	(14)
Net income	140	208	240	250	Net income	21	42	62	83
Diluted shares outstanding	76	121	126	126	Diluted shares outstanding	108	125	125	125
Diluted EPS	0.20	1.09	1.34	1.41	Diluted EPS	0.02	0.18	0.35	0.51

Balance Sheet and Cash Flow Data	FY14A	FY15E	FY16E	FY17E	Ratio Analysis	FY14A	FY15E	FY16E	FY17E
Cash and cash equivalents	74	504	710	925	Sales growth	1.5%	3.9%	6.2%	5.2%
Accounts receivable	404	423	445	463	EBIT growth	17.9%	4.1%	14.3%	12.6%
Inventories	135	143	152	155	EPS growth	-	(6.3%)	11.2%	3.7%
Other current assets	75	75	75	75					
Current assets	688	1,143	1,382	1,618	Gross margin	-	-	-	-
PP&E	873	878	887	899	EBIT margin	16.3%	16.3%	16.9%	17.7%
Total assets	3,090	3,515	3,730	3,949	EBITDA margin	23.7%	23.9%	23.9%	24.4%
					Tax rate	73.4%	18.0%	18.0%	26.3%
Total debt	2,711	1,955	1,955	1,955	Net margin	7.6%	11.0%	11.9%	11.8%
Total liabilities	3,458	2,719	2,739	2,753					
Shareholders' equity	(367)	796	991	1,196	Net Debt / EBITDA	609.8%	319.9%	257.9%	199.3%
					Net Debt / Capital (book)	116.2%	64.6%	55.7%	46.3%
Net income (including charges)	18	132	168	178					
D&A	143	145	142	140	Return on assets (ROA)	4.5%	6.3%	6.6%	6.5%
Change in working capital	13	(10)	(12)	(7)	Return on equity (ROE)	(35.9%)	97.2%	26.9%	22.9%
Other	5	29	27	27					
Cash flow from operations	178	296	326	338	Enterprise value / sales	2.9	2.2	2.0	1.8
					Enterprise value / EBITDA	12.4	9.2	8.2	7.3
Capex	(122)	(114)	(119)	(123)	Free cash flow yield	2.3%	9.3%	10.0%	10.7%
Free cash flow	39	253	283	303					
Cash flow from investing activities	(171)	(114)	(119)	(123)					
Cash flow from financing activities	(42)	247	0	0					
Dividends	0	0	0	0					
Dividend yield	-	-	-	-					

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Jun

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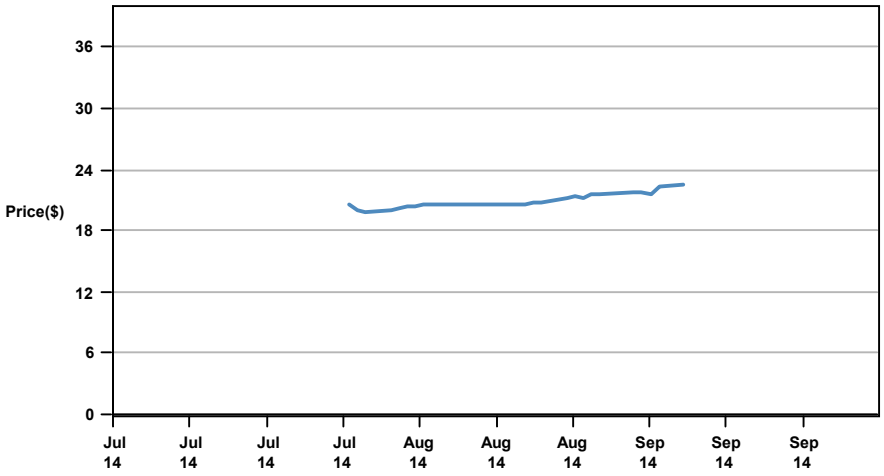
Catalent (CTLT, CTLT US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.

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