September 9, 2014

Jefferies

Catalent, Inc. (CTLT)

Highly Differentiated Market Leader; Initiating With Buy Rating, PT $26.50

BUY
Price target $26.50
Price $22.50

Key Takeaway

Catalent is the undisputed leader in the outsourced pharma manufacturing segment. It is differentiated by its proprietary delivery technologies, its manufacturing and problem-solving expertise, and broad client base. In the NT, margins will benefit from fixed cost leverage. Over the LT, macro trends will be revenue tailwinds—increasingly complex drugs, and more outsourced biopharma manufacturing. Jefferies was a co-bookrunner on CTLT's recent $1.0B IPO.

Market Leader, Highly Differentiated. Catalent's robust portfolio of clinical development and advanced delivery technology solutions make it much more than just a contract manufacturer. It sets itself apart from peers through its proprietary offerings and expertise and its diversified revenue streams. Notably, CTLT provides services around nearly 7,000 products to 1,000 clients, including a who's who of top pharma, generic, biotech, and consumer health companies.

Macro Trends Will Provide Tailwinds. Over the LT, we expect revenue growth will benefit from several macro trends. These include: (1) increasingly complex molecules requiring novel delivery technologies to make them efficacious and commercial; (2) both large and small biopharmas increasingly variabilizing manufacturing capacity; and (3) biopharmas looking to narrow vendor lists for the sake of efficiency and quality control.

Contract Manufacturing Capacity Tightening. The is the result of two different trends: (1) biopharmas no longer offering out their excess capacity to each other; and (2) biopharmas reducing internal capacity, choosing instead to rely more heavily on outsourced providers. Both benefit CTLT because they allow it to be more selective in the projects accepted. They should also result in greater pricing power.

Deep Management Bench. Led by John Chiminski, the company's segment leaders have decades of experience and tenure with Catalent in many cases. With Matt Walsh, Catalent's CFO, bringing an engineering background, the overall team brings an intensive, highly measured management style. The management team takes a very rigorous approach to operating, evaluating growth opportunities, and forecasting the business.

Valuation/Risks

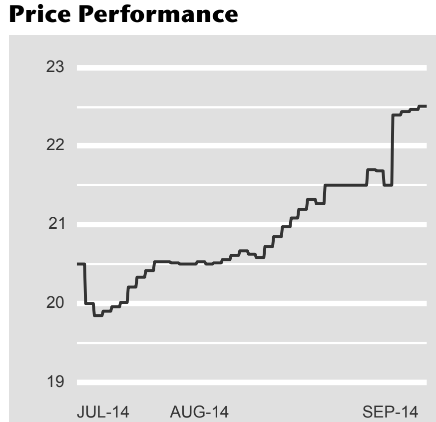
Our $26.50 PT is based on the average of three different valuation analyses—EV/EBITDA comparables ($26.50), P/E comparables ($25.50), and discounted cash flow ($27.50). Risks include success of client R&D projects, loss of large client contracts, and international (currency and geopolitical/regulatory) exposure.

USD	Prev.	2013A	Prev.	2014A	Prev.	2015E	Prev.	2016E
Rev. (MM)	--	1,800.3	--	1,827.4	--	1,911.7	--	2,046.0
EV/Rev		2.5x		2.5x		2.4x		2.2x
EBITDA (MM)	--	412.9	--	432.3	--	459.2	--	492.5
EV/EBITDA		11.1x		10.6x		10.0x		9.3x
EPS								
Sep	--	--	--	--	--	0.23	--	--
Dec	--	--	--	--	--	0.33	--	--
Mar	--	--	--	--	--	0.45	--	--
Jun	--	--	--	--	--	0.77	--	--
FY Jun	--	1.09	--	1.74	--	1.81	--	1.99
FY P/E		20.6x		12.9x		12.4x		11.3x

Financial Summary	
Book Value (MM):	$455.7
Net Debt (MM):	$1,753.1
Long-Term Debt (MM):	$1,957.3
Cash & ST Invest. (MM):	$204.2
Market Data	
52 Week Range:	$22.80 - $19.30
Total Entprs. Value (MM):	$4,590.4
Market Cap. (MM):	$2,837.3
Shares Out. (MM):	126.1
Float (MM):	48.7
Avg. Daily Vol.:	567,198

David Windley, CFA, CPA *
Equity Analyst
(615) 963-8313 dwindley@jefferies.com
Sean Dodge, CFA *
Equity Analyst
(615) 963-8340 sdodge@jefferies.com
* Jefferies LLC

Price Performance



Catalent, Inc. (CTLT): Market Leader, Steady, but Slower Grower

Buy: $26.50 Price Target

Scenarios

Target Investment Thesis

- Oral Technologies and Medication Delivery Solutions revenue growth both approximate 4%
- Development & Clinical Services revenue grows 6.5%
- EBITDA margin improves 50 bps to 23.0% due to cost savings and operating leverage
- Net interest expense declines with debt repayment from IPO proceeds
- 2015 EPS: $1.38; Target Multiple: 19.2x; Target Price $26.50

Upside Scenario

- 'Strategic deals' are signed; consolidated revenue growth exceeds 7%
- EBITDA margin improves to 23.5%+ on fixed leverage and cost control
- Free cash flow is used for tuck-in acquisitions
- Cash builds on balance sheet; both share buybacks and debt repayment are modest
- 2015 EPS: $1.50; Target Multiple: 20x; Target Price $30.00

Downside Scenario

- New contract wins and/or ramping of existing contracts is slow; consolidated revenue growth slows to sub-6%
- Slower revenue growth limits margin improvements; costs tightly controlled to mitigate impact
- Free cash is used to repurchase shares
- 2015 EPS: $1.15; Target Multiple: 15.2x Target Price: $17.50

Long Term Analysis

1 Year Forward P/E

Not Available

Source: FactSet and Jefferies LLC

Long Term Financial Model Drivers

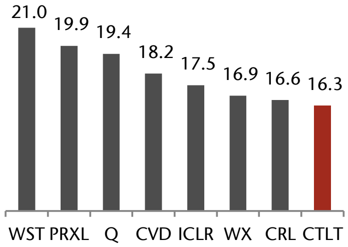
LT EPS CAGR	10-12%
Revenue Growth	5-6%
Operating Margin	16-18%
Effective Tax Rate	30%

Other Considerations

CTLT certainly deserves some valuation premium based on its industry leadership status, significantly diversified client base, and broader investability. We believe this should be balanced against its fuller margin and slightly lower forward EPS growth rate relative to peers. Management is focused on tuck-in acquisitions and debt repayment to augment growth.

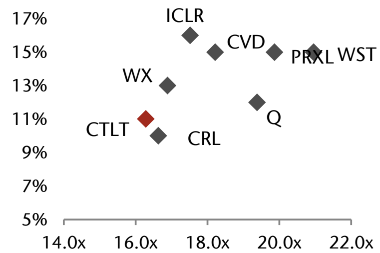
Peer Group

Group 2015 P/Es



Source: FactSet and Jefferies estimates

Earnings Growth vs P/E



Source: FactSet and Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
CRL	BUY	$66.00
CTLT	**BUY**	**$26.50**
CVD	BUY	$98.00
ICLR	BUY	$61.00
PRXL	HOLD	$59.00
Q	HOLD	$56.00
WST	HOLD	$45.00
WX	BUY	$40.00

Catalysts

- Signing of additional 'strategic' agreements
- Commercialization of Phase III projects
- Growth in pharma R&D budgets and/or the amount of manufacturing work being outsourced
- Increased clinical trial starts, especially large global studies

Company Description

Catalent, Inc. is the leading global provider of advanced delivery technologies and development solutions for drugs, biologics and consumer health products. With over 80 years serving the industry, Catalent has proven expertise in bringing more customer products to market faster, enhancing product performance and ensuring reliable clinical and commercial product supply. Catalent employs approximately 8,000 people, including over 1,000 scientists, at nearly 30 facilities across 5 continents.

David Windley, CFA, CPA, Equity Analyst, (615) 963-8313, dwindley@jefferies.com

Executive Summary

Catalent is the leading player in the outsourced manufacturing sector by a wide margin. It is benefiting from several macro trends:

- Molecules are becoming more complex and more difficult to make bioavailable, thus requiring delivery technologies to make them efficacious and commercial.
- Larger biopharma sponsors are certainly limiting their new manufacturing footprint, and in some cases reducing.
- Smaller biopharmas are now well-funded and advancing significant innovation through the pipeline with need for help in manufacturing scale-up.
- As in other areas of pharma R&D and commercial activity, the principals are simplifying their vendor lists to both gain efficiency and improve quality control.

Catalent is differentiated by its proprietary delivery technologies, its manufacturing and problem-solving know how, its very broad client base, and diversified revenue streams. It is the largest manufacturer of softgel dosage forms in the world by about a significant margin. This technology is applied in branded prescription products, generics, over-the-counter, and the vitamin-mineral-supplement (VMS) segment. Beyond softgel, Catalent brings its proprietary Zydis fast-dissolve technology, SMARTag, and GPEx.

The company provides services around nearly 7,000 products to 1,000 clients, including a who's who of top pharma, generic, biotech, and consumer health companies. No single product represents more than 3% and no customer is greater than 10%. While Catalent's revenue growth is 2-4% slower than the average CRO, its streams are more diversified than CROs on average as well.

Catalent has a deep management bench. Its segment leaders have decades of experience and tenure with Catalent in many cases. John Chiminski joined in 2009 as CEO, having spent 20 years at GE. He recruited at least two other executives from GE to his team of direct reports. With Matt Walsh, Catalent's CFO, bringing an engineering background, the overall team brings an intensive, highly measured management style. The management team takes a very rigorous approach to operating, evaluating growth opportunities, and forecasting the business. We see the LEAN efficiency programs and the occasional restructurings/business line exits as evidence of its drive to optimize the portfolio.

We expect some acceleration in top-line growth to historical averages, with margin expansion to augment that. *Jefferies was a co-bookrunner on CTLT's recent $1.0B IPO.*

Valuation

Our $26.50 PT is based on the average of three valuation analyses. First, considering its industry leadership and similar growth profile, we applied an EV/EBITDA multiple in line with its peer average. This yields $26.50. Second, looking at P/E ratios, we applied a multiple in line with the peer average across our entire pharma services coverage list. That yields $25.50. Finally, we discounted 5-yrs worth of free cash flows with a terminal EBIT multiple equal to its current. That yields $27.50.

Risks

Risks include success of client R&D projects, loss of large client contracts, planned operational and geographic expansions, significant international exposure (currency and geopolitical/regulatory), and integration of future acquisitions.

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Investment Positives

Much More Than a Contract Manufacturer

Catalent's robust portfolio of clinical development and advanced delivery technology solutions make it much more than just a contract manufacturer. The company has set itself apart from peers by developing a portfolio of solutions that help clients address numerous drug delivery (i.e. pharmacokinetic) and manufacturing issues. Many times, this results in Catalent being included in its clients' drug regulatory filings. These relationships with clients can last decades as its offerings span all phases of the drug lifecycle—from preclinical studies to generic or over-the-counter switch. Notably, Catalent's expertise and experience will only grow in value as the drugs its clients are developing become increasingly complex.

Significantly Diversified Platform

Catalent current manufactures nearly 7,000 different products across multiple categories. Its expertise ranges from branded and generic prescription drugs, to biologics, consumer health, and veterinary products. Notably, in FY13 it did business with 85 of the top-100 branded drug marketers, in addition to 20 of the top-25 generic, 41 of the top-50 biologic, and 19 of the top-20 consumer health companies globally. No one product or client accounts for more than 3% and 10% of revenue, respectively. Catalent's top-20 clients only contribute 25% of consolidated sales.

Drugs Growing Increasingly Complex

Currently, greater than 50% of pharma revenue comes from drugs requiring complex dose forms. This will only grow as the mix of molecules in pharma pipelines that require advanced delivery technologies climbs higher. An estimated 60-90% of all new compounds entering development will need specialized manufacturing and/or molecular profile modification to achieve the desired clinical result. Further, these solutions can also be applied to existing products in an effort to extend a brand franchise. Catalent is one of the leading providers of advanced delivery technology solutions, employing over 1,000 scientists and technicians worldwide.

Catalent is a Leader in Advanced Delivery Technologies

The company has developed several proprietary drug delivery platforms that solve many of the issues that come along with these increasingly complex compounds. On the oral side, CTLT is best known for its softgel technologies, including its Liqui-Gels, Vegicaps and OptiShell capsules. Notably, it has developed and supplied technology involved in 90% of the new chemical entity softgel approvals by the FDA over the past 25 years. It has also developed other oral modified release technologies including Zydis, OSDrC OptiDose, and OptiMelt.

On the biologics side, CTLT features Gene Product Expression (GPEx) cell-line, and SMARTag antibody-drug conjugate technologies.

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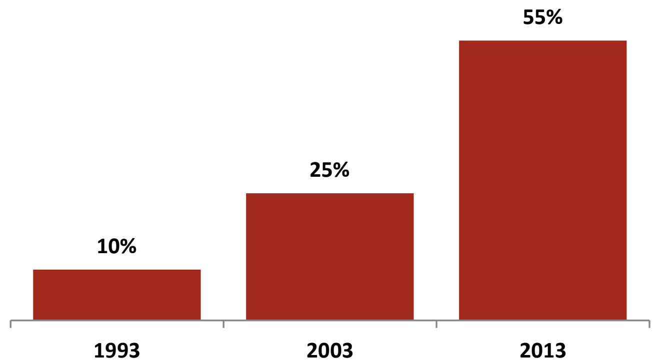
Chart 1: Share of Oral Drugs that are Poorly Absorbed



Source: Company Presentation and Jefferies

"Follow the Molecule" Strategy Creates Client Stickiness

Catalent's offerings span all phases of a drug's lifecycle, from pre-clinical development to commercialization. The rationale is that engaging with a client earlier in the development process increases the likelihood CTLT is chosen to assist in each subsequent stage. The goal here is for CTLT's Clinical and Development Services offerings to act as a feeder into its commercial-scale manufacturing operations.

For example, if CTLT was engaged to help formulate and optimize the candidate for the pre-clinical studies, then its familiarity with that compound makes it the logical choice to manufacture the needed supply for the clinical studies. Then, if the clinical studies are a success, CTLT is likely the commercial manufacturer of choice, since going elsewhere would require a re-validation of the clinical studies.

We have recently seen other CRO's begin to adopt similar strategies (Charles River's acquisition of Argent/BioFocus, for example), but believe it is most effective in the manufacturing realm. Again, this is because changing the drug manufacturer mid-stream (in most cases) requires redoing a battery of clinical studies.

Shift Toward Strategic Relationships Underway

Similar to the phenomenon we saw play out in the late-stage clinical CRO market, growth in the number of pharma strategic partnerships with CMOs is driving consolidation. However, unlike the CRO space, the small- and mid-sized biopharmas are the ones leading the shift, looking for a single company that can provide full services. As these types of arrangements begin to proliferate, we expect CTLT to be one of the primary share gainers since it is one of the few contract manufacturers that can offer a full line of development and manufacturing services to its client base.

Contract Manufacturing Capacity Appears to be Tightening…

We believe capacity is tightening as a result of two different trends: (1) biopharmas are exiting the contract manufacturing business, no longer offering out their excess capacity to each other; and (2) biopharmas are reducing their own internal capacity, choosing instead to rely more heavily on outsourced providers. Tighter capacity benefits CTLT because it allows it to be more selective in the projects it takes on. It should also result in greater pricing power.

…as BioPharmas Exit the Business…

Historically, large pharma companies manufactured much of their own product, and spent heavily on developing their own internal capacity as a result. During periods in which they found themselves with excess capacity, many would seek out contract

David Windley, CFA, CPA, Equity Analyst, (615) 963-8313, dwindley@jefferies.com

manufacturing engagements with other biopharmas to keep their high fixed-cost investments productive. Recently though, a couple large European-based firms—Bayer and Boerhinger-Ingelheim—restructured their manufacturing networks and have decided to exit the contract manufacturing business. In the case of the latter, the impact is not insignificant as its small molecule contract manufacturing revenues amounted to about $245M in 2013.

This is a trend we have seen play out among Indian pharma companies as well. Initially, those companies built up large manufacturing capacity. However, they have now stopped aggressively pursuing contract manufacturing engagements as their own product lines have ramped up.

…and Others Increase Their Reliance on Outsourced Providers

Additionally, we have collected some anecdotal evidence (primarily from PharmSource) of other companies shuttering internal capacity, choosing instead to rely more heavily on outsourced providers:

- **Teva—**planning to close half of its manufacturing facilities over the next five years. 11 facilities have initially been identified and a further 16 are being evaluated.
- **Forest Laboratories**—planning to close its St. Louis facility by June '15
- **Boehringer-Ingelheim**—last year, BI announced plans to close an API manufacturing facility in Petersburg, VA. Additionally, it has decided it will no longer offer out excess capacity in its dose manufacturing sites, a network which spans nine countries. BI does remain committed to its large molecule contract manufacturing business though.

Balance Sheet and Cash Flow Should Contribute to EPS Growth

From the offering Catalent raised $822.7M (excluding the greenshoe, which is scheduled to close 9/9) of which it used all proceeds to repay debt. This reduced its leverage ratio to 4.4x generating an interest savings of $12-13M per quarter. Proceeds from the greenshoe ($124M, net) will also be used to repay debt, further reducing its leverage ratio. The company plans to refinance the remaining debt, presumably at lower rates within the next several months, which should bring another wave of interest savings.

Investment Negatives

Slow top line growth

Relative to other pharmaceutical outsourcing sectors, outsourced manufacturing is a slower growing area. We attribute this to three factors:

- exposure to generics where growth is slower and pricing is somewhat pressured
- lower exposure to biologics on the manufacturing side, which is still maturing whereas biologics spending in outsourced research is quite high
- less aggressive outsourcing by large pharma

Lumpy quarterly business

Catalent's fiscal years tend to be stronger in the second half than the first. Seasonal drugs (i.e. cough and cold) tend to drive strong activity in the March and June quarters to provide enough lead time to deliver to the client and inventory at retail in time for late-fall/winter cold season. By contrast, the September quarter is impacted by summer vacations and annual maintenance shutdowns, while the December quarter is impacted by holidays.

David Windley, CFA, CPA, Equity Analyst, (615) 963-8313, dwindley@jefferies.com

Management also highlights that annual contractual commitments and underlying product demand supports reliable annual forecasting. However, timing of client orders, and timing of shipments can cause unpredictable volatility in quarterly revenue and EPS. We got some insight into this in the company's FY3Q and FY4Q14. A shipment worth about $8M was held on the shipping dock at the end of 3Q, causing revenue to be recognized in early 4Q. Fortunately, profitability was not dramatically affected.

Long-term EPS Growth Impacted by Exhaustion of NOLs by 2017

Catalent's adjusted EPS in FY2015 and 2016 will benefit from net operating loss carryforwards. These will reduce the company's effective tax rate by about 15-18%. In 2017, management expects to have exhausted the NOLs and expects Catalent's cash tax rate to approximate its GAAP tax rate – about 30%.

Our EPS estimates reflect the cash tax rate in 2015 and 2016. As a result, EPS may be flat or slightly down in 2017 YoY. EBITDA should continue to grow at a steady pace, but the change in tax rate will dramatically impact net income.

Reacceleration to "Normal" Growth

Coming out of a slow growth year in 2014, management expects, and has guided us to, accelerating revenue growth. By comparison, revenue growth in 2014 was 1.5%, while the trailing 5-yr CAGR after adjusting for acquisitions and divestitures was 4.5%. We are forecasting 4.6% growth for 2015 and 7.0% for 2016.

Pipeline Moving to Injectable Drugs, CTLT Less Dominant In That Segment

For most biologics (a.k.a. large molecules), injection is the only route of administration that delivers enough of the active ingredient to the bloodstream. Oral, topical, nasal, et al routes have not proven successful...at least not broadly and not yet. Thus, the pipeline mix is shifting somewhat away from CTLT's core technologies.

We would offer two caveats to this risk. First, Catalent is building up a biologics business with proprietary technologies in that business as well – SMARTag and GPEx. This represents about 10% of revenue. It is building significant manufacturing capacity to serve the biologics customer base, which is still the minority even if it is growing faster. Second, biologics developers certainly would like to achieve the long-held holy grail on QD oral delivery for biologics. Applications of advanced delivery technologies to this goal will be an opportunity for Catalent's scientific teams.

Addressable Market/Competitive Landscape

The biopharma solutions (i.e. pharmaceutical manufacturing) market is worth an estimated $40B annually. Currently, about 30% of that spend is outsourced. Management's figures (sourced from Frost & Sullivan) are consistent with another study we found, recently published by 11T Partners. They are also in line with recent estimates provided by Albany Molecular (AMRI, $19.93, NC).

The top-5 players own about one-third of the market and are, in order, Catalent, DPx (Patheon + Royal DSM, which generated an estimated combined $1.04B in manufacturing revenue), Aenova & Temmler, Famar, and Fareva. The next five largest own an additional 10% share (in aggregate). The remainder is made up of several hundred smaller CMOs.

David Windley, CFA, CPA, Equity Analyst, (615) 963-8313, dwindley@jefferies.com

Similar to the CROs, Catalent can grow revenue in three different ways: (1) overall biopharma manufacturing growth; (2) higher outsourced penetration rates; and (3) market share consolidation. Since we only expect the overall market to grow in line with pharma sales (i.e. in the 2-3% range, annually) we believe the primary growth drivers will be increased outsourcing and share consolidation.

Across the entire biopharma solution landscape, clinical trial supply is the most likely to be outsourced with a penetration rate of 42%, and oral fast-dissolve technologies the least likely at 16%. We expect the reliance on outsourced service providers to continue to grow as larger firms look to variabalize more of their cost structures, and smaller, "virtual" biopharmas grow faster in the market and outsource from the beginning.

Additionally, similar to the consolidation in the CRO space, we would expect the CMO market to experience a natural, organic consolidation of spending among the top vendors under broad, "strategic" relationships. Smaller vendors may pursue M&A to achieve the scale needed to engage mid- and large-sized biopharmas in strategic relationships. As we mentioned above, we are seeing the mid-sized biopharmas lead this transition as those firms are increasingly interested in partnering with CMOs that can provide them with a comprehensive set of solutions.

Financials

F4Q14 Results

CTLT's F4Q14 results were largely in line with the preliminary numbers provided ahead of the IPO roadshow. Revenue of $519.6M grew 2.9% YoY, accelerating from 1.4% YoY in 3Q14. In fact, after a weak 1Q14 performance, revenue growth accelerated in each subsequent quarter in FY14. The standout segment on revenue was Oral Technologies, where revenue grew 4.4% as reported. Adjusting for the $8M year-over-year headwind from the Commercial Packaging exit, revenue would have grown 7%.

Adjusted EBITDA grew 17.6% YoY to $151M, with each of the three segments producing double-digit EBITDA growth. Favorable product mix shifts were a significant contributor to the rapid EBITDA growth. Adjusted EBITDA margin expanded 260 bps YoY.

A couple of EBITDA margin call-outs are useful:

- Development & Clinical Solutions (DevClin) adjusted EBITDA margin expanded 660 bps. Synergies from the Aptuit acquisition are a significant contributor. Those benefits should be sustainable, but management believes that nearly all synergies have been extracted at this point. Lower comparator sales (where CTLT sources comparator drug on behalf of the client for a small margin) also helped margin. That impact is likely to reverse in the future.
- Medication Delivery Solutions (MDS) adjusted EBITDA margin expanded 470 bps, helped by a special situation. During plant shutdowns, MDS installed new capacity, which triggered the capitalization of some operating expenses as costs to put that capacity in service. Next quarter, those costs will be expensed.

We are presenting a set of numbers that we are calling "comparable" EBITDA and Net Income/EPS. These numbers do not exclude stock-based compensation and FX translation gains and losses, to produce comparable numbers to our pharma services coverage. On this basis, "comparable" EBITDA was actually $10M above our estimate for all of FY14.

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Chart 2: F4Q14 Summary of the Quarter

Catalent, Inc.

F4Q14 (Jun) Earnings Summary

Source: Company filings and Jefferies LLC

Reports 9/4/2014 AMC

FY ending June 30	Reported		Estimate	Actual		Percentage Change		Difference		
in thousands except EPS	F4Q13	F3Q14	F4Q14	F4Q14	Consensus	Seq	Y/Y	Seq	Y/Y	Est.
Net revenue	**$ 505.1**	**$ 453.1**	**$ 519.3**	**$ 519.6**		***14.7%***	***2.9%***	**$ 66.5**	**$ 14.5**	**$ 0.3**
Cost of products sold	331.5	301.4	339.6	329.3		*9.3%*	*(0.7%)*	27.9	(2.2)	(10.3)
Gross Profit	173.6	151.7	179.7	190.3		*25.4%*	*9.6%*	38.6	16.7	10.6
SG&A	88.9	87.6	78.1	78.6		*(10.3%)*	*(11.6%)*	(9.0)	(10.3)	0.5
EBIT ex-nonrecurring	84.7	64.1	101.6	111.7		*74.3%*	*31.9%*	47.6	27.0	10.1
Impairments (gains on asset sales)	0.6	0.4	-	2.8		*600.0%*	*366.7%*	2.4	2.2	2.8
Non-recurring items	5.7	3.5	-	7.8		*122.9%*	*36.8%*	4.3	2.1	7.8
EBIT	78.4	60.2	101.6	101.1		*67.9%*	*29.0%*	40.9	22.7	(0.5)
Interest expense (income)	42.5	40.4	40.3	40.3		*(0.2%)*	*(5.2%)*	(0.1)	(2.2)	(0.0)
Other expense (income)	4.8	5.2	-	7.6		*46.2%*	*58.3%*	2.4	2.8	7.6
Pre-tax income	31.1	14.6	61.3	53.2		*264.4%*	*71.1%*	38.6	22.1	(8.1)
Taxes	18.2	6.6	18.4	26.2		*297.0%*	*44.0%*	19.6	8.0	7.8
Net income	12.9	8.0	42.9	27.0		*237.5%*	*109.3%*	19.0	14.1	(15.9)
Comparable NI	33.7	21.2	65.7	53.7		*152.9%*	*59.4%*	32.5	20.0	(12.0)
Adjusted NI	54.4	38.9	87.4	77.0		*97.9%*	*41.5%*	38.1	22.6	(10.4)
GAAP EPS	0.17	0.11	0.56	0.36		*237.7%*	*109.4%*	0.25	0.19	(0.21)
Comparable EPS	0.44	0.28	0.86	0.71		*153.1%*	*59.5%*	0.43	0.26	(0.16)
Adjusted EPS	0.72	0.51	1.15	1.01		*98.0%*	*41.6%*	0.50	0.30	(0.14)
Diluted shares	75.9	75.9	75.9	75.9		*(0.1%)*	*(0.1%)*	(0.0)	(0.0)	(0.0)
EBITDA	111.2	90.5	135.2	127.7		*41.1%*	*14.8%*	37.2	16.5	(7.5)
Comparable EBITDA	129.7	97.7	142.4	152.8		*56.4%*	*17.8%*	55.1	23.1	10.4
Adjusted EBITDA	128.2	106.0	150.7	150.7		*42.2%*	*17.6%*	44.7	22.5	-
COMMON SIZE										
Cost of products sold	*65.6%*	*66.5%*	*65.4%*	*63.4%*				*(310 bps)*	*(230 bps)*	*(200 bps)*
Gross margin	*34.4%*	*33.5%*	*34.6%*	*36.6%*				*310 bps*	*230 bps*	*200 bps*
SG&A	*17.6%*	*19.3%*	*15.0%*	*15.1%*				*(420 bps)*	*(250 bps)*	*10 bps*
EBIT ex-nonrecurring	*16.8%*	*14.1%*	*19.6%*	*21.5%*				*740 bps*	*470 bps*	*190 bps*
One-time charges	*1.2%*	*0.9%*	*0.0%*	*2.0%*				*120 bps*	*80 bps*	*200 bps*
EBIT	*15.5%*	*13.3%*	*19.6%*	*19.5%*				*620 bps*	*390 bps*	*(10 bps)*
Interest expense (income)	*8.4%*	*8.9%*	*7.8%*	*7.8%*				*(120 bps)*	*(70 bps)*	*0 bps*
Other expense (income)	*1.0%*	*1.1%*	*0.0%*	*1.5%*				*30 bps*	*50 bps*	*150 bps*
Pre-tax income	*6.2%*	*3.2%*	*11.8%*	*10.2%*				*700 bps*	*410 bps*	*(160 bps)*
Income taxes	*58.5%*	*45.2%*	*30.0%*	*49.2%*				*400 bps*	*(930 bps)*	*1,920 bps*
Net income	*2.6%*	*1.8%*	*8.3%*	*5.2%*				*340 bps*	*260 bps*	*(310 bps)*
Comparable NI	*6.7%*	*4.7%*	*12.6%*	*10.3%*				*560 bps*	*370 bps*	*(230 bps)*
Adjusted NI	*10.8%*	*8.6%*	*16.8%*	*14.8%*				*620 bps*	*400 bps*	*(200 bps)*
EBITDA	*22.0%*	*20.0%*	*26.0%*	*24.6%*				*460 bps*	*260 bps*	*(150 bps)*
Comparable EBITDA	*25.7%*	*21.6%*	*27.4%*	*29.4%*				*780 bps*	*370 bps*	*200 bps*
Adjusted EBITDA	*25.4%*	*23.4%*	*29.0%*	*29.0%*				*560 bps*	*360 bps*	*0 bps*
SEGMENTS										
Oral Technologies										
Revenue	333.3	287.3	347.8	348.1		*21.2%*	*4.4%*	60.8	14.8	0.3
% of total	*66.0%*	*63.4%*	*67.0%*	*67.0%*				*360 bps*	*100 bps*	*0 bps*
EBITDA	100.9	76.2	113.1	113.1		*48.4%*	*12.1%*	36.9	12.2	-
Margin	*30.3%*	*26.5%*	*32.5%*	*32.5%*				*600 bps*	*220 bps*	*0 bps*
Medication Delivery & Solutions										
Revenue	68.1	65.4	68.9	68.9		*5.4%*	*1.2%*	3.5	0.8	-
% of total	*13.5%*	*14.4%*	*13.3%*	*13.3%*				*(120 bps)*	*(20 bps)*	*0 bps*
EBITDA	14.4	15.7	17.8	17.8		*13.4%*	*23.6%*	2.1	3.4	-
Margin	*21.1%*	*24.0%*	*25.8%*	*25.8%*				*180 bps*	*470 bps*	*0 bps*
Development & Clinical Services										
Revenue	106.7	103.7	105.4	105.4		*1.6%*	*(1.2%)*	1.7	(1.3)	-
% of total	*21.1%*	*22.9%*	*20.3%*	*20.3%*				*(260 bps)*	*(80 bps)*	*0 bps*
EBITDA	19.6	23.0	26.3	26.3		*14.3%*	*34.2%*	3.3	6.7	-
Margin	*18.4%*	*22.2%*	*25.0%*	*25.0%*				*280 bps*	*660 bps*	*0 bps*
FY15 GUIDANCE										
		Previous	*Prior JEF*	*Revised*	*Prior Cons.*					
Revenue		$1,890-1,915M	$1,911M	$1,890-1,915M						
EBITDA		$450-460M	$458M	$450-460M						
Net Income		$215-225M		$215-225M						

Source: Company Data and Jefferies LLC

David Windley, CFA, CPA, Equity Analyst, (615) 963-8313, dwindley@jefferies.com

FY15 Projections

CTLT participated in 175 new product introductions over the course of FY14. Management estimates revenue associated with those products to be in the range of $35-50M for the ensuing year…2015. During FY16, as those products fully ramp and contribute a full year's worth of revenue, their contribution is expected to double. Over the course of FY15, CTLT anticipates 185 launches.

Management's guidance was consistent with its commentary pre-IPO and on which we had built our model. It is targeting revenue of $1,890-1,915M, adjusted EBITDA of $450-460M, and adjusted net income of $215-225M. Additional assumptions include CAPEX of $115-125M, a GAAP tax rate of 31-32% (cash taxes of ~$30M), and a diluted share count of 126.1M, which includes the 6.4M greenshoe, closing 9/9.

We are modeling revenue growth to accelerate to 4.6% from 1.5% in 2014. Growth was 6.2% in 2013 and has averaged 4.5% over the prior 5 years. The decision to exit the Commercial Packaging business created a 1.3% headwind to consolidated growth. That diminishes to 0.4% in 2015.

Notably, management's adjusted net income and our "comparable" net income uses cash taxes paid, rather than the GAAP tax rate. This should fall in the mid-teens range.

FY16 Projections

Looking forward into FY16, we are forecasting revenue growth of 7.0%. This is comprised of 10.0% growth in Development & Clinical Services, 5.5% growth in Oral Technologies, and 4.5% growth in Medication Delivery Solutions.

We anticipate a small amount of fixed cost leverage in the MDS and DCS segments, and adjusted EBITDA margins in OT to be flat. On a consolidated basis, we are modeling adjusted (comparable) EBITDA margin to grow 10 bps to 23.2%.

Concerning taxes, we are modeling a GAAP tax rate of 30.0% and a cash tax rate in the 17-18% range (equivalent to ~$35M in cash taxes). Notably, CTLT expects to exhaust its NOLs sometime during the FY17-18 timeframe. At that time, GAAP taxes will more closely approximate cash taxes.

Catalent's Valuation

We looked at valuation in three ways. First, based on EV/EBITDA and its industry leadership, and similar growth profile, we applied a multiple equal to that of the average of Quintiles and West. This yields $26.50. Second, we looked at P/E trading comparables. We applied a peer average 18.5x multiple to our $1.38 CY15 comparable EPS estimate. That yields $25.50. Finally, we looked at discounted cash flows forecasted for 5-yrs with a terminal EBIT multiple equal to its current. That yields $27.50. Taking an average of the three, we arrive at a price target of $26.50.

EV/EBITDA Trading Comparables

Considering its position as market leader and a growth outlook that produces an EBITDA CAGR in the 11-13% range over the next several years, we believe Catalent most closely resembles Quintiles and West. Assuming CTLT traded in line with the average of those two on a '15 EV/EBITDA basis (i.e. 10.9x) implies a share price of $26.50.

Importantly, the EBITDA we use to value CTLT for peer-comparison purposes varies slightly from the one management reports. Our version, which we refer to as "Comparable EBITDA" in our model, includes stock-based comp. We believe this calculation more closely resembles the way the CROs present results.

David Windley, CFA, CPA, Equity Analyst, (615) 963-8313, dwindley@jefferies.com

Chart 3: Catalent Trading Comparables

Ticker	Company	09/08/14 Price	Rating	Price Target	Upside to PT	PT / '15 EPS	52 Week Range Low	52 Week Range High	Debt/ EBITDA	FCF Yield	MCap ($000)	EV ($000)	Avg Day Volume	LT EPS Growth	PEG	Short % Shs Out	Dividend Yield	FYE	Earnings Date (Est.)
Q	Quintiles Transnational Holdings, Inc.	$ 55.96	HOLD	$ 56.00	0.1%	19.4x	$ 40.10	$ 57.65	2.3x	3.9%	$ 7,389,070	$ 8,796,930	507,617	12%	1.62x	1.8%	-	Dec	10/30/2014
CVD	Covance Inc.	84.50	BUY	98.00	16.0%	21.1x	79.21	106.50	0.0x	2.5%	4,862,964	4,505,111	385,879	15%	1.21x	2.7%	-	Dec	11/05/2014
PRXL	PAREXEL International Corporation	58.11	HOLD	59.00	1.5%	20.2x	37.53	58.68	0.3x	4.3%	3,338,420	3,401,552	520,213	15%	1.32x	8.7%	-	Jun	10/28/2014
ICLR	ICON Plc	53.40	BUY	61.00	14.2%	20.0x	35.33	54.08	0.0x	5.0%	3,382,531	3,182,531	453,535	16%	1.09x	1.0%	-	Dec	10/23/2014
WST	West Pharmaceutical Services, Inc.	44.16	HOLD	45.00	1.9%	21.4x	36.77	51.12	0.5x	1.4%	3,197,184	3,323,484	294,365	15%	1.40x	2.6%	1.7%	Dec	11/04/2014
CRL	Charles River Laboratories International	60.41	BUY	66.00	9.3%	18.2x	44.12	62.50	2.4x	6.6%	2,880,596	3,561,823	408,068	10%	1.66x	5.5%	-	Dec	11/04/2014
WX	Wuxi PharmaTech (Cayman) Inc. Sponsor	36.17	BUY	40.00	10.6%	18.7x	24.72	40.72	0.0x	5.4%	2,606,888	2,358,913	446,266	13%	1.30x	0.8%	-	Dec	11/11/2014
CTLT	Catalent Inc	22.50	BUY	26.50	17.8%	19.2x	19.30	22.55	4.5x	4.7%	2,782,718	4,521,818	1,185,260	11%	1.48x	0.0%	-	Jun	11/04/2014

Ticker	Company	EV / Revenue 2013	EV / Revenue 2014	EV / Revenue 2015	EV / EBITDA 2013	EV / EBITDA 2014	EV / EBITDA 2015	P / E 2013	P / E 2014	P / E 2015	Revenue 2013	Revenue 2014	Revenue 2015	Adjusted EBITDA 2013	Adjusted EBITDA 2014	Adjusted EBITDA 2015	Adjusted EPS (non-GAAP) 2013	Adjusted EPS (non-GAAP) 2014	Adjusted EPS (non-GAAP) 2015
Q	Quintiles Transnational Holdings, Inc.	2.3x	2.1x	1.9x	14.4x	12.6x	11.5x	26.6x	21.2x	19.4x	$ 3,808,340	$ 4,207,753	$ 4,565,621	$ 611,602	$ 697,837	$ 766,540	$ 2.10	$ 2.64	$ 2.89
CVD	Covance Inc.	1.9x	1.7x	1.6x	12.2x	10.2x	8.9x	26.1x	22.2x	18.2x	2,402,313	2,586,598	2,793,928	369,578	439,650	507,469	3.23	3.81	4.64
PRXL	PAREXEL International Corporation	1.8x	1.7x	1.5x	13.9x	11.1x	9.6x	29.7x	23.9x	19.9x	1,854,011	2,040,826	2,244,773	244,792	306,216	355,182	1.96	2.43	2.93
ICLR	ICON Plc	2.4x	2.1x	1.9x	18.0x	12.7x	10.9x	30.2x	20.4x	17.5x	1,336,059	1,514,057	1,667,611	176,714	251,377	291,623	1.77	2.62	3.05
WST	West Pharmaceutical Services, Inc.	2.4x	2.3x	2.1x	13.4x	11.6x	10.4x	27.1x	23.9x	21.0x	1,368,400	1,448,341	1,563,653	247,600	287,209	318,825	1.63	1.85	2.11
CRL	Charles River Laboratories International	3.1x	2.8x	2.6x	12.7x	12.6x	11.4x	20.6x	18.2x	16.6x	1,167,023	1,285,867	1,380,141	280,269	282,646	311,924	2.93	3.32	3.63
WX	Wuxi PharmaTech (Cayman) Inc. Sponsor	4.1x	3.5x	3.1x	14.1x	12.4x	10.8x	19.8x	19.8x	16.9x	578,083	668,148	758,249	167,746	189,537	219,010	1.82	1.83	2.14
CTLT	Catalent Inc	2.5x	2.5x	2.3x	11.6x	10.7x	10.0x	47.9x	15.8x	16.3x	1,807,100	1,838,593	1,975,728	389,100	420,660	453,602	0.47	1.42	1.38
Pharma Services Mean		**2.6x**	**2.3x**	**2.1x**	**13.8x**	**11.7x**	**10.4x**	**28.5x**	**20.7x**	**18.2x**									
Pharma Services Median		**2.4x**	**2.2x**	**2.0x**	**13.7x**	**12.0x**	**10.6x**	**26.9x**	**20.8x**	**17.9x**									

Sources: Company Filings, FactSet, and Jefferies LLC

David Windley, CFA, CPA, Equity Analyst, (615) 963-8313, dwindley@jefferies.com

Chart 4: EV/EBITDA Trading Comparables

Ticker	Company	09/08/14 Price	Rating	Price Target	MCap ($M, USD)	EV / EBITDA 2014	EV / EBITDA 2015
DSM-NL	Royal DSM NV	€ 50.40	BUY	€ 65.00	$ 11,260	9.1x	8.2x
Q	Quintiles Transnational Holdings, Inc.	$ 55.96	HOLD	$ 56.00	$ 7,088	12.6x	11.5x
LONN-CH	Lonza Group AG	CHF 109.70	HOLD	CHF 100.00	$ 6,238	10.7x	9.8x
WST	West Pharmaceutical Services, Inc.	$ 44.16	HOLD	$ 45.00	$ 3,112	11.6x	10.4x
CTLT	**Catalent Inc**	**$ 22.50**	**BUY**	**$ 26.50**	**$ 2,770**	**10.7x**	**10.0x**
AVERAGE						**11.0x**	**10.0x**
MEDIAN						**11.1x**	**10.1x**

Source: Company Data, FactSet, and Jefferies LLC

P/E Trading Comparables

Across our entire Pharma Services coverage list, the group trades at an 18.5x average on the basis of CY15 EPS—see Chart 3. Applying this average to our $1.38 CY15 comparable EPS estimate for CTLT implies a share price of $25.50.

Similar to our comparable EBITDA calculation, the EPS we use to value CTLT for peer-comparison purposes varies slightly from the one management reports. Our version, which we refer to as “Comparable EPS” in our model, includes both stock-based comp and FOREX translation gains and losses. We believe this calculation more closely resembles the way the CROs present results.

David Windley, CFA, CPA, Equity Analyst, (615) 963-8313, dwindley@jefferies.com

Discounted Cash Flow

Our discount cash flow model forecasts five years of free cash flows then assumes a terminal EBIT multiple of 14.0x, equal to its current—*see Chart 5*. This results in a target of $27.50.

Chart 5: Discounted Cash Flow Analysis

Catalent Inc.
Discounted Cash Flow Valuation

		2016	2017	2018	2019	2020
Catalent EBIT		$ 318.9	$ 350.8	$ 383.8	$ 418.0	$ 454.3
Less: cash taxes	30.0%	(35.0)	(55.2)	(115.1)	(125.4)	(136.3)
After-tax EBIT		283.9	295.6	268.6	292.6	318.0
Plus: D&A		159.7	168.0	176.6	185.6	195.2
Plus: Changes in working cap		(12.6)	(12.5)	(12.8)	(13.6)	(14.5)
Less: Maintenance cap-x	80%	(96.6)	(101.4)	(106.5)	(111.8)	(117.4)
Total after-tax cash flow		**$ 334**	**$ 350**	**$ 326**	**$ 353**	**$ 381**

Cost of Capital Calculation	
Beta	1.10
Market premium	5.4%
Risk-free rate	3.5%
Equity cost of capital	9.4%
Debt cost of capital	6.0%
Target debt to capitalization	25%
Tax rate	30%

Wtd average cost of capital (WACC) = 8.1%

Terminal EBIT multiple = 14.0x

Catalent Valuation Sensitivity Table

Current net cash/(debt) $ (1,539) **

Current total equity value

$3,460	12.1x	13.1x	14.1x	15.1x	16.1x
7.1%	3,156	3,426	3,697	3,967	4,238
7.6%	3,061	3,326	3,590	3,854	4,119
8.1%	2,969	3,227	3,486	3,744	4,002
8.6%	2,880	3,132	3,384	3,637	3,889
9.1%	2,792	3,039	3,286	3,532	3,779

Total Catalent shares outstanding 126.1

Per share valuation

Terminal multiple

$27.44	12.1x	13.1x	14.1x	15.1x	16.1x
7.1%	$25.02	$27.17	$29.31	$31.46	**$33.60**
7.6%	$24.27	$26.37	$28.46	$30.56	$32.66
8.1%	$23.54	$25.59	**$27.64**	$29.69	$31.74
8.6%	$22.83	$24.83	$26.84	$28.84	$30.84
9.1%	**$22.14**	$24.10	$26.05	$28.01	$29.96

Note: Assumes maintenance capital expenditures are 80% of total.

Source: Company data and Jefferies LLC

Offering Summary

The Catalent IPO priced July 30 at $20.50, the mid-point of its $19-22 range. 42.5M shares were offered, plus a 15% overallotment. 119.7M fully-diluted shares are now outstanding, 70.8M (59%) of which are still owned by the company's private equity sponsor, Blackstone. Through the transaction, CTLT raised $871.3M. All of the net proceeds were used to repay debt. The 180-day lock up expires January 26, 2015. The greenshoe, which consists of 6.4M shares is scheduled to close 9/9. It was fully exercised, and all of those proceeds will also go towards debt repayment.

David Windley, CFA, CPA, Equity Analyst, (615) 963-8313, dwindley@jefferies.com

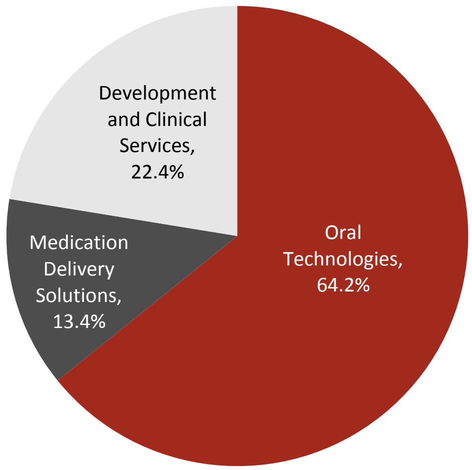
Company Description

Catalent provides advanced delivery technologies and development solutions for drugs, biologics and consumer health products. Put simply, it helps its clients (predominantly pharmaceutical companies) both develop better treatments *and* bring those treatments to market more quickly.

The company was formed in April 2007, following the acquisition of the Pharmaceutical Technologies and Services segment of Cardinal Health by Blackstone. Since then, Catalent has sold off five businesses, consolidated operations at four facilities, and acquired five companies.

It currently operates three different segments—Oral Technologies, Medication Delivery Solutions, and Development and Clinical Services. The first two—OT and MDS—are together referred to as "Advanced Delivery Technologies" and derive their revenue from FDA-approved drugs. The DCS segment provides services on molecules still undergoing clinical trials.

Chart 6: Catalent Revenue Contribution by Segment, FY14



Source: Company Data and Jefferies LLC

Oral Technologies

This segment provides formulations and manufacturing services for drugs that are administered orally (hence, its name), and is comprised of two separate units—Softgel Technologies and Modified Release Technologies. Catalent currently has 14 OT facilities in nine countries—three are in North America, five in Europe, three in South America, and two in the Asia Pacific region.

Softgel Technologies

The bulk of OT revenue (70%) comes from Softgel, a business in which Catalent is a market leader. This unit provides formulation, development and manufacturing services for soft gelatin capsules. The actual encapsulation is performed within one of Catalent's facilities. The active ingredients can either be provided by the client, or Catalent can source it for them. In some facilities, Catalent also offers integrated primary packaging services.

David Windley, CFA, CPA, Equity Analyst, (615) 963-8313, dwindley@jefferies.com

Its principal technologies include traditional softgel capsules—where the outer shell is made from animal-derived materials—and VegiCaps and OptiShell capsules—where the shells are made from vegetable-derived materials. These are used in a broad array of products, including: prescription drugs, over-the-counter medications, vitamins, and supplements.

Modified Release Technologies

The other 30% of OT revenue is derived from the formulation, development and manufacturing services involving fast-dissolve tablets. This unit houses Catalent's proprietary Zydis technology, a tablet that is freeze-dried in its package and dissolves in the mouth in less than three seconds. Three newer platforms have recently been added, including: OptiDose tab-in-tab technology; OptiMelt hot melt extrusion technology; and LyoPan oral dissolving tablet technology.

Medication Delivery Solutions

Catalent's MDS segment focuses on drugs and biologics that are administered via injection, inhalation and ophthalmic routes. Similar to the OT segment, a full range of formulation, development and manufacturing services are provided to clients. Catalent's offerings span from prefilling drugs into syringes to blow-fill-seal manufacturing. Additionally, it offers biologics-related services, including cell-line manufacturing using its patented Gene Product Expression (GPEx) technology.

Catalent currently has four MDS manufacturing facilities, two of which are in North America, and the other two are in Europe.

Development and Clinical Services

The services offered through this segment address the needs of companies that have drugs or biologics in clinical trials. It also kicks off its "follow the molecule" strategy. Catalent provides clinical supplies production, distribution and inventory management support for trials being run in all regions of the world. Additionally, it offers analytical testing, cell-based testing and scientific services, stability testing, and regulatory consulting.

Its capabilities here were significantly expanded through its February 2012 acquisition of Aptuit's clinical trial supplies business. Aptuit added approximately $190M in revenue to DCS. Catalent currently has nine DCS facilities—three in North America, four in Europe, and two in the Asia Pacific region.

David Windley, CFA, CPA, Equity Analyst, (615) 963-8313, dwindley@jefferies.com

Risks

Demand for Some Services Depends on Client R&D Success

Several of the services Catalent offers rely upon the R&D efforts of their clients, and ultimately, both the clinical and market success of their products. Catalent's strategy to "follow the molecule" means trial cancellations (either due to safety or efficacy) negatively affect both NT and LT revenue growth. NT revenue is impacted because the company is no longer needed to support the ongoing trial. Further, LT revenue is affected because subsequent trials, and eventually commercialization (in which CTLT would expect to play a role), are less likely to occur.

Operational and Geographic Expansion Increases Risk

Catalent has been very successful so far when it comes to the internal investments it has made. Recent examples include the construction of a bio-manufacturing facility in Wisconsin, and the in-licensing of the SMARTag antibody-drug conjugate technology. That said, management does intend to continue investing in adjacent capabilities and geographies—it is currently considering opportunities in Japan, Brazil, and China, and in the animal health market. Entering new and unproven markets is generally accompanied by greater amounts of risk.

Significant International Exposure

Approximately 62% of Catalent's revenue is derived from operations outside of the United States. It currently serves customers in 80 different countries. Operating outside the U.S. brings with it additional challenges, including: foreign exchange fluctuations, a changing regulatory environment, differing tax policies and difficulty repatriating cash generated abroad, and exposure to local economic conditions. Changes in any of these could adversely affect CTLT's financial results.

Integrating Future Acquisitions

CTLT has acquired five companies over the past seven years. All of the associated integrations are now complete; however, we expect the company will remain somewhat active on the M&A front. Difficulty integrating any of its existing or future acquisitions could negatively affect CTLT.

David Windley, CFA, CPA, Equity Analyst, (615) 963-8313, dwindley@jefferies.com

Management

John R. Chiminski, President & Chief Executive Officer

Mr. Chiminski has led Catalent since March 2009, joining after more than 20 years of experience at GE Healthcare in engineering, operations, and senior leadership roles. From 2007 to 2009, Mr. Chiminski was President and Chief Executive Officer of GE Medical Diagnostics. From 2005 to 2007, he served as Vice President and General Manager of GE Healthcare's Global Magnetic Resonance Business, and from 2001 to 2005, as Vice President and General Manager of Global Healthcare Services. Mr. Chiminski holds a BS from Michigan State University and an M.S. from Purdue University, both in electrical engineering, as well as a Master in Management degree from the Kellogg School of Management at Northwestern University.

Matthew Walsh, Executive Vice President and Chief Financial Officer

Mr. Walsh joined Catalent in April 2008. Prior to joining the Company, he served as President and CFO of Escala Group, Inc., a global collectibles network and precious metals trader. From 1996 through 2006, Mr. Walsh held positions of increasing responsibility in corporate development, accounting and finance at diversified industrial manufacturer GenTek, Inc., culminating in his appointment as Vice President and Chief Financial Officer. Prior to GenTek, he served in corporate development and other roles in banking and the chemicals industry. Mr. Walsh received a B.S. in chemical engineering and an MBA from Cornell University and is a CFA® charter holder.

Scott Houlton, President, Development and Clinical Services

Mr. Holton has served in his current role since August 2009. Previously, he was Chief Operating Officer of Aptuit, Inc., responsible for Scientific Operations, Business Process Improvement, Human Resources, Clinical Operations and Capital Development and served as a director for Aptuit Laurus, Inc. Prior to Aptuit, Mr. Houlton held a variety of leadership roles in other companies including Vice President of Clinical Supplies at Quintiles Transnational Corporation. Earlier in his career, he was with Cardinal Health, Inc. where he served as Director of International Business Development. Mr. Houlton holds a B.S. degree in Business Administration from The Ohio State University.

Aris Gennadios, President, Softgel Technologies

Mr. Gennadios has served in his current role since September 2013. Previously, he was VP and General Manager of Softgel Technologies. Dr. Gennadios has worked in the pharmaceutical industry since 1996 in roles including R&D, field sales, business development and leadership. He joined Catalent's predecessor company, Cardinal Health, in 2002 and has held several key leadership posts within the softgel technologies business. Dr. Gennadios earned his bachelor's degree in chemical engineering from the National Technical University of Athens, Greece and his master's degree in biological engineering from Clemson University. He also holds a doctorate in engineering from the University of Nebraska and an MBA from Wake Forest University.

Barry Littlejohns, President, Advanced Delivery Technologies

Mr. Littlejohns initially joined Catalent in 1989 when it was formerly the RP Scherer Corporation. He has served in his current role since July 2013. For two years prior to that, he led Catalent's Medication Delivery Solutions. In July 2011 he rejoined the company after two years as SVP of Operations and Business Development at Danish biotechnology company Genmab. Prior to Genmab, he served in a broad range of leadership roles at Catalent. These include Vice President of Global Business Operations, Vice President of Commercial Affairs for Medication Delivery Solutions, Vice President and General Manager of Injectables, and various financial, operational and leadership roles. Mr. Littlejohns has two degrees in business and finance from Swindon, UK.

David Windley, CFA, CPA, Equity Analyst, (615) 963-8313, dwindley@jefferies.com

Chart 7: Catalent Earnings Model

Catalent, Inc.
Earnings Model

FY June		2013					2014E					2015E					
Source: Jefferies LLC	2012	Sep-12	Dec-12	Mar-13	Jun-13	2013	Sep-13	Dec-13	Mar-14	Jun-14E	2014	Sep-14E	Dec-14E	Mar-15E	Jun-15E	2015E	2016E
Net revenue	$ 1,695.0	$ 412.0	$ 436.2	$ 447.0	$ 505.1	$ 1,800.3	$ 414.3	$ 440.7	$ 453.1	$ 519.6	$ 1,827.7	$ 410.9	$ 455.0	$ 482.3	$ 563.5	$ 1,911.7	$ 2,046.0
Cost of products sold	1,136.2	294.5	296.1	309.6	331.5	1,231.7	295.1	303.3	301.4	329.3	1,239.7	289.2	310.2	315.7	364.0	1,279.1	1,354.9
Gross profit	*558.8*	*117.5*	*140.1*	*137.4*	*173.6*	*568.6*	*119.2*	*137.4*	*151.7*	*190.3*	*588.0*	*121.7*	*144.8*	*166.6*	*199.5*	*632.6*	*691.1*
SG&A	348.1	81.8	86.2	83.7	88.9	340.6	81.1	87.5	87.6	78.6	334.8	84.2	90.4	93.9	78.6	347.0	372.2
EBIT ex-nonrecurring	*210.7*	*35.7*	*53.9*	*53.7*	*84.7*	*228.0*	*38.1*	*49.9*	*64.1*	*111.7*	*253.2*	*37.5*	*54.4*	*72.8*	*121.0*	*285.6*	*318.9*
Impairments (gains on asset sa	(7.0)	(0.2)	2.6	2.2	0.6	5.2	-	-	0.4	2.8	3.2	-	-	-	-	-	-
Non-recurring items	19.5	3.5	5.6	3.6	5.7	18.4	3.0	5.4	3.5	7.8	19.7	-	-	-	-	-	-
EBIT	198.2	32.4	45.7	47.9	78.4	204.4	35.1	44.5	60.2	101.1	230.3	37.5	54.4	72.8	121.0	285.6	318.9
Interest expense (income)	183.2	53.9	53.2	53.6	42.5	203.2	40.9	41.5	40.4	40.3	163.1	25.0	22.9	22.8	22.8	93.5	89.7
Other expense (income)	(3.8)	-	12.0	8.3	4.8	25.1	(1.0)	(1.4)	5.2	7.6	10.4	-	-	-	-	-	-
Pretax income	18.8	(21.5)	(19.5)	(14.0)	31.1	(23.9)	(4.8)	4.4	14.6	53.2	56.8	12.5	31.5	49.9	98.2	192.1	229.1
Minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes	16.5	(2.0)	8.0	(0.1)	18.2	24.1	(6.6)	23.3	6.6	26.2	49.5	3.8	9.4	15.0	29.5	57.6	68.7
Net income	2.3	(19.5)	(27.5)	(13.9)	12.9	(48.0)	1.8	(18.9)	8.0	27.0	7.3	8.8	22.0	34.9	68.7	134.5	160.4
Comparable NI	31.3	(20.2)	(0.2)	(8.9)	42.1	12.8	(13.5)	15.9	20.7	63.7	86.8	10.6	26.6	42.1	82.9	162.1	194.1
Adjusted NI	81.4	(5.9)	20.9	13.0	54.4	82.4	(1.4)	27.9	38.9	77.0	131.8	25.0	41.1	56.7	97.5	220.3	252.6
GAAP EPS	**0.03**	**(0.26)**	**(0.36)**	**(0.18)**	**0.17**	**(0.63)**	**0.02**	**(0.25)**	**0.11**	**0.36**	**0.10**	**0.08**	**0.17**	**0.28**	**0.55**	**1.11**	**1.26**
Comparable EPS	**0.41**	**(0.27)**	**(0.00)**	**(0.12)**	**0.55**	**0.17**	**(0.18)**	**0.21**	**0.27**	**0.84**	**1.14**	**0.10**	**0.21**	**0.33**	**0.66**	**1.33**	**1.53**
Adjusted EPS	**1.07**	**(0.08)**	**0.28**	**0.17**	**0.72**	**1.09**	**(0.02)**	**0.37**	**0.51**	**1.01**	**1.74**	**0.23**	**0.33**	**0.45**	**0.77**	**1.81**	**1.99**
Diluted shares	75.9	75.9	75.9	75.9	75.9	75.9	75.9	75.9	75.9	75.9	75.9	107.4	126.1	126.1	126.1	121.4	127.1
EBITDA	**330.5**	**69.7**	**72.1**	**78.8**	**111.2**	**331.8**	**72.8**	**83.4**	**90.5**	**127.7**	**374.4**	**76.7**	**93.5**	**111.9**	**160.0**	**442.0**	**474.8**
Comparable EBITDA	**356.4**	**76.3**	**94.5**	**88.4**	**129.7**	**388.9**	**79.1**	**91.9**	**97.7**	**152.8**	**421.5**	**76.7**	**93.5**	**111.9**	**160.0**	**442.0**	**474.8**
Adjusted EBITDA	**388.6**	**82.3**	**101.7**	**100.7**	**128.2**	**412.9**	**82.3**	**93.3**	**106.0**	**150.7**	**432.3**	**80.9**	**97.8**	**116.2**	**164.4**	**459.2**	**492.5**
Common Size:																	
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of products sold	67.0%	71.5%	67.9%	69.3%	65.6%	68.4%	71.2%	68.8%	66.5%	66.5%	67.8%	70.4%	68.2%	65.5%	64.6%	66.9%	66.2%
Gross margin	*33.0%*	*28.5%*	*32.1%*	*30.7%*	*34.4%*	*31.6%*	*28.8%*	*31.2%*	*33.5%*	*36.6%*	*32.2%*	*29.6%*	*31.8%*	*34.5%*	*35.4%*	*33.1%*	*33.8%*
SG&A	20.5%	19.9%	19.8%	18.7%	17.6%	18.9%	19.6%	19.9%	19.3%	19.3%	18.3%	20.5%	19.9%	19.5%	13.9%	18.2%	18.2%
EBIT ex-nonrecurring	*12.4%*	*8.7%*	*12.4%*	*12.0%*	*16.8%*	*12.7%*	*9.2%*	*11.3%*	*14.1%*	*21.5%*	*13.9%*	*9.1%*	*12.0%*	*15.1%*	*21.5%*	*14.9%*	*15.6%*
Impairments (gains on asset sa	-0.4%	0.0%	0.6%	0.5%	0.1%	0.3%	0.0%	0.0%	0.1%	0.5%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Non-recurring items	1.2%	0.8%	1.3%	0.8%	1.1%	1.0%	0.7%	1.2%	0.8%	1.5%	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT	11.7%	7.9%	10.5%	10.7%	15.5%	11.4%	8.5%	10.1%	13.3%	19.5%	12.6%	9.1%	12.0%	15.1%	21.5%	14.9%	15.6%
Interest expense (income)	10.8%	13.1%	12.2%	12.0%	8.4%	11.3%	9.9%	9.4%	8.9%	7.8%	8.9%	6.1%	5.0%	4.7%	4.0%	4.9%	4.4%
Other expense (income)	1.2%	0.8%	1.3%	0.8%	1.1%	1.0%	0.7%	1.2%	0.8%	1.5%	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pretax income	1.1%	-5.2%	-4.5%	-3.1%	6.2%	-1.3%	-1.2%	1.0%	3.2%	10.2%	3.1%	3.0%	6.9%	10.3%	17.4%	10.0%	11.2%
Taxes	87.8%	9.3%	-41.0%	0.7%	58.5%	-100.8%	137.5%	529.5%	45.2%	49.2%	87.1%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Net income	0.1%	-4.7%	-6.3%	-3.1%	2.6%	-2.7%	0.4%	-4.3%	1.8%	5.2%	0.4%	2.1%	4.8%	7.2%	12.2%	7.0%	7.8%
Adjusted net income	4.8%	-1.4%	4.8%	2.9%	10.8%	4.6%	-0.3%	6.3%	8.6%	14.8%	7.2%	6.1%	9.0%	11.7%	17.3%	11.5%	12.3%

Sources: Company Filings and Jefferies LLC

David Windley, CFA, CPA, Equity Analyst, (615) 963-8313, dwindley@jefferies.com

Chart 8: Catalent Balance Sheet and Cash Flow

Catalent Inc.

Balance Sheet and Cash Flow

Source: Jefferies LLC

FY June	2012	Sep-12	Dec-12	Mar-13	Jun-13	2013	Sep-13	Dec-13	Mar-14	Jun-14	2014	Sep-14E	Dec-14E	Mar-15E	Jun-15E	2015E	2016E
Balance Sheet																	
Assets																	
Cash, unrestricted	$139.0	$420.7	$72.8	$87.5	$106.4	$106.4	$95.8	$64.2	$55.7	$74.4	$74.4	$204.4	$225.9	$255.5	$294.4	$294.4	$481.2
Accounts receivable, net	338.3	313.9	294.2	316.5	358.0	358.0	295.0	317.3	344.2	403.7	403.7	319.3	353.5	374.7	437.8	437.8	465.2
Inventories, net	118.7	144.0	151.9	143.2	124.9	124.9	133.1	140.3	155.0	134.8	134.8	106.6	118.0	125.1	146.2	146.2	155.3
Prepaid & other	108.7	108.8	98.4	84.4	88.6	88.6	92.8	90.3	72.5	74.6	74.6	59.0	65.3	69.2	80.9	80.9	86.0
Total current assets	704.7	987.4	617.3	631.6	677.9	677.9	616.7	612.1	627.4	687.5	687.5	689.2	762.7	824.6	959.3	959.3	1,187.8
PP&E, net	809.7	823.3	828.4	807.0	814.5	814.5	827.3	838.2	837.6	873.0	873.0	856.2	841.0	836.6	837.5	837.5	798.5
Goodwill	1,029.9	1,056.9	1,054.6	1,023.1	1,023.4	1,023.4	1,051.7	1,081.5	1,088.3	992.0	992.0	992.0	992.0	992.0	992.0	992.0	992.0
Other intangibles, net	417.7	419.5	407.4	381.4	372.2	372.2	372.9	371.1	363.3	363.3	363.3	363.3	363.3	363.3	363.3	363.3	363.3
Deferred income taxes	135.2	137.0	137.7	136.6	132.2	132.2	134.0	130.9	132.2	132.2	132.2	132.2	132.2	132.2	132.2	132.2	132.2
Other	41.8	42.4	44.1	41.6	36.6	36.6	39.0	39.1	42.2	42.2	42.2	42.2	42.2	42.2	42.2	42.2	42.2
Total assets	**3,139.0**	**3,466.5**	**3,089.5**	**3,021.3**	**3,056.8**	**3,056.8**	**3,041.6**	**3,072.9**	**3,091.0**	**3,090.2**	**3,090.2**	**3,075.2**	**3,133.4**	**3,190.9**	**3,326.5**	**3,326.5**	**3,515.9**
Liabilities & Equity																	
Current portion of LTO & ST borrowing	43.2	346.2	32.8	29.6	35.0	35.0	30.0	59.2	27.2	25.2	25.2	25.2	25.2	25.2	25.2	25.2	25.2
Accounts payable	134.2	137.0	132.1	138.8	150.8	150.8	124.8	120.5	130.3	148.1	148.1	117.1	129.7	137.5	160.6	160.6	170.7
Other accrued liabilities	261.9	250.9	217.5	220.6	224.5	224.5	193.7	226.3	255.8	279.7	279.7	221.2	244.9	259.6	303.3	303.3	322.3
Total current liabilities	439.3	734.1	382.4	389.0	410.3	410.3	348.5	406.0	413.3	453.0	453.0	363.5	399.8	422.3	489.2	489.2	518.2
L-T debt obligations, less current	2,640.3	2,658.1	2,666.7	2,645.6	2,656.6	2,656.6	2,673.7	2,671.6	2,674.0	2,685.4	2,685.4	1,932.1	1,808.6	1,808.6	1,808.6	1,808.6	1,808.6
Pension liability	140.3	142.8	142.7	142.8	134.1	134.1	135.7	135.2	134.5	134.5	134.5	134.5	134.5	134.5	134.5	134.5	134.5
Deferred taxes	219.9	216.8	219.2	211.8	219.1	219.1	216.8	215.7	213.1	132.6	132.6	132.6	132.6	132.6	132.6	132.6	132.6
Other liabilities	49.9	49.7	48.9	49.5	47.0	47.0	49.0	53.6	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0
Total liabilities	3,489.7	3,801.5	3,459.9	3,438.7	3,467.1	3,467.1	3,423.7	3,482.1	3,486.9	3,457.5	3,457.5	2,614.7	2,527.5	2,550.0	2,616.9	2,616.9	2,645.9
Non-controlling interest				-			4.9	4.7	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Shareholders' equity	(350.7)	(335.0)	(370.4)	(417.4)	(410.3)	(410.3)	(387.0)	(413.9)	(400.4)	(371.8)	(371.8)	455.9	601.5	636.4	705.1	705.1	865.5
Total liabilities & equity	**3,139.0**	**3,466.5**	**3,089.5**	**3,021.3**	**3,056.8**	**3,056.8**	**3,041.6**	**3,072.9**	**3,091.0**	**3,090.2**	**3,090.2**	**3,075.2**	**3,133.4**	**3,190.9**	**3,326.5**	**3,326.5**	**3,515.9**
		-	-	-	-		-	-	-	-		-	-	-	-		
Cash Flow Statement																	
Operating cash flow																	
Net income (loss)	$ (39.2)	$ (19.7)	$ (27.4)	$ (18.8)	$ 19.1	$ (46.8)	$ 1.4	$ (19.5)	$ 6.3	$ 27.0	$ 15.2	$ 8.8	$ 22.0	$ 34.9	$ 68.7	$ 134.5	$ 160.4
Net income (loss), discontinued ops	(41.3)	(0.2)	0.2	(4.9)	6.1	1.2	(0.4)	(0.6)	(1.7)	-	(2.7)	-	-	-	-	-	-
Earnings/(loss) from continuing	2.1	(19.5)	(27.6)	(13.9)	13.0	(48.0)	1.8	(18.9)	8.0	27.0	17.9	8.8	22.0	34.9	68.7	134.5	160.4
D&A	129.7	37.3	38.5	39.1	37.3	152.2	36.5	37.3	35.1	35.8	144.7	36.5	37.2	38.0	38.8	150.5	159.7
Non-cash financing related costs	20.8	3.4	20.7	11.4	0.9	36.4	(0.9)	(0.8)	4.7	-	3.0	-	-	-	-	-	-
Other	(10.9)	(2.0)	5.1	(0.9)	21.6	23.8	(2.2)	4.5	(4.0)	(14.1)	(15.8)	-	-	-	-	-	-
Changes in working capital	(54.0)	(7.1)	(23.1)	23.0	(18.1)	(25.3)	(9.5)	(6.3)	8.0	(1.7)	(9.5)	38.8	(15.7)	(9.8)	(29.0)	(15.7)	(12.6)
Total operating cash flow	**87.7**	**12.1**	**13.6**	**58.7**	**54.7**	**139.1**	**25.7**	**15.8**	**51.8**	**47.0**	**140.3**	**84.0**	**43.6**	**63.2**	**78.5**	**269.3**	**307.5**
Investing cash flow																	
Capital expenditures	(104.2)	(24.6)	(28.2)	(32.0)	(37.7)	(122.5)	(18.8)	(21.0)	(22.2)	(37.7)	(99.7)	(19.7)	(22.1)	(33.6)	(39.6)	(115.0)	(120.7)
Proceeds from insurance or asset sal	23.5	-	0.2	0.1	2.6	2.9	0.6	0.2	-	-	0.8	-	-	-	-	-	-
Acquisitions	(457.5)	-	-	-	(2.5)	(2.5)	(8.0)	(43.0)	(2.5)	-	(53.5)	-	-	-	-	-	-
Security investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	4.0	-	4.0	-	-	-	-	-	-
Total investing cash flow	**(538.2)**	**(24.6)**	**(28.0)**	**(31.9)**	**(37.6)**	**(122.1)**	**(26.2)**	**(63.8)**	**(20.7)**	**(37.7)**	**(148.4)**	**(19.7)**	**(22.1)**	**(33.6)**	**(39.6)**	**(115.0)**	**(120.7)**
Financing cash flow																	
Net changes in short-term debt	(2.9)	(1.5)	(5.6)	(2.4)	5.6	(3.9)	(5.8)	20.8	(32.2)	-	(17.2)	-	-	-	-	-	-
Net changes in Borrowings/LTO	354.7	291.3	(327.5)	1.2	(11.6)	(46.6)	(6.7)	(7.8)	(4.8)	9.4	(9.9)	(753.3)	(123.5)	-	-	(876.8)	-
Net changes in equity	1.1	0.2	0.2	0.3	0.5	1.2	-	0.2	-	-	0.2	819.0	123.5	-	-	942.5	-
Other		-	-	(7.6)	7.6	-	-	-	-	-	-	-	-	-	-	-	-
Total financing cash flow	**352.9**	**290.0**	**(332.9)**	**(8.5)**	**2.1**	**(49.3)**	**(12.5)**	**13.2**	**(37.0)**	**9.4**	**(26.9)**	**65.7**	**-**	**-**	**-**	**65.7**	**-**
FX rate change impact	31.5	4.2	(0.6)	(3.6)	(0.4)	(0.3)	2.4	3.2	(2.6)		3.0					-	-

Sources: Company Filings and Jefferies LLC

David Windley, CFA, CPA, Equity Analyst, (615) 963-8313, dwindley@jefferies.com

Company Description

Catalent, Inc. is the leading global provider of advanced delivery technologies and development solutions for drugs, biologics and consumer health products. With over 80 years serving the industry, Catalent has proven expertise in bringing more customer products to market faster, enhancing product performance and ensuring reliable clinical and commercial product supply. Catalent employs approximately 8,000 people, including over 1,000 scientists, at nearly 30 facilities across 5 continents.

Analyst Certification

I, David Windley, CFA, CPA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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Buy - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

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The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below $10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below $10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below $10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.

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Risk which may impede the achievement of our Price Target

David Windley, CFA, CPA, Equity Analyst, (615) 963-8313, dwindley@jefferies.com

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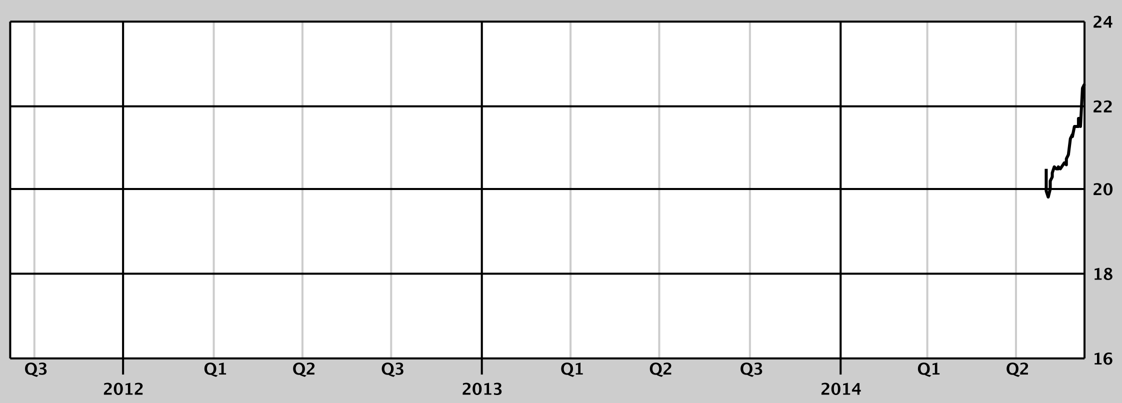
Other Companies Mentioned in This Report

- Charles River Laboratories, Inc. (CRL: $60.41, BUY)
- Covance Inc. (CVD: $84.50, BUY)
- ICON plc (ICLR: $53.40, BUY)
- PAREXEL International Corporation (PRXL: $58.11, HOLD)
- Quintiles Inc. (Q: $55.96, HOLD)
- West Pharmaceutical Services, Inc. (WST: $44.16, HOLD)
- WuXi PharmaTech Inc. (WX: $36.17, BUY)

Rating and Price Target History for: Catalent, Inc. (CTLT) as of 09-08-2014



Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY	968	51.33%	252	26.03%
HOLD	774	41.04%	131	16.93%
UNDERPERFORM	144	7.64%	6	4.17%

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David Windley, CFA, CPA, Equity Analyst, (615) 963-8313, dwindley@jefferies.com

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David Windley, CFA, CPA, Equity Analyst, (615) 963-8313, dwindley@jefferies.com