

Morgan Stanley & Co. LLC

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Stock Rating  
**Overweight**

Industry View  
**In-Line**

November 14, 2014

## Catalent, Inc. 1Q a Catalyst for Strong '15

**CTLT results point to underlying strength of the core business. Tech acquisitions set the stage for accelerated mid to long term growth with appetite for additional deals of up to ~\$1 bil provides upside if materializes.**

**1Q revenues at \$418 mil up 1% y/y on absolute and constant FX basis and 1Q EBITDA of \$83 mil came in ahead of our and cons estimates of \$81/\$80 mil respectively.** Normalizing for below the line items including timing of debt pay down resulting in higher than expected interest expense (-\$0.07) and cash tax (-\$0.03) EPS was in line with cons/MS of \$0.21/\$0.23.

**DCS and MDS segment EBITDA came in ahead of our estimates delivering margin expansion of ~500 bps and ~300 bps, respectively.** OT segment was more mixed with topline at 0.8% exceeding our 1.6% decline but EBITDA margin contracting 120bp y/y due to mix shift towards consumer soft gels from brands. While is expected to be a margin headwind thru FY15 in the OT segment, it should result in more predictable growth than traditional pharma business over the longer term.

**While mgmt did not change guidance, FY15 guidance including FX headwinds (~3%) and M&A implies ~7% revenue and EBITDA growth for the remainder of FY15** pointing to strong underlying growth relative to original guidance of ~4%, inline with our estimates. 2H should benefit from easier comps in OT, continued growth in biologics, & favorable seasonality.

**Acquisitions continue to provide upside optionality.** CTLT also announced the acquisition of Micron, bolstering technology & early stage offering complementing CTLT's traditional strength in later phase development. Looking ahead management reiterated its willingness to lever back up to 6x, implying ~\$1 bil in available capital, to pursue a strategic and accretive deal. In our model we don't include any benefit from inorganic growth with M&A an upside opportunity.

**Model update.** Inclusive of FX headwinds, we now model FY15 adj. EBITDA of \$456 mil, inline with prior and vs. cons. of \$453 and guidance of \$450-\$460 mil.

### Key Ratios and Statistics

Reuters: CTLT.N Bloomberg: CTLT US

Healthcare Services & Distribution / United States of America

Shr price, close (Nov 13, 2014)	\$23.72
Mkt cap, curr (mm)	\$1,877
52-Week Range	\$26.24-19.30

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November 14, 2014

Catalent, Inc.

## Exhibit 1

**CTLT Income Statement, FY12A-FY17E**

INCOME STATEMENT (In millions, except per share)	2012A	2013A	2014A	Fiscal Year End, June 30 2015				2015E	Fiscal Year End, June 30 2016				2016E	2017E
				1QE	2QE	3QE	4QE		1QE	2QE	3QE	4QE		
Net revenue	1,694.8	1,800.3	1,827.7	418.3	451.4	484.3	559.7	1,913.8	449.3	482.1	512.8	592.1	2,036.3	2,137.7
Cost of Sales (reported)	1,136.2	1,231.7	1,229.1	293.0	312.6	319.3	338.8	1,263.7	317.6	332.0	335.1	352.9	1,337.7	1,373.4
Gross Profit (reported)	558.6	568.6	598.6	125.3	138.8	165.0	220.9	650.0	131.6	150.1	177.7	239.2	698.6	764.3
SG&A Reported	348.1	340.6	334.8	81.4	86.2	90.0	80.5	338.1	83.0	91.6	94.8	84.5	353.9	373.6
Depreciation & Amortization	49.5	65.3	49.7	6.3	10.5	10.3	10.0	37.1	6.0	5.7	5.5	5.2	22.4	38.5
Impairment charges and (gain)/loss on sale of assets	1.8	5.2	3.2	-	2.8	2.8	2.8	8.4	2.8	2.8	2.8	2.8	11.2	11.2
Restructuring charges	19.5	18.4	19.7	1.4	5.0	5.0	5.0	16.4	5.0	5.0	5.0	5.0	20.0	20.0
Others	(8.8)	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses (Reported)	328.9	331.7	331.9	60.8	86.2	90.0	80.5	317.5	83.0	91.6	94.8	84.5	353.9	373.6
Income from operations, reported	198.0	204.4	240.9	42.5	44.8	67.2	132.6	287.1	40.8	50.7	75.1	146.8	313.5	359.4
Interest expense, net	183.2	203.2	163.1	35.5	23.0	23.0	23.0	104.4	23.0	23.0	23.0	23.0	91.9	88.8
Other (income) expense, net	(3.8)	25.1	10.4	41.3	-	-	-	41.3	2.0	2.0	2.0	2.0	8.0	20.0
Income from continuing operations before income taxes	18.6	(23.9)	67.4	(34.3)	21.8	44.2	109.7	141.4	15.8	25.7	50.1	121.9	213.6	250.6
Income tax expense (benefit)	16.5	24.1	49.5	(14.0)	6.5	13.3	32.9	38.7	4.8	7.7	15.0	36.6	64.1	75.2
Earnings/(loss) from continuing operations	2.1	(48.0)	17.9	(20.3)	15.3	31.0	76.8	102.7	11.1	18.0	35.1	85.3	149.5	175.4
Net Income from discontinued operations, net of tax	(41.3)	1.2	(2.7)	-	-	-	-	-	-	-	-	-	-	-
Noncontrolling interest	1.2	(0.1)	(1.0)	(0.4)	(0.4)	(0.4)	(0.4)	(1.6)	(0.4)	(0.4)	(0.4)	(0.4)	(1.6)	(1.6)
Net Income attributable to Catalent	(38.0)	(46.7)	16.2	(19.9)	15.7	31.4	77.2	104.3	11.5	18.4	35.5	85.7	151.1	177.0
Adj. Net Income	81.2	82.4	142.4	13.4	37.2	54.7	115.1	220.4	27.4	34.8	55.2	121.0	238.4	261.9
EPS (adjusted)		\$1.10	\$1.87	\$0.13	\$0.29	\$0.42	\$0.89	\$1.79	\$0.21	\$0.27	\$0.42	\$0.93	\$1.83	\$2.00
Average Basic: shares outstanding	ND	ND	74.8	103.1	117.5	117.7	117.9	114.1	118.1	118.3	118.5	118.7	118.4	119.2
Average Diluted shares outstanding	ND	75.0	76.2	105.5	129.2	129.4	129.6	123.4	129.8	130.0	130.2	130.4	130.1	130.9
Period end shares outstanding	ND	ND	77.6	129.1	129.3	129.5	129.7	129.4	129.9	130.1	130.3	130.5	130.5	131.3
EBIT and EBITDA														
EBIT	203.0	179.2	229.9	1.6	46.2	67.7	112.6	228.0	42.6	56.4	79.6	129.1	307.7	340.1
Depreciation and amortization	129.8	152.2	144.5	35.0	39.3	39.0	38.8	152.1	38.5	38.2	38.0	37.7	152.4	148.5
EBITDA	331.6	331.5	374.4	36.6	85.4	106.7	151.3	380.1	81.1	94.6	117.5	166.8	460.2	488.7
Adj. EBITDA	389.7	412.6	432.3	83.4	95.1	116.4	161.0	456.0	89.1	102.6	125.5	174.8	492.2	520.7
Margins														
Gross profit	33.0%	31.6%	32.8%	30.0%	30.7%	34.1%	39.5%	34.0%	29.3%	31.1%	34.7%	40.4%	34.3%	35.8%
Adj. EBITDA	23.0%	22.9%	23.7%	19.9%	21.1%	24.0%	28.8%	23.8%	19.8%	21.3%	24.5%	29.5%	24.2%	24.4%
Adj. Net Income	-2.2%	-2.6%	7.8%	3.2%	8.2%	11.3%	20.6%	11.5%	6.1%	7.2%	10.8%	20.4%	11.7%	12.3%
Expenses														
Cost of sales	67.0%	68.4%	67.2%	70.0%	69.3%	65.9%	60.5%	66.0%	70.7%	68.9%	65.3%	59.6%	65.7%	64.2%
SG&A (reported)	19.4%	18.9%	18.3%	19.5%	19.1%	18.6%	14.4%	17.7%	19.4%	19.0%	18.5%	14.3%	17.4%	17.5%
Adj. Tax Rate		7.7%		76.7%	18.3%	18.4%	16.1%	21.0%	16.3%	16.9%	18.6%	15.8%	16.7%	19.4%
Y/Y Growth														
Net Revenue	10.6%	6.2%	1.5%	1.0%	2.4%	6.9%	7.7%	4.7%	7.4%	6.8%	5.9%	5.8%	6.4%	5.0%
Gross profit	11.3%	1.8%	5.3%	5.1%	1.0%	8.8%	16.1%	8.6%	5.0%	8.1%	7.7%	8.3%	7.5%	9.4%
Adj. EBITDA	8.9%	5.9%	4.8%	1.5%	1.8%	9.8%	6.9%	5.5%	6.9%	7.9%	7.8%	8.6%	7.9%	5.8%
EPS (adjusted)								-4.4%	66.2%	-7.1%	0.3%	4.5%	2.6%	9.2%

Source: Company Data, Morgan Stanley Research

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(as of October 31, 2014)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>1157</b>	<b>36%</b>	<b>357</b>	<b>41%</b>	<b>31%</b>
<b>Equal-weight/Hold</b>	<b>1396</b>	<b>43%</b>	<b>403</b>	<b>46%</b>	<b>29%</b>
<b>Not-Rated/Hold</b>	<b>107</b>	<b>3%</b>	<b>19</b>	<b>2%</b>	<b>18%</b>
<b>Underweight/Sell</b>	<b>582</b>	<b>18%</b>	<b>100</b>	<b>11%</b>	<b>17%</b>
<b>Total</b>	<b>3,242</b>		<b>879</b>		

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

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

November 14, 2014

Catalent, Inc.



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

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## Industry Coverage: Healthcare Services & Distribution

Company (Ticker)	Rating (as of)	Price* (11/13/2014)
<b>Ricky R Goldwasser</b>		
Albany Molecular Research, Inc (AMRI.O)	O (04/09/2014)	\$16.71
Allscripts Healthcare Solutions Inc. (MDRX.O)	E (11/07/2014)	\$12.46
AmerisourceBergen Corp. (ABC.N)	E (04/13/2012)	\$89.08
CVS/Caremark Corp. (CVS.N)	O (11/04/2011)	\$90.13
Cardinal Health Inc (CAH.N)	O (01/07/2010)	\$80.66
Catalent, Inc. (CTLT.N)	O (09/09/2014)	\$23.81
Catamaran Corp (CTRX.O)	E (09/23/2013)	\$48.23
Cerner Corporation (CERN.O)	E (08/17/2012)	\$64.53
Charles River Laboratories International (CRL.N)	E (03/03/2010)	\$64.48
Covance Inc. (CVD.N)	E (09/15/2010)	\$100.53
Express Scripts, Inc. (ESRX.O)	O (01/07/2010)	\$77.9
Laboratory Corp. of America Holdings (LH.N)	U (03/19/2010)	\$99.56
McKesson Corporation (MCK.N)	O (10/25/2013)	\$204.82
Quality Systems Inc (QSII.O)	U (04/23/2014)	\$14.99
Quest Diagnostics Inc. (DGX.N)	U (07/09/2013)	\$63.77
Quintiles Transnational Holdings Inc (Q.N)	O (06/18/2013)	\$56.39
Walgreens (WAG.N)	O (09/23/2013)	\$66.96
athenahealth Inc (ATHN.O)	O (04/23/2014)	\$124.42

Stock Ratings are subject to change. Please see latest research for each company.  
\* Historical prices are not split adjusted.