September 9, 2014

WELLS FARGO SECURITIES

# *Equity Research*

## Catalent, Inc.

**CTLT: Initiating Coverage At Outperform**

**Outperform / V**

Sector: Pharmaceutical Services
Market Weight

***Initiation of Coverage***

- **Summary.** We have initiated coverage of Catalent, Inc. with an Outperform rating and a 12-month valuation range of $25-27. We believe the Pharmaceutical Services sector has favorable long-term trends and within that space, Catalent is positioned relative to peers with a stable and diversified business model, although one with certain company-specific challenges that we project will keep growth at the lower end of the industry range (5-10% organic growth for most public pharmaceutical services companies). Considering these factors, we view CTLT's valuation as reasonably attractive, with room for expanding multiples if Catalent successfully executes on growth opportunities to move its long-term growth profile higher. We set our FY2015E/2016E EPS at $1.90/2.08.
- **Stability and visibility.** Within the Pharmaceutical Services sector, we believe Catalent has better-than-average long-term visibility for more than 70% of its business, which is a result of long-term supply contracts with generally predictable revenue recognition. Because Catalent is often included in customers' regulatory filings, commercial business tends to be extremely sticky.
- **Diversity.** Catalent's diverse client list helps offset the risk of any individual project, in our view. Each year, Catalent produces doses for nearly 7,000 products owned by approximately 1,000 customers, with no single product greater than 3% and no single customer greater than 10%. In our view, these metrics compare favorably to the broader Pharmaceutical Services industry.
- **Regulatory and operational excellence.** The contract manufacturing space is highly regulated, but also highly fragmented, a situation that has allowed high-profile mistakes by lower quality players to create negative publicity for the industry. We believe Catalent's stellar regulatory track record allows the company to command some degree of pricing premium, creating a moat around Catalent's strong high-teens operating margin.
- **Possibility of accelerating growth.** While we are not forecasting additional acceleration beyond Catalent's 5% revenue growth guidance, we believe the company has some upside potential from a growing portfolio of proprietary technologies, including delivery solutions for biologics, geographic expansion, additional client penetration, and the pursuit of adjacent markets (e.g., animal health).

**Valuation Range: $25.00 to $27.00** from NA to NA
Our valuation range is DCF-based (WACC = 9.0%; terminal NOPLAT growth = 2%) and represents 13x our CY2015 EPS estimate. Risks include (1) short-term volatility, due to general order lumpiness; (2) potential for regulatory missteps; (3) weak product sales by customers; (4) control company status; (5) high leverage; and (6) FX volatility.

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

| | 2014A | 2015E | | 2016E | |
|---|---|---|---|---|---|
| **EPS** | | **Curr.** | **Prior** | **Curr.** | **Prior** |
| **Q1** (Sep.) | NE | 0.20 | NC | 0.26 | NE |
| **Q2** (Dec.) | NE | 0.35 | NC | 0.39 | NE |
| **Q3** (Mar.) | NE | 0.50 | NC | 0.55 | NE |
| **Q4** (June) | NE | 0.81 | NC | 0.87 | NE |
| **FY** | 1.86 | 1.90 | NE | 2.08 | NE |
| **CY** | $1.86 | $1.96 | NE | $2.16 | **NE** |
| **FY P/EPS** | 12.1x | 11.8x | | 10.8x | |
| **Rev.(MM)** | $1,828 | $1,908 | | $2,016 | |

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

*Excludes amortization of acquired intangible assets*

| | |
|---|---|
| Ticker | CTLT |
| Price (09/08/2014) | $22.50 |
| 52-Week Range: | $19-23 |
| Shares Outstanding: (MM) | 123.7 |
| Market Cap.: (MM) | $2,783.3 |
| S&P 500: | 1,995.30 |
| Avg. Daily Vol.: | 664,324 |
| Dividend/Yield: | $0.00/0.0% |
| LT Debt: (MM) | $2,711.0 |
| LT Debt/Total Cap.: | 4.4% |
| ROE: | NE |
| 3-5 Yr. Est. Growth Rate: | 7.0% |
| CY 2014 Est. P/EPS-to-Growth: | 1.7x |
| Last Reporting Date: | 09/04/2014 After Close |

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

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**Please see page 18 for rating definitions, important disclosures and required analyst certifications**
**All estimates/forecasts are as of 09/09/14 unless otherwise stated.**



CTLT090414-124134

**Company Description**

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

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

## Investment Thesis

**Summary.** We have initiated coverage of Catalent, Inc. with an Outperform rating and a 12-month valuation range of $25-27. We believe the Pharmaceutical Services sector has favorable long-term trends and within that space, Catalent is positioned relative to peers with a stable and diversified business model, although one with certain company-specific challenges that we project will keep growth at the lower end of the industry range (5-10% organic growth for most public pharmaceutical services companies). Considering these factors, we view CTLT's valuation as reasonably attractive, with room for expanding multiples if Catalent successfully executes on growth opportunities to move its long-term growth profile higher.

**Stability and visibility.** Within the Pharmaceutical Services sector, we believe Catalent has better-than-average long-term visibility for more than 70% of its business, which is a result of long-term supply contracts with generally predictable revenue recognition. Catalent calls its strategy "follow the molecule," meaning the company strives to become involved with a molecule early in its life cycle by providing formulation and analytical services, which may then lead to a contract for clinical trial supplies and subsequently, a contract for commercial dose form manufacturing incorporating Catalent's drug delivery technology. Because Catalent is often included in customers' regulatory filings, commercial business tends to be extremely sticky and often allows the company to continue following the molecule from branded to generic to over-the-counter status. With this strategy, the company has cultivated some relationships that are more than two decades long.

**Diversity.** Catalent's diverse client list also helps offset the risk of any individual project, in our view. Each year, Catalent produces doses for nearly 7,000 products owned by approximately 1,000 customers. In its FY2013, Catalent did business with more than 80% of the top 200 global biopharmaceutical, generic, and consumer health companies. Similarly, over the past three years, Catalent earned revenue with respect to 80% of the 200 top-selling compounds globally. From a concentration standpoint, Catalent's top 20 products represented about 25% of revenue in FY2013, with no single product greater than 3% and no single customer greater than 10%. In our view, these metrics compare favorably to those of the broader Pharmaceutical Services industry.

**Regulatory and operational excellence.** The contract manufacturing space is highly regulated, but also highly fragmented, a situation that has allowed high-profile mistakes by lower quality players to create negative publicity for the industry. Catalent has more than 1,000 employees focused on quality and regulatory compliance and has successfully completed 239 regulatory audits over the past five years, in addition to hundreds of customer audits annually. Operationally, the company boasts 99% on-time delivery. We believe Catalent's stellar regulatory track record allows the company to command some degree of pricing premium. While price is certainly a consideration in almost any contract, it is hard for us to imagine the contract manufacturing space becoming commoditized to the point that pharmaceutical sponsors regularly forego operational excellence in favor of price concessions. Catalent's high-teens operating margin compares favorably to peers' in any segment of the pharmaceutical services sector, and we believe the company's operational and regulatory track record, creates a moat around this margin.

**Possibility of accelerating growth.** Catalent's long-term organic revenue growth guidance of 5% implies a modest acceleration from the 4% average constant dollar organic growth the company has seen over the past five years. While we are not forecasting additional acceleration beyond Catalent's guidance, we believe the company has some upside potential from a growing portfolio of proprietary technologies, including delivery solutions for biologics (such as Gene Product Expression, or GPEx, and SMARTag) and the recently launched ADVASEPT solution for glass-free injectable products. Catalent gives the number of new product introductions each year, and while that metric comes with heavy caveats (i.e., products can have widely varying economic profiles), it is notable that Catalent's new product introductions expanded by 80%, to 175 in FY2014 from 97 in FY2013. Other potential drivers of accelerating growth include geographic expansion (recent investments in Brazil and market entry into China), additional client penetration (of Catalent's top 50 customers, nearly 75% use less than half of Catlent's service offerings), and the pursuit of adjacent markets (e.g., animal health).

**Optimized capital structure.** Catalent's stability and client diversity allow a greater capacity for leverage, in our view, which can be an important differentiator relative to pharmaceutical services peers. The company has a 4.4x pro forma leverage ratio following the initial public offering, which is above those of public peers. Many pharmaceutical services peers have shown an aversion to leverage, often citing client concentration or bookings volatility as a risk. Because those risks are lower for Catalent, in our view, we believe the company can benefit from a more optimal capital structure.

## Investment Risks

**Short-term volatility is common.** While Catalent has a high degree of long-term visibility, deliveries can be lumpy, sometimes causing revenue slippage or unexpected mix shifts on a quarter-to-quarter basis. In order to smooth out short-term volatility over multi-quarter periods, we believe management will need to manage near-term Street expectations carefully. Management's experience with expectations management in the public markets is less robust than its operational experience, prompting us to adopt a wait-and-see view regarding management's ability to consistently meet its own guidance.

**Maintaining a stellar regulatory and operational track record is not easy.** Despite Catalent's outstanding regulatory track record, regulatory excellence is not easy or inexpensive to maintain, and the risk of a slip-up is nearly impossible to entirely mitigate. Such a regulatory mistake could have severe financial consequences, both in terms of investment requirements for remediation and in terms of lost revenue and earnings.

**Sales volume of drug products is beyond Catalent's control.** Catalent's revenue performance depends on end-user sales of the products Catalent manufacturers, although Catalent is unable to substantially influence those sales. To illustrate this risk, Catalent has highlighted a central nervous system (CNS) product launch that substantially missed the customer's forecasted sales target and caused a headwind for Catalent in FY2013.

**Catalent may remain a controlled company.** All shares issued in the initial public offering were primary shares. Consequently, affiliates of Blackstone may continue to own more than 50% of shares for some period of time, making Catalent a "controlled company" under corporate governance standards. As a controlled company, Catalent may elect not to comply with certain corporate governance standards pertaining to director independence. It is also possible that Blackstone will want to exit all or part of its position in one or more secondary offerings, which could affect the stock price.

**Risks of operating with high leverage.** Catalent's large debt load creates certain risks, such as constraints on raising capital, paying dividends, and the ability to invest to adapt to changing industry demands.

**Risks of operation in foreign jurisdictions.** Catalent receives more than 60% of its revenue from jurisdictions outside the United States. Risks of operating in international jurisdictions include foreign exchange risk, the challenges of complying with numerous regulatory regimes, and tax consequences, as well as increased risk of disruption due to conflicts.

# Detailed Company Description

While Catalent divides its business into three segments (Oral Technologies, Medication Delivery Services, and Development and Clinical Services), we think it is useful to think of the first two of those segments as one business sharing similar characteristics, a business that Catalent sometimes calls Advanced Delivery Technologies (ADT), while the Development and Clinical Services (DCS) business has entirely separate characteristics.

The ADT business provides contract manufacturing of final dose forms for commercial pharmaceutical and consumer health (e.g., vitamin) products that generally require specialized delivery technologies. Final dose forms represent the product in the form consumed by the patient. Final dose form manufacturing is a distinct part of the value chain from active pharmaceutical ingredient (API) manufacturing. Catalent does not manufacture API; instead, it uses its proprietary delivery technologies to place API provided by others into a form consumable by patients. For example, Catalent provides final dose form manufacturing for Advil Liqui-Gels: Catalent provides the softgel technology and encapsulates the drug in the softgel, but does not make the active drug product itself. Catalent's main delivery technologies include oral methods (primarily softgels and modified-release tablets), as well as pre-filled syringes and blow-fill-seal (BFS) packaging. The ADT business is sometimes called the "long-cycle" business because contracts for drug supply are typically long term (sometimes as long as ten years). ADT represented about 78% of Catalent's total FY2014 revenue.

While the ADT business deals with commercialized products, the DCS business (22% of FY2014 revenue) provides services for pharmaceutical products still in development. The business is sometimes called the "short-cycle" business because contracts tend to be shorter than for ADT contracts. The services provided in DCS fall into two main groups: Clinical Supply Solutions and Development & Analytical Services. Clinical Supply Solutions provides logistics (manufacturing, packaging, storage, and inventory management) for drug in clinical trials. Development and Analytical Services provides chemical and cell-based testing, stability testing, bio-analytical testing, and a variety of other services that fall under chemistry, manufacturing, and control (CMC) activities.

Most of Catalent's contracts are fee-for-service contracts. Out of approximately 7,000 products, fewer than 40 have a royalty or other value-based pricing mechanism, with 3% or less of Catalent's revenue coming from royalties, by our estimate. Because many contracts are long term in nature, they often involve built-in price increases based on a stated index.

Catalent's contracts encompass a wide variety of product categories, including the following:

- **Branded drugs.** Branded prescription pharmaceuticals account for about 44% of Catalent's revenue and typically carry the most attractive economics for Catalent. Catalent indicates that more than 50% of pharmaceutical prescription revenue is derived from products requiring complex dose forms and that 60-90% of new molecules will need advanced delivery technologies. Examples of branded products supplied by Catalent include Fragmin, Imbruvica, and Zyprexa.
- **Generic drugs.** Catalent is often able to follow a molecule from its life as a branded product to its life a generic product (either branded, or unbranded). Generics account for about 13% of Catalent's revenue. Examples of generic products supplied by Catalent include Amnesteem, Cholestyramine, and bupropion hydrochloride.
- **Biologics and biosimilars.** Biologic drugs, which account for about 10% of Catalent's revenue, often require specialized delivery technologies. Examples of biologic products supplied by Catalent include Pulmozyme and Gamunex.
- **Over-the-counter (OTC) products.** Continuing to follow the molecule as it moves from a generic to an over-the-counter manifestation, Catalent has a large portfolio of OTC products, including Advil, Benadryl, and Claritin. OTC accounts for about 14% of revenue.
- **Vitamins and supplements.** Catalent provides a variety of consumer health products, including Vitalux, Centrum, and Ocuvite. Vitamins and supplements account for about 17% of Catalent's total revenue.
- **Skin care.** Skin care is Catalent's smallest product category, currently representing about $30 million (or 2%) of revenue, although the company believes this could be a $100 million opportunity over time. Examples include AgeLoc Tru Face Essenceultra, Elizabeth Arden Whitening Capsules, and Cindy Crawford's Meaningful Beauty.

As of FY2013, Catalent derived 38% of revenue from the United States, 47% from Europe, and 15% from other geographies.

## Business Lines And Market Dynamics

Catalent divides its ADT business into two segments: Oral Technologies (OT), which primarily provides softgel and modified release products; and Medication Delivery Services (MDS), which is a catchall for any final dose manufacturing that does not fit into the OT segment, the largest of which are pre-filled syringes and blow-fill-seal (BFS) packaging, though Catalent is also making a push into innovative delivery methods for biologics.

**Exhibit 1. Product Line Breakdown**

| | Product Category | | FY 14 % of Revenue | Mkt Position | Competitors | FY14 EBITDA Margin | Notes |
|---|---|---|---|---|---|---|---|
| Advanced Delivery Technologies | **Oral Technologies** | | **66%** | | | **28%** | |
| | Softgel Rx | RP Scherer Softgels; Liqui-Gels; OptiShell; OptiGel; Vegicap | 28% | #1 | DPx (Banner), Aenova (Swiss Caps), Procaps, Capsugel | | Forumulation, development, & mfg; Don't do vitamins in N. America (commoditized), but do in ROW |
| | Softgel Consumer Products | | 18% | | | | |
| | Modified Release | Zydis; OptiDose; OptiMelt | 19% | #1 | Haupt, Rottendorf, DPx, Pharma in-house, Other | | |
| | **Medication Delivery Solutions** | | **12%** | | | **20%** | |
| | Pre-Filled Syringe | | 6% | #1 | Vetter, Baxter, DPx, Pharma in-house, Other | | Includes ADVASEPT glass-free solution |
| | Blow/Fill/Seal | | 5% | #2 | Unither, Holopak, Rite-Dose, Pharma in-house, Other | | Benefits from conversion of unit does within ophthalmics; Limited branded in-sourcing of supply |
| | Other | Biologics (GPEx; SMARTag); Inhalation (inhalers, etc); Ophthalmic | 2% | | | | |
| | **Development & Clinical Services** | | **22%** | | | **20%** | |
| | Clinical Supply Solutions | | 11% | #2 | TMO, Almac, PRXL, Others | | Manufacturing, packaging, storage, and inventory management for clinical trial products |
| | Development & Analytical Services | | 11% | #1/#2 | PPD, DPx, Almac, AAI, Many Others | | Analytical chemical & cell-based testing; stability testing; bioanalytical testing; regulatory consulting |

*Source: Company data; Wells Fargo Securities, LLC estimates*

**Oral Technologies Segment (OT).** The OT segment accounts for 66% of Catalent's FY2014 revenue, 47% from softgels and 19% from modified release. The segment has the highest margin, and therefore, accounts for more than 70% of profit.

Within the softgel business (47% of total revenue), about 60% of softgel revenue (or 28% of total revenue) is from prescription products, with the remaining 40% (or 18% of total revenue) from consumer health products. Catalent has the leading market position in softgels with more than 30% share of a market that remains fragmented. Other competitors include the Banner Pharmacaps subsidiary of DPx, the SwissCaps subsidiary of Aenova, Procaps, and Capsugel. The RP Scherer softgel technology, which has a long legacy dating back to the 1930s and which was acquired by Cardinal Health in 1998, forms the backbone of the softgel business. Catalent indicates that 90% of FDA new chemical entity softgel approvals in the past 25 years have used RP Scherer softgel technology. Catalent also offers several enhancements to the base softgel technology, including Optishell (an option for semi-solids with a higher fill temperature), Optigel Lock (an abuse deterrent), and Vegicaps (a plant-derived shell).

The modified release business accounts for 19% of total revenue (nearly 30% of the OT segment). Catalent offers a range of immediate and controlled release technologies for solid oral dose forms. Catalent has the leading position in this segment of the market, although it is also very fragmented, and a significant amount of work remains in-house at pharmaceutical companies. Brands in the modified release business include Zydis (fast-dissolve tablets), OptiDose (dividable tablets), and OptiMelt. Zydis is the leading brand in this segment, with more than 20 formulations marketed globally. It is particularly useful for anti-psychotics to improve patient compliance (it dissolves in the mouth in about three seconds).

**Medication Delivery Services (MDS).** The MDS segment captures all commercial manufacturing that does not fit into the OT segment. The segment as a whole accounts for about 12% of total revenue. The largest businesses in this segment are pre-filled syringes (about 50% of the segment) and blow-fill-seal (BFS) packaging (about 30-40% of the segment). The remainder of the segment includes technology for biologics (GPEx and SMARTag), as well as inhalation products. BFS technology is a method of filling plastic containers in a sterile environment, which is often needed for ophthalmic products. BFS is also used for Catalent's ADVASEPT glass-free vials. We believe Catalent has the leading market position in pre-filled syringes and the No. 2 market position in BFS.

**Discovery And Clinical Services (DCS).** The DCS segment offers services for products still in development. It makes up about 22% of total revenue, which is split approximately evenly between the segment's two major business lines: Clinical Supply Solutions and Development & Analytical Services.

The Development & Analytical Services business provides a wide range of laboratory and manufacturing services needed during the drug development process, including formulation, stability testing, and bio-analytical testing. We believe Catalent holds the No. 2 position in the market after PPD, with DPx, AAI, and

Almac also having solid positions. These players account for about 25% of the market, with the remaining 75% being highly fragmented.

The Clinical Supply Solutions business provides logistics for clinical trials, including comparator sourcing, manufacturing, packaging, storage, and inventory management. This market is fairly consolidated and is dominated by Thermo Fisher, with Catalent and Almac vying for the No. 2 position.

## Operations

**Facilities And Work Force.** Catalent has more than 8,000 employees and operates 27 facilities encompassing nearly 5 million sq. ft. of manufacturing and lab space (see Exhibit 2). The company's largest facilities for the OT segment are in Eberbach, Germany, Somerset, New Jersey, Swindon, United Kingdom, and Buenos Aires, Argentina. The largest facilities for the MDS segment are in Brussels, Belgium and Woodstock, Illinois. The largest labs in the DCS segment are in Kansas City, Missouri, Bathgate, United Kingdom, and Morrisville, North Carolina.

**Exhibit 2. Facilities and Capabilities**

| | | | | | Development | | | | | | Delivery | | | | | | | | | Supply | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Facility | Location | Seg | Sq. Feet | Ownership | Biologics: GPEx, SMARTag, Mfg | Biopharm Lab Svs | Pharma Lab Services | Pre-form & Form | Solid State: Optiform | Regulatory Consulting | Blow-Fill-Seal | Consumer Health | Controlled & Immediate Release | Inhalataion | Injectables | OptiMelt HME | RP Scherer Softgel, OptiShell, Vegicap | Stick Pack Granules | Zydis | Clinical Supply Svs | Inhaled Dose Form Mfg | Oral Dose Form Mfg. | Packaging & Supply Chain | Sterile Dose Form Mfg. |
| Kakegawa | Japan | OT | 107,300 | Owned | | | | X | | X | | X | | | | | X | | | | | X | X | |
| Braeside | Australia | OT | 163,100 | Owned | | | | X | | X | | X | | | | | X | | | | | X | X | |
| Beinheim | France | OT | 78,100 | Owned | | | | X | | X | | X | | | | | X | | | | | X | | |
| Eberbach | Germany | OT | 370,580 | Leased | | | X | X | | X | | X | | | | | X | | | | | X | | |
| Aprilia | Italy | OT | 92,010 | Owned | | | | X | | X | | X | | | | | X | | | | | X | X | |
| Swindon | U.K. | OT | 253,314 | Owned | | | X | X | | X | | X | | | | | | | X | | | X | | |
| Somerset | NJ | OT | 265,000 | Owned | | | | X | | X | | X | X | | | X | X | | X | | | X | | |
| Winchester | KY | OT | 120,000 | Owned | | | X | X | | X | | X | X | | | X | | | | | | X | | |
| St. Petersburg | FL | OT | 328,073 | Owned | | | | X | | X | | X | | | | | X | | | | | X | | |
| Buenos Aires | Argentina | OT | 265,000 | Owned | | | | X | | X | | X | | | | | X | | | | | X | X | |
| Sorocaba | Brazil | OT | 88,993 | Owned | | | | X | | X | | X | | | | | X | | | | | X | X | |
| Schorndorf | Germany | OT | 166,027 | Owned | | | | | | X | | X | X | | | X | | X | X | X | | X | X | |
| Haining | China | OT | 219,930 | Owned | | | X | | | | | X | | | | | X | | | | | | | |
| Indaiatuba | Brazil | OT | 53,800 | Owned | | | | X | | X | | X | | | | | | | | | | X | X | |
| Brussels | Belgium | MDS | 302,961 | Owned | | | X | | | X | | | | | X | | | | | | | | | X |
| Limoges | France | MDS | 179,000 | Owned | | | X | | | X | | | | | X | | | | | | | | | X |
| Woodstock | IL | MDS | 421,665 | Owned | | | X | X | | X | X | X | | | | | | | | | X | | X | X |
| Madison | WI | MDS | 102,723 | Leased | X | X | | | | X | | | | | | | | | | | | | | |
| Schorndorf | Germany | DCS | 54,693 | Owned | | | X | X | | X | | | | | | | | | | | | | | |
| Bolton | U.K. | DCS | 60,830 | Owned | | | | | | X | | | | | | | | | | X | | | X | |
| Philadelphia | PA | DCS | 140,716 | Leased/Owned | | | | | | X | | X | | | | | | | | X | | | X | |
| Morrisville | NC | DCS | 186,406 | Leased | | X | X | X | X | X | | | | X | X | | | | | | X | X | | X |
| Kansas City | MO | DCS | 410,000 | Owned | | X | X | X | | X | | | X | | | | | | | X | | X | X | |
| Deeside | U.K. | DCS | 127,533 | Leased | | | | | | X | | | | | | | | | | X | | | X | |
| Bathgate | U.K. | DCS | 191,000 | Owned | | | | | | X | | | | | | | | | | X | | | X | |
| Signapore | Singapore | DCS | 7,942 | Leased | | | | | | X | | | | | | | | | | X | | | | |
| Shanghai | China | DCS | 31,000 | Leased | | | | | | X | | | | | | | | | | X | | | | |
| | | | 4,787,696 | | Development | | | | | | Delivery | | | | | | | | | Supply | | | | |

*Source: Company filings; Wells Fargo Securities, LLC*

Recent and future capital projects include the following: (1) a $35 million expansion of the Winchester, Kentucky facility, which produces modified release products, to nearly double its capacity; (2) a new lab in Japan to provide proof-of-concept and feasibility studies for Zydis; (3) a $20 million expansion of the Morrisville, North Carolina plant to increase capacity in inhalation formulation and development; and (4) plans to refurbish the St. Petersburg, Florida site in FY2016.

**Sales And Marketing.** Catalent describes its sales and marketing program as a hybrid demand generation model, with dedicated account teams offering the full breadth of Catalent's solutions to select global accounts (accounting for about 37% of Catalent's revenue in FY2013), while technical specialist teams provide in-depth knowledge for each individual offering. The sales organization currently consists of more than 150 full-time employees. Catalent's marketing program is focused on brand-building through trade-shows, print, and on-line advertising.

**Intellectual Property.** Catalent holds approximately 1,300 patents worldwide, which the company believes differentiates it from other contract manufacturers. In some cases, Catalent licenses its technology to third parties.

**Seasonality.** Catalent's revenue tends to be substantially seasonal, with the average proportion of revenue recognized in FQ1-FQ4 as follows: 23%, 24%, 25%, 28%, which is approximately consistent across segments. EBITDA follows a similar seasonality pattern, but is even more exaggerated, with the average proportion of EBITDA recognized in FQ1-FQ4 as follows: 20%, 23%, 26%, and 31%.

**Exhibit 3. Average Quarterly Seasonality**

| Seasonality | FQ1 | FQ2 | FQ3 | FQ4 |
|---|---|---|---|---|
| *OT revenue* | 22.4% | 24.2% | 25.5% | 28.0% |
| *MDS revenue* | 23.2% | 23.5% | 25.6% | 27.7% |
| *DCS revenue* | 23.1% | 22.8% | 24.8% | 29.3% |
| ***Cons. Rev.*** | **22.7%** | **23.9%** | **25.3%** | **28.1%** |
| *OT EBITDA* | 18.9% | 23.3% | 25.9% | 31.9% |
| *MDS EBITDA* | 14.3% | 21.5% | 28.4% | 35.7% |
| *DCS EBITDA* | 22.0% | 22.7% | 25.4% | 30.0% |
| ***Cons. EBITDA*** | **19.7%** | **23.2%** | **26.1%** | **31.0%** |

*Source: Wells Fargo Securities, LLC*

**Concentration.** Catalent's top product accounts for less than 3% of revenue. The top 20 products account for about 25% of revenue. No single customer accounts for more than 10% of revenue.

## Company History

Catalent has been built via acquisitions, first as the Pharmaceutical Technologies and Services (PTS) segment of Cardinal Health (from 1996-2007) and subsequently as an independent company owned by The Blackstone Group.

Cardinal began acquiring the assets that would become Catalent in 1996 with PCI Services, a packaging business that would subsequently be divested in 2012. The 1998 acquisition of softgel pioneer and industry leader RP Scherer, which has a corporate history dating back to 1934, remains the largest acquisition in the company's history. Additional acquisitions made by Cardinal include Automatic Liquid Packaging in 1999, which brought flow-fill-seal technology; Magellan Labs in 2002, which represented the company's entry into the analytical services market; and Intercare Group in 2003, which brought injectable manufacturing assets.

Following the emergence of Catalent as a private company under Blackstone's ownership in 2007, and with new leadership in place in 2009, the company began divesting non-core assets, the most substantial of which was the commercial packaging business in 2012. The company also made several additional acquisitions, including the clinical trial supplies of Aptuit in 2012.

**Exhibit 4. Acquisitions, Divestitures, and Other Deals**

| Transactions | Type* | Date Closed | Payment (MM) & Consideration | | Segment | Location | Annual Rev (MM) | Notes |
|---|---|---|---|---|---|---|---|---|
| Redwood Bioscience | A | Mar-14 | | | MDS | California | | Increased minority stake |
| Relthy Labs | A | Oct-13 | | | OT | Brazil | ~$28 | Softgels (doubles softgel business in Brazil) |
| Zhenjian Jiang Yuan Tang Biotech | JV | Jul-13 | | | OT | China | | 67% interest in softgel facility |
| ShangPharma | JV | FY13 | | | DCS | China | | End-to-end clinical supplies JV |
| Redwood/SMARTag | L/A | Apr-13 | | | MDS | | | Exclusive rights to sub-license SMARTag; Min. stake w/ option to buy |
| Taste-masking tech | L | FY13 | | | | | | Licensed from NJ Institute of Technology |
| Commercial Packaging | D | Jun-12 | | | Packaging | U.S. | ~$170 | Sold to Frazier & Co. |
| R.P. Scherer softgel sub (49%) | A | Feb-12 | | | OT | Germany | | Purchased the 49% minority ownership |
| Aptuit Clinical Trials Supplies | A | Feb-12 | $401 | Cash | DCS | Connecticut | ~$185 | |
| OptiDose | L | FY12 | | | OT | | | In-license deal from Sanwa Kagaku Kenkyusho |
| OptiForm platofrm | A | FY11 | | | OT | | | Molecular optimization platform purchased from GSK |
| LyoPan | L | FY11 | | | | | | In-license deal |
| Printed components biz | D | Apr-11 | | | DCS | New Jersey | | Sold to Clondalkin Group; Included four facilities |
| Oral dose facilitiy | D | Mar-09 | | | OT | France | | Sold to BAVARIA Industriekapital AG |
| SP Pharmaceuticals | D | May-08 | | | MDS | New Mexico | | Sterile injectables (was the SP Pharma acq); Now called OsoBio |
| Intercare Group | A | 2003 | $641 | Cash | MDS | U.K. | $512 | Injectable manufacturing in Europe; Acquired by Cardinal PTS division |
| Magellan Labs | A | 2002 | | | DCS | N. Carolina | | Analytical services; Got Cardinal into the FFS development solutions biz |
| International Processing | A | 2001 | $40 | Cash | OT | Kentucky | | Oral solid dose forms; Acquired by Cardinal PTS division |
| SP Pharmaceuticals | A | 2001 | | | MDS | | | Sterile fill/finish and lyophilication for injectibales |
| Automatic Liquid Packaging (ALP) | A | 1999 | | | MDS | | | Blow-fill-seal technology; Acquired by Cardinal PTS division |
| R.P. Scherer | A | 1998 | $2,326 | Stock | OT | Michigan | $599 | Advanced oral drug delivery; Acquired by Cardinal PTS division |
| PCI Services | A | 1996 | $196 | Cash/Stock | DCS | Delaware | $149 | Acquired by Cardinal PTS; Leader in packaging services |

*Source: Company filings; Press releases; Wells Fargo Securities, LLC*
*A=Acquisition; D=Divestiture; JV=Joint Venture; L=License

## Management And Board

Catalent has an experienced management team, with several executives having long track records at GE Healthcare. Several others have come up through the ranks internally, including experience at Catalent's former parent company, Cardinal Health.

Catalent's board of directors has significant representation from Blackstone, Catalent's majority owner. As a controlled company, Catalent is not subject to regulations around director independence.

**Exhibit 5. Executive Management Team**

| Name and Current Responsibilities | Age | Background |
|---|---|---|
| **John Chiminksi**<br>*CEO (since 2009)* | 50 | *GE Healthcare - Various leadership roles (20+ years through 2009) |
| **Matthew Walsh**<br>*CFO (since 2008)* | 48 | *Escala Group - CFO (2006-2008)<br>*GenTek - Various roles, including CFO (1996-2006) |
| **Barry Littlejohns**<br>*President, Advanced Delivery Technologies (since 2013)* | 48 | *Catalent - President Medication Delivery Solutions (2011-2013)<br>*Genmab - SVP of Operations and Bus. Dev. (2009-2010)<br>*Catalent - Various roles (1989-2009) |
| **Scott Houlton**<br>*President, Development & Clinical Services (since 2009)* | 47 | *Aptuit, Inc. - Various roles, including CFO (2005-2009)<br>*Quintiles - Various roles (1998-2005)<br>*Cardinal Health - Director International Bus. Dev. (1992-1997) |
| **Aris Gennadios**<br>*President, Softgel Technologies (since 2013)* | 49 | *Softgel Technologies - Various roles (2007-2013)<br>*Cardinal Health - Various roles (2002-2007) |
| **Steve Leonard**<br>*SVP, Global Operations (since 2009)* | 51 | *GE Healthcare - Various roles (22 years) |
| **William Downie**<br>*SVP, Global Sales & Marketing (since 2010)* | 47 | *Catalent - Various roles (2009-2010)<br>*GE Healthcare - VP Global Molecular Imaging (2008-2009)<br>*Amersham Health - VP & GM of EMEA (2002-2008) |
| **Sharon Johnson**<br>*SVP, Global Quality & Reg. Affairs (since 2009)* | 49 | *GE Healthcare - Various QA roles (2003-2009)<br>*Baxter - Manager European Micro & Quality Tech (2000-2004)<br>*Sanofi - Quality Manager Sterile Products & Micro (1994-200) |
| **Kurt Nielsen**<br>*SVP, R&D, CTO (since 2010)* | 47 | *URLMutual Pharmaceuticals - EVP, Pharmaceuticals (2004-2010)<br>*Teva - Executive Director, Generic R&D (1998-2004) |
| **Cornell Stamoran**<br>*VP, Corp Strategy (since 2003)* | | *Catalent - Various roles (2007-2014)<br>*Cardinal Health - Director Strategic Planning (2001-2003)<br>*R.P. Scherer - Various roles (1992-2001) |
| **Lance Miyamoto**<br>*SVP, Human Resources (since 2011)* | | |

*Source: Company filings; Wells Fargo Securities, LLC*
*Current as of May 2014*

**Exhibit 6. Board of Directors**

| Name & Current Responsibilities | Age | Class* | Primary Association | Other Current Boards |
|---|---|---|---|---|
| **John Chiminksi**<br>*Director (since 2009)* | 50 | I | *Catalent - President & CEO | *DJO Global, Inc. |
| **Chinh E. Chu**<br>*Director (since 2007)* | 47 | III | *Blackstone - Sr. Managing Director | *Healthmarkets<br>*DJO Gobal, Inc.<br>*Bluestar<br>*Freescale Semiconductor |
| **Bruce McEvoy**<br>*Director (since 2007)* | 37 | I | *Blackstone - Managing Director | *GCA Servfices<br>*Performance Food Group<br>*RGIS Inventory Services<br>*Sea World Parks & Entertainment |
| **James Quella**<br>*Director (since 2009)* | 63 | II | *Blackstone - Fromer Sr. Managing Director | *Freescale Semiconductor<br>*Michaels Stores, Inc.<br>*DJO Gobal, Inc. |
| **Melvin D. Booth**<br>*Director (since 2010)* | 69 | II | *Medimmune, Inc. - Former COO | *Ventria BioScience<br>*Mallinckrodt plc<br>*Electronic Research Technologies |
| **Jack Stahl**<br>*Director (since 2014)* | 61 | I | *Revlon, Inc. - Former CEO | *Coty, Inc.<br>*Delhaize Group<br>*Dr Pepper Snapple Group |
| **Rolf Classon**<br>*Director (since 2014)* | 68 | III | Bayer HealthCare AG - Former Executive | *Tecan Group Ltd<br>*Fresenius Medical Care<br>*Auxilium Pharmaceuticals<br>*Hill-Rom Corporation |

*Source: Company filings; Wells Fargo Securities, LLC*
**Classified Board with staggered 3-yr terms; Director independence has not been determined*
*Current as of September 2014*

## Recent Financials And Outlook

**Revenue.** From FY2009 through FY2014, Catalent's constant dollar organic growth averaged about 4%, but was notably higher in FY2009-FY2012 than in FY2012-FY2014. Catalent has noted that the failed launch of a CNS product adversely affected FY2013 OT segment revenue. Other headwinds to FY2013 and FY2014 constant dollar organic growth include (1) the switch by one softgel customer to a lower priced but longer term contract; (2) the timing of a mix shift toward consumer softgel products in FH1 2014; (3) softness in pre-filled syringes in the MDS segment; and (4) decreased customer orders in the DCS segment in FH1 2014, due to site consolidations.

Management expects constant dollar organic growth to reaccelerate to about 5% over the long term, which seems reasonable as the headwinds experienced in FY2013 and FY2014 roll off, and with the new product pipeline up 80% in FY2014. While we are not modeling for additional growth beyond management's guidance, we see potential for some modest upside should the company execute on growth initiatives in new technologies, new geographies, and new markets.

**Margin.** The company uses EBITDA margin as its primary measure of operational performance (a legacy of private equity ownership, we suspect), although we prefer to use operating margin. Long-term guidance is for 7% organic EBITDA growth, which implies about 50 basis points (bps) of annual margin expansion, when combined with the 5% revenue growth guidance.

**Taxes.** Catalent should experience an effective tax rate below 15% through at least FY2017E, due to an accumulation of net operating losses under private equity ownership.

**Free Cash Flow.** With its high margin, Catalent generates strong operating cash flow, but the business is also fairly capital intensive. Management has guided to capex of about $115-125 million in FY2015 and has indicated about $45-55 million per year is the historical run rate for maintenance capex. With FY2015 containing some one-time items around the IPO, we believe the normalized FY2016E free cash flow could exceed $200 million.

**Use of Cash.** Catalent expects additional bolt-on acquisitions to be a part of the growth story. Catalent is looking for high-quality businesses with differentiation, with potential areas of interest being emerging markets, certain consumer health products, and possibly some consolidation of the softgel market. Management has indicated that cash will also be used for ongoing deleveraging, with 3.5x being the leverage ratio management would be comfortable sustaining.

**Exhibit 7. FY2015 Guidance Table**

| Guidance | FQ1 2015 | FQ2 2015 | FQ3 2015 | FQ4 2015 | FY 2015 | Notes |
|---|---|---|---|---|---|---|
| **Consolidated Revenue (MM)** | | | | | | |
| 9/4/2014 | | | | | $1,890-1,915 | |
| **Adjusted EBITDA (MM)** | | | | | | |
| 9/4/2014 | | | | | $450-460 | |
| **Adj. Net Income (MM)** | | | | | | |
| 9/4/2014 | | | | | $215-225 | |
| **Shares (MM)** | | | | | | |
| 9/4/2014 | | | | 119 | | Does not include any shoe (could be up to 6MM) |
| **Capex (MM)** | | | | | | |
| 9/4/2014 | | | | | $115-125 | |

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

## Exhibit 8. FQ4 2014 Variance Table

| FY ending June<br>In millions except EPS | Actual<br>F4Q13 | <br>F4Q14 | Actual<br>F4Q14 | Yr / Yr<br>change | Seq<br>change | Notes |
|---|---|---|---|---|---|---|
| Net revenue | $ 505 | $ 453 | $ 520 | 2.9% | 14.7% | |
| Cost of revenue | 332 | 301 | 329 | (0.7%) | 9.3% | |
| Gross profit | 174 | 152 | 190 | 9.6% | 25.4% | |
| SG&A | 68 | 70 | 63 | (8.0%) | (10.2%) | |
| Operating income | 106 | 82 | 128 | 20.8% | 55.7% | |
| Interest expense, net | 43 | 40 | 40 | | | |
| Other expense | 4 | 1 | 0 | | | |
| Pretax income | 59 | 41 | 87 | 46.5% | 111.7% | |
| Income tax expense (benefit) | 5 | 3 | 10 | | | |
| Earnings/(loss) from continuing ops | $ 54 | $ 39 | $ 77 | 41.2% | 99.0% | |
| Minority interest, net of tax | (0) | (0) | (0) | | | |
| Net earnings (loss) to Catalent | $ 55 | $ 39 | $ 77 | 41.3% | 97.4% | |
| **Non-GAAP EPS** | **$ 0.72** | | **$ 1.01** | ***40.9%*** | | |
| Diluted shares outstanding | 76.1 | | 76.2 | 0.2% | | |
| **Adjusted EBITDA** | **$ 128** | **$ 106** | **$ 151** | ***17.6%*** | ***42.2%*** | |
| **MARGIN ANALYSIS** | | | | **Yr / Yr** | **Seq** | |
| *Cost of revenue / net revenue* | 65.6% | 66.5% | 63.4% | (220) bps | (310) bps | |
| ***Gross margin*** | ***34.4%*** | ***33.5%*** | ***36.6%*** | ***220 bps*** | ***310 bps*** | |
| *SG&A / net revenue* | 13.4% | 15.4% | 12.0% | (140) bps | (330) bps | |
| ***Operating margin*** | ***20.9%*** | ***18.1%*** | ***24.6%*** | ***370 bps*** | ***650 bps*** | |
| *Pretax margin* | 11.8% | 9.1% | 16.7% | 500 bps | 770 bps | |
| ***Tax rate*** | ***8.4%*** | ***6.1%*** | ***11.7%*** | ***330 bps*** | ***560 bps*** | |
| *Net margin* | 10.8% | 8.6% | 14.8% | 400 bps | 620 bps | |
| ***EBITDA margin*** | ***25.4%*** | ***23.4%*** | ***29.0%*** | ***360 bps*** | ***560 bps*** | |
| **SEGMENT ANALYSIS** | | | | **Yr / Yr** | **Seq** | |
| **Oral Technologies** | **$ 333** | **$ 287** | **$ 348** | 15.7% | 0.0% | *DD EBITDA growth in Consumer Health biz in LatAm |
| *Growth: core* | 4.9% | (3.3%) | 4.7% | | | driven by favorable mix & Relthy acquisition |
| *Growth: FX* | (1.7%) | (1.9%) | (0.3%) | | | *Org. softgel growth in APAC (China, Australia, & Japan) |
| *Growth: acq/div* | 0.0% | 0.0% | 0.0% | | | *Rx softgel volume declined in NA; mix shift from Rx to |
| *Growth: total* | 3.2% | (5.2%) | 4.4% | | | Consumer expected to continue |
| | | | | | | *Modified Release neg. impacted by exit from final |
| **Adj. EBITDA** | **$ 101** | **$ 76** | **$ 113** | 12.2% | 48.4% | remnant of non-core 3rd party packaging |
| *Margin* | 30.2% | 26.5% | 32.5% | 220 bps | 600 bps | *Favorable mix shift in both controlled release and Zydis |
| | | | | | | drove margin expansion |
| **Medication Delivery Solutions** | **$ 68** | **$ 65** | **$ 69** | 1.2% | 5.4% | *B/F/S had F4Q revenue and EBITDA in-line with prior |
| *Growth: core* | 16.5% | 18.9% | 0.6% | | | year; Market fundamentals remain attractive with robus |
| *Growth: FX* | 1.9% | 2.4% | 0.6% | | | pipeline; seeing mix shift to higher-margin products |
| *Growth: acq/div* | 0.0% | 0.0% | 0.0% | | | *Sterile injectables revenue and EBITDA increased over |
| *Growth: total* | 18.4% | 21.3% | 1.2% | | | prior year. FY14 growth driven by new business signed in |
| | | | | | | FY13 and entry into Animal Health |
| **Adj. EBITDA** | **$ 14** | **$ 16** | **$ 18** | 23.6% | 13.4% | *Biologics: Center of Excellence in Madison is positioned |
| *Margin* | 21.1% | 24.0% | 25.8% | 470 bps | 180 bps | for growth |
| **Development & Clinical Services** | **$ 107** | **$ 104** | **$ 105** | (1.2%) | 1.6% | *Clinical Services revenue down y/y due to lower |
| *Growth: core* | 6.0% | 9.0% | (4.1%) | | | comparator sales (low margin); EBITDA performance |
| *Growth: FX* | (0.7%) | 2.5% | 2.9% | | | driven by favorable mix and cost synergies |
| *Growth: acq/div* | 0.0% | 0.0% | 0.0% | | | *Analytical Services revenue and EBITDA grew y/y on |
| *Growth: total* | 5.3% | 11.5% | (1.2%) | | | higher projects volumes in US and on growth of |
| | | | | | | integrated oral solids development & supply biz |
| **Adj. EBITDA** | **$ 20** | **$ 23** | **$ 26** | 34.9% | 14.3% | |
| *Margin* | 18.3% | 22.2% | 25.0% | 670 bps | 280 bps | |
| **Intracompany Eliminations** | **$ (3)** | **$ (3)** | **$ (3)** | | | |
| *% of total* | (0.6%) | (0.7%) | (0.5%) | | | |
| **Total Revenue** | **$ 505** | **$ 453** | **$ 520** | 2.9% | 14.7% | |
| *Growth: core* | 6.7% | 1.8% | 2.3% | | | |
| *Growth: FX* | (1.0%) | (0.5%) | 0.5% | | | |
| *Growth: acq/div* | 0.0% | 0.0% | 0.0% | | | |
| *Growth: total* | 5.6% | 1.4% | 2.9% | | | |
| **Corporate expenses** | **$ (7)** | **$ (9)** | **$ (6)** | (1.5%) | (27.0%) | |
| *% of total revenue* | 1.3% | 2.0% | 1.3% | | | |

*Source: Company filings & Wells Fargo Securities, LLC estimates*

# Valuation

**Absolute.** Our discounted cash flow model is supportive of a $25-27 valuation range, even with modest assumptions, such as revenue growth remaining at or below 5%, and very slight expansions of the operating margin. Additionally, while it is difficult to determine cost of capital for a company without a track record in the public markets, we use a discount rate that is above the industry average, due to Catalent's highly leveraged balance sheet, which carries some risk, despite the low cost of debt. However, we think this is a conservative assumption.

**Exhibit 9. Catalent Discounted Cash Flow Model**

| in millions expect per share<br>FY ending June | 1<br>2016E | 2<br>2017E | 3<br>2018E | 4<br>2019E | 5<br>2020E | 6<br>2021E | 7<br>2022E | 8<br>2023E | 9<br>2024E | 10<br>2025E | Term Yr<br>2026E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | $2,016 | $2,111 | $2,216 | $2,327 | $2,420 | $2,517 | $2,618 | $2,722 | $2,804 | $ 2,888 | $ 2,946 |
| *Revenue growth* | | *4.7%* | *5.0%* | *5.0%* | *4.0%* | *4.0%* | *4.0%* | *4.0%* | *3.0%* | *3.0%* | *2.0%* |
| Adjusted EBITA | $ 380 | $ 408 | $ 433 | $ 457 | $ 477 | $ 499 | $ 519 | $ 540 | $ 556 | $ 573 | $ 584 |
| *EBITA margin* | *18.9%* | *19.3%* | *19.5%* | *19.6%* | *19.7%* | *19.8%* | *19.8%* | *19.8%* | *19.8%* | *19.8%* | *19.8%* |
| Adjusted taxes | $ (47) | $ (51) | $ (54) | $ (57) | $ (59) | $ (62) | $ (64) | $ (67) | $ (69) | $ (71) | $ (73) |
| NOPLAT | $ 333 | $ 357 | $ 379 | $ 400 | $ 418 | $ 437 | $ 455 | $ 473 | $ 487 | $ 502 | $ 512 |
| Depreciation | $ 110 | $ 112 | $ 113 | $ 115 | $ 116 | $ 117 | $ 118 | $ 118 | $ 119 | $ 119 | $ 118 |
| Gross cash flow | $ 443 | $ 469 | $ 492 | $ 515 | $ 534 | $ 554 | $ 572 | $ 591 | $ 605 | $ 620 | $ 630 |
| Investment in working capital | $ (17) | $ (14) | (15) | (15) | (15) | (16) | (17) | (18) | (19) | (20) | (21) |
| Net capital expenditures | $ (120) | $ (125) | (125) | (124) | (123) | (122) | (121) | (120) | (119) | (118) | $ (118) |
| Investment in capitalized op. leases | $ (3) | $ (3) | (10) | (10) | (10) | (8) | (7) | (6) | (5) | (5) | (5) |
| **Free cash flow** | **$ 303** | **$ 327** | **$ 342** | **$ 366** | **$ 386** | **$ 408** | **$ 427** | **$ 447** | **$ 462** | **$ 477** | **$ 486** |
| Ending PP&E | $ 815 | $ 828 | $ 840 | $ 849 | $ 855 | $ 860 | $ 863 | $ 865 | $ 866 | $ 865 | $ 865 |
| Dep as % of beg. PP&E | | *13.7%* | *13.7%* | *13.7%* | *13.7%* | *13.7%* | *13.7%* | *13.7%* | *13.7%* | *13.7%* | *13.7%* |
| **Discounted at:** | | | | | | | | | | | |
| *8.0%* | $ 281 | $ 280 | $ 272 | $ 269 | $ 263 | $ 257 | $ 249 | $ 241 | $ 231 | $ 221 | $ 3,060 |
| *9.0%* | $ 278 | $ 275 | $ 264 | $ 259 | $ 251 | $ 243 | $ 234 | $ 224 | $ 213 | $ 201 | $ 2,461 |
| *10.0%* | $ 276 | $ 270 | $ 257 | $ 250 | $ 240 | $ 230 | $ 219 | $ 208 | $ 196 | $ 184 | $ 2,011 |

| Valuation | 8.0% | 9.0% | 10.0% |
|---|---|---|---|
| Explicit period | $2,564 | $2,443 | $2,330 |
| Continuing value | 3,060 | 2,461 | 2,011 |
| Value of operations | $5,624 | $4,904 | $4,341 |
| Adjusted for mid-year | $5,733 | $5,011 | $4,445 |
| Non-operating assets | $ 158 | $ 158 | $ 158 |
| Non-equity claims | (1,953) | (1,953) | (1,953) |
| Equity value | $3,939 | $3,216 | $2,651 |
| | **$ 32** | **$ 26** | **$ 21** |
| Implied terminal EV / NOPLAT | 12.9x | 11.4x | 10.2x |
| % of value in explicit period | 46% | 50% | 54% |

*Source: Wells Fargo Securities, LLC estimates*

| Continuing Value Assumptions | |
|---|---|
| Perpetuity NOPLAT & EBITA growth (constant tax rate) | 2.0% |
| RONIC in perpetuity = Year 10 WACC plus | 1.0% |
| Adjusted tax rate | 12.4% |
| Implied terminal EV / NOPLAT multiple | 11.4x |
| **Other Data** | |
| Non-operating assets | $ 158 |
| Non-equity claims (including op. leases) | $ 1,953 |
| Diluted shares | 125 |
| Current month | 3 |

*RONIC = return on newly invested capital*

**Relative.** Catalent does not have particularly good comps given its differentiated business mix. We highlight WST as arguably the best comparable, while the rest of the pharmaceutical services space serves as a decent benchmark, though most companies are expected to grow faster than Catalent. Catalent's highly leveraged balance sheet also makes accurate relative valuation a challenge.

Based on our CY2015 estimates, Catalent trades at 11.3 CY2015 EBITDA, a slight premium to the pharmaceutical services peer group. Catalent also trades at 11.4x our CY2015 EPS, which compares to 19.1x for the pharmaceutical services group. It is difficult to determine which multiple is best, with one being at a premium and the other at a discount. To resolve the issue, we turn to a normalized multiple, adjusted EV / NOPAT. Based on this metric, Catalent trades at 15.7x our 2015 estimate, which compares to 18.6x for the group. However, if we normalize Catalent's tax rate, given the company has significant net operating loss carryforwards to use, the company trades approximately in-line with the group, which we think is an accurate representation of the relative valuation.

**Exhibit 10. Pharma Services Comp Table**

| | | | Price | Div | Market | Enterprise | EV / Revenue | | | EV / EBITDA | | | P / E | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company Name | Ticker | Rating | 9/8/14 | Yield | Cap (MM) | Val (MM) | 2013 | 2014E | 2015E | 2013 | 2014E | 2015E | 2013 | 2014E | 2015E |
| Covance | CVD | 1 | $ 83.90 | 0.0% | $ 4,743 | $ 4,454 | 1.9x | 1.7x | 1.6x | 12.1x | 10.2x | 9.3x | 26.0x | 21.8x | 19.0x |
| Catalent | CTLT | 1 | $ 22.40 | 0.0% | $ 2,628 | $ 5,264 | 2.9x | 2.9x | 2.7x | 12.9x | 12.3x | 11.3x | 18.2x | 12.1x | 11.4x |
| Charles River Labs | CRL | 2 | $ 60.26 | 0.0% | $ 2,813 | $ 3,494 | 3.0x | 2.7x | 2.5x | 12.5x | 11.9x | 11.0x | 20.5x | 18.1x | 17.1x |
| ICON | ICLR | 1 | $ 53.67 | 0.0% | $ 3,322 | $ 3,147 | 2.4x | 2.1x | 1.9x | 17.8x | 12.6x | 11.0x | 30.4x | 20.2x | 17.3x |
| PAREXEL | PRXL | 1 | $ 57.77 | 0.0% | $ 3,162 | $ 3,225 | 1.7x | 1.6x | 1.5x | 13.1x | 10.5x | 9.1x | 29.5x | 23.5x | 19.3x |
| Quintiles | Q | 1 | $ 55.69 | 0.0% | $ 7,088 | $ 8,499 | 2.2x | 2.0x | 1.9x | 13.9x | 12.2x | 11.4x | 26.5x | 21.1x | 19.2x |
| West | WST | NR | $ 43.98 | 0.9% | $ 3,112 | $ 3,239 | 2.4x | 2.2x | 2.1x | 12.8x | 11.3x | 10.3x | 27.0x | 24.0x | 20.9x |
| WuXi PharmaTech | WX | 2 | $ 36.40 | 0.0% | $ 2,604 | $ 2,357 | 4.1x | 3.5x | 3.1x | 15.7x | 14.1x | 12.1x | 23.1x | 23.5x | 20.3x |
| | | | | | | | 2.4x | 2.2x | 2.0x | 13.0x | 12.1x | 11.0x | 26.2x | 21.4x | 19.1x |

*Source: Wells Fargo Securities, LLC estimates for all companies covered by Tim Evans, FactSet for all others*
*1=Outperform; 2=Market Perform; 3=Underperform; NR=Not Rated; NA=Not Available; Data are calendarized where possible*

## Exhibit 11. Long-Term Earnings Model

**Catalent Income Statement & Segment Analysis (FY ending June)**

**In millions, except EPS**

| NON-GAAP INCOME STATEMENT | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015E | 2016E | 2017E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net revenue | $ 1,531 | $ 1,399 | $ 1,480 | $ 1,532 | $ 1,695 | $ 1,800 | $ 1,828 | $ 1,908 | $ 2,016 | $ 2,111 |
| Cost of revenue | | 1,018 | 1,040 | 1,030 | 1,136 | 1,232 | 1,229 | 1,292 | 1,363 | 1,425 |
| Gross profit | | 381 | 441 | 502 | 559 | 569 | 599 | 616 | 653 | 686 |
| SG&A | | 230 | 218 | 235 | 268 | 265 | 269 | 274 | 280 | 285 |
| Operating income | | 151 | 223 | 268 | 291 | 304 | 329 | 342 | 373 | 401 |
| Interest expense, net | | 182 | 161 | 166 | 183 | 203 | 163 | 82 | 78 | 77 |
| Other expense | | (17) | (7) | 26 | (4) | 8 | (1) | - | - | - |
| Pretax income | | (14) | 69 | 76 | 112 | 92 | 167 | 260 | 295 | 323 |
| Income tax expense (benefit) | | 19 | 24 | 26 | 28 | 18 | 26 | 31 | 37 | 40 |
| Earnings/(loss) from continuing ops | | $ (34) | $ 45 | $ 50 | $ 83 | $ 74 | $ 140 | $ 229 | $ 258 | $ 283 |
| Minority interest, net of tax | | (1) | 3 | 4 | 1 | (0) | (1) | (1) | (1) | (1) |
| Net earnings (loss) to Catalent | | $ (33) | $ 43 | $ 46 | $ 82 | $ 74 | $ 141 | $ 229 | $ 259 | $ 284 |
| Adjustments to net income | | 275 | 332 | 100 | 122 | 124 | 125 | 79 | 50 | 50 |
| GAAP net income | | $ (308) | $ (290) | $ (54) | $ (40) | $ (50) | $ 16 | $ 150 | $ 209 | $ 234 |
| **Non-GAAP EPS** | | | | **$ 0.62** | **$ 1.09** | **$ 0.99** | **$ 1.86** | **$ 1.90** | **$ 2.08** | **$ 2.27** |
| Non-GAAP EPS (company method) | | | | $ 0.99 | $ 1.08 | $ 1.10 | $ 1.87 | $ 1.94 | $ 2.11 | $ 2.31 |
| GAAP EPS | | | | $ (0.72) | $ (0.53) | $ (0.66) | $ 0.21 | $ 1.25 | $ 1.68 | $ 1.88 |
| Diluted shares outstanding | | | | 74.7 | 75.4 | 75.0 | 76.1 | 120.8 | 124.9 | 124.9 |
| **EBITDA** | | **$ 151** | **$ 223** | **$ 354** | **$ 387** | **$ 412** | **$ 430** | **$ 451** | **$ 483** | **$ 512** |
| **MARGIN ANALYSIS** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015E** | **2016E** | **2017E** |
| *Cost of revenue / net revenue* | | *72.8%* | *70.2%* | *67.2%* | *67.0%* | *68.4%* | *67.2%* | *67.7%* | *67.6%* | *67.5%* |
| ***Gross margin*** | | ***27.2%*** | ***29.8%*** | ***32.8%*** | ***33.0%*** | ***31.6%*** | ***32.8%*** | ***32.3%*** | ***32.4%*** | ***32.5%*** |
| *SG&A / net revenue* | | *16.4%* | *14.7%* | *15.3%* | *15.8%* | *14.7%* | *14.7%* | *14.4%* | *13.9%* | *13.5%* |
| ***Operating margin*** | | ***10.8%*** | ***15.0%*** | ***17.5%*** | ***17.2%*** | ***16.9%*** | ***18.0%*** | ***17.9%*** | ***18.5%*** | ***19.0%*** |
| *Pretax margin* | | *(1.0%)* | *4.7%* | *5.0%* | *6.6%* | *5.1%* | *9.1%* | *13.6%* | *14.6%* | *15.3%* |
| ***Tax rate*** | | ***(134.9%)*** | ***34.4%*** | ***33.8%*** | ***25.3%*** | ***19.6%*** | ***15.8%*** | ***12.1%*** | ***12.4%*** | ***12.4%*** |
| *Net margin* | | *(2.4%)* | *2.9%* | *3.0%* | *4.8%* | *4.1%* | *7.7%* | *12.0%* | *12.9%* | *13.5%* |
| ***EBITDA margin*** | | ***10.8%*** | ***15.0%*** | ***23.1%*** | ***22.8%*** | ***22.9%*** | ***23.5%*** | ***23.6%*** | ***24.0%*** | ***24.3%*** |
| **CHANGE ANALYSIS (YR / YR)** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015E** | **2016E** | **2017E** |
| ***Net revenue*** | | ***(8.6%)*** | ***5.8%*** | ***3.5%*** | ***10.6%*** | ***6.2%*** | ***1.5%*** | ***4.4%*** | ***5.7%*** | ***4.7%*** |
| *Cost of revenues* | | | *2.1%* | *(0.9%)* | *10.3%* | *8.4%* | *(0.2%)* | *5.1%* | *5.5%* | *4.5%* |
| ***Gross profit*** | | | ***15.8%*** | ***13.9%*** | ***11.3%*** | ***1.8%*** | ***5.3%*** | ***3.0%*** | ***6.0%*** | ***5.0%*** |
| *SG&A* | | | *(5.2%)* | *7.5%* | *14.2%* | *(1.0%)* | *1.6%* | *1.7%* | *2.3%* | *1.8%* |
| ***Operating income*** | | | ***47.9%*** | ***20.1%*** | ***8.7%*** | ***4.3%*** | ***8.5%*** | ***4.0%*** | ***8.9%*** | ***7.4%*** |
| *Pretax income* | | | *NA* | *10.1%* | *46.6%* | *(17.5%)* | *81.1%* | *55.9%* | *13.4%* | *9.6%* |
| *Net income* | | | *NA* | *8.8%* | *76.8%* | *(9.7%)* | *90.7%* | *62.2%* | *13.0%* | *9.6%* |
| ***Non-GAAP EPS*** | | | *NA* | *NA* | ***75.1%*** | ***(9.2%)*** | ***87.8%*** | ***2.2%*** | ***9.3%*** | ***9.6%*** |
| *Diluted shares outstanding* | | | *NA* | *NA* | *0.9%* | *(0.5%)* | *1.5%* | *58.7%* | *3.3%* | *0.0%* |
| ***EBITDA*** | | | ***47.9%*** | ***59.0%*** | ***9.1%*** | ***6.6%*** | ***4.2%*** | ***5.0%*** | ***7.1%*** | ***6.0%*** |
| **SEGMENT ANALYSIS** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015E** | **2016E** | **2017E** |
| **Oral Technologies** | | | **$ 1,120** | **$ 1,160** | **$ 1,220** | **$ 1,186** | **$ 1,180** | **$1,240** | **$1,308** | **$1,367** |
| *Growth: core* | | | | *2.7%* | *6.4%* | *(0.2%)* | *1.4%* | *4.4%* | *5.5%* | *4.5%* |
| *Growth: FX* | | | | *0.8%* | *(1.1%)* | *(2.6%)* | *(1.5%)* | *0.3%* | *0.0%* | *0.0%* |
| *Growth: acq/div* | | | | *0.0%* | *0.0%* | *0.0%* | *(0.4%)* | *0.4%* | *0.0%* | *0.0%* |
| *Growth: total* | | | | *3.5%* | *5.2%* | *(2.8%)* | *(0.5%)* | *5.1%* | *5.5%* | *4.5%* |
| **Adj. EBITDA** | | | **$ 274** | **$ 308** | **$ 335** | **$ 316** | **$ 324** | **$ 334** | **$ 355** | **$ 376** |
| *Margin* | | | *24.5%* | *26.6%* | *27.4%* | *26.6%* | *27.5%* | *27.0%* | *27.2%* | *27.5%* |
| **Medication Delivery Solutions** | | | **$ 235** | **$ 239** | **$ 224** | **$ 219** | **$ 246** | **$ 247** | **$ 262** | **$ 275** |
| *Growth: core* | | | | *2.9%* | *(5.3%)* | *(0.9%)* | *10.1%* | *1.3%* | *6.0%* | *5.0%* |
| *Growth: FX* | | | | *(1.2%)* | *(0.8%)* | *(1.2%)* | *2.1%* | *(0.9%)* | *0.0%* | *0.0%* |
| *Growth: acq/div* | | | | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* |
| *Growth: total* | | | | *1.7%* | *(6.2%)* | *(2.1%)* | *12.2%* | *0.4%* | *6.0%* | *5.0%* |
| **Adj. EBITDA** | | | **$ 30** | **$ 34** | **$ 28** | **$ 32** | **$ 49** | **$ 49** | **$ 53** | **$ 57** |
| *Margin* | | | *12.8%* | *14.0%* | *12.3%* | *14.4%* | *19.8%* | *19.8%* | *20.3%* | *20.6%* |
| **Development & Clinical Services** | | | **$ 145** | **$ 157** | **$ 268** | **$ 405** | **$ 412** | **$ 432** | **$ 458** | **$ 481** |
| *Growth: core* | | | | *8.8%* | *28.9%* | *7.8%* | *0.2%* | *6.3%* | *6.0%* | *5.0%* |
| *Growth: FX* | | | | *(0.5%)* | *(1.3%)* | *(0.4%)* | *1.6%* | *(1.5%)* | *0.0%* | *0.0%* |
| *Growth: acq/div* | | | | *0.0%* | *43.2%* | *43.5%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* |
| *Growth: total* | | | | *8.4%* | *70.9%* | *50.9%* | *1.8%* | *4.8%* | *6.0%* | *5.0%* |
| **Adj. EBITDA** | | | **$ 24** | **$ 30** | **$ 53** | **$ 75** | **$ 84** | **$ 82** | **$ 90** | **$ 96** |
| *Margin* | | | *16.2%* | *19.2%* | *19.8%* | *18.5%* | *20.3%* | *19.1%* | *19.6%* | *19.9%* |
| **Intracompany Revenue Eliminations** | | | **$ (20)** | **$ (23)** | **$ (18)** | **$ (10)** | **$ (11)** | **$ (12)** | **$ (12)** | **$ (13)** |
| *% of total* | | | *(1.3%)* | *(1.5%)* | *(1.0%)* | *(0.6%)* | *(0.6%)* | *(0.6%)* | *(0.6%)* | *(0.6%)* |
| **Total Revenue** | **$ 1,531** | **$ 1,399** | **$ 1,480** | **$ 1,533** | **$ 1,695** | **$ 1,800** | **$ 1,828** | **$1,908** | **$2,016** | **$2,111** |
| *Growth: core* | | | *5.8%* | *3.1%* | *7.3%* | *1.4%* | *2.2%* | *4.4%* | *5.7%* | *4.7%* |
| *Growth: FX* | | | *0.3%* | *(0.8%)* | *(1.1%)* | *(2.1%)* | *(0.4%)* | *(0.3%)* | *0.0%* | *0.0%* |
| *Growth: acq/div* | | | *(0.3%)* | *0.0%* | *4.4%* | *6.9%* | *(0.3%)* | *0.3%* | *0.0%* | *0.0%* |
| *Growth: total* | | | *5.8%* | *3.5%* | *10.6%* | *6.2%* | *1.5%* | *4.4%* | *5.7%* | *4.7%* |
| **Corporate expenses** | | | **$ (105)** | **$ (372)** | **$ (28)** | **$ (10)** | **$ (27)** | **$ (10)** | **$ (10)** | **$ (11)** |
| *% of total revenue* | | | *7.1%* | *24.3%* | *1.7%* | *0.5%* | *1.5%* | *0.5%* | *0.5%* | *0.5%* |

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

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

## Exhibit 12. Quarterly Earnings Model

**Catalent Quarterly Data (Calendarized)**

**In millions, except EPS**

| NON-GAAP INCOME STATEMENT | 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | 2013 | Q1 2014 | Q2 2014 | Q3 2014E | Q4 2014E | 2014E | 2015E | 2016E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net revenue | $ 1,768 | $ 447 | $ 505 | $ 414 | $ 441 | $ 1,807 | $ 453 | $ 520 | $ 415 | $ 456 | $ 1,844 | $ 1,958 | $ 2,059 |
| Cost of revenue | 1,196 | 310 | 332 | 295 | 303 | 1,240 | 301 | 329 | 297 | 315 | 1,243 | 1,326 | 1,392 |
| Gross profit | 572 | 137 | 174 | 119 | 137 | 568 | 152 | 190 | 118 | 142 | 601 | 632 | 667 |
| SG&A | 277 | 64 | 69 | 64 | 71 | 268 | 71 | 64 | 67 | 73 | 274 | 277 | 283 |
| Operating income | 294 | 73 | 105 | 55 | 66 | 300 | 81 | 127 | 51 | 68 | 327 | 355 | 384 |
| Interest expense, net | 207 | 54 | 43 | 41 | 42 | 179 | 40 | 40 | 26 | 19 | 126 | 77 | 78 |
| Other expense | (0) | 8 | (1) | (1) | (1) | 5 | 5 | (3) | - | - | 2 | - | - |
| Pretax income | 87 | 11 | 64 | 15 | 26 | 117 | 36 | 90 | 25 | 49 | 200 | 278 | 306 |
| Income tax expense (benefit) | 31 | 6 | 5 | 17 | (3) | 25 | 2 | 10 | 3 | 6 | 22 | 34 | 38 |
| Earnings/(loss) from continuing c | $ 57 | $ 6 | $ 58 | $ (1) | $ 29 | $ 92 | $ 33 | $ 79 | $ 22 | $ 43 | $ 178 | $ 244 | $ 268 |
| Minority interest, net of tax | 1 | - | (0) | (0) | (0) | (1) | (0) | (0) | (0) | (0) | (1) | (1) | (1) |
| Net earnings (loss) attributable to | $ 56 | $ 6 | $ 59 | $ (1) | $ 29 | $ 92 | $ 34 | $ 79 | $ 22 | $ 44 | $ 179 | $ 245 | $ 269 |
| **Non-GAAP EPS** | | | | | | **$ 1.23** | **$ 0.44** | **$ 1.04** | **$ 0.20** | **$ 0.35** | **$ 1.86** | **$ 1.96** | **$ 2.16** |
| Diluted shares outstanding | | | | | | 75.0 | 76.1 | 76.1 | 108.7 | 124.8 | 96.4 | 124.8 | 124.9 |
| **EBITDA** | **$ 401** | **$ 101** | **$ 131** | **$ 82** | **$ 93** | **$ 407** | **$ 105** | **$ 150** | **$ 78** | **$ 96** | **$ 429** | **$ 464** | **$ 495** |
| **MARGIN ANALYSIS** | | | | | | | | | | | | | |
| *Cost of revenue / net revenue* | *67.7%* | *69.3%* | *65.6%* | *71.2%* | *68.8%* | *68.6%* | *66.5%* | *63.4%* | *71.6%* | *69.0%* | *67.4%* | *67.7%* | *67.6%* |
| ***Gross margin*** | ***32.3%*** | ***30.7%*** | ***34.4%*** | ***28.8%*** | ***31.2%*** | ***31.4%*** | ***33.5%*** | ***36.6%*** | ***28.4%*** | ***31.0%*** | ***32.6%*** | ***32.3%*** | ***32.4%*** |
| *SG&A / net revenue* | *15.7%* | *14.4%* | *13.6%* | *15.4%* | *16.1%* | *14.8%* | *15.6%* | *12.2%* | *16.1%* | *16.0%* | *14.9%* | *14.2%* | *13.7%* |
| ***Operating margin*** | ***16.6%*** | ***16.3%*** | ***20.8%*** | ***13.3%*** | ***15.1%*** | ***16.6%*** | ***17.9%*** | ***24.4%*** | ***12.3%*** | ***15.0%*** | ***17.7%*** | ***18.1%*** | ***18.6%*** |
| *Pretax margin* | *4.9%* | *2.6%* | *12.6%* | *3.7%* | *5.9%* | *6.5%* | *7.8%* | *17.3%* | *6.0%* | *10.8%* | *10.8%* | *14.2%* | *14.9%* |
| ***Tax rate*** | ***34.9%*** | ***50.9%*** | ***8.1%*** | ***107.3%*** | ***(10.5%)*** | ***21.2%*** | ***6.2%*** | ***11.6%*** | ***12.0%*** | ***12.1%*** | ***10.8%*** | ***12.2%*** | ***12.4%*** |
| *Net margin* | *3.2%* | *1.3%* | *11.6%* | *(0.2%)* | *6.6%* | *5.1%* | *7.4%* | *15.3%* | *5.4%* | *9.6%* | *9.7%* | *12.5%* | *13.1%* |
| ***EBITDA margin*** | ***22.7%*** | ***22.6%*** | ***26.0%*** | ***19.7%*** | ***21.1%*** | ***22.5%*** | ***23.2%*** | ***28.8%*** | ***18.9%*** | ***20.9%*** | ***23.3%*** | ***23.7%*** | ***24.0%*** |
| **CHANGE ANALYSIS (YR / YR)** | | | | | | | | | | | | | |
| ***Net revenue*** | | ***1%*** | ***6%*** | ***1%*** | ***1%*** | ***2%*** | ***1%*** | ***3%*** | ***0%*** | ***4%*** | ***2%*** | ***6%*** | ***5%*** |
| *Cost of revenues* | | *6%* | *6%* | *0%* | *2%* | *4%* | *(3%)* | *(1%)* | *1%* | *4%* | *0%* | *7%* | *5%* |
| ***Gross profit*** | | ***(7%)*** | ***5%*** | ***1%*** | ***(2%)*** | ***(1%)*** | ***10%*** | ***10%*** | ***(1%)*** | ***3%*** | ***6%*** | ***5%*** | ***6%*** |
| *SG&A* | | *(0%)* | *(15%)* | *1%* | *3%* | *(3%)* | *10%* | *(7%)* | *4%* | *3%* | *2%* | *1%* | *2%* |
| ***Operating income*** | | ***(13%)*** | ***24%*** | ***2%*** | ***(7%)*** | ***2%*** | ***11%*** | ***20%*** | ***(7%)*** | ***3%*** | ***9%*** | ***8%*** | ***8%*** |
| *Pretax income* | | *(69%)* | *88%* | *5033%* | *56%* | *33%* | *211%* | *41%* | *63%* | *89%* | *71%* | *39%* | *10%* |
| *Net income* | | *(80%)* | *217%* | *(86%)* | *71%* | *65%* | *501%* | *36%* | *(2289%)* | *49%* | *94%* | *37%* | *10%* |
| ***EPS*** | | | | | | | | | | | | ***6%*** | ***10%*** |
| *Diluted shares outstanding* | | | | | | | | | | | | *29%* | *0%* |
| ***EBITDA*** | | ***(8%)*** | ***18%*** | ***0%*** | ***(6%)*** | ***1%*** | ***4%*** | ***14%*** | ***(4%)*** | ***2%*** | ***5%*** | ***8%*** | ***7%*** |
| **SEGMENT ANALYSIS** | | | | | | | | | | | | | |
| **Oral Technologies** | **$ 1,189** | **$ 303** | **$ 333** | **$ 259** | **$ 286** | **$ 1,181** | **$ 287** | **$ 348** | **$ 261** | **$ 293** | **$ 1,189** | **$ 1,271** | **$ 1,335** |
| *Growth: core* | *2.4%* | *(2.6%)* | *4.9%* | *4.7%* | *1.1%* | *1.9%* | *(4.2%)* | *4.2%* | *0.0%* | *1.0%* | *0.4%* | *6.7%* | *5.0%* |
| *Growth: FX* | *(3.9%)* | *(1.5%)* | *(1.7%)* | *(1.0%)* | *(1.5%)* | *(1.4%)* | *(1.9%)* | *(1.5%)* | *0.1%* | *0.3%* | *(0.8%)* | *0.2%* | *0.0%* |
| *Growth: acq/div* | *0.0%* | *0.0%* | *0.0%* | *(4.0%)* | *(1.0%)* | *(1.1%)* | *0.8%* | *1.8%* | *0.8%* | *1.0%* | *1.1%* | *0.0%* | *0.0%* |
| *Growth: total* | *5.0%* | *(4.1%)* | *3.2%* | *(0.3%)* | *(1.5%)* | *(2.9%)* | *(5.2%)* | *4.4%* | *0.8%* | *2.4%* | *(0.5%)* | *5.1%* | *5.4%* |
| **Adj. EBITDA** | **$ 328** | **$ 77** | **$ 101** | **$ 60** | **$ 75** | **$ 312** | **$ 76** | **$ 113** | **$ 57** | **$ 70** | **$ 317** | **$ 343** | **$ 363** |
| *Margin* | *27.4%* | *25.2%* | *30.2%* | *23.3%* | *26.1%* | *26.6%* | *26.5%* | *32.5%* | *22.0%* | *24.0%* | *27.5%* | *27.0%* | *27.2%* |
| **Medication Delivery Solutions** | **$ 215** | **$ 54** | **$ 68** | **$ 57** | **$ 55** | **$ 234** | **$ 65** | **$ 69** | **$ 55** | **$ 58** | **$ 247** | **$ 254** | **$ 268** |
| *Growth: core* | *(2.3%)* | *(9.4%)* | *16.5%* | *22.0%* | *3.2%* | *7.2%* | *18.9%* | *0.6%* | *(2.5%)* | *6.0%* | *5.3%* | *3.3%* | *5.5%* |
| *Growth: FX* | *(3.6%)* | *(0.2%)* | *1.9%* | *3.8%* | *2.1%* | *1.8%* | *2.4%* | *0.6%* | *(0.4%)* | *(1.1%)* | *0.4%* | *(0.6%)* | *0.0%* |
| *Growth: acq/div* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* |
| *Growth: total* | *(5.9%)* | *(9.6%)* | *18.4%* | *25.8%* | *5.3%* | *9.0%* | *21.3%* | *1.2%* | *(2.9%)* | *4.9%* | *5.7%* | *2.7%* | *5.5%* |
| **Adj. EBITDA** | **$ 26** | **$ 8** | **$ 14** | **$ 8** | **$ 7** | **$ 38** | **$ 16** | **$ 18** | **$ 8** | **$ 9** | **$ 51** | **$ 51** | **$ 54** |
| *Margin* | *12.3%* | *15.4%* | *21.1%* | *14.5%* | *12.7%* | *14.4%* | *24.0%* | *25.8%* | *14.5%* | *16.0%* | *19.8%* | *19.8%* | *20.3%* |
| **Development & Clinical Services** | **$ 378** | **$ 93** | **$ 107** | **$ 101** | **$ 102** | **$ 403** | **$ 104** | **$ 105** | **$ 101** | **$ 109** | **$ 419** | **$ 445** | **$ 469** |
| *Growth: core* | *23.0%* | *(0.1%)* | *6.0%* | *(7.3%)* | *5.1%* | *0.8%* | *9.0%* | *(4.1%)* | *0.0%* | *8.0%* | *3.0%* | *7.2%* | *5.5%* |
| *Growth: FX* | *(1.9%)* | *0.0%* | *(0.7%)* | *0.2%* | *0.8%* | *0.1%* | *2.5%* | *2.9%* | *0.4%* | *(1.6%)* | *1.0%* | *(1.1%)* | *0.0%* |
| *Growth: acq/div* | *91.7%* | *30.9%* | *0.0%* | *0.0%* | *0.0%* | *5.8%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* |
| *Growth: total* | *112.8%* | *30.8%* | *5.3%* | *(7.1%)* | *5.9%* | *6.7%* | *11.5%* | *(1.2%)* | *0.4%* | *6.4%* | *4.1%* | *6.1%* | *5.5%* |
| **Adj. EBITDA** | **$ 74** | **$ 16** | **$ 20** | **$ 16** | **$ 19** | **$ 70** | **$ 23** | **$ 26** | **$ 16** | **$ 20** | **$ 85** | **$ 86** | **$ 92** |
| *Margin* | *19.8%* | *17.1%* | *18.3%* | *15.5%* | *18.1%* | *18.5%* | *22.2%* | *25.0%* | *16.0%* | *18.0%* | *20.3%* | *19.1%* | *19.6%* |
| **Intracompany Revenue Eliminati** | **$ (13)** | **$ (3)** | **$ (3)** | **$ (2)** | **$ (3)** | **$ (11)** | **$ (3)** | **$ (3)** | **$ (3)** | **$ (3)** | **$ (11)** | **$ (12)** | **$ (12)** |
| *% of total* | *(1.0%)* | *(0.7%)* | *(0.6%)* | *(0.5%)* | *(0.6%)* | *(0.6%)* | *(0.7%)* | *(0.5%)* | *(0.6%)* | *(0.6%)* | *(0.6%)* | *(0.6%)* | *(0.6%)* |
| **Total Revenue** | **$ 1,768** | **$ 447** | **$ 505** | **$ 414** | **$ 441** | **$ 1,807** | **$ 453** | **$ 520** | **$ 415** | **$ 456** | **$ 1,844** | **$ 1,958** | **$ 2,059** |
| *Total growth: core* | *4.6%* | *(2.6%)* | *6.7%* | *3.3%* | *2.3%* | *2.5%* | *1.3%* | *2.0%* | *(0.4%)* | *3.2%* | *1.5%* | *6.4%* | *5.2%* |
| *Total growth: FX* | *(3.7%)* | *(1.1%)* | *(1.0%)* | *(0.2%)* | *(0.6%)* | *(0.7%)* | *(0.5%)* | *(0.3%)* | *0.1%* | *(0.3%)* | *(0.3%)* | *(0.2%)* | *0.0%* |
| *Total growth: acq/div* | *10.2%* | *5.0%* | *0.0%* | *(2.5%)* | *(0.7%)* | *0.5%* | *0.6%* | *1.2%* | *0.5%* | *0.7%* | *0.7%* | *0.0%* | *0.0%* |
| *Growth: total* | *11.1%* | *1.3%* | *5.6%* | *0.6%* | *1.1%* | *2.2%* | *1.4%* | *2.9%* | *0.1%* | *3.6%* | *2.0%* | *6.2%* | *5.2%* |
| **Corporate expenses** | **$ (26)** | **$ 0** | **$ (3)** | **$ (3)** | **$ (7)** | **$ (13)** | **$ (10)** | **$ (7)** | **$ (2)** | **$ (2)** | **$ (21)** | **$ (10)** | **$ (10)** |
| *% of total revenue* | *1.5%* | *(0.0%)* | *0.7%* | *0.7%* | *1.6%* | *0.7%* | *2.2%* | *1.4%* | *0.5%* | *0.5%* | *1.2%* | *0.5%* | *0.5%* |

*Source: Company data and Wells Fargo Securities, LLC estimates*

## Exhibit 13. Balance Sheet And Cash Flow Data

**Catalent Balance Sheet (FY Ending June)**

**In millions, except working capital days and per share metrics**

| BALANCE SHEET | 2010 | 2011 | 2012 | 2013 | 2014 | FQ1E | FQ2E | FQ3E | FQ4E | 2015E | 2016E | 2017E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | | | |
| Cash and cash equivalents | $ 164 | $ 205 | $ 139 | $ 106 | $ 74 | $ 77 | $ 98 | $ 115 | $ 196 | $ 196 | $ 410 | $ 649 |
| Trade receivables, net | | 262 | 338 | 358 | 404 | 316 | 324 | 362 | 423 | 423 | 447 | 468 |
| Inventories | | 131 | 119 | 125 | 135 | 132 | 142 | 163 | 142 | 142 | 149 | 156 |
| Prepaid expenses and other | | 160 | 109 | 90 | 75 | 73 | 71 | 69 | 67 | 67 | 59 | 51 |
| Total current assets | | 758 | 705 | 679 | 688 | 598 | 635 | 710 | 828 | 828 | 1,066 | 1,323 |
| PP&E, net | | 721 | 810 | 815 | 873 | 876 | 879 | 882 | 884 | 884 | 894 | 908 |
| Goodwill | | 906 | 1,030 | 1,023 | 1,097 | 1,097 | 1,097 | 1,097 | 1,097 | 1,097 | 1,097 | 1,097 |
| Other intangibles, net | | 287 | 418 | 372 | 358 | 347 | 336 | 325 | 315 | 315 | 272 | 230 |
| Deferred income taxes | | 115 | 135 | 24 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 |
| Other assets | | 45 | 42 | 37 | 49 | 49 | 49 | 49 | 49 | 49 | 49 | 49 |
| **Total assets** | **$2,727** | **$2,831** | **$3,139** | **$2,950** | **$3,090** | **$2,992** | **$3,021** | **$3,089** | **$3,198** | **$3,198** | **$3,404** | **$3,633** |
| **Liabilities** | | | | | | | | | | | | |
| Current portion of debt | | $ 29 | $ 43 | $ 35 | $ 25 | $ 25 | $ 25 | $ 25 | $ 25 | $ 25 | $ 25 | $ 25 |
| Accounts payable | | 124 | 134 | 151 | 148 | 129 | 125 | 140 | 160 | 160 | 169 | 176 |
| Other current liabilities | | 233 | 262 | 225 | 280 | 280 | 280 | 280 | 280 | 280 | 280 | 280 |
| Total current liabilities | | 386 | 439 | 410 | 453 | 434 | 430 | 445 | 465 | 465 | 473 | 481 |
| Long-term debt | | 2,318 | 2,640 | 2,657 | 2,685 | 1,681 | 1,681 | 1,681 | 1,681 | 1,681 | 1,663 | 1,645 |
| Pension liability | | 79 | 140 | 134 | 155 | 155 | 155 | 155 | 155 | 155 | 155 | 155 |
| Deferred income taxes | | 193 | 220 | 112 | 103 | 103 | 103 | 103 | 103 | 103 | 103 | 103 |
| Other liabilities | | 66 | 50 | 47 | 61 | 61 | 61 | 61 | 61 | 61 | 61 | 61 |
| **Total liabilities** | | **$3,041** | **$3,490** | **$3,360** | **$3,458** | **$2,434** | **$2,430** | **$2,445** | **$2,465** | **$2,465** | **$2,455** | **$2,445** |
| **Shareholders' equity** | | **$ (210)** | **$ (351)** | **$ (410)** | **$ (367)** | **$ 558** | **$ 592** | **$ 644** | **$ 734** | **$ 734** | **$ 948** | **$1,188** |
| **Total liabilities & equity** | | **$2,831** | **$3,139** | **$2,950** | **$3,090** | **$2,992** | **$3,021** | **$3,089** | **$3,198** | **$3,198** | **$3,404** | **$3,633** |
| *check* | | - | - | - | - | - | - | - | - | - | - | - |

| KEY RATIOS | 2010 | 2011 | 2012 | 2013 | 2014 | FQ1E | FQ2E | FQ3E | FQ4E | 2015E | 2016E | 2017E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Working Capital** | | | | | | | | | | | | |
| DSO | | | | 64 | 71 | 70 | 65 | 67 | 70 | 70 | 70 | 70 |
| Days in inventory | | | | 34 | 37 | 41 | 42 | 45 | 36 | 36 | 36 | 36 |
| Days of payables | | | | (41) | (41) | (40) | (37) | (39) | (41) | (41) | (41) | (41) |
| Cash conversion cycle | | | | 57 | 67 | 71 | 70 | 74 | 65 | 65 | 65 | 65 |
| Current ratio | | | | 1.7 | 1.5 | 1.4 | 1.5 | 1.6 | 1.8 | 1.8 | 2.3 | 2.8 |
| **Cash Flow** | | | | | | | | | | | | |
| Operating cash flow | $ 232 | $ 112 | $ 88 | $ 139 | $ 178 | 94 | 50 | 47 | 110 | 300 | 351 | 380 |
| Capital expenditures | (71) | (87) | (104) | (123) | (122) | (30) | (30) | (30) | (30) | (120) | (120) | (125) |
| Free cash flow | $ 161 | $ 24 | $ (17) | $ 17 | $ 56 | $ 64 | $ 20 | $ 17 | $ 80 | $ 180 | $ 231 | $ 255 |
| Free cash flow per share | | | | $ 0.22 | $ 0.73 | $ 0.59 | $ 0.16 | $ 0.13 | $ 0.64 | $ 1.49 | $ 1.85 | $ 2.05 |
| *% of non-GAAP NI converted to FCF* | | *48%* | *-20%* | *22%* | *40%* | | | | | *79%* | | |
| **Leverage** | | | | | | | | | | | | |
| Cash, equivalents, & marketable sec. | $ 164 | $ 205 | $ 139 | $ 106 | $ 74 | $ 77 | $ 98 | $ 115 | $ 196 | $ 196 | $ 410 | $ 649 |
| Total debt | 2,269 | 2,347 | 2,684 | 2,692 | 2,711 | 1,706 | 1,706 | 1,706 | 1,706 | 1,706 | 1,688 | 1,670 |
| Net cash (debt) | $ (2,105) | $ (2,142) | $ (2,545) | $ (2,585) | $ (2,636) | $ (1,629) | $ (1,608) | $ (1,591) | $ (1,510) | $ (1,510) | $ (1,278) | $ (1,021) |
| Net cash (debt) per share | | | $ (34) | $ (34) | $ (35) | | | | | $ (12) | $ (10) | $ (8) |
| *Debt/total capitalization* | | *109.8%* | *115.0%* | *118.0%* | *115.7%* | *75.3%* | *74.3%* | *72.6%* | *69.9%* | *69.9%* | *64.0%* | *58.4%* |
| Total debt/TTM EBITDA | 7.1x | 6.2x | 24.8x | 6.5x | 6.2x | 3.9x | 3.9x | 3.8x | 3.8x | 3.8x | 4.5x | 4.2x |
| Net debt/TTM EBITDA | 6.6x | 5.7x | 6.5x | 6.3x | 6.0x | 3.7x | 3.7x | 3.6x | 3.3x | 3.3x | 3.4x | 2.5x |
| **Book Value** | | | | | | | | | | | | |
| Book value/share | | | | $ (5.47) | $ (4.83) | $ 5.14 | $ 4.74 | $ 5.16 | $ 5.88 | $ 6.08 | $ 7.60 | $ 9.51 |
| Tangible book value/share | | | | $ (24.09) | $ (23.93) | $ (8.15) | $ (6.74) | $ (6.24) | $ (5.43) | $ (5.61) | $ (3.37) | $ (1.11) |
| **Employees** | | | | | | | | | | | | |
| Headcount | | | 8,700 | 8,300 | 8,300 | 8,300 | 8,300 | 8,300 | 8,300 | 8,300 | 8,300 | 8,300 |
| Incremental hiring | | | | (400) | - | - | - | - | - | - | - | - |
| Annualized revenue per employee (000s) | | | $ 195 | $ 217 | $ 220 | $ 200 | $ 220 | $ 233 | $ 266 | $ 230 | $ 243 | $ 254 |
| **ROA / ROE** | | | | | | | | | | | | |
| *Profit margin (net income/sales)* | | | *4.8%* | *4.1%* | *7.7%* | *7.7%* | *7.7%* | *7.7%* | *12.0%* | *12.0%* | *12.9%* | *13.5%* |
| Asset turnover (sales/assets) | | | 0.57 | 0.59 | 0.61 | 0.61 | 0.61 | 0.61 | 0.61 | 0.61 | 0.61 | 0.60 |
| *Return on assets (ROA)* | | | *2.8%* | *2.4%* | *4.7%* | *4.7%* | *4.7%* | *4.7%* | *7.3%* | *7.3%* | *7.8%* | *8.1%* |
| Leverage ratio (assets/equity) | | | NA | NA | NA | NA | NA | NA | 17.15 | 17.15 | 3.92 | 3.29 |
| *Return on equity (ROE)* | | | *NA* | *NA* | *NA* | *NA* | *NA* | *NA* | *125.2%* | *125.2%* | *30.8%* | *26.6%* |
| **ROIC Decomposition** | | | | | | | | | | | | |
| Capital turns | | | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| *EBITA margin* | | | *17.6%* | *17.2%* | *18.4%* | *18.4%* | *18.4%* | *18.4%* | *18.3%* | *18.3%* | *18.9%* | *19.3%* |
| *Pretax ROIC* | | | *10.4%* | *10.1%* | *10.7%* | *10.7%* | *10.7%* | *10.7%* | *10.8%* | *10.8%* | *11.6%* | *12.4%* |
| *Cash tax rate* | | | *25.3%* | *19.6%* | *15.8%* | *15.8%* | *15.8%* | *15.8%* | *12.1%* | *12.1%* | *12.4%* | *12.4%* |
| *ROIC (after goodwill)* | | | *7.7%* | *8.2%* | *9.0%* | *9.0%* | *9.0%* | *9.0%* | *9.5%* | *9.5%* | *10.2%* | *10.8%* |
| *ROIC (before goodwill)* | | | *13.1%* | *13.7%* | *15.0%* | *15.0%* | *15.0%* | *15.0%* | *15.9%* | *15.9%* | *17.0%* | *17.9%* |

*Source for all: Company data and Wells Fargo Securities, LLC estimates*
*Retrun metrics are calculated on average capital*

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| | |
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***CONSUMER***

**Beverage/Convenience Stores/Tobacco**

| | |
|---|---|
| Bonnie Herzog | (212) 214-5051 |
| Jessica Gerberi, CFA | (212) 214-5029 |
| Adam Scott | (212) 214-8064 |

**Cosmetics, Household & Personal Care**

| | |
|---|---|
| Chris Ferrara, CFA, CPA | (212) 214-8050 |
| Joe Lachky, CFA | (314) 875-2042 |
| Zachary Fadem, CPA | (212) 214-8018 |

**Education**

| | |
|---|---|
| Trace A. Urdan | (415) 947-5470 |
| Jeffrey Lee | (415) 396-4328 |

**Food**

| | |
|---|---|
| John Baumgartner, CFA | (212) 214-5015 |

**Homebuilding/Building Products**

| | |
|---|---|
| Adam Rudiger, CFA | (617) 603-4260 |
| Joey Matthews, CPA | (415) 396-3873 |

**Leisure**

| | |
|---|---|
| Timothy Conder, CPA | (314) 875-2041 |
| Karen Wang | (314) 875-2556 |
| Marc J. Torrente | (314) 875-2557 |

**Restaurants & Foodservice**

| | |
|---|---|
| Jeff Farmer, CFA | (617) 603-4314 |
| Imran Ali | (617) 603-4315 |

**Retail**

| | |
|---|---|
| Paul Lejuez, CPA, CFA | (212) 214-5072 |
| Tracy Kogan | (212) 214-8065 |
| Justin C. Matthews | (212) 214-8059 |
| Matt Nemer | (415) 396-3938 |
| Omair Asif | (415) 222-1159 |
| Maren Kasper | (415) 396-3194 |
| Kate Wendt | (415) 396-3977 |
| Evren Kopelman, CFA | (212) 214-8024 |
| Connie Wang | (212) 214-5024 |

***ENERGY***

**Exploration & Production**

| | |
|---|---|
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| Gordon Douthat, CFA | (303) 863-6920 |
| Brad Carpenter, CFA | (303) 863-6894 |
| Jamil Bhatti, CFA | (303) 863-6880 |

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