

November 19, 2014

## Catalent

## Catching up with Catalent

We met with Catalent CEO John Chiminski and CFO Matt Walsh this week post 1FQ15 results and the announced acquisition of Micron. Meeting highlighted management's disciplined approach towards operating and M&A as well as topline and margin expansion opportunity. Reiterate OW.

**Margin expansion opportunity over the next ~3 years.** Margin tailwinds include improvements in Oral Technology (OT) segment capacity utilization and strong growth in higher margin modified release products could drive up to 300 bps of expansion over the next ~3 years. In Medication Delivery Solutions (MDS) segment, capacity utilization and growth of blow-fill-seal are the biggest opportunities which could bring margins inline with OT over the longer term (to ~27% vs. ~21% today). Management continues to be focused on selling additional services to existing customers such as SMARTag and OptiPact, enhancing margin and further improving stickiness.

**Recent Redwood & Micron acquisitions exemplify "follow the molecule" strategy.** Redwood's SMARTag antibody drug conjugate (ADC) technology enables clients to potentially cut development time on site-targeting treatments. Having met milestones to-date, CTLT could begin to see client adoption with development deals worth < \$1 million dollars each over the next 12-18 months. Large biopharma client signings could be a potential catalyst for wider adoption across its customer base. Micron's particle size engineering technology, which sees ~100 new molecules per year in oral and inhaled dose forms, should provide Catalent early access to new molecules in development.

**M&A funnel remains full.** Catalent has ~70 deals in the funnel of which ~6-7 are in active discussion with the goal of executing 1 to 2 deals per year sized at ~\$20 to \$25 million in EBITDA each. Target multiples are ~10x to 15x trailing EBITDA pre-synergies with low-hanging opportunities for synergies typically from back office, process optimization, and purchasing. Additional blow-fill-seal capacity and hard capsules remain areas of interest in addition to geographic expansion and additional platform technologies.

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Catalent, Inc. ( CTLT.N , CTLT US )

Healthcare Services &amp; Distribution / United States of America

**Stock Rating****Overweight****Industry View****In-Line**

Shr price, close (Nov 18, 2014)

\$25.43

Mkt cap, curr (mm)

\$3,359

52-Week Range

\$26.24-19.30

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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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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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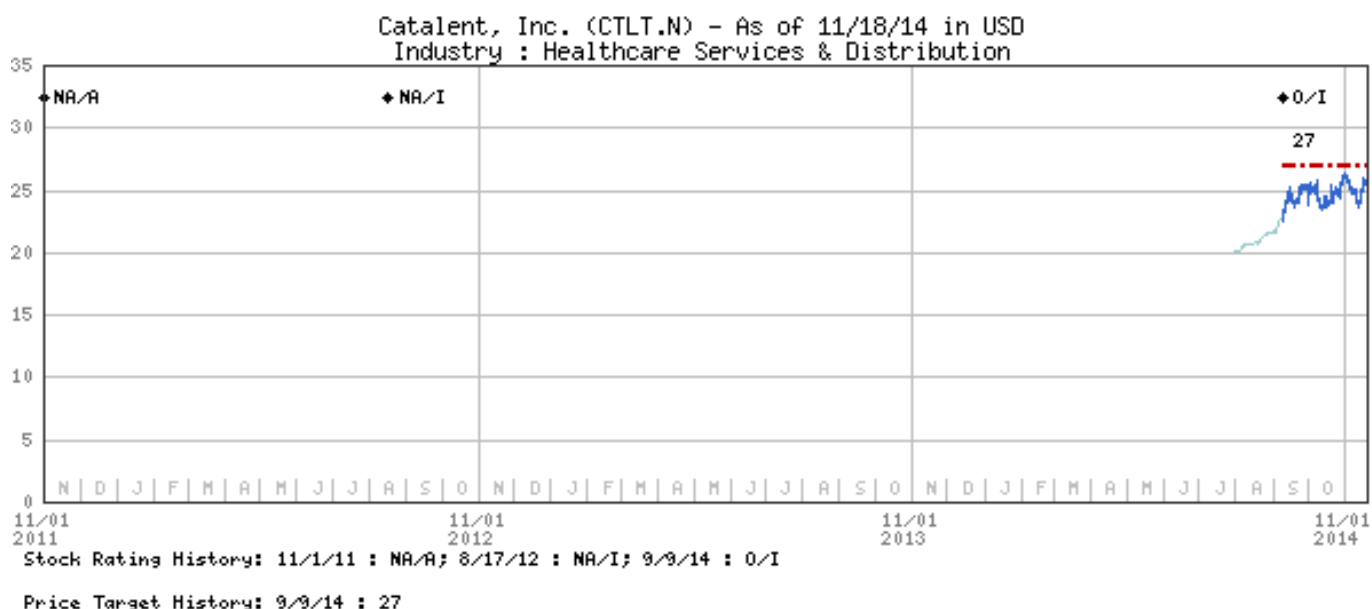
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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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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COMPANY (TICKER)	RATING (AS OF)	PRICE* (11/18/2014)
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Albany Molecular Research, Inc (AMRI.O)	O (04/09/2014)	\$16.24
Allscripts Healthcare Solutions Inc. (MDRX.O)	E (11/07/2014)	\$12.20
AmerisourceBergen Corp. (ABC.N)	E (04/13/2012)	\$89.76
athenahealth Inc (ATHN.O)	O (04/23/2014)	\$124.94
Cardinal Health Inc (CAH.N)	O (01/07/2010)	\$81.01
Catalent, Inc. (CTLT.N)	O (09/09/2014)	\$25.43
Catamaran Corp (CTRX.O)	E (09/23/2013)	\$49.22
Cerner Corporation (CERN.O)	E (08/17/2012)	\$64.30
Charles River Laboratories International (CRL.N)	E (03/03/2010)	\$63.94
Covance Inc. (CVD.N)	E (09/15/2010)	\$100.80
CVS/Caremark Corp. (CVS.N)	O (11/04/2011)	\$90.12
Diplomat Pharmacy Inc (DPLO.N)	E (11/19/2014)	\$24.01
Express Scripts, Inc. (ESRX.O)	O (01/07/2010)	\$79.31
Laboratory Corp. of America Holdings (LH.N)	U (03/19/2010)	\$101.18
McKesson Corporation (MCK.N)	O (10/25/2013)	\$207.99
Quality Systems Inc (QSII.O)	U (04/23/2014)	\$14.85
Quest Diagnostics Inc. (DGX.N)	U (07/09/2013)	\$64.09
Quintiles Transnational Holdings Inc (Q.N)	O (06/18/2013)	\$57.33
Walgreens (WAG.N)	O (09/23/2013)	\$68.06

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