

February 12, 2015

## CTLT

### Guidance Raise ex-FX Points to Continued Momentum

Industry View

Stock Rating

**In-Line**

**Overweight**

CTLT strong 2FQ and guidance raise ex-FX underscores execution across segments and future margin expansion achievability. Acquisition integrations are on target and M&A activity remains robust. Net-net, strategy & execution exceeding plan, reiterate OW.

**2FQ15 revenues at \$456 mil were up 3.4% y/y (7% constant currency) and 2FQ adj. EBITDA of \$113 mil grew 21% y/y and came in ahead of MS/cons. at \$93.9 mil/ \$95.6 mil.** Gross margins/EBITDA margins expanded ~300/350 bps respectively, reflecting both execution and operating leverage as well as unusually favorable mix, giving a preview of future margin expansion opportunity.

**Strength across all 3 segments.** The **OT** segment grew revenues 3% y/y and EBITDA 7% y/y on a constant currency basis, reflecting favorable mix in modified release as softgels continued to see a headwind from the prescription to consumer health mix shift. **MDS** segment revenues were up 38% and EBITDA 63% y/y constant currency behind double-digit blow-fill-seal growth driven by a mix shift toward higher margin products and a robust pipeline, with a sequential improvement in injectables. **DCS** revenue was up 7% and EBITDA 21% on constant currency behind continued strength in analytic services.

**Full year organic revenue guidance up ~1% and EBITDA guidance up ~1.5% at the midpoint ex-FX headwinds.** This implies FY15 organic revenue growth of ~4% and EBITDA growth of ~7%, ahead of ~2% topline and ~5% EBITDA growth in FY14. Pull forward of business from 2H to 2Q implies slower (~2%) organic constant currency EBITDA growth in 2H vs. ~12% in 1H, which we view as more indicative of difficulty in forecasting the timing of client activities vs. a fundamental slowdown in the business.

**M&A activity not slowing down.** Despite ongoing integrations of Micron and Redwood, management is ramping up on resources for M&A activities while remaining disciplined on valuations metrics. With continued consolidation across pharmaceutical services, CTLT sees itself as a consolidator with the capacity to continue to pursue deals.

**Model update.** We now model FY15 revenue of ~\$1.85 billion (from ~\$1.88 billion) vs. cons' \$1.89 billion and guidance of \$1.82-\$1.86 billion, reflecting currency headwinds. Our updated FY15 adj. EBITDA is \$442 million from \$451 million vs. cons' \$452 million & guidance of \$434-\$444 million also reflecting FX.

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

Healthcare Services & Distribution / United States of America

**Stock Rating**

**Overweight**

**Industry View**

**In-Line**

Shr price, close (Feb 11, 2015)

\$29.32

Mkt cap, curr (mm)

\$3,873

52-Week Range

\$30.10-19.30

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## Updated Guidance

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### Exhibit 1: Updated FY15 Guidance

Guidance Period	FY15			FY15			midpt y/y growth
Timing	1FQ15			2FQ15			
	Low	High	Mid	Low	High	Mid	
Revenue	\$1,890	\$1,915	\$1,903	\$1,820	\$1,860	\$1,840	1%
adj. EBITDA	\$450	\$460	\$455	\$434	\$444	\$439	2%
adj. Net Income	\$215	\$225	\$220	\$204	\$214	\$209	47%
Share Count				122 mn	124 mn	123 mn	n/a
CapEx	\$115	\$125	\$120	\$120	\$130	\$125	2%

Source: Company Data, MS Research

## Exhibit 2: 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
				1QA	2QA	3QE	4QE		1QE	2QE	3QE	4QE		
Net revenue	1,694.8	1,800.3	1,827.7	418.3	455.8	456.3	524.5	1,854.9	445.1	482.3	483.4	555.0	1,965.8	2,064.5
Cost of Sales (reported)	1,136.2	1,231.7	1,229.1	293.0	299.7	301.4	328.6	1,222.7	314.7	332.7	316.5	331.5	1,295.3	1,330.2
Gross Profit (reported)	558.6	568.6	598.6	125.3	156.1	154.9	195.9	632.2	130.4	149.6	166.9	223.6	670.5	734.3
Operating Expenses														
Total Operating Expenses (Reported)	328.9	331.7	331.9	82.8	93.7	85.7	102.6	364.8	77.8	91.7	89.3	79.2	338.1	357.4
Income from operations, reported	198.0	204.4	240.9	42.5	62.4	69.1	93.3	267.3	44.4	68.6	72.7	117.2	302.9	332.5
Interest expense, net	183.2	203.2	163.1	35.5	23.9	23.0	23.0	105.4	23.0	23.0	23.0	23.0	91.9	88.8
Other (income) expense, net	(3.8)	25.1	10.4	41.3	(3.6)	-	-	37.7	-	-	-	-	-	-
Income from continuing operations before income taxes	18.6	(23.9)	67.4	(34.3)	42.1	46.2	70.3	124.3	21.4	45.6	49.8	94.2	211.0	243.7
Income tax expense (benefit)	16.5	24.1	49.5	(14.0)	(4.1)	12.5	19.0	13.4	6.4	13.7	14.9	28.3	63.3	73.1
Earnings/(loss) from continuing operations	2.1	(48.0)	17.9	(20.3)	46.2	33.7	51.3	110.9	15.0	31.9	34.8	65.9	147.7	170.6
Net Income from discontinued operations, net of tax	(41.3)	1.2	(2.7)	-	-	-	-	-	-	-	-	-	-	-
Noncontrolling interest	1.2	(0.1)	(1.0)	(0.4)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.8	0.8
Net Income attributable to Catalent	(38.0)	(46.7)	16.2	(19.9)	46.0	33.5	51.1	110.7	14.8	31.7	34.6	65.7	146.9	169.8
Adj. Net Income	81.2	82.4	142.4	13.4	55.9	56.9	79.0	205.2	32.1	53.8	53.0	91.4	230.3	255.6
EPS (adjusted)		\$1.10	\$1.87	\$0.13	\$0.43	\$0.44	\$0.61	\$1.66	\$0.25	\$0.41	\$0.41	\$0.70	\$1.77	\$1.95
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	65.8	69.1	93.3	230.5	44.4	68.6	72.7	117.2	302.9	332.5
Depreciation and amortization	129.8	152.2	144.5	35.0	35.2	39.4	39.0	148.7	38.8	38.5	38.2	38.0	153.4	149.4
EBITDA	331.6	331.5	374.4	36.6	101.7	108.6	132.4	379.2	83.2	107.1	111.0	155.1	456.3	481.9
Adj. EBITDA	389.7	412.6	432.3	83.4	112.9	111.1	134.9	442.2	88.2	112.1	116.0	160.1	476.3	507.9
Margins														
Gross profit	33.0%	31.6%	32.8%	30.0%	34.2%	33.9%	37.4%	34.1%	29.3%	31.0%	34.5%	40.3%	34.1%	35.6%
Adj. EBITDA	23.0%	22.9%	23.7%	19.9%	24.8%	24.3%	25.7%	23.8%	19.8%	23.2%	24.0%	28.9%	24.2%	24.6%
Adj. Net Income	-2.2%	-2.6%	7.8%	3.2%	12.3%	12.5%	15.1%	11.1%	7.2%	11.2%	11.0%	16.5%	11.7%	12.4%
Expenses														
Cost of sales	67.0%	68.4%	67.2%	70.0%	65.8%	66.1%	62.6%	65.9%	70.7%	69.0%	65.5%	59.7%	65.9%	64.4%
SG&A (reported)	19.4%	18.9%	18.3%	19.5%	19.1%	18.6%	14.4%	19.1%	19.4%	19.0%	18.5%	14.3%	18.1%	18.9%
Adj. Tax Rate		7.7%	16.9%	76.7%	15.2%	10.3%	9.6%	16.0%	17.0%	13.8%	21.9%	18.1%	18.0%	20.0%
V/Y Growth														
Net Revenue	10.6%	6.2%	1.5%	1.0%	3.4%	0.7%	0.9%	1.5%	6.4%	5.8%	5.9%	5.8%	6.0%	5.0%
Gross profit	11.3%	1.8%	5.3%	5.1%	13.6%	2.1%	2.9%	5.6%	4.0%	-4.1%	7.7%	14.1%	6.1%	9.5%
Adj. EBITDA	8.9%	5.9%	4.8%	1.5%	20.9%	4.8%	-10.5%	2.3%	5.7%	-0.7%	4.4%	18.7%	7.7%	6.6%
EPS (adjusted)								-11.0%	94.9%	-4.3%	-7.4%	14.9%	6.5%	10.3%

Source: Company Data, MS Estimates

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(as of January 31, 2015)

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	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY
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<b>Equal-weight/Hold</b>	<b>1446</b>	<b>43%</b>	<b>361</b>	<b>46%</b>	<b>25%</b>
<b>Not-Rated/Hold</b>	<b>107</b>	<b>3%</b>	<b>14</b>	<b>2%</b>	<b>13%</b>
<b>Underweight/Sell</b>	<b>603</b>	<b>18%</b>	<b>92</b>	<b>12%</b>	<b>15%</b>
<b>TOTAL</b>	<b>3,329</b>		<b>787</b>		

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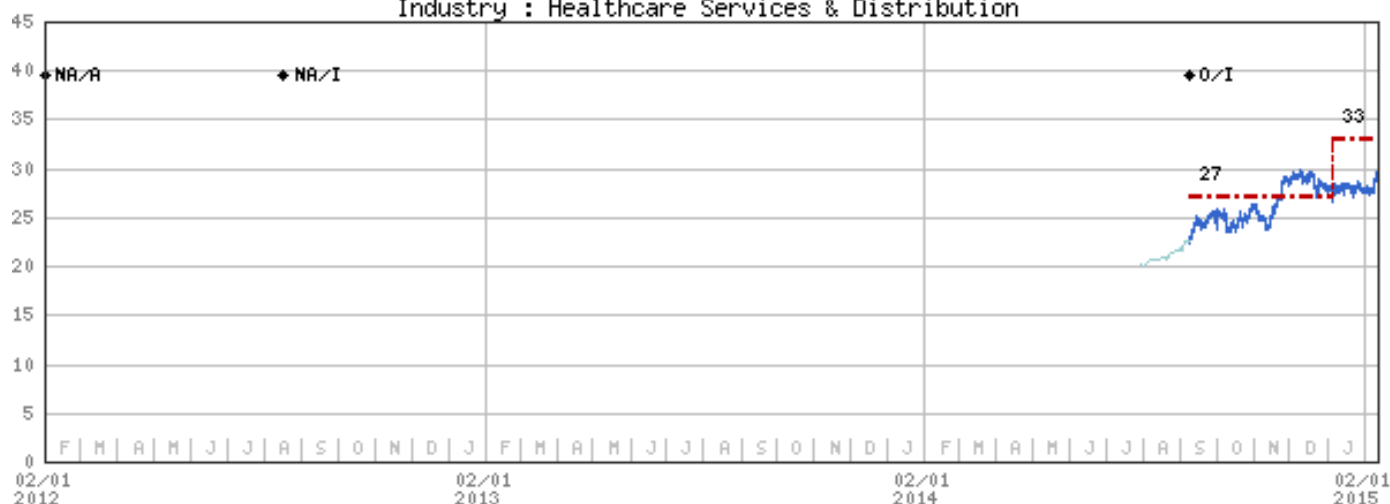
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Catalent, Inc. (CTLT.N) - As of 2/11/15 in USD  
Industry : Healthcare Services & Distribution



Stock Rating History: 2/1/12 : NA/A; 8/17/12 : NA/I; 9/9/14 : O/I

Price Target History: 9/9/14 : 27; 1/6/15 : 33

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 &amp; Distribution

COMPANY (TICKER)	RATING (AS OF)	PRICE* (02/11/2015)
<b>Ricky R Goldwasser</b>		
Albany Molecular Research, Inc (AMRI.O)	O (04/09/2014)	\$17.00
Allscripts Healthcare Solutions Inc. (MDRX.O)	E (11/07/2014)	\$11.62
AmerisourceBergen Corp. (ABC.N)	E (04/13/2012)	\$98.74
athenahealth Inc (ATHN.O)	O (04/23/2014)	\$128.16
Cardinal Health Inc (CAH.N)	E (02/02/2015)	\$86.09
Catalent, Inc. (CTLT.N)	O (09/09/2014)	\$29.32
Catamaran Corp (CTRX.O)	U (01/06/2015)	\$52.27
Cerner Corporation (CERN.O)	E (08/17/2012)	\$67.71
Charles River Laboratories International (CRL.N)	E (03/03/2010)	\$73.14
Covance Inc. (CVD.N)	E (09/15/2010)	\$106.94
CVS Health Corp (CVS.N)	O (11/04/2011)	\$102.59
Diplomat Pharmacy Inc (DPLO.N)	E (11/19/2014)	\$25.77
Express Scripts, Inc. (ESRX.O)	O (01/07/2010)	\$84.79
Laboratory Corp. of America Holdings (LH.N)	U (03/19/2010)	\$116.73
McKesson Corporation (MCK.N)	O (10/25/2013)	\$223.73
Quality Systems Inc (QSII.O)	U (04/23/2014)	\$16.33
Quest Diagnostics Inc. (DGX.N)	U (07/09/2013)	\$71.49
Quintiles Transnational Holdings Inc (Q.N)	O (06/18/2013)	\$60.68
Walgreens Boots Alliance Inc (WBA.O)	O (09/23/2013)	\$79.53

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\* Historical prices are not split adjusted.

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