

Equity Research

Catalent, Inc.

CTLT: FQ3 2015 Earnings Full Analysis

• **What to do from here.** With several quarters under its belt as a public company, we believe the following generalization is fair: on a short time horizon or within any given business segment, the business can be volatile, but on longer time scales, the business is stable with favorable long-term trends. These dynamics were evident in FQ3 2015, where several components of the business varied from our estimate by a substantial amount, but on balance, the quarter was decent, and the guidance reduction was not too concerning given FX headwinds. Reducing our FY 2015/2016E EPS to \$1.66/1.75 from \$1.67/1.86 previously.

• **Financial highlights.** CTLT reported EPS of \$0.45 including stock comp and \$0.46 ex stock comp (compared to consensus of \$0.43) on revenue of \$447MM versus consensus of \$453MM. We note that based on our estimates, the constant dollar organic growth was about 6.7%, better than our 5.6% estimate. The revenue shortfall was due to weakness in the Medication Delivery segment (delays in the sterile injectables business in Europe) and in the Development & Clinical Services segment (lower clinical services activity in Europe) as well as a great FX headwind than we anticipated. However, margins were better than expected to make up for the revenue weakness. Margin strength was seen in Oral Technologies (due to product participation revenues in modified release) and Development & Clinical Services (strong margins from Micron).

• **Guidance highlights.** The company reduced FY 2015 net income guidance to \$197-205MM from \$204-214MM previously. Revenue guidance also declined to \$1.80-1.825B from \$1.82-1.86B previously. The guidance change reflects an incremental negative impact from FX (\$14MM at the midpoint of revenue and \$6MM at the midpoint of EBITDA guidance) and a reduction in outlook for the base business (\$17.5MM at the midpoint of revenue and \$1-2MM on EBITDA), partially offset by an incremental \$3-5MM of revenue (\$1-2MM of EBITDA) for acquired revenue. The base business reduction is driven by modest changes in end-market demand for certain customer products, softness in Europe, and a reduction in comparator sourcing activities.

Valuation Range: \$33.00 to \$35.00

Our valuation range is DCF-based (WACC = 8.0%; terminal NOPLAT growth = 2%) and represents 18.5x our CY2016 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.

Outperform / V

Sector: Pharmaceutical Services

Overweight

Earnings Estimate Revised Down

EPS	2014A	2015E		2016E	
		Curr.	Prior	Curr.	Prior
Q1 (Sep.)	NE	0.15 A	NC	0.24	0.26
Q2 (Dec.)	NE	0.42 A	NC	0.44	0.45
Q3 (Mar.)	NE	0.45 A	0.40	0.47	0.46
Q4 (June)	NE	0.61	0.66	0.59	0.70
FY	1.86	1.66	1.67	1.75	1.86
CY	\$1.89	\$1.74		\$1.81	
FY P/EPS	15.7x	17.5x		16.6x	
Rev.(MM)	\$1,828	\$1,813		\$1,865	

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 (05/06/2015)	\$29.10
52-Week Range:	\$19-32
Shares Outstanding: (MM)	124.0
Market Cap.: (MM)	\$3,608.4
S&P 500:	2,080.86
Avg. Daily Vol.:	292,298
Dividend/Yield:	\$0.00/0.0%
LT Debt: (MM)	\$1,882.0
LT Debt/Total Cap.:	79.9%
ROE:	NE
3-5 Yr. Est. Growth Rate:	7.0%
CY 2015 Est. P/EPS-to-Growth:	2.4x
Last Reporting Date:	05/05/2015
	After Close

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

Tim Evans, Senior Analyst
(212) 214-8010

tim.evans@wellsfargo.com

Please see page 7 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 05/06/15 unless otherwise stated.

Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

Together we'll go far



Exhibit 1. Variance Table

Report Date:					5/5/2015			
FY ending June	Actual		Est	Actual	Cons	Yr / Yr	Seq	Notes
In MM except EPS	FQ3 2014	FQ2 2015	FQ3 2015	FQ3 2015	FQ3 2015	change	change	
Net revenue	\$ 453	\$ 456	\$ 451	\$ 447	\$ 453	(1.4%)	(2.0%)	
Cost of revenue	301	300	302	294		(2.3%)	(1.8%)	
Gross profit	152	156	149	152		0.3%	(2.5%)	
SG&A	71	75	70	65		(7.5%)	(13.1%)	
Operating income	81	81	79	87		7.2%	7.4%	
Interest expense, net	40	24	24	23				
Other expense (income)	5	(5)	-	1				
Pretax income	36	62	55	63		77.5%	2.1%	
Income tax expense (benefit)	2	9	4	7				
Earnings/(loss)	\$ 33	\$ 52	\$ 51	\$ 56		67.6%	6.5%	
Minority interest, net of tax	(0)	(1)	(1)	(1)				
Net earnings (loss) to Catalent	\$ 34	\$ 53	\$ 51	\$ 56		67.7%	6.8%	
Non-GAAP EPS	\$ 0.44	\$ 0.42	\$ 0.40	\$ 0.45		1.1%	6.6%	
Non-GAAP EPS (company method)	\$ 0.51	\$ 0.44	\$ 0.41	\$ 0.46	\$ 0.43			
Diluted shares outstanding	76.1	126.0	126.9	126.3		65.9%	0.2%	
EBITDA	\$ 105	\$ 104	\$ 103	\$ 109		4.1%	4.8%	
MARGIN ANALYSIS						Yr / Yr	Seq	
Cost of revenue / net revenue	66.5%	65.8%	67.0%	65.9%		(60) bps	20 bps	
Gross margin	33.5%	34.2%	33.0%	34.1%		60 bps	(20) bps	
SG&A / net revenue	15.6%	16.5%	15.6%	14.6%		(100) bps	(190) bps	
Operating margin	17.9%	17.7%	17.4%	19.4%		160 bps	170 bps	
Pretax margin	7.8%	13.5%	12.1%	14.1%		630 bps	60 bps	
Tax rate	6.2%	15.1%	7.0%	11.4%		520 bps	(370) bps	
Net margin	7.4%	11.6%	11.4%	12.6%		520 bps	100 bps	
EBITDA margin	23.2%	22.9%	22.7%	24.5%		130 bps	160 bps	
SEGMENT ANALYSIS						Yr / Yr	Seq	
Oral Technologies	\$ 287	\$ 277	\$ 275	\$ 284		(1.1%)	2.5%	*Modified Release saw strong profit share revenue from product participation. Softgel saw modest CER growth. *EBITDA driven by product-participation in modified release. Softgel EBITDA saw North America growth offset by mix shift to consumer
Growth: core	(4.2%)	2.3%	3.0%	10.1%				
Growth: FX	(1.9%)	(6.3%)	(7.5%)	(11.6%)				
Growth: acq/div	0.8%	1.0%	0.0%	0.3%				
Growth: total	(5.2%)	(3.0%)	(4.5%)	(1.1%)				
Adj. EBITDA	\$ 76	\$ 75	\$ 74	\$ 82		7.2%	9.4%	*Blow-fill-seal saw modest rev growth due to timing and strong EBITDA due to mix *Sterile injectables saw revenue and EBITDA decline due to European customer delays *Biologics saw revenue and EBITDA growth related to timing of completed project milestones
Margin	26.5%	26.9%	27.0%	28.8%		220 bps	180 bps	
Medication Delivery	\$ 65	\$ 74	\$ 70	\$ 61		(6.4%)	(17.0%)	
Growth: core	18.9%	38.2%	15.0%	2.0%				
Growth: FX	2.4%	(4.9%)	(8.5%)	(8.4%)				
Growth: acq/div	0.0%	0.0%	0.0%	0.0%				*Clinical Services rev down due to project activity in Europe; Anlystical Services grew due to integrated oral solids dev'p & suply biz. *EBITDA driven by Micron; Clinical Services EBITDA down; Analytical EBITDA down due to unfavorable mix
Growth: total	21.3%	33.3%	6.5%	(6.4%)				
Adj. EBITDA	\$ 16	\$ 18	\$ 16	\$ 11		(30.6%)	(39.8%)	
Margin	24.0%	24.6%	23.0%	17.8%		(620) bps	(670) bps	
Development & Clinical	\$ 104	\$ 108	\$ 110	\$ 104		0.0%	(3.8%)	
Growth: core	9.0%	4.5%	6.0%	(0.7%)				
Growth: FX	2.5%	(1.4%)	(4.8%)	(4.1%)				
Growth: acq/div	0.0%	2.4%	4.8%	4.8%				
Growth: total	11.5%	5.6%	6.0%	0.0%				
Adj. EBITDA	\$ 23	\$ 22	\$ 23	\$ 24		3.5%	8.7%	
Margin	22.2%	20.3%	21.0%	23.0%		80 bps	260 bps	
Intracompany Eliminations	\$ (3)	\$ (3)	\$ (3)	\$ (2)				
% of total	(0.7%)	(0.6%)	(0.6%)	(0.5%)				
Total Revenue	\$ 453	\$ 456	\$ 451	\$ 447		(1.4%)	(2.0%)	
Growth: core	1.3%	7.2%	5.6%	6.7%				
Growth: FX	(0.5%)	(5.0%)	(7.0%)	(9.5%)				
Growth: acq/div	0.6%	1.2%	1.1%	1.3%				
Growth: total	1.4%	3.4%	(0.4%)	(1.4%)				
Corporate expenses	\$ (10)	\$ (10)	\$ (10)	\$ (7)		(28.6%)	(32.0%)	
% of total revenue	2.2%	2.3%	2.3%	1.6%				

Source: Company filings; FactSet; Wells Fargo Securities, LLC estimates

Exhibit 2. Estimate Changes

FY ending June In MM except EPS	FY 2015E			FY 2016E		
	Prior	Current	Change	Prior	Current	Change
Net revenue	\$ 1,830	\$ 1,813	(0.9%)	\$ 1,888	\$ 1,865	(1.2%)
Cost of revenue	1,220	1,204	(1.3%)	1,255	1,234	(1.7%)
Gross profit	610	609	(0.2%)	632	632	(0.1%)
SG&A	278	279	0.2%	261	282	8.1%
Operating income	332	330	(0.5%)	372	350	(5.9%)
Interest expense, net	108	106		97	94	
Other expense (income)	(8)	(7)		-	-	
Pretax income	232	232	(0.2%)	274	256	(6.6%)
Income tax expense (benefit)	30	31		34	31	
Earnings/(loss) from continuing ops	\$ 202	\$ 200	(0.7%)	\$ 240	\$ 225	(6.5%)
Minority interest, net of tax	(2)	(2)		(1)	(1)	
Net earnings (loss) to Catalent	\$ 204	\$ 203	(0.5%)	\$ 241	\$ 226	(6.4%)
Non-GAAP EPS	\$ 1.67	\$ 1.66	(0.4%)	\$ 1.86	\$ 1.75	(6.1%)
Non-GAAP EPS (company method)	\$ 1.68	\$ 1.69		\$ 1.90	\$ 1.81	
Diluted shares outstanding	122.0	121.8	(0.1%)	129.4	128.9	(0.3%)
EBITDA	\$ 427	\$ 422	(1.1%)	\$ 474	\$ 445	(6.0%)
MARGIN ANALYSIS						
Cost of revenue / net revenue	66.6%	66.4%	(30) bps	66.5%	66.1%	(40) bps
Gross margin	33.4%	33.6%	30 bps	33.5%	33.9%	40 bps
SG&A / net revenue	15.2%	15.4%	20 bps	13.8%	15.1%	130 bps
Operating margin	18.1%	18.2%	10 bps	19.7%	18.8%	(90) bps
Pretax margin	12.7%	12.8%	10 bps	14.5%	13.7%	(80) bps
Tax rate	13.0%	13.5%	50 bps	12.4%	12.2%	(20) bps
Net margin	11.1%	11.2%	0 bps	12.8%	12.1%	(70) bps
EBITDA margin	23.3%	23.3%	0 bps	25.1%	23.9%	(120) bps
SEGMENT ANALYSIS						
Oral Technologies	\$ 1,140	\$ 1,143	0.2%	\$ 1,168	\$ 1,164	(0.3%)
Growth: core	2.5%	4.5%		5.5%	5.0%	
Growth: FX	(6.3%)	(8.3%)		(3.1%)	(3.8%)	
Growth: acq/div	0.4%	0.6%		0.0%	0.7%	
Growth: total	(3.4%)	(3.2%)		2.4%	1.9%	
Adj. EBITDA	\$ 311	\$ 310	(0.3%)	\$ 326	\$ 321	(1.5%)
Margin	27.3%	27.1%	(20) bps	27.9%	27.6%	(30) bps
Medication Delivery Solutions	\$ 269	\$ 258	(4.0%)	\$ 278	\$ 274	(1.4%)
Growth: core	15.5%	10.7%		7.0%	9.0%	
Growth: FX	(6.3%)	(5.8%)		(3.8%)	(3.0%)	
Growth: acq/div	0.0%	0.0%		0.0%	0.0%	
Growth: total	9.3%	4.8%		3.2%	6.0%	
Adj. EBITDA	\$ 61	\$ 52	(14.8%)	\$ 65	\$ 57	(12.5%)
Margin	22.8%	20.2%	(250) bps	23.3%	20.7%	(260) bps
Development & Clinical Services	\$ 432	\$ 423	(2.1%)	\$ 454	\$ 439	(3.3%)
Growth: core	4.0%	1.3%		5.0%	3.0%	
Growth: FX	(2.4%)	(1.9%)		(2.1%)	(1.4%)	
Growth: acq/div	3.3%	3.3%		2.1%	2.1%	
Growth: total	4.9%	2.7%		5.0%	3.7%	
Adj. EBITDA	\$ 91	\$ 92	1.3%	\$ 98	\$ 98	(0.1%)
Margin	21.0%	21.8%	70 bps	21.5%	22.2%	70 bps
Intracompany Eliminations % of total	\$ (11) (0.6%)	\$ (11) (0.6%)		\$ (11) (0.6%)	\$ (11) (0.6%)	
Total Revenue	\$ 1,830	\$ 1,813	(0.9%)	\$ 1,888	\$ 1,865	(1.2%)
Growth: core	4.6%	4.6%		5.6%	5.1%	
Growth: FX	(5.4%)	(6.6%)		(3.0%)	(3.2%)	
Growth: acq/div	1.0%	1.1%		0.5%	0.9%	
Growth: total	0.1%	(0.8%)		3.1%	2.9%	
Corporate expenses	\$ (35)	\$ (32)	(9.6%)	\$ (9)	\$ (30)	216.2%
% of total revenue	1.9%	1.8%		0.5%	1.6%	

Source: Company filings & Wells Fargo Securities, LLC estimates

Exhibit 3. Guidance Table

Guidance	FQ1 2015	FQ2 2015	FQ3 2015	FQ4 2015	FY 2015	Notes
Consolidated Revenue (MM)						
9/4/2014					\$1,890-1,915	
11/13/2014					\$1,890-1,915	Modestly improved outlook; 2H weighted; ~3% FX HW
2/11/2015					\$1,820-1,860	(\$90-100)MM FX; +\$10-15MM base biz; +\$15-20 acq
5/5/2015					\$1,800-1,825	(\$12-16)MM FX; (\$15-20)MM base biz; +\$3-5MM acq
Adjusted EBITDA (MM)						
9/4/2014					\$450-460	
11/13/2014					\$450-460	Slightly less than 3% FX HW
2/11/2015					\$434-444	(\$20-30)MM FX; +\$5-10MM base biz; +\$1-3 acq
5/5/2015					\$428-436	(\$4-8)MM FX; (\$1-2)MM base biz; +\$1-2MM acq
Interest (MM)						
7/15/2014					\$91-96	
11/13/2014		\$23-25			~\$105	
2/11/2015			\$23-25	\$23-25		
Cash Taxes (MM)						
3/14/2014					\$36	See note; Will change due to refi
7/15/2014					\$27-32	
2/11/2015					\$27-32	
Adj. Net Income (MM)						
9/4/2014					\$215-225	
11/13/2014					\$215-225	
2/11/2015					\$204-214	
5/5/2015					\$197-205	
Shares (MM)						
9/4/2014				119		Does not include any shoe (could be up to 6MM)
11/13/2014					123.6	
2/11/2015					122-124	
5/5/2015					122-124	
Capex (MM)						
9/4/2014					\$115-125	
11/13/2014					\$115-125	
2/11/2015					\$120-130	
5/5/2015					\$120-130	

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

Catalent Summary Data (FY Ending June)

In millions, except EPS or where otherwise noted

INCOME STATEMENT	2010	2011	2012	2013	2014	FQ1	FQ2	FQ3	FQ4E	2015E	FQ1E	FQ2E	FQ3E	FQ4E	2016E	2017E
Net revenue	\$ 1,480	\$ 1,532	\$ 1,695	\$ 1,800	\$ 1,828	\$ 418	\$ 456	\$ 447	\$ 493	\$ 1,813	\$ 413	\$ 464	\$ 470	\$ 518	\$ 1,865	\$ 1,963
Cost of revenue	1,040	1,038	1,136	1,232	1,222	252	300	294	312	1,204	288	304	302	332	1,234	1,224
Gross profit	441	502	559	568	599	125	156	152	176	609	124	160	161	186	632	668
SG&A	218	235	268	265	269	67	75	65	71	278	65	73	68	75	282	293
Operating income	223	268	291	304	329	58	81	87	104	330	59	87	93	111	350	375
Interest expense, net	161	166	183	203	163	36	24	23	23	106	24	24	23	23	94	93
Other expense	(7)	26	(4)	8	(1)	(3)	(5)	1	—	(7)	—	—	—	—	—	—
Pretax income	69	76	112	92	167	26	62	63	81	232	35	64	70	87	256	282
Income tax expense (benefit)	24	26	28	18	26	11	9	7	4	31	4	8	9	11	31	35
Earnings from continuing ops	\$ 45	\$ 50	\$ 83	\$ 74	\$ 140	\$ 15	\$ 52	\$ 56	\$ 77	\$ 200	\$ 31	\$ 56	\$ 61	\$ 77	\$ 225	\$ 248
Minority interest, net of tax	3	4	1	(0)	(1)	(0)	(1)	(1)	(1)	(2)	(0)	(0)	(0)	(0)	(1)	(1)
Net earnings to Catalent	\$ 43	\$ 46	\$ 82	\$ 74	\$ 141	\$ 16	\$ 53	\$ 56	\$ 78	\$ 203	\$ 31	\$ 56	\$ 61	\$ 77	\$ 226	\$ 249
Non-GAAP EPS	\$ 0.62	\$ 1.09	\$ 0.99	\$ 1.86	\$ 0.15	\$ 0.42	\$ 0.45	\$ 0.61	\$ 1.66	\$ 0.24	\$ 0.44	\$ 0.47	\$ 0.59	\$ 1.75	\$ 1.90	\$ 1.90
Non-GAAP EPS (company method)	\$ 0.99	\$ 1.08	\$ 1.10	\$ 1.87	\$ 0.13	\$ 0.44	\$ 0.46	\$ 0.62	\$ 1.69	\$ 0.26	\$ 0.45	\$ 0.49	\$ 0.61	\$ 1.81	\$ 1.97	\$ 1.97
Diluted shares outstanding	74.7	75.4	75.0	76.1	106	126	126	127	121.8	128	129	129	130	128.9	130.9	130.9
EBITDA	\$ 354	\$ 387	\$ 412	\$ 430	\$ 82	\$ 104	\$ 109	\$ 127	\$ 422	\$ 83	\$ 111	\$ 117	\$ 135	\$ 445	\$ 474	\$ 474
MARGIN ANALYSIS																
Cost of revenue / net revenue	67.2%	67.0%	68.4%	67.2%	70.0%	65.8%	65.9%	64.3%	66.4%	69.8%	65.6%	65.7%	64.1%	66.1%	65.9%	65.9%
Gross margin	32.8%	33.0%	31.6%	32.8%	30.0%	34.2%	34.1%	35.7%	33.6%	30.2%	34.4%	34.3%	35.9%	33.9%	34.1%	34.1%
SG&A / net revenue	15.3%	15.8%	14.7%	14.7%	16.0%	16.5%	14.6%	14.5%	15.4%	15.9%	15.7%	14.5%	14.5%	15.1%	14.9%	14.9%
Operating margin	17.5%	17.2%	16.9%	18.0%	14.0%	17.7%	19.4%	21.2%	18.2%	14.3%	18.8%	19.8%	21.4%	18.8%	19.1%	19.1%
Pretax margin	5.0%	6.6%	5.1%	9.1%	6.2%	13.5%	14.1%	16.4%	12.8%	8.6%	13.7%	14.8%	16.9%	13.7%	14.4%	14.4%
Tax rate	33.8%	25.3%	19.6%	15.8%	41.7%	15.1%	11.4%	5.0%	13.5%	12.5%	12.5%	12.5%	12.5%	12.2%	12.2%	12.2%
Net margin	3.0%	4.8%	4.1%	7.7%	3.7%	11.6%	12.6%	15.8%	11.2%	7.6%	12.1%	13.0%	14.9%	12.7%	12.7%	12.7%
EBITDA margin	23.1%	22.8%	22.9%	23.5%	19.6%	22.9%	24.5%	25.7%	23.3%	20.0%	23.9%	24.8%	26.0%	23.9%	24.1%	24.1%
CHANGE ANALYSIS (Y/Y)																
Net revenue	3.5%	10.6%	6.2%	1.5%	1.0%	3.4%	(1.4%)	(5.2%)	(0.8%)	(1.3%)	1.9%	5.3%	5.1%	2.9%	5.2%	5.2%
Cost of revenues	(0.9%)	10.3%	8.4%	(0.2%)	(0.7%)	(1.2%)	(2.3%)	(3.8%)	(2.1%)	(1.6%)	1.6%	5.0%	4.8%	2.5%	4.9%	4.9%
Gross profit	13.9%	11.3%	1.8%	5.3%	5.1%	13.6%	0.3%	(7.6%)	1.8%	(0.6%)	2.5%	6.0%	5.7%	3.6%	5.8%	5.8%
SG&A	7.5%	14.2%	(1.0%)	1.6%	4.5%	6.1%	(7.5%)	12.3%	3.6%	(2.1%)	(3.4%)	4.5%	5.3%	1.0%	4.0%	4.0%
Operating income	20.1%	8.7%	4.3%	8.5%	5.8%	21.7%	7.2%	(17.6%)	0.3%	1.1%	7.9%	7.1%	6.0%	5.9%	7.3%	7.3%
Pretax income	10.1%	46.6%	(17.5%)	81.1%	68.8%	135.5%	77.5%	(9.8%)	38.9%	36.1%	3.1%	10.6%	8.0%	10.6%	10.3%	10.3%
Net income	8.8%	76.8%	(9.7%)	90.7%	(1629.4%)	80.7%	67.7%	(2.2%)	43.3%	101.4%	6.0%	8.6%	(1.1%)	11.3%	10.3%	10.3%
EPS	NA	75.1%	(9.2%)	87.8%	7.7%	1.1%	0.0%	(10.5%)	65.8%	3.8%	6.1%	(2.8%)	8.6%	5.2%	8.6%	8.6%
Diluted shares outstanding	NA	0.9%	(0.5%)	1.5%	38.8%	67.9%	65.9%	0.0%	60.1%	21.4%	2.2%	2.3%	1.8%	5.8%	1.6%	1.6%
EBITDA	59.0%	9.1%	6.6%	4.2%	0.7%	12.0%	4.1%	(15.6%)	(1.7%)	0.6%	6.3%	6.9%	6.5%	5.4%	6.4%	6.4%
SEGMENT ANALYSIS																
Oral Technologies	\$ 1,160	\$ 1,220	\$ 1,186	\$ 1,180	\$ 261	\$ 277	\$ 284	\$ 321	\$ 1,143	\$ 249	\$ 278	\$ 300	\$ 337	\$ 1,164	\$ 1,216	\$ 1,216
Growth: core	2.7%	6.4%	(0.2%)	1.4%	1.5%	2.3%	10.1%	4.0%	4.5%	5.0%	5.0%	5.0%	5.0%	5.0%	4.5%	4.5%
Growth: FX	0.8%	(1.1%)	(2.6%)	(1.4%)	(1.4%)	(6.3%)	(11.6%)	(12.3%)	(8.3%)	(10.4%)	(5.7%)	(0.4%)	0.0%	(3.8%)	0.0%	0.0%
Growth: acq/div	0.0%	0.0%	0.0%	(0.4%)	0.8%	1.0%	0.3%	0.4%	0.6%	0.8%	1.1%	1.1%	0.0%	0.0%	0.0%	0.0%
Growth: total	3.5%	5.2%	(2.8%)	(0.5%)	0.8%	(3.0%)	(1.1%)	(7.9%)	(3.2%)	(4.6%)	0.3%	5.7%	5.0%	1.9%	4.5%	4.5%
Adj. EBITDA	\$ 308	\$ 335	\$ 316	\$ 324	\$ 58	\$ 75	\$ 82	\$ 96	\$ 310	\$ 56	\$ 76	\$ 87	\$ 102	\$ 321	\$ 339	\$ 339
Margin	26.6%	27.4%	26.6%	27.5%	22.1%	26.9%	28.8%	30.0%	27.1%	22.4%	27.2%	29.1%	30.3%	27.6%	27.9%	27.9%
Medication Delivery Solutions	\$ 239	\$ 224	\$ 219	\$ 246	\$ 57	\$ 74	\$ 61	\$ 66	\$ 258	\$ 58	\$ 77	\$ 66	\$ 72	\$ 274	\$ 293	\$ 293
Growth: core	2.9%	(5.3%)	(0.9%)	10.1%	0.7%	38.2%	2.0%	5.0%	10.7%	9.0%	9.0%	9.0%	9.0%	9.0%	7.0%	7.0%
Growth: FX	(1.2%)	(0.8%)	(1.2%)	2.1%	0.0%	(4.9%)	(8.4%)	(8.9%)	(5.8%)	(7.1%)	(4.6%)	(0.4%)	0.0%	(3.0%)	0.0%	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%	0.0%	0.0%	0.0%
Growth: total	1.7%	(6.2%)	(2.1%)	12.2%	0.7%	33.3%	(6.4%)	(3.9%)	4.8%	1.9%	4.4%	8.6%	9.0%	6.0%	7.0%	7.0%
Adj. EBITDA	\$ 34	\$ 28	\$ 32	\$ 49	\$ 10	\$ 18	\$ 11	\$ 13	\$ 52	\$ 10	\$ 19	\$ 12	\$ 15	\$ 57	\$ 61	\$ 61
Margin	14.0%	12.3%	14.4%	19.8%	17.4%	24.6%	17.8%	20.0%	20.2%	17.9%	25.1%	18.3%	20.5%	20.7%	21.0%	21.0%
Development & Clinical Services	\$ 157	\$ 268	\$ 405	\$ 412	\$ 103	\$ 108	\$ 104	\$ 109	\$ 423	\$ 108	\$ 112	\$ 107	\$ 112	\$ 439	\$ 465	\$ 465
Growth: core	8.8%	28.9%	7.8%	0.2%	(0.7%)	4.5%	(0.7%)	2.0%	1.3%	3.0%	3.0%	3.0%	3.0%	3.0%	6.0%	6.0%
Growth: FX	(0.5%)	(1.3%)	(0.4%)	1.6%	2.8%	(1.4%)	(4.1%)	(4.6%)	(1.9%)	(3.8%)	(1.8%)	(0.2%)	0.0%	(1.4%)	0.0%	0.0%
Growth: acq/div	0.0%	43.2%	43.5%	0.0%	0.0%	2.4%	4.8%	5.7%	3.3%	5.8%	2.8%	0.0%	0.0%	2.1%	0.0%	0.0%
Growth: total	8.4%	70.9%	50.9%	1.8%	2.1%	5.6%	0.0%	3.1%	2.7%	5.0%	4.0%	2.8%	3.0%	3.7%	6.0%	6.0%
Adj. EBITDA	\$ 30	\$ 53	\$ 75	\$ 84	\$ 21	\$ 22	\$ 24	\$ 25	\$ 92	\$ 23	\$ 23	\$ 25	\$ 26	\$ 98	\$ 105	\$ 105
Margin	19.2%	19.8%	18.5%	20.3%	20.8%	20.3%	23.0%	23.0%	21.8%	21.3%	20.8%	23.5%	23.5%	22.2%	22.5%	22.5%
Intracompany Eliminations	\$ (23)	\$ (18)	\$ (10)	\$ (11)	\$ (3)	\$ (3)	\$ (2)	\$ (3)	\$ (11)	\$ (2)	\$ (3)	\$ (3)	\$ (3)	\$ (11)	\$ (12)	\$ (12)
% of total	(1.5%)	(1.0%)	(0.6%)	(0.6%)	(0.7%)	(0.6%)	(0.5%)	(0.6%)	(0.6%)	(0.6%)	(0.6%)	(0.6%)	(0.6%)	(0.6%)	(0.6%)	(0.6%)
Total Revenue	\$ 1,533	\$ 1,695	\$ 1,800	\$ 1,828	\$ 418	\$ 456	\$ 447	\$ 493	\$ 1,813	\$ 413	\$ 464	\$ 470	\$ 518	\$ 1,865	\$ 1,963	\$ 1,963
Total growth: core	3.1%	7.3%	1.4%	2.2%	0.7%	7.2%	6.7%	3.7%	4.6%	5.2%	5.2%	5.0%	5.1%	5.1%	5.2%	5.2%
Total growth: FX	(0.8%)	(1.1%)	(2.1%)	(0.4%)	(0.2%)	(5.0%)	(9.5%)	(10.4%)	(6.6%)	(8.4%)	(4.7%)	(0.3%)	0.0%	(3.2%)	0.0%	0.0%
Total growth: acq/div	0.0%	4.4%	6.9%	(0.3%)	0.5%	1.2%	1.3%	1.4%	1.1%	1.9%	1.3%	0.7%	0.0%	0.9%	0.0%	0.0%
Growth: total	3.5%	10.6%	6.2%	1.5%	1.0%	3.4%	(1.4%)	(5.2%)	(0.8%)	(1.3%)	1.9%	5.3%	5.1%	2.9%	5.2%	5.2%
Corporate expenses	\$ (372)	\$ (28)	\$ (10)	\$ (27)	\$ (7)	\$ (10)	\$ (7)	\$ (8)	\$ (32)	\$ (7)	\$ (7)	\$ (8)	\$ (8)	\$ (30)	\$ (31)	\$ (31)
% of total revenue	24.3%	1.7%	0.5%	1.5%	1.6%	2.3%	1.6%	1.6%	1.8%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
OTHER																
Cash and equivalents			\$ 139	\$ 106	\$ 74	\$ 63	\$ 84	\$ 116	\$ 190	\$ 190	\$ 221	\$ 252	\$ 307	\$ 364	\$ 364	\$ 565
Total debt			2,684	2,692	2,711	1,817	1,934	1,882	1,882	1,882	1,877	1,873	1,868	1,864	1,864	1,846
Net cash (debt)			\$(2,545)	\$(2,585)	\$(2,636)	\$(1,754)	\$(1,850)	\$(1,766)	\$(1,692)	\$(1,692)	\$(1,657)	\$(1,620)	\$(1,561)	\$(1,500)	\$(1,500)	\$(1,280)
Debt to TTM EBITDA			24.1x	6.5x	6.3x	4.2x	4.4x	4.2x	4.5x	4.5x	4.4x	4.4x	4.3x	4.2x	4.2x	3.9x
Cash flow from operations			\$ 88	\$ 139	\$ 180	\$ (40)	\$ 40	\$ 94	\$ 90	\$ 185	\$ 66	\$ 68	\$ 90	\$ 93	\$ 317	\$ 344
Capital expenditures			(104)	(123)	(122)	(31)	(40)	(37)	(16)	(125)	(31)	(31)	(31)	(31)	(125)	(125)
Free cash flow			\$ (17)	\$ 17	\$ 58	\$ (71)	\$ (0)	\$ 57	\$ 74	\$ 60	\$ 35	\$ 36	\$ 59	\$ 62	\$ 192	\$ 219
Headcount (actual)			8,700	8,300	8,300	8,000	8,000	8,000	8,050	8,050	8,100	8,150	8,200	8,250	8,250	8,450
Book value per share			\$ (5.47)	\$ (4.83)	\$ (4.81)	\$ 3.94	\$ 3.74	\$ 4.21	\$ 4.40	\$ 4.40	\$ 4.34	\$ 4.68	\$ 5.05	\$ 5.54	\$ 5.58	\$ 7.07
Tangible book value per share			\$ (24.09)	\$ (23.93)	\$ (8.64)	\$ (7.77)	\$ (7.45)	\$ (6.80)	\$ (7.11)	\$ (6.51)	\$ (6.04)	\$ (5.54)	\$ (4.92)	\$ (4.95)	\$ (2.95)	\$ (2.95)

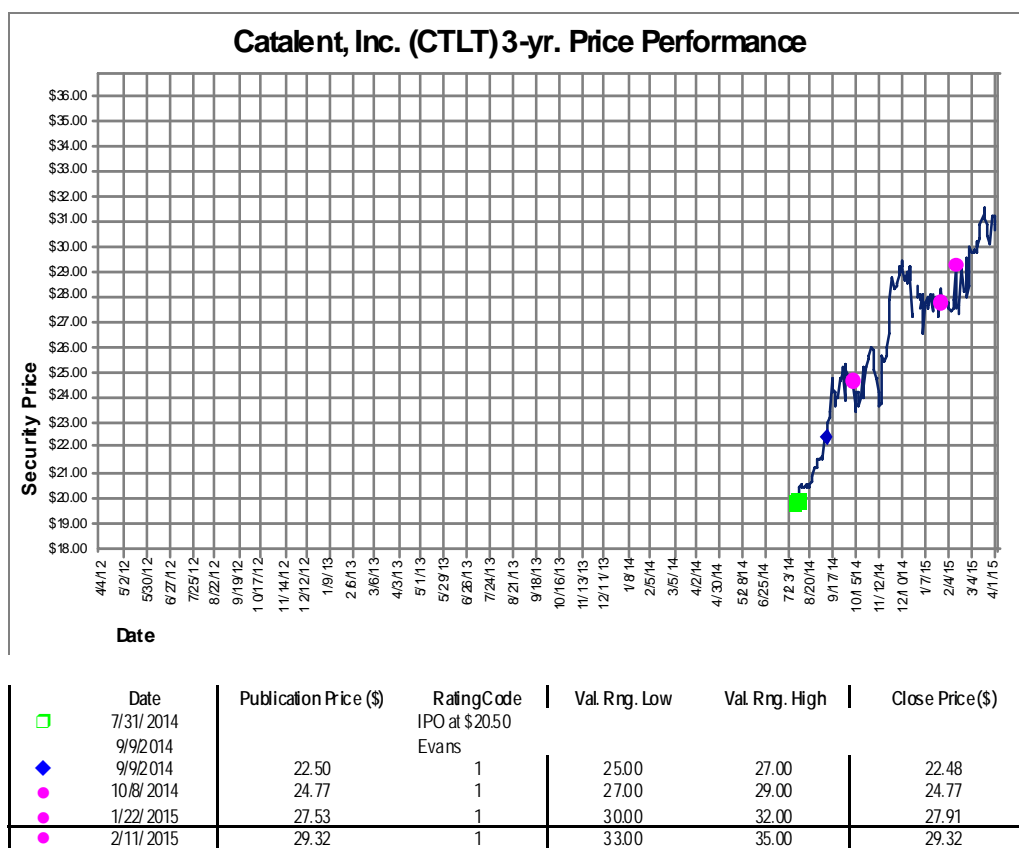
Source: Company data and Wells Fargo Securities, LLC estimates

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 Catalent'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.

Required Disclosures



Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼ Rating Downgrade	◆ Initiation, Resumption, Drop or Suspend
▲ Rating Upgrade	■ Analyst Change
● Valuation Range Change	□ Split Adjustment

Rating Code Key

1 Outperform/Buy	SR Suspended
2 Market Perform/Hold	NR Not Rated
3 Underperform/Sell	NE No Estimate

Additional Information Available Upon Request

I certify that:

- 1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

- Wells Fargo Securities, LLC maintains a market in the common stock of Catalent, Inc.
- Wells Fargo Securities, LLC or its affiliates managed or comanaged a public offering of securities for Catalent, Inc. within the past 12 months.
- Wells Fargo Securities, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from Catalent, Inc.
- Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from Catalent, Inc. in the past 12 months.
- Wells Fargo Securities, LLC and/or its affiliates, have beneficial ownership of 1% or more of any class of the common stock of Catalent, Inc.
- Catalent, Inc. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided investment banking services to Catalent, Inc.
- Wells Fargo Securities, LLC or its affiliates has a significant financial interest in Catalent, Inc.

CTLT: 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.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

STOCK RATING

1=Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY

2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD

3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: May 6, 2015

43% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Outperform.

Wells Fargo Securities, LLC has provided investment banking services for 43% of its Equity Research Outperform-rated companies.

55% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Market Perform.

Wells Fargo Securities, LLC has provided investment banking services for 30% of its Equity Research Market Perform-rated companies.

2% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underperform.

Wells Fargo Securities, LLC has provided investment banking services for 29% of its Equity Research Underperform-rated companies.

Important Disclosure for International Clients

EEA – The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL a regulated person under the Act. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

Australia – Wells Fargo Securities, LLC is exempt from the requirements to hold an Australian financial services license in respect of the financial services it provides to wholesale clients in Australia. Wells Fargo Securities, LLC is regulated under U.S. laws which differ from Australian laws. Any offer or documentation provided to Australian recipients by Wells Fargo Securities, LLC in the course of providing the financial services will be prepared in accordance with the laws of the United States and not Australian laws.

Canada – This report is distributed in Canada by Wells Fargo Securities Canada, Ltd., a registered investment dealer in Canada and member of the Investment Industry Regulatory Organization of Canada (IIROC) and Canadian Investor Protection Fund (CIPF).

Hong Kong – This report is issued and distributed in Hong Kong by Wells Fargo Securities Asia Limited (“WFSAL”), a Hong Kong incorporated investment firm licensed and regulated by the Securities and Futures Commission of Hong Kong (“the SFC”) to carry on types 1, 4, 6 and 9 regulated activities (as defined in the Securities and Futures Ordinance (Cap. 571 of The Laws of Hong Kong), “the SFO”). This report is not intended for, and should not be relied on by, any person other than professional investors (as defined in the SFO). Any securities and related financial instruments described herein are not intended for sale, nor will be sold, to any person other than professional investors (as defined in the SFO). The author or authors of this report is or are not licensed by the SFC. Professional investors who receive this report should direct any queries regarding its contents to Mark Jones at WFSAL (email: wfsalresearch@wellsfargo.com).

Japan – This report is distributed in Japan by Wells Fargo Securities (Japan) Co., Ltd, registered with the Kanto Local Finance Bureau to conduct broking and dealing of type 1 and type 2 financial instruments and agency or intermediary service for entry into investment advisory or discretionary investment contracts. This report is intended for distribution only to professional investors (Tokutei Toushika) and is not intended for, and should not be relied upon by, ordinary customers (Ippan Toushika).

The ratings stated on the document are not provided by rating agencies registered with the Financial Services Agency of Japan (JFSA) but by group companies of JFSA-registered rating agencies. These group companies may include Moody's Investors Services Inc., Standard & Poor's Rating Services and/or Fitch Ratings. Any decisions to invest in securities or transactions should be made after reviewing policies and methodologies used for assigning credit ratings and assumptions, significance and limitations of the credit ratings stated on the respective rating agencies' websites.

About Wells Fargo Securities

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of NYSE, FINRA, NFA and SIPC, Wells Fargo Institutional Securities, LLC, a member of FINRA and SIPC, Wells Fargo Prime Services, LLC, a member of FINRA, NFA and SIPC, Wells Fargo Securities Canada, Ltd., a member of IIROC and CIPF, Wells Fargo Bank, N.A. and Wells Fargo Securities International Limited, authorized and regulated by the Financial Conduct Authority.

This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal, or the entity that provided this report to them, if they desire further information. The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC, to be reliable, but Wells Fargo Securities, LLC does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of Wells Fargo Securities, LLC, at this time, and are subject to change without notice. For the purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. Each of Wells Fargo Securities, LLC and Wells Fargo Securities International Limited is a separate legal entity and distinct from affiliated banks. Copyright © 2015 Wells Fargo Securities, LLC.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE