

COMPANY NOTE

Target | Estimate Change

USA | Healthcare | Pharmaceutical Svcs.

November 13, 2014

Jefferies

Catalent, Inc. (CTLT) Look for Accelerating Momentum

Key Takeaway

CTLT delivered on what we think are the three most important fronts. Those are: (1) revenue growth—2% higher than JEF; (2) EBITDA margin—100 bps higher than JEF; and (3) M&A—acquired Micron Technologies and the rest of Redwood Bioscience. Penetrating delivery markets, augmented by growth-enhancing acquisitions, remains CTLT's primary focus. Management indicated a willingness to go above 5.5x leverage (from 4x now) for the right asset.

F1Q15 Results Better Thru EBITDA. The company reported adjusted EBITDA of \$83.4M, which compares to \$81M JEF and \$79M consensus. Adjusted EPS was \$0.13, falling shy of JEF and Street on higher interest expense on a later debt pay-off. The better EBITDA resulted from higher revenue, higher GM and lower SG&A. Management reaffirmed its previously-issued FY15 targets. Notably, that absorbs the lower Adj Net Income in 1Q, indicating they plan to exceed previous expectations in the remaining quarters. *See next page for details.*

Acquiring Micron Technologies. The acquisition adheres to CTLT's "follow the molecule" strategy and will allow it to engage clients even earlier in drug development. Micron addresses bio-availability or solubility issues by micronizing particles to improve absorption. Management did not disclose terms of the agreement, but did say it would add about 1% to revenue (i.e. \$18-19M).

Oral Technologies: Mix Shift Continues to Weigh Margin. Revenue was slightly better than expected, but EBITDA margin (down 120 bps YoY to 22.1%) suffered from the ongoing shift of softgel volume from prescription to consumer health. This was partially offset by favorable mix shifts within both Zydys and controlled release.

Development & Clinical Services: Benefits From Mix Shifts. Despite in line revenue, EBITDA margin of 17.4% was 240 bps ahead of our model. The improvement is attributable to higher U.S. project volumes. LTM BtB for this segment is an impressive 1.19x.

Medication Delivery Solutions: Better Revenue and Margin. Revenue was ~4% higher than expected and EBITDA margin of 20.8% was 480 bps better than JEF. Higher demand, product mix, and operational efficiencies were the primary drivers.

Valuation/Risks

Our \$28.50 PT is based on the average of three different valuation analyses—EV/EBITDA comparables (\$29), P/E comparables (\$27.50), and discounted cash flow (\$28.75). Risks include success of client R&D projects, loss of large client contracts, and international (currency and geopolitical/regulatory) exposure.

USD	Prev.	2013A	Prev.	2014A	Prev.	2015E	Prev.	2016E
Rev. (MM)	--	1,800.3	--	1,827.4	1,911.7	1,912.0	2,046.0	2,047.0
EV/Rev		2.6x		2.6x		2.5x		2.3x
EBITDA (MM)	--	412.9	--	432.3	459.2	460.4	492.5	498.4
EV/EBITDA		11.5x		11.0x		10.3x		9.5x
EPS								
Sep	--	--	--	--	0.23	0.13A	--	--
Dec	--	--	--	--	--	0.33	--	--
Mar	--	--	--	--	--	0.45	--	--
Jun	--	--	--	--	0.77	0.79	--	--
FY Jun	--	1.09	--	1.74	1.81	1.77	--	1.99
FY P/E		21.8x		13.7x		13.5x		12.0x

BUY

Price target \$28.50

(from \$26.50)

Price \$23.81

Financial Summary

Book Value (MM):	\$503.0
Net Debt (MM):	\$1,753.5
Long-Term Debt (MM):	\$1,816.7
Cash & ST Invest. (MM):	\$63.2

Market Data

52 Week Range:	\$26.34 - \$19.30
Total Entprs. Value (MM):	\$4,755.9
Market Cap. (MM):	\$3,002.4
Shares Out. (MM):	126.1
Float (MM):	42.0
Avg. Daily Vol.:	681,808

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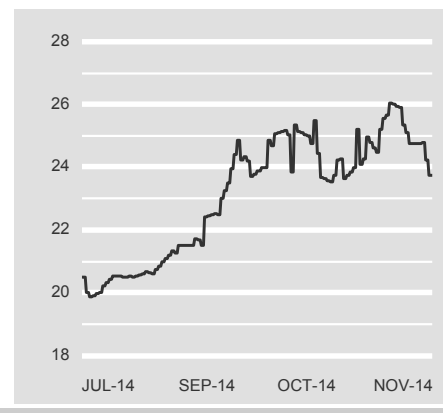
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Price Performance



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Chart 1: Summary of the Quarter

Catalent, Inc.

F1Q15 (Sept) Earnings Summary

Source: Company filings and Jefferies LLC

Reports 11/13/2014 AMC

FY ending June 30 in thousands except EPS	Reported		Estimate	Actual	Consensus	Percentage Change		Difference		
	F1Q14	F4Q14	F1Q15	F1Q15		Seq	Y/Y	Seq	Y/Y	Est.
Net revenue	\$ 414.3	\$ 519.6	\$ 410.9	\$ 418.3	411	(19.5%)	1.0%	\$ (101.3)	\$ 4.0	\$ 7.4
Cost of products sold	295.1	329.3	289.2	293.0		(11.0%)	(0.7%)	(36.3)	(2.1)	3.8
Gross Profit	119.2	190.3	121.7	125.3		(34.2%)	5.1%	(65.0)	6.1	3.6
SG&A	81.1	78.6	84.2	81.4		3.6%	0.4%	2.8	0.3	(2.8)
EBIT ex-nonrecurring	38.1	111.7	37.5	43.9		(60.7%)	15.2%	(67.8)	5.8	6.4
Impairments (gains on asset sales)	-	2.8	-	-		(100.0%)	NA	(2.8)	-	-
Non-recurring items	3.0	7.8	-	1.4		(82.1%)	(53.3%)	(6.4)	(1.6)	1.4
EBIT	35.1	101.1	37.5	42.5		(58.0%)	21.1%	(58.6)	7.4	5.0
Interest expense (income)	40.9	40.3	25.0	35.5		(11.9%)	(13.2%)	(4.8)	(5.4)	10.5
Other expense (income)	(1.0)	7.6	-	41.3		443.4%	(4230.0%)	33.7	42.3	41.3
Pre-tax income	(4.8)	53.2	12.5	(34.3)		(164.5%)	614.6%	(87.5)	(29.5)	(46.8)
Taxes	(6.6)	26.2	3.8	(14.0)		(153.4%)	112.1%	(40.2)	(7.4)	(17.8)
Net income	1.8	27.0	8.8	(20.3)		(175.2%)	(1227.8%)	(47.3)	(22.1)	(29.1)
Comparable NI	(13.5)	63.7	10.6	(9.6)		(115.1%)	(28.9%)	(73.4)	3.9	(20.2)
Adjusted NI	(1.4)	77.0	25.0	13.4		(82.6%)	(1057.1%)	(63.6)	14.8	(11.6)
GAAP EPS	0.02	0.36	0.08	(0.19)		(153.9%)	(908.0%)	(0.55)	(0.22)	(0.27)
Comparable EPS	(0.18)	0.84	0.10	(0.09)		(110.8%)	(49.1%)	(0.93)	0.09	(0.19)
Adjusted EPS	(0.02)	1.01	0.23	0.13	0.20	(87.5%)	(785.7%)	(0.89)	0.14	(0.11)
Diluted shares	75.9	75.9	107.4	106.0		39.6%	39.6%	30.1	30.1	(1.4)
EBITDA	72.8	127.7	76.7	36.6		(71.3%)	(49.7%)	(91.1)	(36.2)	(40.1)
Comparable EBITDA	79.1	152.8	76.7	82.4		(46.1%)	4.2%	(70.4)	3.3	5.7
Adjusted EBITDA	82.3	150.7	80.9	83.4	79	(44.7%)	1.3%	(67.3)	1.1	2.5
COMMON SIZE										
Cost of products sold	71.2%	63.4%	70.4%	70.0%				670 bps	(120 bps)	(30 bps)
Gross margin	28.8%	36.6%	29.6%	30.0%				(670 bps)	120 bps	30 bps
SG&A	19.6%	15.1%	20.5%	19.5%				430 bps	(10 bps)	(100 bps)
EBIT ex-nonrecurring	9.2%	21.5%	9.1%	10.5%				(1,100 bps)	130 bps	140 bps
One-time charges	0.7%	2.0%	0.0%	0.3%				(170 bps)	(40 bps)	30 bps
EBIT	8.5%	19.5%	9.1%	10.2%				(930 bps)	170 bps	100 bps
Interest expense (income)	9.9%	7.8%	6.1%	8.5%				70 bps	(140 bps)	240 bps
Other expense (income)	(0.2%)	1.5%	0.0%	9.9%				840 bps	1,010 bps	990 bps
Pre-tax income	(1.2%)	10.2%	3.0%	(8.2%)				(1,840 bps)	(700 bps)	(1,120 bps)
Income taxes	137.5%	49.2%	30.0%	40.8%				(840 bps)	(9,670 bps)	1,080 bps
Net income	0.4%	5.2%	2.1%	(4.9%)				(1,000 bps)	(530 bps)	(700 bps)
Comparable NI	(3.3%)	12.3%	2.6%	(2.3%)				(1,460 bps)	100 bps	(490 bps)
Adjusted NI	(0.3%)	14.8%	6.1%	3.2%				(1,160 bps)	350 bps	(290 bps)
EBITDA	17.6%	24.6%	18.7%	8.7%				(1,580 bps)	(880 bps)	(990 bps)
Comparable EBITDA	19.1%	29.4%	18.7%	19.7%				(970 bps)	60 bps	100 bps
Adjusted EBITDA	19.9%	29.0%	19.7%	19.9%				(910 bps)	10 bps	30 bps
SEGMENTS										
Oral Technologies										
Revenue	258.9	348.1	257.6	261.1		(25.0%)	0.8%	(87.0)	2.2	3.5
% of total	62.5%	67.0%	62.7%	62.4%				(460 bps)	(10 bps)	(30 bps)
EBITDA	60.4	113.1	60.6	57.7		(49.0%)	(4.5%)	(55.4)	(2.7)	(2.9)
Margin	23.3%	32.5%	23.5%	22.1%				(1,040 bps)	(120 bps)	(140 bps)
Medication Delivery & Solutions										
Revenue	56.5	68.9	55.9	56.9		(17.4%)	0.7%	(12.0)	0.4	1.0
% of total	13.6%	13.3%	13.6%	13.6%				30 bps	0 bps	0 bps
EBITDA	8.2	17.8	8.4	9.9		(44.4%)	20.7%	(7.9)	1.7	1.5
Margin	14.5%	25.8%	15.0%	17.4%				(840 bps)	290 bps	240 bps
Development & Clinical Services										
Revenue	101.0	105.4	99.5	103.1		(2.2%)	2.1%	(2.3)	2.1	3.6
% of total	24.4%	20.3%	24.2%	24.6%				440 bps	30 bps	40 bps
EBITDA	15.7	26.3	16.0	21.4		(18.6%)	36.3%	(4.9)	5.7	5.5
Margin	15.5%	25.0%	16.0%	20.8%				(420 bps)	520 bps	470 bps
FY15 GUIDANCE										
Revenue		Previous \$1,890-1,915M	Prior JEF \$1,912M	Revised \$1,890-1,915M	Prior Cons. \$1,898M					
EBITDA		\$450-460M	\$459M	\$450-460M	\$453M					
Net Income		\$215-225M		\$215-225M						

Source: Company data, Street account, Jefferies LLC

**Catalent, Inc.
Earnings Model**

FY June	2013					2014					2015E						
Source: Jefferies LLC	2012	Sep-12	Dec-12	Mar-13	Jun-13	2013	Sep-13	Dec-13	Mar-14	Jun-14	2014	Sep-14	Dec-14E	Mar-15E	Jun-15E	2015E	2016E
Net revenue	\$ 1,695.0	\$ 412.0	\$ 436.2	\$ 447.0	\$ 505.1	\$ 1,800.3	\$ 414.3	\$ 440.7	\$ 453.1	\$ 519.6	\$ 1,827.7	\$ 418.3	\$ 454.3	\$ 481.6	\$ 557.8	\$ 1,912.0	\$ 2,047.0
Cost of products sold	1,136.2	294.5	296.1	309.6	331.5	1,231.7	295.1	303.3	301.4	329.3	1,239.7	293.0	309.8	315.3	360.5	1,278.5	1,350.2
Gross profit	558.8	117.5	140.1	137.4	173.6	568.6	119.2	137.4	151.7	190.3	588.0	125.3	144.5	166.3	197.3	633.4	696.8
SG&A	348.1	81.8	86.2	83.7	88.9	340.6	81.1	87.5	87.6	78.6	334.8	81.4	90.1	93.6	77.6	342.7	372.0
EBIT ex-nonrecurring	210.7	35.7	53.9	53.7	84.7	228.0	38.1	49.9	64.1	111.7	253.2	43.9	54.4	72.8	119.6	290.7	324.8
Impairments (gains on asset sale)	(7.0)	(0.2)	2.6	2.2	0.6	5.2	-	-	0.4	2.8	3.2	-	-	-	-	-	-
Non-recurring items	19.5	3.5	5.6	3.6	5.7	18.4	3.0	5.4	3.5	7.8	19.7	1.4	-	-	-	1.4	-
EBIT	198.2	32.4	45.7	47.9	78.4	204.4	35.1	44.5	60.2	101.1	230.3	42.5	54.4	72.8	119.6	289.3	324.8
Interest expense (income)	183.2	53.9	53.2	53.6	42.5	203.2	40.9	41.5	40.4	40.3	163.1	35.5	23.6	23.5	23.5	106.1	92.6
Other expense (income)	(3.8)	-	12.0	8.3	4.8	25.1	(1.0)	(1.4)	5.2	7.6	10.4	41.3	-	-	-	41.3	-
Pretax income	18.8	(21.5)	(19.5)	(14.0)	31.1	(23.9)	(4.8)	4.4	14.6	53.2	56.8	(34.3)	30.8	49.2	96.1	141.9	232.2
Minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes	16.5	(2.0)	8.0	(0.1)	18.2	24.1	(6.6)	23.3	6.6	26.2	49.5	(14.0)	9.2	14.8	28.8	38.9	69.7
Net income	2.3	(19.5)	(27.5)	(13.9)	12.9	(48.0)	1.8	(18.9)	8.0	27.0	7.3	(20.3)	21.6	34.5	67.3	103.0	162.5
Comparable NI	31.3	(20.2)	(0.2)	(8.9)	42.1	12.8	(13.5)	15.9	20.7	63.7	86.8	(9.6)	26.3	42.7	87.0	146.5	197.2
Adjusted NI	81.4	(5.9)	20.9	13.0	54.4	82.4	(1.4)	27.9	38.9	77.0	131.8	13.4	42.3	58.7	103.1	217.5	261.4
GAAP EPS	0.03	(0.26)	(0.36)	(0.18)	0.17	(0.63)	0.02	(0.25)	0.11	0.36	0.10	(0.19)	0.17	0.27	0.52	0.84	1.23
Comparable EPS	0.41	(0.27)	(0.00)	(0.12)	0.55	0.17	(0.18)	0.21	0.27	0.84	1.14	(0.09)	0.21	0.33	0.67	1.19	1.50
Adjusted EPS	1.07	(0.08)	0.28	0.17	0.72	1.09	(0.02)	0.37	0.51	1.01	1.74	0.13	0.33	0.45	0.79	1.77	1.99
Diluted shares	75.9	75.9	75.9	75.9	75.9	75.9	75.9	75.9	75.9	75.9	75.9	105.5	127.6	129.1	130.6	123.2	131.6
EBITDA	330.5	69.7	72.1	78.8	111.2	331.8	72.8	83.4	90.5	127.7	374.4	36.6	92.5	110.9	157.6	397.6	476.7
Comparable EBITDA	356.4	76.3	94.5	88.4	129.7	388.9	79.1	91.9	97.7	152.8	421.5	82.4	92.5	110.9	157.6	443.4	476.7
Adjusted EBITDA	388.6	82.3	101.7	100.7	128.2	412.9	82.3	93.3	106.0	150.7	432.3	83.4	97.8	116.2	163.0	460.4	498.4
Common Size:																	
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of products sold	67.0%	71.5%	67.9%	69.3%	65.6%	68.4%	71.2%	68.8%	66.5%	66.5%	67.8%	70.0%	68.2%	65.5%	64.6%	66.9%	66.0%
Gross margin	33.0%	28.5%	32.1%	30.7%	34.4%	31.6%	28.8%	31.2%	33.5%	36.6%	32.2%	30.0%	31.8%	34.5%	35.4%	33.1%	34.0%
SG&A	20.5%	19.9%	19.8%	18.7%	17.6%	18.9%	19.6%	19.9%	19.3%	19.3%	18.3%	19.5%	19.8%	19.4%	13.9%	17.9%	18.2%
EBIT ex-nonrecurring	12.4%	8.7%	12.4%	12.0%	16.8%	12.7%	9.2%	11.3%	14.1%	21.5%	13.9%	10.5%	12.0%	15.1%	21.4%	15.2%	15.9%
Impairments (gains on asset sale)	(0.4%)	(0.0%)	0.6%	0.5%	0.1%	0.3%	0.0%	0.0%	0.1%	0.5%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Non-recurring items	1.2%	0.8%	1.3%	0.8%	1.1%	1.0%	0.7%	1.2%	0.8%	1.5%	1.1%	0.3%	0.0%	0.0%	0.0%	0.1%	0.0%
EBIT	11.7%	7.9%	10.5%	10.7%	15.5%	11.4%	8.5%	10.1%	13.3%	19.5%	12.6%	10.2%	12.0%	15.1%	21.4%	15.1%	15.9%
Interest expense (income)	10.8%	13.1%	12.2%	12.0%	8.4%	11.3%	9.9%	9.4%	8.9%	7.8%	8.9%	8.5%	5.2%	4.9%	4.2%	5.5%	4.5%
Other expense (income)	1.2%	0.8%	1.3%	0.8%	1.1%	1.0%	0.7%	1.2%	0.8%	1.5%	1.1%	0.3%	0.0%	0.0%	0.0%	0.1%	0.0%
Pretax income	1.1%	(5.2%)	(4.5%)	(3.1%)	6.2%	(1.3%)	(1.2%)	1.0%	3.2%	10.2%	3.1%	(8.2%)	6.8%	10.2%	17.2%	7.4%	11.3%
Taxes	87.8%	9.3%	(41.0%)	0.7%	58.5%	(100.8%)	137.5%	529.5%	45.2%	49.2%	87.1%	40.8%	30.0%	30.0%	30.0%	27.4%	30.0%
Net income	0.1%	(4.7%)	(6.3%)	(3.1%)	2.6%	(2.7%)	0.4%	(4.3%)	1.8%	5.2%	0.4%	(4.9%)	4.7%	7.2%	12.1%	5.4%	7.9%
Adjusted net income	4.8%	(1.4%)	4.8%	2.9%	10.8%	4.6%	(0.3%)	6.3%	8.6%	14.8%	7.2%	3.2%	9.3%	12.2%	18.5%	11.4%	12.8%

Company Description

Catalent, Inc. is the leading global provider of advanced delivery technologies and development solutions for drugs, biologics and consumer health products. With over 80 years serving the industry, Catalent has proven expertise in bringing more customer products to market faster, enhancing product performance and ensuring reliable clinical and commercial product supply. Catalent employs approximately 8,000 people, including over 1,000 scientists, at nearly 30 facilities across 5 continents.

Analyst Certification:

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Within the past 12 months, Jefferies Group LLC, its affiliates or subsidiaries has received compensation from investment banking services from Catalent, Inc..

Within the past twelve months, Catalent, Inc. has been a client of Jefferies LLC and investment banking services are being or have been provided.

Jefferies Group LLC, its affiliates or subsidiaries has acted as a manager or co-manager in the underwriting or placement of securities for Catalent, Inc. or one of its affiliates within the past twelve months.

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Buy - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.

CS - Coverage Suspended. Jefferies has suspended coverage of this company.

NC - Not covered. Jefferies does not cover this company.

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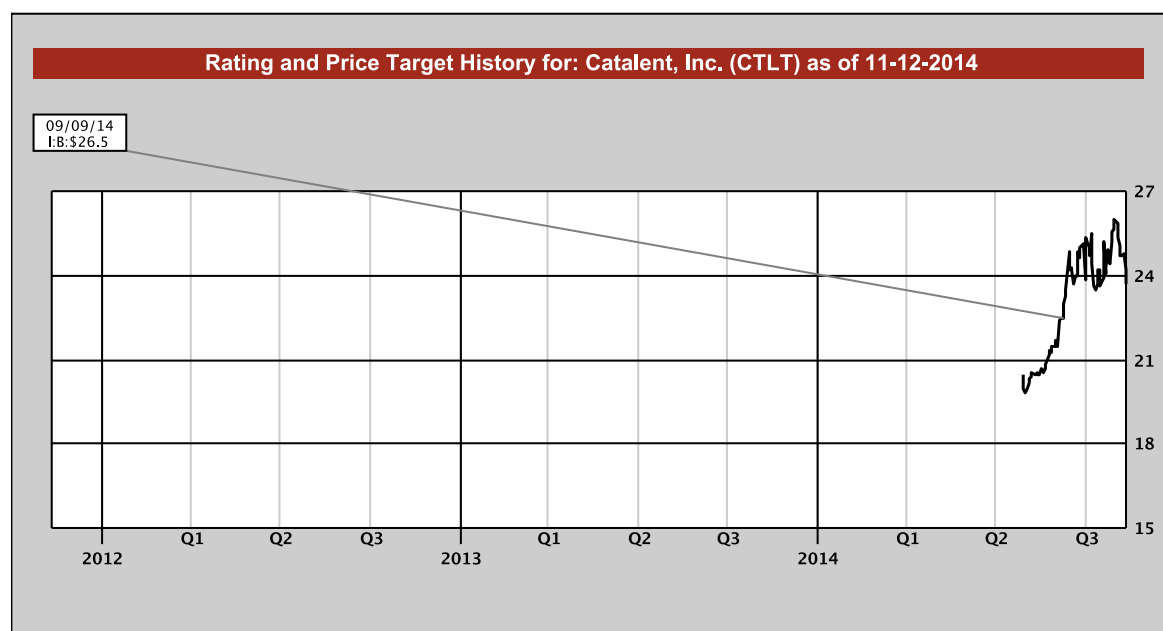
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Other Companies Mentioned in This Report

- Catalent, Inc. (CTLT: \$23.81, BUY)



Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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HOLD	797	40.66%	143	17.94%
UNDERPERFORM	144	7.35%	4	2.78%

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