

Catalent, Inc. (CTLT)

Overweight

Highlights from the 26th Annual Piper Jaffray Healthcare Conference

CONCLUSION

We hosted Catalent CFO Matthew Walsh for a fireside chat at the Piper Jaffray Healthcare Conference. Key takeaways are that Catalent continues to differentiate in a highly competitive space and to expand its service offering to further increase customer lifetime values.

- **Catalent's highly specialized manufacturing capabilities beyond the basic pill give them pricing power and sustainable margins among their long cycle contracts.** Typically by the time a client has approached Catalent to manufacture a molecule, they've already made the decision not to build and scale it in-house. This is typically because of the cost and complexity involved with the particular molecule. The price to outsource to Catalent is agreed upon up front, and remains at that price through the life of the molecule. As the contract grows to include other products and services, they can add to the contract value, but the price of the base product doesn't decline. About 75% of Catalent's business falls into this long cycle category.
- **Micron acquisition is expected to make their long customer relationships even longer.** Initial contracts with Catalent can be 1-5 years depending on the molecule's complexity. Once developed, they "follow the molecule" through its life cycle, and sign a long term manufacturing agreement that lasts another 5-10 years. Both Catalent and the customer find it in their best interests to lock up these contracts from the start, because of the amount of capital committed up front, and the switching costs down the road. The relationship continues into an OTC phase, a line extension phase, and Catalent can often continue to manufacture the molecule after it goes generic. Micron provides services during the earlier developmental stages of the molecules, and therefore allows Catalent to get involved even sooner in the product's lifecycle, and allows them to be best positioned as vendor of choice post FDA approval. They cited one example of Micron extending a relationship from 22 years to 28 years.

COMPANY DESCRIPTION

Catalent is a leading global provider of advanced delivery technologies and development solutions for drugs, biologics, and consumer health products.

PRICE: US\$28.51

TARGET: US\$28.00

11.9x CY15E EV/EBITDA

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RISKS TO ACHIEVEMENT OF PRICE TARGET

Failure to integrate acquisitions, pharma and biotech slowdown of outsourced R&D and manufacturing, domestic and foreign regulatory constraints.

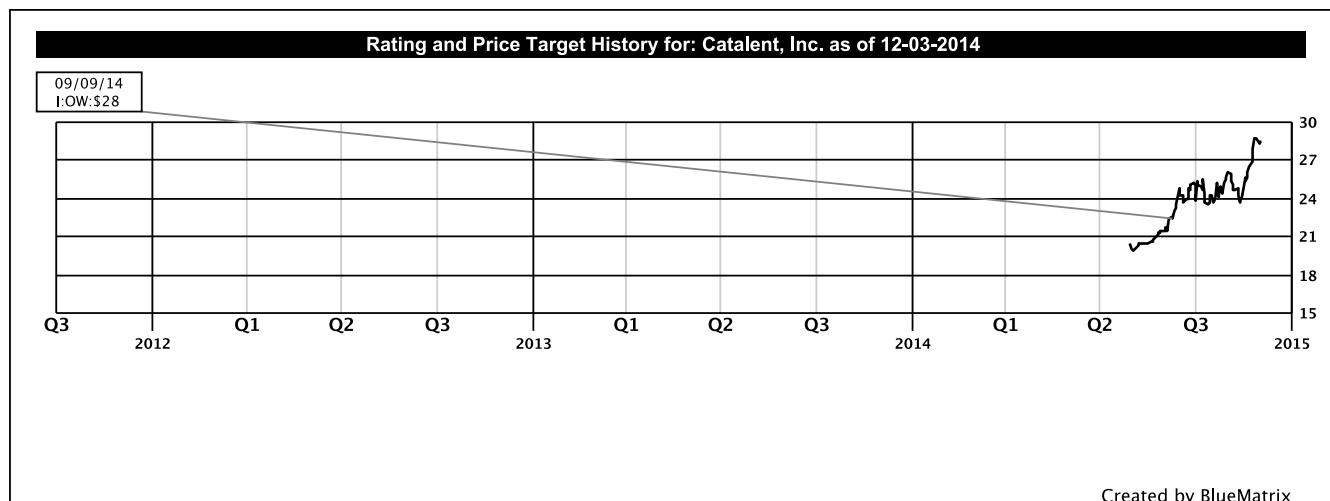
Price Performance - 1 Year



Source: Bloomberg

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R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

Distribution of Ratings/IB Services Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	377	61.80	100	26.53
HOLD [N]	221	36.23	23	10.41
SELL [UW]	12	1.97	0	0.00

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Analyst Certification — Sean W. Wieland, Sr Research Analyst — Nina Deka, Research Analyst

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