

Catalent, Inc. (CTLT)

Overweight

Q1 Earnings on Track

CONCLUSION

Catalent's growth is tracking ahead of expectations, and offers a very diverse business model that is quite resilient to the ebbs and flows of the individual segments. Catalent beat on the top line and adjusted EBITDA this quarter, but EPS was lower than estimates due mostly to an increased interest payment expense this quarter due to timing of IPO proceeds. The company announced an acquisition that should further expand their position in three growth markets. Reiterate Overweight, PT \$28.

- **The Numbers.** Revenues of \$418 million beat our estimates by 1%, and Adjusted EBITDA beat our estimate by 6%, and increased y/y by 5%. The 34% sequential decline is due to cyclicalities, and factored into our model. However, due to a larger than expected interest payment, Adjusted EPS of \$0.13 came up 9 cents shy of our estimate because the timing of IPO proceeds was later than anticipated, delaying the planned paydown of debt. Segment revenues beat our estimate across the board, and increased y/y by at least 1%. Oral Technologies were \$261 million, MDS was 56 million, and DCS was \$103 million. The company reiterated the guidance provided last quarter for FY 2105.
- **Revenue growth tracking toward the high end of estimates.** Catalent reiterated 4% top-line growth, including a 3% headwind from Fx fluctuations and a 1% benefit from acquisitions, which nets out to 6% organic revenue growth, at the high end of the 4-6% organic growth promised.
- **Micron acquisition complements Catalent's "Follow the Molecule" strategy.** Micron touches NCE's during an earlier phase of the drug development cycle than Catalent does. Thus, it gives them visibility into clients' drug development pipeline, and allows them to potentially expand their pipeline with the molecules that are likely to be outsourced as they continue through their life cycle. Conversely, Catalent brings Micron's clientele a wider range of downstream services that they previously weren't able to offer. Overall this merger should help them expand customer lifetime value.

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.

COMPANY DESCRIPTION

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

PRICE: US\$23.72

TARGET: US\$28.00

11.9x CY15E EV/EBITDA

Sean W. Wieland

Sr Research Analyst, Piper Jaffray & Co.
415 616-1710, sean.w.wieland@pjc.com

Nina Deka

Research Analyst, Piper Jaffray & Co.
212 284-6132, nina.d.deka@pjc.com

Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$28.00
FY15E Rev (mil)	US\$1,909.3	US\$1,914.9
FY16E Rev (mil)	US\$2,034.2	US\$2,025.3
FY15E EPS	—	US\$1.79
FY16E EPS	US\$2.31	US\$2.15
52-Week High / Low	US\$26.34 / US\$19.30	
Shares Out (mil)	123.6	
Market Cap. (mil)	US\$2,931.8	
Avg Daily Vol (ooo)	677	
Book Value/Share	US\$3.85	
Net Cash Per Share	US\$(13.43)	
Debt to Total Capital	78%	
Yield	0.00%	
Fiscal Year End	Jun	

Price Performance - 1 Year



Source: Bloomberg

YEAR	REVENUE (US\$ m)								EARNINGS PER SHARE (US\$)							
	Sep	Dec	Mar	Jun	FY	CY	FY RM	CY RM	Sep	Dec	Mar	Jun	FY	CY	FY P/E	CY P/E
2014A	414.3A	440.7A	453.1A	519.6A	1,827.7A	1,845.4E	1.6x	1.6x	—	—	—	—	—	—	—	—
2015E	418.3A	454.4	483.7	558.4	1,914.9	1,956.0	1.5x	1.5x	0.13A	0.39	0.47	0.80	1.79	1.84	13.3x	12.9x
2016E	430.0	483.8	514.4	597.2	2,025.3	—	1.4x	NA	0.29	0.38	0.56	0.92	2.15	—	11.0x	NA

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Exhibit 1

		Q1A Sep-14			
	PJC Est.	Actual	% Diff	Y/Y Change	Seq. Change
Revenues:					
Oral Technologies	258,003	261,100	1%	1%	-25%
Medication Delivery Solutions	55,370	56,900	3%	1%	-17%
Development and Clinical Svcs	101,000	103,100			
Total Revenue	412,693	418,300	1%	1%	-19%
Gross Profit	118,738	125,300	6%	5%	-34%
Expenses					
Selling, General & Administrative	78,722	81,400	3%	0%	4%
Operating Income	40,016	42,500	6%	21%	-58%
Adjusted EBITDA:					
Oral Technologies	57,611	57,700	0%	-4%	-49%
Medication Delivery Solutions	9,143	9,900	8%	21%	-44%
Development and Clinical Svcs	18,180	21,400	18%	36%	-19%
Adjusted EBITDA:	79,034	83,400	6%	1%	-45%
Adjusted Net Income	25,413	13,400	-47%	nm	-83%
Adjusted EPS	0.22	0.13	-41%	nm	nm
Diluted Shares	115,000	102,350	-11%	nm	945%

Source: PJC Analysis and Company Reports.

Catalent

\$ in thousands, except per share data

Income Statement

Last update: 11/13/14

Revenue																	
Oral Technologies	1,186,300	258,900	285,900	287,300	348,100	1,180,200	261,100	290,189	298,792	365,505	1,215,586	268,540.69	307,600	316,720	391,090	1,283,950	
Medication Delivery Solutions	219,400	56,500	55,300	65,400	68,900	246,100	56,900	58,065	71,940	79,235	266,140	59,176	60,388	75,537	83,197	278,297	
Development and Clinical Svcs	404,800	101,000	102,100	103,700	105,400	412,200	103,100	108,226	115,631	115,940	442,897	105,244	117,966	124,882	125,215	473,307	
Revenue Elimination	(10,200)	(2,100)	(2,600)	(3,300)	(2,800)	(10,800)	(2,800)	(2,080)	(2,640)	(2,240)	(19,760)	(2,940)	(2,184)	(2,772)	(2,352)	(110,248)	
Total Revenue	1,800,300	414,300	440,700	453,100	519,600	1,827,700	418,300	454,400	483,723	558,440	1,914,863	430,020	483,770	514,366	597,150	2,025,306	
Gross Profit	568,600	119,200	137,400	151,700	190,300	598,600	125,300	149,952	174,046	218,486	667,784	131,156	154,806	190,215	239,603	715,780	
Selling, General & Administrative	340,600	81,100	87,500	87,600	78,600	334,800	81,400	87,948	91,102	81,683	342,133	81,531	91,214	97,730	89,573	360,046	
Impairment charges and (gain)/loss on sale of assets	5,200	-	-	400	2,800	-	-	-	-	-	-	-	-	-	-	-	
Restructuring/other	18,400	3,000	5,400	3,500	7,800	-	1,400	-	-	-	-	-	-	-	-	-	
Property/casualty (gain)/loss, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Operating Earnings	204,400	35,100	44,500	60,200	101,100	240,900	42,500	62,004	82,944	136,803	324,251	49,626	63,593	92,485	150,030	355,734	
Segment EBITDA																	
Oral Technologies	315,800	60,400	74,700	76,200	113,100	324,400	57,700	72,918.62	76,260	119,669	326,547	53,708	76,900	85,514	117,327	333,449	
Medication Delivery Solutions	31,500	8,200	6,900	15,700	17,800	48,700	9,900	7,826	17,270	19,413	54,408	10,652	12,078	19,640	22,463	64,832	
Development and Clinical Svcs	75,100	15,700	18,500	23,000	26,300	83,500	21,400	20,022	25,646	28,985	96,053	18,944	23,593	29,972	33,808	106,317	
Unallocated Costs	-	-	-	(24,400)	(29,500)	(82,100)	(52,400)	(25,000)	(25,000)	(25,000)	(127,400)	(25,000)	(25,000)	(25,000)	(25,000)	(100,000)	
EBITDA from continuing operations	-	72,700	83,500	90,500	127,700	374,400	36,600	75,766	94,176	143,066	349,609	58,304	87,571	110,125	148,598	404,598	
EBITDA adjustments:																	
Equity compensation	-	1,200	1,100	1,100	1,100	4,500	1,500	1,500	1,500	1,500	6,000	2,000	2,000	2,000	2,000	8,000	
Impairment charges and (gain)/loss on asset sale	-	-	-	400	2,800	3,200	-	-	-	-	-	-	-	-	-	-	
Financing related expenses and other	-	100	(100)	100	10,900	11,000	20,600	-	-	-	20,600	-	-	-	-	-	
US GAAP restructuring	-	3,000	5,400	3,500	7,800	19,700	1,400	1,400	1,400	1,400	5,600	1,400	1,400	1,400	1,400	5,600	
Acquisition, integration, and other special items	-	3,700	2,800	2,700	600	9,800	3,200	1,400	1,400	1,400	3,200	-	-	-	-	-	
Fx loss / (gain)	-	(1,700)	(2,500)	4,500	(3,800)	(3,500)	(3,700)	(3,700)	(3,700)	(3,700)	(14,800)	(3,700)	(3,700)	(3,700)	(3,700)	(14,800)	
Other adjustments	-	-	-	(100)	400	300	23,800	11,000	11,000	11,000	56,800	11,000	11,000	11,000	11,000	44,000	
Sponsor monitoring fee	-	3,200	3,200	3,300	3,200	12,900	-	-	-	-	-	-	-	-	-	-	
Total EBITDA adjustments	(9,700)	9,500	9,900	15,500	23,000	(24,300)	46,800	10,200	10,200	10,200	77,400	10,700	10,700	10,700	10,700	42,800	
Total Adjusted EBITDA	412,700	82,200	93,400	106,100	150,700	432,300	83,400	96,166	114,576	163,466	457,609	79,704	108,971	131,525	169,998	490,198	
Interest Expense	203,200	40,900	41,500	40,400	40,300	163,100	35,500	23,500	23,500	23,500	106,000	20,000	20,000	20,000	20,000	80,000	
Other (income)/expense, net	-	(1,000)	(1,400)	5,200	7,600	41,300	41,300	(1,400)	5,200	7,600	52,700	-	-	-	-	-	
Earnings/(loss) from continuing operations before income taxes	(23,900)	(4,800)	4,400	14,600	53,200	67,400	(34,300)	39,904	54,244	105,703	165,551	29,626	43,593	72,485	130,030	275,734	
Income tax expense/(benefit)	24,100	(6,600)	23,300	6,600	26,200	49,500	(14,000)	11,971	16,273	31,711	45,955	11,850	17,437	28,994	52,012	110,293	
Earnings/(loss) from continuing operations	(48,000)	1,800	(18,900)	8,000	27,000	17,900	(20,300)	27,933	37,971	73,992	119,595	17,775	26,156	43,491	78,018	165,440	
Net earnings/(loss) from discontinued operations, net of tax	1,200	(400)	(600)	(1,700)	-	(2,700)	400	(600)	(1,700)	(1,700)	(3,600)	(400)	(600)	(1,700)	(1,700)	(4,400)	
Net earnings/(loss)	(46,800)	1,400	(19,500)	6,300	27,000	15,200	(19,900)	27,333	36,271	72,292	115,995	17,375	25,556	41,791	76,318	161,040	
Minority Interest	(100)	(100)	(300)	(400)	(200)	(1,000)	(400)	(300)	(400)	(400)	(1,500)	(100)	(300)	(400)	(400)	(1,200)	
Net earnings/(loss) attributable to Catalent	(46,700)	1,500	(19,200)	6,700	27,200	16,200	(19,500)	27,633	36,671	72,692	117,495	17,475	25,856	42,191	76,718	162,240	
Net Earnings to Adjusted Net Income:																	
Net Income to Adj. Net Income Reconciliation																	
Earnings / (loss) from continuing operations	(48,000)	1,800	(18,900)	8,000	27,000	17,900	(20,300)	27,933	37,971	73,992	119,595	17,775	26,156	43,491	78,018	165,440	
Amortization	-	10,200	10,500	11,000	10,800	42,500	11,300	11,300	11,300	11,300	45,200	11,300	11,300	11,300	11,300	45,200	
Income tax (benefit) / provision	24,100	(6,600)	23,300	6,600	26,200	49,500	(14,000)	11,971	16,273	31,711	45,955	11,850	17,437	28,994	52,012	110,293	
Cash taxes (paid) / refunded	(14,200)	(15,800)	3,400	(1,100)	(7,600)	(21,100)	(9,900)	(7,183)	(9,764)	(19,026)	(45,873)	(5,925)	(8,719)	(14,497)	(26,006)	(55,147)	
Noncontrolling interest, net of tax	100	100	300	400	200	1,000	400	400	400	400	1,600	100	300	400	400	1,200	
Equity compensation	2,800	1,200	1,100	1,100	1,100	4,500	1,500	1,500	1,500	1,500	6,000	1,500	1,500	1,500	1,500	6,000	
Impairment charges and (gain) / loss on sale of assets	5,200	-	-	400	2,800	3,200	-	-	-	-	-	-	-	-	-	-	
Financing related expenses	16,900	100	(100)	100	10,900	11,000	20,600	-	-	-	20,600	-	-	-	-	-	
U.S. GAAP Restructuring	18,400	3,000	5,400	3,500	7,800	19,700	1,400	1,400	1,400	1,400	5,600	-	-	-	-	-	
Acquisition, integration and other special items	15,500	3,700	2,800	2,700	600	9,800	3,200	1,000	1,000	1,000	6,200	-	-	-	-	-	
Foreign Exchange loss (gain) (included in other, net)	5,700	(1,700)	(2,500)	4,500	(3,800)	(3,500)	(3,700)	-	-	-	(3,700)	-	-	-	-	-	
Other adjustments	4,200	-	-	(100)	400	300	23,800	-	-	-	23,800	-	-	-	-	-	
Sponsor monitoring fee	12,400	3,200	3,200	3,300	3,200	12,900	-	-	-	-	-	-	-	-	-	-	
El. Cash tax (savings)/exp. Attributable to reconciling items	-	-700	-600	-1,400	-2600	(5,300)	-900	-600	-1,400	-2600	(5,500)	-700	-600	-1,400	-2600	(5,300)	
Adjusted Net Income (loss)	43,100	(1,500)	27,900	39,000	77,000	142,400	13,400	47,721	58,680	99,676	219,477	35,900	47,374	69,788	114,624	267,687	
Adjusted EPS							0.13	0.39	0.47	0.80	1.79	0.29	0.38	0.56	0.92	2.15	
Diluted shares outstanding					9,792	74,801	105,535	123,600	123,724	123,847	119,176	123,971	124,095	124,219	124,343	124,157	
Calendar Year:																	
Revenue	1,807,200					1,845,400					1,955,953						
y/y Growth %						2%					6.0%						
EBITDA	404,300					436,366					466,717						
Operating Earnings	206,000					265,804					332,965						
Net Income	(17,300)					42,033					152,694						
Adj Net Income	na					183,484					227,655						
Adj EPS	na					na					\$ 1.84						
Development and Clin Svcs Revenue	402,800					420,426					454,781						
Development and Clin Svcs EBITDA	69,700					90,722					97,168						
DCS EBITDA Mn	17%					22%					21%						
Analysis:																	
Total Gross Profit	32%	29%	31%	33%	37%	33%	30.0%	33.0%	36.0%	39.1%	35%	30.5%	32.0%	37.0%	40.124%	35%	
Selling, General, & Admin Expenses	19%	20%	20%	19%	15%	18%	19.5%	19.4%	18.8%	14.6%	18%	19.0%	18.9%	19.0%	15.0%	18%	
Total Operating Expenses																	
Operating Margin	11%	8%	10%	13%	17%	13%	17%										

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Notes: The boxes on the Rating and Price Target History chart above indicate the date of the Research Note, the rating, and the price target. Each box represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first Note written during the past three years.

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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]	374	61.51	96	25.67
HOLD [N]	222	36.51	23	10.36
SELL [UW]	12	1.97	0	0.00

Note: Distribution of Ratings/IB Services shows the number of companies currently in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Jaffray ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

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

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