Morgan Stanley

MORGAN STANLEY RESEARCH
NORTH AMERICA

Morgan Stanley & Co. LLC

**Ricky R Goldwasser**
Ricky.Goldwasser@morganstanley.com
+1 212 761 4097

**Zachary W Sopcak**
Zachary.Sopcak@morganstanley.com
+1 212 761 4002

**Julie Murphy**
Julia.Murphy@morganstanley.com
+1 212 761 3867

**Saurabh Singh**
Saurabh.Singh1@morganstanley.com
+1 212 761 6519

September 9, 2014

Stock Rating
**Overweight**

Industry View
**In-Line**

Initiation

# Catalent, Inc.

## Breaking the Softgel Mold; Initiate at OW, PT $27

**The bellwether of contract manufacturing organizations (CMO), CTLT is well positioned to deliver stable top and bottom line growth as it is set to benefit from an increasingly complex new drug pipeline with embedded optionality to gain share as biologics market expands.**

**Follow the molecule strategy is key.** Catalent engages with clients from early stage formulation through clinicals to end market manufacturing, building sticky and LT relationships with high visibility. We expect this strategy to continue to benefit CTLT as the branded pipeline requires more advanced delivery technology, translating to topline growth of 4-6%, driven by market growth and increased share of wallet, with volume leverage driving bottom line growth of 6-8%.

**Patent expirations offer more opportunity than risk.** From our research, mining the FDA website, new generic introductions represent a net addressable EBITDA opportunity of $45M over the next 3 years. For more on opportunities related to new generics, see Debate 1: Patent Expirations: A Risk or Opportunity?

**Biologics and M&A could drive further upside.** Our research highlights ~$3.4 bil in probability adj. Biologics launches from big pharma in the next 3 yrs. We est. biologics could, if opportunity materializes, accelerate CTLT's EBITDA growth over the next 5 to 7 yrs by as much as ~3% with greater upside optionality from the Redwood investment. For more see Debate 2: What Is the Biologics Opportunity? M&A provides additional upside currently not in our model with each $100M of acquired assets ~ 3% accretive to EBITDA.

**Our $27 DCF-based price target represents ~21% upside.** This implies an EV/EBITDA multiple of ~11x on CY15, in line with WST and at a ~5% discount to Q. Our bull case valuation is $35 and bear case is $12. See Debate 3: What Is the Right Valuation?

### Key Ratios and Statistics

**Reuters: CTLT.N Bloomberg: CTLT US**
**Healthcare Services & Distribution** / United States of America

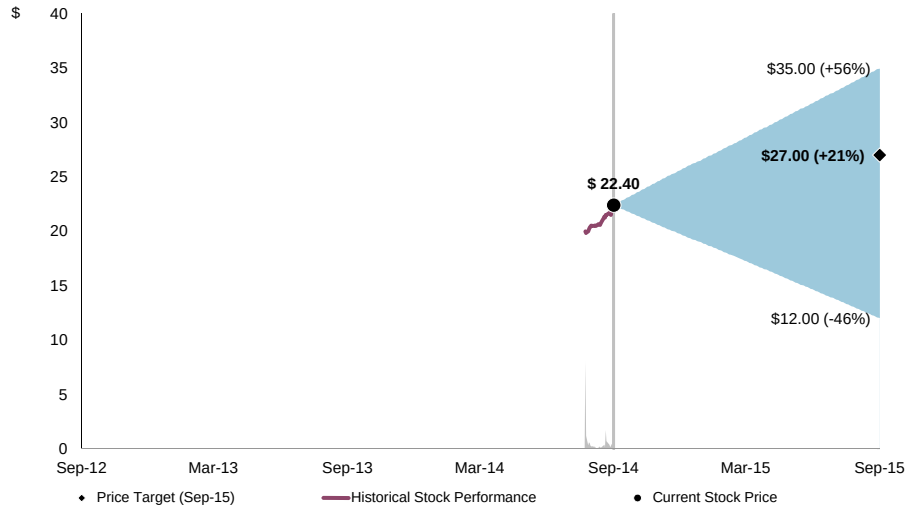
| | |
|---|---|
| **Price target** | **$27.00** |
| Shr price, close (Sep 8, 2014) | $22.40 |
| Mkt cap, curr (mm) | $1,772 |
| 52-Week Range | $22.52-19.30 |

| **Fiscal Year ending** | **06/14** | **06/15e** | **06/16e** | **06/17e** |
|---|---|---|---|---|
| EPS ($)** | 1.87 | 1.81 | 1.86 | 2.01 |
| P/E | - | 12.4 | 12.1 | 11.1 |
| ModelWare EPS ($) | 1.87 | 1.81 | 1.86 | 2.01 |

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
**** =** Based on consensus methodology
**e =** Morgan Stanley Research estimates

# Risk-Reward Snapshot: Catalent (CTLT, $22.40, PT $27)

## Risk-Reward View: Stable growth with high visibility; M&A provides upside; Optionality in Biologics opportunity




Source: Thomson Reuters, Morgan Stanley Research estimates

| | | |
|---|---|---|
| **Bull Case $35** | DCF valuation of $35 implies assuming WACC of 7.5% & 1.5% terminal growth. Valuation implies 12.3x our bull case CY15 adj. EBITDA of $500 million. | **CTLT increases share of customers' wallet with range of services and increased manufacturer outsourcing.** Topline CAGR of 6.8% from FY14-FY17 with EBITDA margin expansion of 150 bps as CTLT leverages efficiencies from increased volume. The implied 12.3x EV/EBITDA multiple is in line with Q's current multiple. |
| **Price Target / Base Case $27** | DCF valuation of $27 assuming WACC of 7.5% & 1.5% terminal growth. Target implies ~11x our CY15 adj. EBITDA of $470 million. | **CTLT continues to capitalize on its leadership position with top line growing at above market rate and modest margin expansion.** Topline CAGR of 6.2% through FY17 with 70 bps of adj. EBITDA margin expansion. This implies an 11x EV/EBITDA multiple, in line with WST. |
| **Bear Case $12** | DCF valuation of $12 assuming WACC of 8.1% & 0% terminal growth. Valuation implies 8.3x our CY15 bear case EBITDA of $408 million. | **CTLT loses key generic 180-day conversions and EBITDA margins see pressure from increased competition.** Topline CAGR of 5.6% through FY17 with -40 bps of adj. EBITDA margin contraction. The implied 8.3x multiple is at a slight discount to the multiples of publicly traded smaller CMOs, including LONN, CBM, RECIB and AMRI. |

### Why Overweight?

- CTLT is the quality and market share leader in the CMO industry, with a "follow the molecule" strategy which engages clients from formulation through production and creates high level of client stickiness.
- CTLT portfolio of services is aligned with pipeline of increasingly complex molecules that rely on advanced delivery technologies.
- M&A opportunities in a highly fragmented market provide upside to our estimates.
- Optionality around biologics could accelerate growth rates if it materializes.

### Key Levers in Our Model

- 100 bps of increased topline growth across segments drives $9 million in incremental adj. EBITDA
- 100 bps of adj. EBITDA margin drives $16 million in incremental adj. EBITDA

### Key catalysts

- Quarterly earnings calls.
- Tuck in acquisitions.
- New indications / strong growth in Imbruvica and other branded relationships.
- Updates regarding Redwood, biologics partnership.

### Key Risks to Our Price Target

- Management fails to capitalize on organic and M&A growth opportunities
- Margin contraction driven by biopharma industry consolidation and/or lower cost competition
- Underperforming customer launches and/or project cancellations

# Investment Debate Summary

| DEBATE | MARKET'S VIEW | OUR VIEW |
|---|---|---|
| **#1: Patent Expiration: A risk or opportunity?** | 44% of Catalent's revenue is generated from Branded Rx products. Expiration of patent protection and generic conversion of products poses risk to long term revenue streams. | **Based on our research, new generics are additive to future revenue stream. Catalent is at risk to lose as much as ~$4 million in EBITDA from patent expirations over the next 3 years. However, we estimate the potential opportunity associated with share gains of products Catalent was previously not involved with could be as high as $49 million during the same time period. Net-net new generics addressable opportunity could contribute as much as ~$45 million to net EBITDA in the next 2 to 3 years. Our assumptions are based on mining the FDA data base to identify drugs that fit Catalent's manufacturing capabilities.**<br><br>*Where we could be wrong*: *Catalent is unable to penetrate the generic market as manufacturers limits outsourcing to CMOs in favor of in-house capabilities* |
| **#2: What is the biologics opportunity?** | Biologics represent a longer term growth opportunity for the biopharmaceutical industry, but may not translate to growth in the CMO industry given the strength of in-house capabilities and the limited penetration of CMOs in this area to date. | **Up to a third of the late stage pipeline filed with the FDA is composed of biologics. Over time, as more drugs come to market and capacity increases, we think outsourcing should increase as well as CMO capabilities and experience also expand. Moreover, CTLT's investment in Redwood Biosciences provides the company with optionality should its SMARTag technology take a leading position for development of antibody drug conjugates. We will watch for Redwood milestones in the next 12 to 18 months**<br><br>*Where we could be wrong: Biologics outsource fails to materialize beyond current levels or Catalent fails to capture share.* |
| **#3: What is the right valuation?** | With a lack of direct public competitors and modest topline growth, the market is looking for Catalent to showcase execution. CTLT shares are currently trading at a ~9.5x EV to our estimated CY15 EBITDA, a ~13% discount to publicly traded peers. | **We believe a DCF analysis is most appropriate to value CTLT shares. In our base case DCF, we value CTLT shares at $27, assuming WACC of 7.5% and 1.5% terminal growth rate. Implied value equals an ~11x EV/EBITDA multiple on CY15, in line with WST and at a 5% discount to Q. We think WST and Q are the most relevant comps to CTLT shares.**<br><br>*Where we could be wrong: Slower than expected market growth, share losses, and margin deterioration, if they materialize, would drive DCF value to $12, leading to an implied EV/EBITDA multiple of 8.3x* |

## Investment Thesis

**We are initiating coverage on Catalent (CTLT), with an Overweight rating and price target of $27.** Catalent's leading market position and "follow the molecule" strategy translates to sticky relationships with customers and long term visibility. As a bellwether in the CMO space, we think CTLT is well positioned to build on its advanced delivery technology capabilities and benefit from new complex molecules coming to market over the next three to five years.

**Catalent growth drivers include: 1) script utilization of existing portfolio, 2) new product introductions and, 3) winning share of existing customer wallet.** Combined, these drivers translate to annual top line growth of 4% to 6% for FY2015 through FY2017. Inorganic growth in the form of M&A represents additional upside opportunity not captured in our model estimates.

Exhibit 1

**Financial Snapshot – FY2012-FY2017**

| | FY12 | FY13 | FY14A | FY15E | FY16E | FY17E |
|---|---|---|---|---|---|---|
| Revenue | $1,694.8 | $1,800.3 | $1,827.7 | $1,901.7 | $2,023.5 | $2,124.4 |
| *y/y growth* | *10.6%* | *6.2%* | *1.5%* | *4.0%* | *6.4%* | *5.0%* |
| Gross Margin | *37.7%* | *36.4%* | *37.9%* | *39.0%* | *39.4%* | *38.2%* |
| SG&A | *14.8%* | *13.5%* | *14.2%* | *14.0%* | *14.0%* | *12.8%* |
| Adj. EBITDA | $389.7 | $412.6 | $432.3 | $455.8 | $490.2 | $518.6 |
| *y/y growth* | *8.9%* | *5.9%* | *4.8%* | *5.4%* | *7.5%* | *5.8%* |
| EBITDA Margin | 23.0% | 22.9% | 23.7% | 24.0% | 24.2% | 24.4% |
| *y/y chg* | | *-8 bp* | *73 bp* | *31 bp* | *26 bp* | *18 bp* |

Source: Company Data, Morgan Stanley Research estimates

### Company Snapshot

*Catalent Inc. (CTLT) is a global pharmaceutical services company headquartered in Somerset, NJ. The company provides biopharmaceutical and consumer product clients advanced delivery technology development and manufacturing solutions that drive more efficient and effective drugs and nutritional supplements. Catalent operates in three main business segments: Oral Technologies, Medication Delivery Solutions ("MDS") and Development & Clinical Services ("DCS").*

**Business segments:**

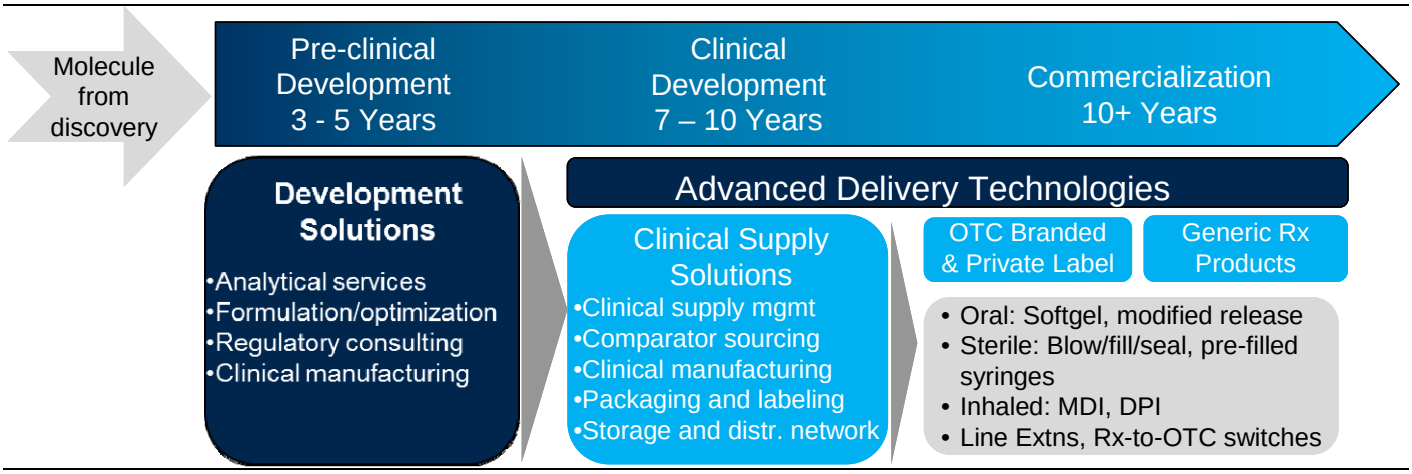
Oral Technologies ("OT", ~65% revenues, ~71% of EBITDA): Provides advanced oral technologies contract manufacturing outsourcing (CMO) services for pharmaceutical, specialty pharma and biotech companies. The portfolio is comprised of softgel and modified release formulations including dosing alternatives for drugs, biologics, and consumer health products.

Medication Delivery Solutions ("MDS", ~13% revenues, 11% EBITDA) Suite of products include blow-fill-seal (sterile drug filling and sealing) for complex formulations, prefilled syringe fill/finish, biologics solutions, and animal health.

Development & Clinical Services ("DCS", ~23% of revenues, ~18% of EBITDA): Services provided to manufacturers include development & formulation solutions and clinical supply. DCS capabilities were added to Catalent's portfolio of services in 2012 through the $410 million acquisition of Aptuit LLC.

Exhibit 2

**"Follow the Molecule" Business Strategy**

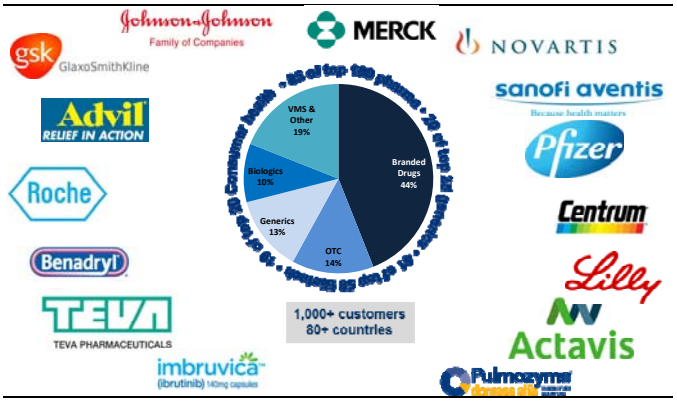



Source: Company Data, Morgan Stanley Research

**Reputation, scale, technology, and global reach are market differentiators.** Channel checks we conducted with biopharma manufacturers consistently highlighted Catalent's service execution and breadth of technology offering and sites as critical differentiators in the market place translating to revenue and pricing power. Strong brand association has led to partnerships with blue chip customers world wide (see Exhibit 3).

Exhibit 3

**Blue Chip customers underscore industry leading service and offering**




Source: Company Data, Morgan Stanley Research

**Catalent's "Follow the Molecule" business model allows it to engage earlier in the drug development timeline translating to sticky revenue streams with longer lifespans.** A noted example is Claritin, with which Catalent has had a relationship for ~22 years. More recently, Catalent successfully executed a complex "follow-the-molecule" product with Pharmacyclics' Imbruvica, which the Morgan Stanley Biotech Team forecasts will reach $4.2 billion in annual sales by 2020.

**New generics entering the market provide as much as $45 million in net potential addressable EBITDA opportunity, some of which is already factored into management guidance.** As drugs go off patent in the US, Catalent does run the risk of losing volume to competitive CMOs who partner with generic manufacturers. In analyzing the generic pipeline over the next 3 years, we identified 33 drugs going off patent with advanced delivery technology aligned with Catalent's capabilities, 4 of which Catalent is currently involved with on the branded side. Assuming hypothetically that Catalent will capture market share of the remaining 29 products that is similar to the 40% it commands in the softgel market, we estimate that the generics opportunity could be as high as $19.7 million in incremental EBITDA over the next three years.

**Robust pipeline of branded drugs with focus on biologics carry optionality.** IMS estimates the global market for biologics will grow at a 6% CAGR through 2017, vs. 4% for the overall market, and capture 20% share over the same time frame. Growth is driven by increasing demand for complex treatments, access to pharmaceuticals in emerging markets, and new products coming to market. While Catalent's biologics business represents only ~1-2% of total revenues, or ~$25 million and an estimated 5% of US biologics volumes, its relationship with Redwood for the SMARTag technology for the development of antibody drug conjugates (ADCs) adds optionality to the story. If over a long time horizon, Catalent were to increase its market share in biologics to near its overall CMO market share, or ~12%, contribution from biologics could be as much as $50 million (~14% growth over FY14 adj. EBITDA by 2017).

**M&A is a source of upside.** Since 2012 the Catalent team has executed 9 transactions. We expect management will continue to pursue acquisitions to support organic growth, with focus on geographic expansion, new technologies, and adjacent markets.

Exhibit 4

**CTLT Operates in a Highly Fragmented Market**

| CMO | Est. 2013 Revenues | Est. Market Share |
|---|---|---|
| Catalent | $1,340 | 12% |
| Patheon | $530 | 5% |
| Vetter | $405 | 4% |
| Baxter | $400 | 4% |
| Famar | $368 | 3% |
| Aenova | $294 | 3% |
| Fareva | $294 | 3% |
| Haupt | $265 | 2% |
| DPT | $250 | 2% |
| Recipharm | $219 | 2% |
| Nextpharma | $213 | 2% |
| Hospira | $200 | 2% |
| Asian CMOs | $600 | 5% |
| AMRI | $133 | 1% |
| Others | $5,402 | 50% |
| Total | $10,913 | 100% |

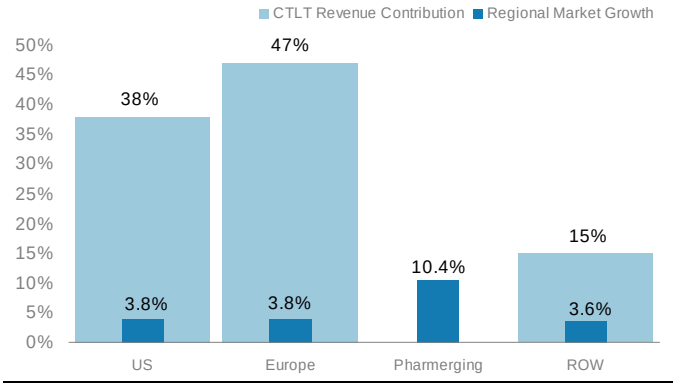
Source: Patheon company presentation

Catalent is likely to align future capital allocation with locations of market growth. Catalent currently derives ~85% of its revenue from the mature US and Europe markets. According to IMS, by 2017 ~60% (~$40 billion) of global growth in pharmaceutical spending will come from "pharmerging" markets including China, Brazil, Russia, India, Mexico and Turkey, while "developed" countries such as the US, Europe and Japan grow in the single digits and contribute ~35%

(~$25 billion) of total market growth. To align with these trends, we think Catalent will look to expand its product offering in "pharmerging markets," similar to its 2013 acquisition of Relthy to enter the Brazilian softgel market, and its JV with JYT to enter the softgel market in China.

Exhibit 5

**We expect CTLT to align future opportunity with locations of outsized market growth**




Source: IMS. Note developed countries refer to US, Japan, Germany, France, Italy, Spain, UK, Canada, and South Korea. Pharmerging countries refer to China, Brazil, India, Mexico, Turkey, Venezuela, Poland, Argentina, Saudi Arabia, Indonesia, Colombia, Thailand, Ukraine, South Africa, Egypt, Romania, Algeria, Vietnam, Pakistan, and Nigeria.

Acquiring new technologies is on the table as well as a way to broaden its portfolio and help increase share of wallet with current customers. Since 2011, Catalent has invested in technology through the acquisition of OptiDose (multi-cored drug delivery to better optimize delivery of drugs that have multiple active ingredients), Lyopan (fast-dissolving technology to complement Zydis), and SMARTag (to aid in development of antibody drug conjugates). Given the potential, we think Catalent could look to further broaden its technological area and offerings in the area of biologics.

Based on hypothetical acquisitions at an estimated ~$100 million in deployed leverage (we forecast CTLT will have ~$400 million in cash on its balance sheet by end of FY15) acquisitions could be ~$0.05-$0.06 accretive to EPS (~3% of 2015E EPS).

Exhibit 6

**Accretion of Hypothetical M&A**

| **Accretion / Dilution** | | |
|---|---|---|
| EBIT Margin | 15% | |
| Tax Rate | 30% | |
| Cost of Debt | 6.0% | |
| | | |
| Acquired EBIT | $15.0 | $15.0 |
| Synergies | $5.0 | $5.0 |
| Incr. Interest Exp. | ($9.6) | ($10.8) |
| Incr. Pre-tax Income | $10.4 | $9.2 |
| After-tax Incr. Net Income | $7.3 | $6.4 |
| Diluted Shares | 126.4 | 126.4 |
| **Incr. EPS Impact** | **$0.06** | **$0.05** |
| FY2015 EPS | $1.81 | $1.81 |
| % Increase | 3.2% | 2.8% |

Source: Company Data, Morgan Stanley Research estimates

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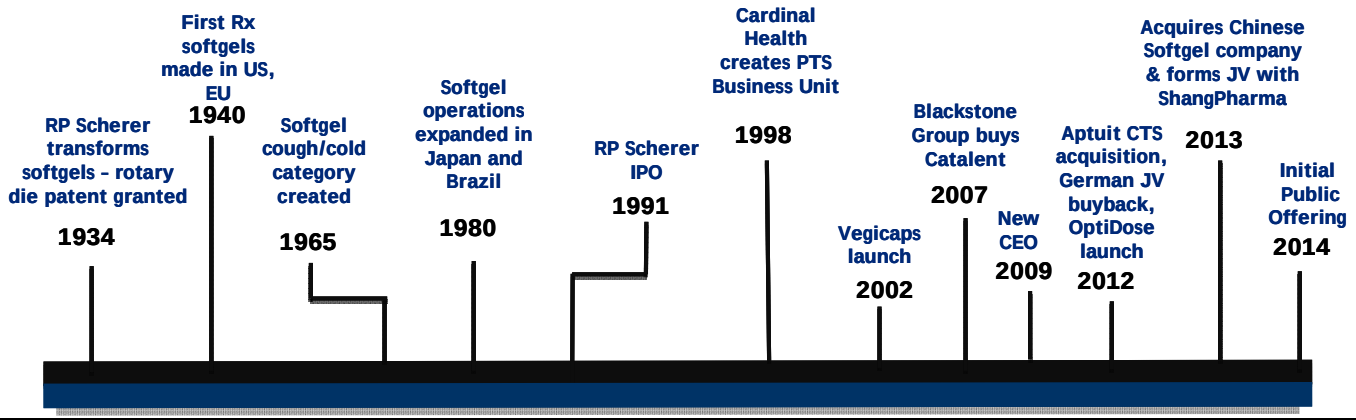
Exhibit 7

**CTLT Historical timeline**




Source: Company Data, Morgan Stanley Research

**We model FY15/FY16/FY17 revenue of $1,902/$2,024/$2124 million, representing y/y topline growth of 4.0%/6.4%/5.0%.** We model FY15/FY16/FY17 adjusted EBITDA of $456/$490/$519 million, representing growth of 5.4%/7.5%/5.8% and EBITDA margin expansion of 70 bps from FY14A to FY17. We model FY15/FY16/FY17 EPS of $1.81/$1.86/$2.01 translating to FY16/FY17 growth of 2.5%/8.3%. We note that EPS growth trails EBITDA growth due to an increase in share count in FY16. (For more detail on model considerations, please see page 21.)

**Our base case valuation and $27 price target, representing ~21% upside from current levels, is based on a DCF analysis.** DCF valuation implies EV/EBITDA multiple of ~11x, in line with WST and at a ~5% discount to Q's 11.4x (for more detail on comps, please see page 15). We view West Pharmaceuticals (WST) and Quintiles (Q) as the most relevant publicly traded comps for Catalent, sharing 3 key attributes: a market leading position in biopharma outsourcing services; a diverse customer base made up of the broad spectrum of large and small biopharma players; and product differentiation. Financially, WST and Q both have slightly higher topline growth (consensus revenue CAGR of ~6% for WST, MS estimated ~10% for Q), but at lower margins (consensus of ~20% for WST, we model ~17% for Q) than CTLT (23.7% in FY14A). For our base case DCF we assume a 1.5% terminal growth rate and 7.5% WACC.

**Our bull case DCF valuation is $35, representing ~56% upside.** Our bull case valuation is equivalent to an EV/EBITDA multiple of ~12x applied to our bull case CY15 adj. EBITDA of $500 million, in line with Q's historical 1-year forward multiple. **Our bear case DCF valuation is $12, representing ~46% downside.** Our bear case is equivalent to a 8.3x multiple on our bear case CY15 EBITDA, a slight discount to the average current multiples of the other CMO comps, including Lonza, Cambrex, Recipharm, and Albany Molecular.

**Risks to our price target include:**

**1) Pressure on margins from customer consolidation and in-sourcing threat.** The biopharma industry has gone through considerable consolidation recently, with $174 billion of deals in 2013. Presently, only 11 of the original 44 PhRMA members from 1988 remain independent companies today. While we think CTLT's customer diversification dampens the impact, biopharma consolidation could drive project cancellations (particularly impacting the DCS segment) and put pressure on margins as customers increase in scale.

**2) Business loss to generic conversion/inability to capture new generic manufacturers and 180 day opportunities.** We address this risk in detail in Debate 1, pages 10-13.

**3) Lower cost competitors.** As the leader in market share and quality, CTLT has been able to command a premium price relative to its competitors. Lower cost competitors, including DPx and Recipharm could put pressure on margins as they continue to grow in the market. As an example, DPx (legacy Patheon & DSM) has been active in acquiring biologics assets while Recipharm, which completed an IPO in early 2014, has publicly stated a desire to grow via M&A.

**4) Product re-pricing/cancellation risk.** As with any pharmaceutical services company, Catalent is subject to risks related to programs led by its clients, which could lead to lower-than expected ordering or cancellations. Mitigating outsized risk is the fact that no single product accounts for more than 3% of Catalent's revenue.

**5) Private equity overhang**. Currently, Blackstone will own > 50% of outstanding shares and Catalent will be a "controlled company." While it did not sell following the IPO, Blackstone could decide to liquidate a portion of its position.

**What's changed since the IPO?**

**(1) Catalent reported full 4FQ14 and FY14 results.** For the quarter, revenue grew 2.9% y/y, a 150 bps improvement over 3FQ as the oral technology segment returned to growth somewhat offset by slower growth in MDS and DCS segments. Total company adj. EBITDA grew 18% y/y, vs. 5.3% in 3FQ with double digit EBITDA gains in all 3 segments, pointing to the operating leverage in the Catalent model as volumes picked up. This resulted in a total adj. EBITDA margin of 29.0%, up 600 bps y/y and 560 bps sequentially. Additionally, Catalent also gave initial FY15 guidance (Exhibit 8), which included mid-single digit revenue and EBITDA growth at the midpoint, in line with the company's long term expectations.

Exhibit 8
**CTLT FY15 Guidance**

| Guidance Period | FY15 | | | | |
|---|---|---|---|---|---|
| Timing | 4FQ14 | | | | |
| | Low | High | Mid | *Mid (y/y)* | MSe |
| Revenue | $1,890 | $1,915 | $1,903 | *4%* | $1,902 |
| adj. EBITDA | $450 | $460 | $455 | *5%* | $456 |
| adj. Net Income | $215 | $225 | $220 | *54%* | $220 |
| CapEx | $115 | $125 | $120 | *-2%* | -$115 |

Source: Company Data, Morgan Stanley Research

**(2) Catalent announced a collaborative agreement with Minomic, a privately held Australian-based biomarker research company.** In the collaboration, Minomic will utilize Catalent's GPEx technology to develop MIL-38, an antibody drug conjugate (ADC) for prostate cancer therapy. The agreement highlights Catalent's biologics expertise and recent investment in its biologics Center of Excellence. Should the collaboration be successful, MIL-38 will be manufactured at Catalent's Madison, WI facility.

**(3) Imbruvica approval for label expansion.** Just prior to Catalent's IPO, Pharmacyclics announced a label expansion for Imbruvica to include chronic lymphocytic leukemia (CLL) patients who have received at least one prior therapy, and for patients with deletion of the short arm of chromosome 17, a positive for CTLT and the DCS segment where Imbruvica capsules are manufactured.

**(4) Finally, on September 8 Catalent announced that the underwriters of the IPO had exercised the option to purchase an additional 6.375 million shares with expected net proceeds of $124.2 million.** Proceeds are expected to be used to pay debt and for general corporate purposes with no change to guidance given on 9/4/2014.

# Debate 1: Patent Expirations: A Risk or Opportunity?

**Market's view:** 44% of Catalent's revenue is generated from Branded Rx products. Expiration of patent protection and generic conversion of products poses risk to long term revenue streams.

**Our view**: Based on our research, new generics are additive to future revenue stream. Catalent is at risk to lose as much as $4.3 million in EBITDA from patent expirations over the next 3 years. However, we estimate the addressable market opportunity associated with share gains of products Catalent was previously not involved with could be as high as $49 million during the same time period. Net-net new generics could contribute as much as ~$15 million to net EBITDA in the next 2 to 3 years if Catalent captures new launches in line with current market share. Our assumptions are based on mining the FDA data base to identify drugs that fit Catalent's manufacturing capabilities.

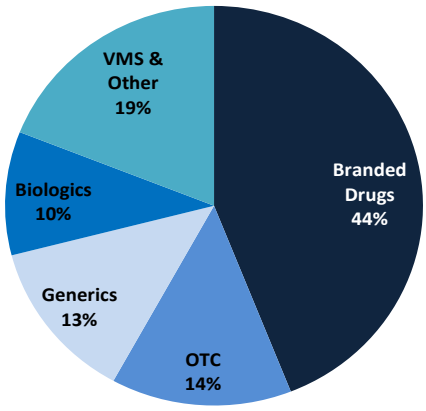
*Where we could be wrong: Catalent is unable to penetrate the generic market as manufacturers limit outsourcing to CMOs in favor of in-house capabilities.*

**As generics have reached 80%+ of US prescription volume, they have become increasingly important for Catalent.** Historically, Catalent has experienced ~1-2% erosion of overall revenue related to generic conversion, life cycle of OTC products, changes in reimbursement, and evolution of market dynamics. To better understand the risks and growth opportunities around new generic launches, we analyzed patent expirations for drugs utilizing advanced delivery technology. We found 33 drugs that are going generic from 2015 to 2017 that could hypothetically be manufactured by Catalent. In aggregate, based on IMS data we estimate these drugs represent ~2.4 billion unit doses annually.

Of the 33 drugs facing patent expiration, we identified 4 drugs through FDA filings that are currently being manufactured by Catalent: GlaxoSmithKline's Avodart, Abbott's Norvir, Genentech's Pulmozyme and Abbvie's Kaletra. In aggregate, these 4 drugs account for 249 million unit doses annually or 8% of our estimated total US generic launch volume through 2017, of which we estimate Catalent manufactures ~56%. We note that pharma manufacturers are not required to disclose the site of manufacturing on their label.

Exhibit 9

**~44% of CTLT's Rev comes from Branded Products**




Source: Company Data, Morgan Stanley Research

While Catalent is well positioned to retain a large portion of generic sales as it has historically done, it will face greater competition as new manufacturers enter the market. To assess the potential competitive landscape, we looked at the FDA's Drug Master Filings (DMFs) for Avodart and Norvir, and found 15 DMFs for Avodart and 13 for Norvir, we excluded Pulmozyme from this analysis due to lack of biosimilar pathway. Using a 2:1 ratio of DMF filings to actual manufacturers producing the product we estimate there could be as many as 6 players in the marketplace, some of which may have Catalent as a CMO partner for delivery.

As a base case, for 2015 generic launches we assume Catalent is able to retain sales of the 4 products we identified in line with its softgel market share (~ 40%) translating to a retention of ~$1.6 million of the ~$4.1 million of EBITDA at risk. We estimate each additional 10% of volume Catalent is able to retain translates to ~$0.4 million in adj. EBITDA. Notably, TEVA will launch Avodart with an abbreviated exclusivity period, causing a short period of disruption to Catalent's Avodart business.

Longer term, from our analysis Catalent will face generic exclusivity for one branded product in 2016. According to FDA filings, Kaletra, a ~$224 million oral HIV drug, will lose patent protection and enter a 180-day exclusivity period in 4Q CY2016. Importantly, we find Catalent has limited exposure to this conversion given a transition by the manufacturer transition to in-house production. As such, we estimate this exclusive generic launch represents a $0.14 million adj.

EBITDA risk. In our base case scenario, we assume Catalent retains 40% of at-risk EBITDA, translating to <$0.1 million.

As our analysis highlights, Catalent is exposed to one of the seven drugs that will launch with exclusivity from 2015 to 2016. We see this as a potential upside opportunity if Catalent is able to partner with a first-to-file generic company (such as TEVA, MYL, or ACT) and capture the exclusive launch opportunity.

Under a bear case scenario, if Catalent is unable to capture the generic business of Avodart, Norvir, and Pulmozyme, this could present an adj. EBITDA headwind of ~$4.1 million or 1% of CY2015 adj. EBITDA. In addition, a hypothetical bear case could be if Catalent was also involved in the manufacturing of the other 40% of volume associated with the 29 products going generic. Losing that share would translate to ~$33 million in adj. EBITDA, or 6% of FY2017 adj. EBITDA, is potentially at risk. Importantly, the largest portion of volume at risk for conversion is in CY2015, where we estimate ~$23.4 million of EBITDA could be at risk due to loss of patent protection and generic conversion.

Looking at the basket of 29 drugs scheduled to lose patent protection over the next 3 years, we size the total addressable opportunity for Catalent as ~$49 million to adj. EBITDA. In our bull case, Catalent maintains a hypothetical 40% market share, capturing incremental volumes from generics that it does not currently manufacture the branded equivalent (ie 40% of the 60% volume among drugs scheduled to lose patent protection not identified with Catalent). This translates to an incremental ~$19.7 million adj EBITDA over the next three years in our bull case.

Key drugs to focus on over the next three years are Pfizer's Zyvox with ~694 million oral and injectible unit sales in the US, Forest's Namenda with ~457 million oral and liquid unit sales, and Daiichi's WelChol with ~320 million tablets and powder suspension unit sales. Additionally, from December 2016 to June 2018, Catalent is authorized to sell the generic version of Teva's ProAir HFA, an inhalant with ~$1.2 billion in annual US sales and ~245 million units. During this period, we estimate Catalent could gain up to $10.5 million in adj. EBITDA, assuming they capture 100% of the market. (See Exhibit 10 for more details.)

**Branded and OTC launch opportunities over the next three years provide additional opportunity for Catalent to gain share and offset any loses associated with generic conversions**. To analyze the branded drug opportunity we looked at the pharmaceutical pipeline from Morgan Stanley's Large Cap Pharma Team (covered by David Risinger) that projects 29 new products from covered companies (BMY, LLY, PFE, MRK) will launch between 2015-2017 worth ~$ 19.3 billion in sales. Of these drugs, 18 require oral delivery technology or fill/finish technology while the remaining 12 require biologics technology (see debate #2 on Biologics for more details). As such, we size the total large pharma sales opportunity for new oral drug launches and non-biologics injectibles to be as much as ~$13.2 billion of which Catalent could capture ~$5.3 billion, in line with their ~40% oral technologies market share. (See Exhibit 11 for more details.)

**Notably, we identified two branded drugs launched in 2014 that Catalent will benefit from as volumes ramp.** In April 2014, Merck launched Grastek and Ragwitek with Catalent designated as a manufacturer on the FDA approved label. As both products gain traction in the market, our pharma team estimates annual sales to grow from $284 million in CY2016 to $562 million in CY2020.

**Outside of the Large Pharma opportunities, we also look for launch details around Roche / Intermune's Esbriet in 2015,** which our Biotech team estimates will reach ~$1.3 billion in annual sales by 2023, and Catalent has retained a long term contract with Roche to manufacture the product from clinical stages through FDA approval.

Exhibit 10

## Products Estimated to Lose Patent Protection 2015-2017

| Manufacturer | Brand Name | Generic Name | Common Use | DMFs | Exclusivity | Sales ($M) | Form | Label Designation |
|---|---|---|---|---|---|---|---|---|
| **Calendar Year 2015** | | | | | | | | |
| Potential Headwinds | | | | | | | | |
| GSK | Avodart | dutasteride | Benign prostatic hyperplasia | 15 | No | $408 | Oral solid | Catalent* |
| ABT | Norvir | ritonavir | HIV infection | 13 | No | $393 | Oral | Catalent* |
| Genentech | Pulmozyme | dornase alfa inhalation solution | Cystic fibrosis | NA | No | $396 | Inhalent | Catalent* |
| Potential Opportunities | | | | | | | | |
| Bayer | Cipro HC | ciprofloxacin/ hydrocortisone otic suspension | Bacterial external and middle ear infections | 24 | Yes | $23 | Drops | Alcon Cusi, SA |
| ABT | Tarka | trandolapril/verapamil | High blood pressure | 10 | No | $21 | Oral solid LA | Abbott (Germany) |
| BMY | Baraclude | entecavir | HBV chronic infection | 5 | No | $197 | Oral Solid & Liquid | Bristol Myers Squibb |
| BMY | Abilify | aripiprazole | Schizophrenia, bipolar disorder, autistic disorder, depression | 25 | No | $5,186 | Oral Solid, Liquid, Injectible | Otsuka American Pharmacy |
| PFE | Zyvox | linezolid | Bacterial infections | 14 | No | $585 | Oral & Injectible | Various Mfts |
| Daiichi | WelChol | colesevelam | High cholesterol | 3 | No | $459 | Tablets & Suspension | Various Mfts |
| ACL | Travatan and Travatan Z | travoprost ophthalmic solution | Glaucoma, ocular hypertension | 8 | No | $359 | Eye Liquid | Alcon Labs |
| BI | Aggrenox | aspirin/dipyridamole extended-release capsule | Prevent blood clots | 29 | No | $366 | Oral ADT | Boehringer Ingelheim |
| ACL | Pataday/Patanol | olopatadine ophthalmic solution | Allergic conjunctivitis | 19 | No | $421 | Eye Liquid | Alcon Labs |
| Boehringer | Combivent | albuterol/ipratropium inhalation | COPD | NA | No | $781 | Inhalent | Various Mfts |
| Roche | Fuzeon | enfuvirtide injection | HIV infection | NA | No | $15 | Inhalent | Roche |
| TEVA | Copaxone | glatiramer acetate | Multiple sclerosis | 2 | No | $2,407 | Injectible | Teva |
| Amgen | Epogen | epoetin alfa injection | Anemia | NA | No | $1,840 | Biologic | Various Mfts |
| JNJ | Procrit | epoetin alfa injection | Anemia | NA | No | $800 | Biologic | Various Mfts |
| MRK | Emend - Oral | aprepitant | chemo-associated nausea | 4 | No | $163 | Capsules | Merck & Alkermes |
| BMY | Sustiva | efavirenz | HIV infection | 10 | No | $142 | Oral Solid & Capsules | Bristol Myers Squibb |
| FRX | Namenda | memantine | Alzheimer's disease | 20 | No | $1,507 | Oral Solid & Liquid | Forest Labs |
| Calendar Year 2016 | | | | | | | | |
| Potential Opportunities | | | | | | | | |
| NVS | Focalin XR | dexmethylphenidate extended-release capsule | ADHD | 2 | No | $542 | Oral Solid - XR | Alkermes |
| TEVA | Nuvigil | armodafinil | excessive sleepiness | 9 | No | $341 | Oral Solid - C-IV | Cephalon |
| Shire | Intuniv | guanfacine extended release tablets | ADHD | 3 | No | $454 | Oral Solid - XR | DSM |
| WCRX | Enablex | darifenacin extended release tablets | Overactive bladder | 9 | No | $132 | Oral Solid - XR | Various Mfts |
| Genentech | Rituxan | rituximab injection | Rheumatoid arthritis, NHL, CLL | NA | No | $3,312 | Injectible - Biologic | Genentech |
| AZN | Seroquel XR | quetiapine extended release tablets | Schizophrenia, depression, bipolar disorder | 34 | Yes | $10 | Oral Solid - XR | AstraZeneca |
| Calendar Year 2017 | | | | | | | | |
| Potential Opportunties | | | | | | | | |
| PFE | Viagra | sildenafil | Erectile dysfunction | 15 | | $962 | Oral Solid & Liquid | Pfizer |
| MRK | Vytorin | ezetimibe/simvastatin | High cholesterol | 8 / 21 | | $704 | Oral Solid | Various Mfts |
| Millenium | Velcade | bortezomib injection | Multiple myeloma, lymphoma | NA | | $626 | Injectible | OSO Biopharma |
| MRK | Cancidas | caspofungin injection | Fungal infections | NA | | $34 | Injectible | Various Mfts |
| Roche | Tamiflu | oseltamivir capsules | Influenza | 15 | | $538 | Oral - Capsules | Various Mfts |
| BMS | Reyataz | atazanavir | HIV infection | 8 | | $763 | Oral - Capsules | Bristol Myers Squibb |

* Catalent manufacturers portion of this product. Label designations based on publicly available information, products with single named manufacturers may not disclose all relationships

Source: Company Data, Morgan Stanley Research, FDA.gov

Exhibit 11

**CY2015-2017 Branded Drug Launch Pipeline**

| Launch Year | Developer | Launch Probability | Drug | Phase | Therapeutic Category | 2020E WW sales ($M) | Dose Form |
|---|---|---|---|---|---|---|---|
| 2015 | BMY | 80% | HCV (daclatasvir, asunaprevir, nonnuke NS5B, PEG-λ) | III (US)/ II (EU) | HCV | $2,131 | Oral |
| 2015 | LLY | 10% | LY2605541 (PEGylated Humalog basal insulin) | III | Diabetes | $112 | Injectible |
| 2015 | MRK | 75% | Bridion (sugammadex) | CRL | Neuromuscular blockade | $415 | Injectible |
| 2015 | MRK | 85% | Suvorexant/MK-4305 | CRL | Insomnia | $128 | Oral |
| 2015 | MRK | 25% | Odanacatib | 3 | Osteoporosis | $259 | Oral |
| **Launch Year** | **Developer** | **Launch Probability** | **Drug** | **Phase** | **Therapeutic Category** | **2020E WW sales ($M)** | **Dose Form** |
| 2016 | LLY | 75% | Baricitinib | III | JAK, rheumatoid arthritis | $1,318 | Oral |
| 2016 | LLY | 40% | Evacetrapib (CETPi) | III | Hyperlipidemia | $951 | Oral |
| 2016 | MRK | 90% | HCV | 2 | Hepatitis C | $1,069 | Oral |
| 2016 | PFE | 80% | Palbociclib/PD-0332991 (CDK 4/6 inhibitor) | II/III | Cancer | $1,363 | Oral |
| **Launch Year** | **Developer** | **Launch Probability** | **Drug** | **Phase** | **Therapeutic Category** | **2020E WW sales ($M)** | **Dose Form** |
| 2017 | | | Others | | | $1,854 | |
| 2017 | MRK | 80% | MK-3102 (1x weekly DPP-4) | 3 | Diabetes | $1,300 | Oral |
| 2017 | MRK | 40% | Anacetrapib | 3 | Atherosclerosis | $1,585 | Oral |
| 2017 | PFE | 25% | PF-02545920 (PDE10A inhibitor) | II | Schizophrenia | $256 | Oral |
| 2017 | PFE | 10% | PF-03049423 | II | Stroke recovery | $131 | NA |

Source: Company Data, Morgan Stanley Research, *See David Risinger's Large Pharma Pipeline series for more details*

# Debate 2: What Is the Biologics Opportunity?

**Market's view:** Biologics represent a longer term growth opportunity for the biopharmaceutical industry, but may not translate to growth in the CMO industry given the strength of in-house capabilities and the limited penetration of CMOs.

**Our view**: Up to a third of the late stage pipeline filed with the FDA is composed of biologics. As more drugs come to market and capacity increases, we think outsourcing should increase demand over time as CMO capabilities and experience also expand. CTLT's investment in Redwood Biosciences provides upside optionality should its SMARTag technology take a leading position for development of antibody drug conjugates. We will watch for Redwood milestones in the next 12 to 18 months.

*Where we could be wrong:* Biologics outsourcing fails to materialize or Catalent fails to capture share.

**Global growth in biologic medications is projected to continue to outpace overall market growth.** IMS estimates the global market for biologics will grow at a 6% CAGR through 2017, vs. 4% for the overall market, expanding to ~$221 billion in revenue and a 20% share of the market. This is driven by increasing demand for complex treatments and advances in technology resulting in biopharma companies continuing to invest R&D into biologics.

To counterbalance the cost of biologics medications, which can reach tens of thousands of dollars per month, governments around the world are gradually becoming more open to biosimilars, which are analogous to generic medications, with the exception that biologic manufacturing can't be replicated as pharmaceuticals can. Thus a biosimilar is slightly different, though equivalent, to a brand, and requires a new level of development work.

Exhibit 12

**Global Biologics Market**

| | 2002 | 2007 | 2012 | 2017 |
|---|---|---|---|---|
| Revenue ($ billions) | $46 | $106 | $169 | $221 |
| Biologics share of Rx Market | 11% | 15% | 18% | 20% |
| Biosimilar share of Rx Market | 0.3% | 0.5% | 1.4% | 4.0% |

Source: IMS

**Expansion of biologics market share is an opportunity for Catalent.** We estimate biologics contribute ~$25 million in revenue and ~$5 million in adj. EBITDA for Catalent, giving it a biologics market share of ~1%-2% of outsourced manufacturing revenue, or ~5% of volume. This compares with Catalent's ~12% share of the overall outsourced manufacturing market. While we believe the growth could be more deliberate, if hypothetically Catalent were to gain a 12% share of the biologics outsourcing market over time, we estimate this could contribute as much as $60 million in adj. EBITDA from current base. Assuming it will take 5 to 10 years to grow share, we estimate annual contribution of 1 to 3% to EBITDA growth.

**Redwood Biosciences relationship provides potential upside optionality.** CTLT gained the SMARTag ADC technology via its relationship with Redwood, which has increased to a 25% minority stake as of 3/2014. With manufacturing partners in early stages of development using SMARTag, over the next 6 to 12 months Catalent could begin to see early results on the success of the technology. If successful, the projects could provide CTLT with additional development deals and revenue streams in the < $1 - $2 million range that could accelerate over time with further positive outcomes.

Exhibit 13

**Potential Upside from Increased Biologics Outsourcing**

| Biologics CMO Share: | 1.0% | 2.5% | 5.0% | 7.5% | 10.0% | 12.5% |
|---|---|---|---|---|---|---|
| EBITDA ($ mil) | $5 | $12 | $24 | $36 | $48 | $60 |

Source: Company Data, Morgan Stanley Research, IMS

**Competition could be heating up.** As biologics is key to industry growth, we expect there will be heightened competition for assets and allies, as exemplified by DPx's acquisition of Gallus BioPharmaceuticals, a biologics focused CMO whose portfolio included Stelara & Remicade (for J&J).

Looking at the 2015-2017 Large Pharma Biologics Pipeline, we identified 11 products that Catalent could potentially manufacture. Using the Morgan Stanley Large Pharma Team's estimated sales, we size the total opportunity over the next three years at as much as $6.1 bilion (~$3.4 billion probability adjusted). If CTLT were to hypothetically capture 12% of the pipeline opportunity, we estimate incremental upside could be as great as ~$700 million in revenue (~$140 million in EBITDA) as these drug ramp sales. At current market share of 1-2% of the new pipeline opportunity, we estimate there could be a ~$30-$60 million benefit to revenue ($6-$12 million of EBTIDA).

Exhibit 14

**CY2015-2017 Large Pharma Biologics Pipeline**

| Launch Year | Developer | Launch Probability | Drug | Phase | Therapeutic Category | 2020E WW sales ($M) | Dose Form |
|---|---|---|---|---|---|---|---|
| | | | Others | | | $432 | |
| 2015 | LLY | 50% | Necitumumab (anti-EGFR Ab) | III | NSCLC | $174 | Injectible |
| 2015 | LLY | 10% | Tabalumab (Anti-BAFF) | III | Lupus | $38 | Injectible |
| 2015 | LLY | 65% | Ixekizumab (anti-IL-17) | III | Psoriasis | $599 | Injectible |
| 2015 | MRK | 50% | MK-3415A | 3 | C. diff colitis | $145 | Injectible |
| 2016 | BMY | 65% | Nivolumab | III | Cancer | $2,040 | Injectible |
| 2016 | PFE | 50% | Inotuzumab (CD22 mAb, NHL) | III | Cancer | $450 | Injectible |
| 2017 | MRK | 60% | MK-3222 (anti-IL-23) | 3 | Psoriasis | $429 | Injectible |
| 2017 | MRK | 50% | V114 | 2 | Pneumococcal vaccine | $651 | Injectible |
| 2017 | PFE | 40% | MnB rLP2086 (vaccine: meningococcal B) | III | MnB | $1,128 | Injectible |

Source: Company Data, Morgan Stanley Research estimates

# Debate 3: What Is the Right Valuation?

**Market's view:** Catalent is currently trading at a ~9.5x EV to our estimated CY15 EBITDA, a ~13% discount to publicly traded peers.

**Our view**: We believe a DCF analysis is most appropriate to value CTLT shares. In our base case DCF, we value CTLT shares at $27, equivalent to a ~11x EV/EBITDA multiple on CY15. This is in line with WST and at a 5% discount to Q, which we think are the most relevant comps.

***Where we could be wrong:*** Slower than expected market growth, share losses, and margin deterioration, if they materialize, will drive multiple contraction as assumed in our Bear case EV/EBITDA equivalent multiple of 8.3x.

**Investors are still in the process of "figuring out what the right multiple to assign to CTLT shares." As such CTLT shares trade at a ~13% discount to a broader comp group of pharma services outsources. We believe a DCF analysis is the most appropriate method to value shares** (Exhibit 19). Our key assumptions relating to cost of capital are a 10% cost of equity and a 5.5% pre-tax cost of debt, which translates to a WACC of ~7.6% and a 1.5% terminal growth value. In our DCF, we do not assume any contribution from acquisitions and expense stock based comp. Our DCF valuation yields a 1-year price target of $27, representing ~21% upside from current levels. Our price target is equivalent to an ~10.7x EV/EBITDA multiple on our base case CY15 EBITDA, in line with WST and a ~5% discount to Q.

Exhibit 15

**Comparables Historical 1-Yr Forward EV/EBITDA Multiple**

| Average | WST | Q | AMRI | Avg |
|---|---|---|---|---|
| 5yr | 9.6x | | 10.3x | 10.0x |
| 3yr | 10.3x | | 7.1x | 8.7x |
| 2yr | 11.5x | | 7.1x | 9.3x |
| 1yr | 13.5x | 12.1x | 7.9x | 11.2x |
| Current | 11.5x | 12.0x | 10.0x | 11.2x |

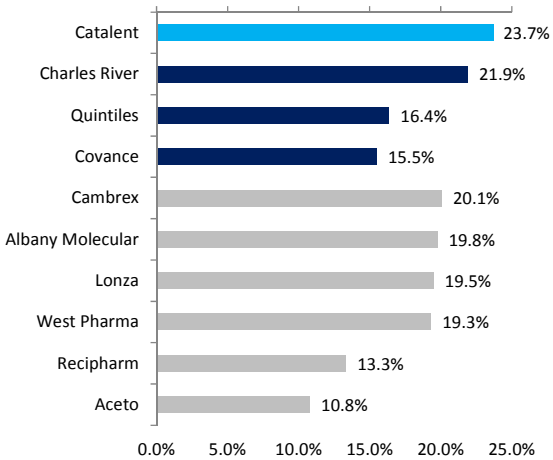
Source: Company Data, Thomson Reuters, Morgan Stanley Research

**Catalent is currently trading at ~9.5x our CY15 adj. EBITDA estimate, a ~13% discount to what we believe are its closest publicly traded comps, West Pharmaceuticals (WST) at 10.5x and Quintiles (Q) at 11.4x.** We view WST and Q as the most relevant comps, sharing 3 key attributes: a market leading position in biopharma outsourcing services; a diverse customer base made up of the broad spectrum of large and small biopharma players; and product differentiation. WST and Q growth rates are higher than CTLT (6-10% revenues growth and 9-13% EBITDA), but at lower margins (consensus of ~20% for WST, we model ~17% for Q) than CTLT, which has leading margins of ~24% in the CMO/CRO space.

**We also consider a secondary set of comps which include publicly traded CMOs** Lonza (LONN), Cambrex (CBM), Recipharm (RECIB) and Albany Molecular (AMRI) in Exhibit 17 trades at an EV/EBITDA of 8.8x CY15 consensus, a ~7% discount to CTLT. While this group competes with Catalent in some market segments, it lacks scale and breadth of products that are core to CTLT's competitive position, represents a smaller revenue base (all but LONN are < 30% the size of CTLT) and product specialization (most in API).

Exhibit 16

**CRO/CMO EBITDA Margin Comparison**




Note: Estimated CY14 EBITDA margin per MS estimates for CTLT, CRL, Q, CVD, AMRI and consensus for others. Source: Thomson, Company Data, Morgan Stanley Research

**Our bull case DCF valuation is $35, representing ~56% upside.** Our bull case valuation implies an EV/EBITDA multiple of 12x applied to our bull case CY15 adj. EBITDA of $500 million, in line with Q's historical 1-year forward multiple,

which we believe is most representative of the bull case as Q has consistently executed and raised expectations since its IPO in 5/2013. Our bull case DCF utilizes the same WACC and terminal growth rate as our base case (7.5% and 1.5%).

**Our bear case DCF valuation is $12, representing ~46% downside.** Our bear case is equivalent to an 8.3x multiple on our bear case CY15 EBITDA, a slight discount to the average current multiples of the other CMO comps, including Lonza, Cambrex, Recipharm, and Albany Molecular. We think this multiple is equivalent for a bear case in which Catalent sees competitive pressure on both margins and in market share and falls closer to the CMO pack. Our bear case DCF assumes a WACC of 8.1% and a 0% terminal growth rate.

Exhibit 17
**CTLT Comp Set**

| Ticker | Name | Industry | Price as of 9/8/14 | Mkt Cap ($ m) | Ent Value ($ m) | CY14 EBITDA | CY15 EBITDA | CY14 EV/EBTIDA | CY15 EV/EBITDA | CY14 EPS | CY15 EPS | CY14 P/E | CY15 P/E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Primary Comps** | | | | | | | | | | | | | |
| WST | West Pharma | Packaging & Delivery | $44.15 | $3,112 | $3,296 | $286 | $313 | 11.5x | 10.5x | $1.84 | $2.10 | 24.0x | 21.0x |
| Q | Quintiles | CROs | $55.97 | $7,088 | $8,395 | $695 | $739 | 12.1x | 11.4x | $2.64 | $2.93 | 21.2x | 19.1x |
| **Other Comps** | | | | | | | | | | | | | |
| LONN* | Lonza | CMO | $111.40 | $6,560 | $9,461 | $748 | $809 | 12.6x | 11.7x | $5.83 | $6.73 | 19.1x | 16.6x |
| CBM | Cambrex | CMO | $22.65 | $686 | $746 | $76 | $90 | 9.8x | 8.3x | $1.08 | $1.35 | 21.0x | 16.8x |
| RECIB** | Recipharm | CMO | $118.00 | $57 | $462 | $53 | $65 | 8.8x | 7.1x | $0.80 | $0.99 | 146.9x | 119.7x |
| AMRI | Albany Molecular | CMO | $20.14 | $632 | $636 | $61 | $75 | 10.4x | 8.5x | $0.91 | $1.15 | 22.1x | 17.5x |
| CTLT | Catalent | CMO | $22.40 | $2,628 | $4,457 | $433 | $469 | 10.3x | 9.5x | N/A | $1.78 | N/A | 12.6x |

*converted from CHF; ** converted from SEK

Source: Company Data, Morgan Stanley Research

Exhibit 18
**CTLT DCF Analysis**

| DCF ANALYSIS (in $ mil) | FY2010A | FY2011A | FY2012A | FY2013A | FY2014E | FY2015E | FY2016E | FY2017E | FY2018E | FY2019E | FY2020E | FY2021E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Sales** | $1,480 | $1,532 | $1,695 | $1,800 | $1,828 | $1,902 | $2,023 | $2,124 | $2,230 | $2,342 | $2,458 | $2,532 |
| *Growth* | *5.8%* | *3.5%* | *10.6%* | *6.2%* | *1.5%* | *4.0%* | *6.4%* | *5.0%* | *5.0%* | *5.0%* | *5.0%* | *3.0%* |
| **EBITDA** | $314 | $358 | $390 | $413 | $432 | $456 | $490 | $519 | $544 | $572 | $600 | $618 |
| *EBITDA Margin* | *21.2%* | *23.4%* | *23.0%* | *22.9%* | *23.7%* | *24.0%* | *24.2%* | *24.4%* | *24.4%* | *24.4%* | *24.4%* | *24.4%* |
| **EBIT** | $190 | $242 | $260 | $260 | $288 | $299 | $338 | $370 | $388 | $408 | $428 | $441 |
| *EBIT Margin* | *12.9%* | *15.8%* | *15.3%* | *14.5%* | *15.7%* | *15.7%* | *16.7%* | *17.4%* | *17.4%* | *17.4%* | *17.4%* | *17.4%* |
| **EBITDA** | | | | | | | $490 | $519 | $544 | $572 | $600 | $618 |
| (-) Taxes on EBIT | | | | | | | (84) | (92) | (97) | (102) | (107) | (110) |
| (-) Capital Expenditures | | | | | | | (120) | (120) | (126) | (132) | (139) | (143) |
| (-) Increase in Working Capital | | | | | | | (18) | (15) | (16) | (17) | (18) | (11) |
| (-) SBC | | | | | | | (4) | (4) | (4) | (4) | (4) | (4) |
| **Unlevered Free Cash Flow** | | | | | | | **$263** | **$287** | **$301** | **$316** | **$332** | **$349** |

Source: Company Data, Morgan Stanley Research

Exhibit 19
**DCF Key Assumptions**

| ASSUMPTIONS | |
|---|---|
| Risk Free Rate | 2.5% |
| Beta | 1.2 |
| Equity Risk Premium | 6.5% |
| CAPM Cost of Equity | 10.3% |
| Cost of Equity | 10.3% |
| Cost of Debt (Pre-tax) | 5.0% |
| Tax Rate | 25.0% |
| Cost of Debt (After-tax) | 3.8% |
| Equity Value | 2,695 |
| Total Debt | 1,952 |
| Enterprise Value | 4,646 |
| WACC (Calculated) | **7.5%** |
| WACC | 7.5% |
| Perpetuity Growth Rate | 1.5% |
| PV of Future Cash Flows (FY16E - FY20E) | 1,202 |
| *Per Share Value (Ent. Value)* | *$9.49* |
| Perpetuity Value | 5,777 |
| PV of Perpetuity Cash Flow | 3,733 |
| *Perpetuity Value Per Share (Ent. Value)* | *$29.47* |
| Enterprise Value | 4,935 |
| (-) Total Debt | (1,952) |
| (+) Cash | 382 |
| **Equity Value** | **3,366** |
| Share Count | 127 |
| **Per Share Intrinsic Value (8/31/15)** | **$26.57** |
| Current Share Price | $22.40 |
| Upside / Downside | 21% |

Source: Company Data, Morgan Stanley Research, Thomson

# Segment Overview

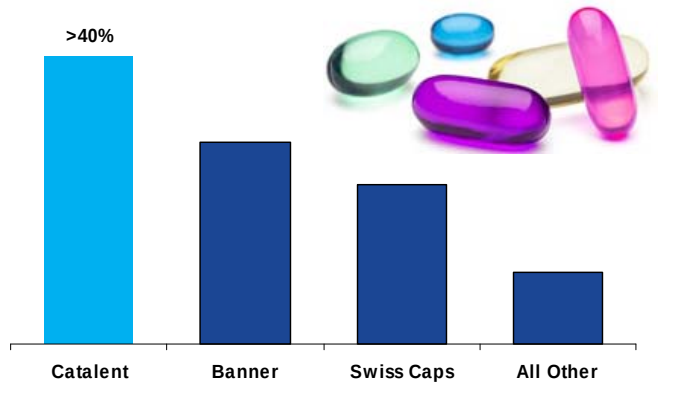
Catalent's three distinct reporting segments are representative of the company's organic and strategic growth phases, divestures, and ownership changes throughout its ~80 year history. As such, growth opportunities and challenges, market dynamics, and competition vary greatly among the Oral Technologies, Medication Delivery Solutions, and Clinical & Development Solutions segments. In the following section, we provide a deep dive on each segment.

### Oral Technologies Segment - (65% of revenues, ~71% of EBITDA)

Oral technologies segment represents Catalent's core product offering with its roots dating back to 1934 when the company was formed. Softgels (referred to as "Liqui-gels") contribute ~70% to segment revenues (or ~46% of total revenues). Modified release technologies account for the remaining 30% of segment revenues (~ 20% of total revenues).

Softgels provide biopharma companies with an alternative to the traditional solid dose forms, addressing compound and manufacturing complexities including poor solubility, permeability, stability, low melting point, and scalability. Catalent accounts for > 40% share of the global softgel market. Banner (owned by DPx), and Swiss Caps are the next largest competitors, and combined account for ~50% of the market (Exhibit 20). Catalent proprietary product lines such as Optishell, Optigel Lock, Optigel Bio, and Vegicaps offer biopharma clients solutions to dosing challenges with complex molecules, abuse deterrent requirements, intravenous alternatives, and dietary restrictions. Notably, 90% of all NCE softgels approved by the FDA over the last 25 years were developed by Catalent.

Exhibit 20
**Consumer Softgels Market Share**




Source: Company Data, Morgan Stanley Research

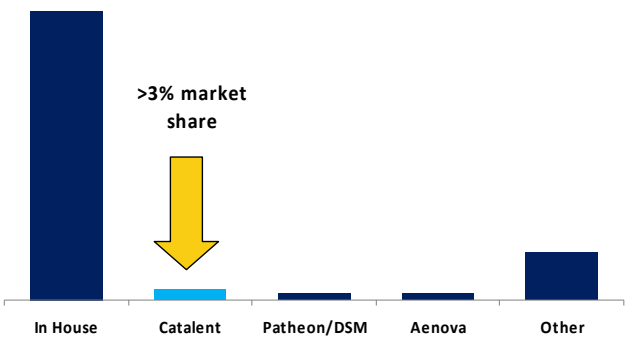
In addition to softgel technologies, Catalent offers customers a range of solid dose products that compliment the softgel portfolio. In the modified release suite of services, customers can select manufacturing capabilities such as rapid or controlled release, and bi-layer & dividable tablets and bead-filled capsules for multiple active ingredients. One example is Zydis, a rapid dissolving technology designed for unique delivery settings such as emergency medicine or psychiatric mediation and the #1 orally disintegrating tablet, marketed by

6 of the 10 top pharma companies. Drugs such as Zyprexa, which treat schizophrenia or bipolar disorder, utilize the Zydis technology to dissolve orally without water in 2-3 seconds, up to 10x faster than other orally disintegrating tablets.

The modified release market is currently underpenetrated by CMOs, with ~75% of the market controlled by in-house manufacturing capabilities of biopharma companies (Exhibit 21) Of the remaining ~25% of the market which is outsourced, Catalent, DPx (DSM subsegment), and Aenova each capture ~3-6% of share. As prospective molecules become increasingly more complex, release technologies could exceed in-house expertise and drive a move toward CMOs. If that scenario materializes, we think Catalent is well positioned for growth in modified release with the ability to differentiate on its technology offerings as well as leverage relationships built through its softgel offering.

Exhibit 21

**CMOs have Limited Penetration in Complex Oral Dose Market**




Source: Company Data, Morgan Stanley Research

Oral technologies segment growth is driven by a combination of underlying Rx utilization trends, growth for existing products, OTC market growth and new brand, generic, and over-the-counter (OTC) product launches from pharmaceutical sponsors worldwide. As a base, we estimate the oral technologies segment to grow at least in line with the broader prescription drug market at a rate of ~1-4% annually.

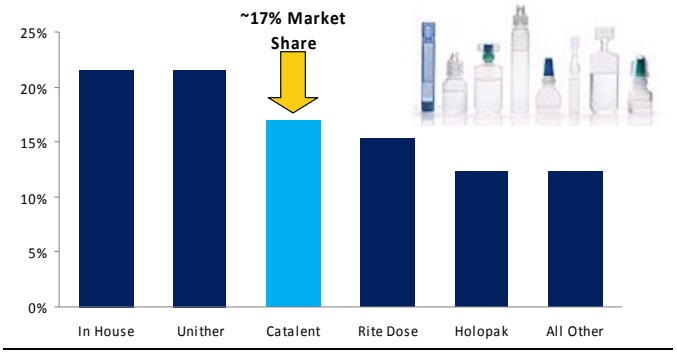
### Medication Delivery Solutions: (13% of revenues, 11% of EBITDA)

Medication Delivery Solutions (MDS) offers pharma customers development and manufacturing services for complex blow-fill-seal formulations (BFS), prefilled syringes fill/finish (PFS), and biologics solutions. Of the MDS segment, BFS and PFS each contribute ~45% of revenue, while biologics contributes ~10%. Growth drivers in the MDS segment include increased market demand for complex drug/biologics, which are outpacing broader market growth, growth at 1%-4% according to IMS, and the growth in ophthalmics of unit level dosing in blow-fill-seal.

Catalent's Blow-Fill-Seal business, established in 1989, provides tailored dose solutions for ophthalmic, respiratory, topical, and biologics market. It currently ranks #2 among CMOs with ~17% share. Key competitors including Unither, RiteDose (private), Holopak (private) and in-house manufacturers. Key differentiation for Catalent in blow-fill-seal lies in its flexibility, allowing for customized solutions that manufacturing partners can leverage from development through commercialization.

Exhibit 22

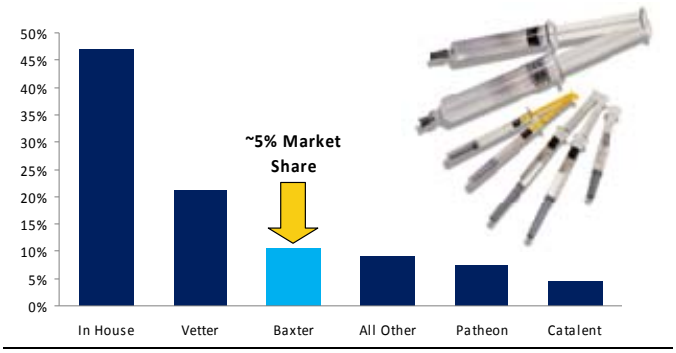
**Blow/Fill/Seal Market dominated by four players**




Source: Company Data, Morgan Stanley Research

Catalent's Pre-filled syringe business offers a variety of sizes (from 0.5 ml to 50 ml) and high capacity manufacturing (up to 18,000 syringes per hour) for customized manufacturing of aseptic injectable products. Catalent has <10% share of the Pre-Filled Syringe market, with major competitors including Vetter (private), Patheon (private), Baxter, and in-house manufacturing.

Exhibit 23
**Pre-Filled Syringe Market Share**




Source: Company Data, Morgan Stanley Research

Biologics represents a longer term growth opportunity for Catalent and the MDS segment and is representative of the "follow-the-molecule" strategy. The biologics business spans both development and delivery of biologics, leveraging the growth in small and medium sized biopharma companies by offering a complete suite of services.

On the development side, Catalent has two key technologies: SMARTag technology for the development of antibody drug conjugates, and its GPEx cell line, which offers clients a faster path to market with proven cell lines used by over 40 customers with 2 products in commercial production and 30 in ongoing clinical trials. The SMARTag technology arose from a licensing and minority investment in Redwood Biosciences, which began in 4/2013 and which has seen Catalent increase its minority ownership to ~25% in early CY14. Additionally, Catalent has since invested $20 million in its Biomanufacturing Center of Excellence in Madison, WI which opened in 2013 and has the capability to manufacture both GPEx and SMARTag.

In delivery, Catalent's biologics business leverages delivery technologies such as Optigel, Zydis, and the Advasept glass free BFS product line to give biopharma companies a full suite of delivery technology options.

Catalent's growth opportunity in biologics is underscored by the announcement in August that it would team with biomarker company Minomic International, utilizing its GPEx technology to manufacture an antibody for a prostate cancer clinical study. For more on the biologics opportunity, see Debate 2 on page 13.

Also captured in Catalent's MDS segment is its 2HFY14 move into animal health, particularly via pre-filled syringes. While currently small, animal health represents a potential growth opportunity. In our model we assume animal health will add ~100 bps to MDS segment revenue growth (~$2 million) in FY15 (see our model assumptions on page 17).

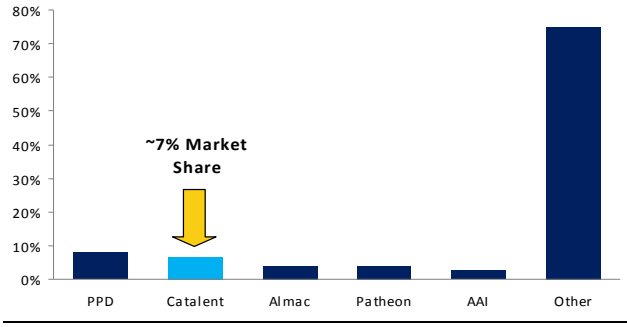
**Development and Clinical Services (DCS)** (23% of revenues, 18% of EBITDA)

The Development and Clinical Services (DCS) segment provides integrated development solutions and global clinical supply services that follow a drug through the earliest stages of discovery to pre-approval clinical trials and manufacturing. Through the 2012 acquisition of Aptuit CTS, Catalent broadened its capabilities and roughly doubled the size of the legacy DCS segment.

DCS is comprised of two businesses: development and analytical services, and clinical supply solutions. The development & analytical services businesses provides manufacturing partners advanced technologies, expertise, and capabilities to take molecules from pre-clinical development, including formulation, screening and development, through Phase I-III with services such as dose form selection, formulation, regulatory support, and manufacturing. Catalent's market share in development & analytical services is < 10% in a fragmented market, with PPD, DPx (legacy Patheon), AAI, and Almac as key competitors.

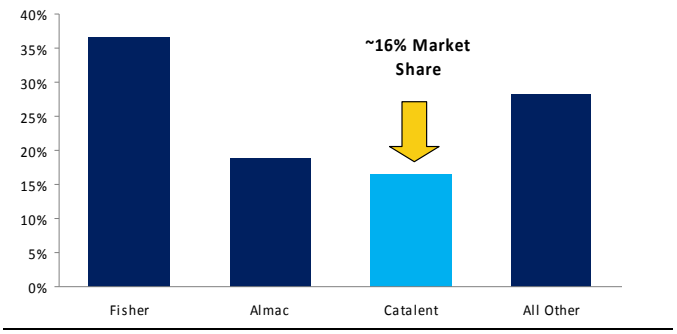
The clinical supply solutions business helps manufacturers by delivering cost effective solutions in comparator sourcing, clinical manufacturing, packaging and labeling, trial distribution, and clinical supply management. Catalent is one of 3 large players in clinical supply solutions with ~15% share along with Fisher and Almac.

Exhibit 24
**Development & Analytical Services Competitive Market Share**




Source: Company Data, Morgan Stanley Research

Exhibit 25
**Clinical Supply Solutions Market Share**




Source: Company Data, Morgan Stanley Research

One of the keys to growth in the segment is geographic breadth of its offering, with 8 supply sites across North America, Europe, & Asia and multiple depots around the world. This scale allows Catalent to meet the needs of its manufacturing partners to complete trials worldwide with the greatest efficiency and cost savings, aligned with biopharma's global expansion and growth mandates. In comparison, the largest player in the clinical supply solutions market, Fisher, has 17 sites and the second largest, Almac, has three sites.

Outside of its core business lines, the DCS segment also includes the manufacturing of Pharmacyclics' Imbruvica (ibrutinib), indicated for treatment of chronic lymphocytic leukemia and mantle cell lymphoma. Imbruvica is a key example of Catalent's "follow the molecule" strategy. Work on formulation development for Ibrutinib delivery was done out of Catalent's Kansas City DCS facility (previously part of Aptuit). In November, 2013, Catalent reached an agreement with Pharmacyclics to manufacture capsules for commercial supply and ongoing clinical trials for Imbruvica. The Morgan Stanley Biotech team estimates Imbruvica can reach $4.2 billion in global sales by 2020 from ~$440 million in 2014. We estimate this could contribute as much as $25 to $50 million in incremental EBITDA for Catalent (assuming a 20% margin) once the product reaches its peak revenue projections. In FY15 we forecast Imbruvica will contribute ~40 to 60 bps ($1 to $2 million) to DCS segment topline growth.

Exhibit 26
**DCS Clinical Supply Network**


Source: Company Data, Morgan Stanley Research

## Financial Projections / Key Model Considerations

**For FY15** we model total company revenue growth of 4.0% and adj. EBITDA growth of 5.4%, compared to 1.5% and 4.8% in FY14, respectively. This is driven by:

- **OT segment:** topline growth of 3.2% vs. -0.5% in FY14 as the loss of an exclusive generic product drives headwinds in 1HFY15, which are turning to an easier comp and ~6% topline growth in 2HFY15. We model EBITDA growth of 5.2%, which is also back-half weighted as comps get easier and CTLT picks up volume on the non-exclusive generics. Our EBITDA margin in the OT segment is expanding 50 bps y/y to 28.0% as CTLT sees some benefit from increased volume and facility efficiency investments.
- **MDS segment:** topline growth of 3.2% vs. 12.2% in FY14 due to a tough comp in the 1H after strong growth in 1H14. We model EBITDA growth of 6.5%, which is also back-half weighted as comps get easier following 1H14 EBITDA growth of ~70%. Our EBITDA margin in the segment is also expanding 50 bps to 20.3% due to increased facility efficiencies and growth in animal health and biologics.
- **DCS segment:** topline growth of 7.3% vs. 1.8% in FY14 due to a shift in timing of customer trial comparator product into FY15 from FY14 and continued growth from the "follow the molecule" strategy. We model 10.1% EBITDA growth following 11% in FY14 as CTLT continues to leverage costs in the segment. Our EBITDA margin in the segment is also expanding 50 bps to 20.8% due to increased facility efficiencies and growth in animal health and biologics.
- **Total company adj. EBITDA margin:** we model expansion of 20 bps to 23.9% due to faster growth in lower margin MDS and DCS segments and increased corporate costs, offsetting ~50 bps of margin expansion in the segments.
- **Interest expense:** we model interest expense decreasing to ~$94 million from $161 million following the refinancing of CTLT's debt in late FY14 and pay down of debt utilizing proceeds from the IPO.
- **EPS:** we model EPS of $1.81, based on an averaged diluted share count of 121.4 million shares following the IPO and the option exercised by the underwriters to purchase additional shares.
- **Leverage:** we model debt to TTM adj. EBITDA of 4.2x vs. 6.3x at the end of FY14 (4.4x pro-forma for anticipated debt pay down) as CTLT pays down debt following the IPO.

**For FY16/FY17** we model revenue growth of 6.4%/5.0%, adj. EBITDA growth of 7.6%/5.8% and EPS growth of 2.5%/8.3%. This is driven by:

- **OT segment:** topline growth of 6.1% in FY16 as volumes recover from an easier comp in FY15 of 3.2% growth and 4.0% in FY17 as growth normalizes in softgel. We model FY16/FY17 EBITDA growth of 6.9%/4.4% with leverage from continued volume growth and manufacturing efficiencies. Our EBITDA margin is expanding ~15 bps in FY16 and FY17 to 28.3% vs. 28.0% in FY15.

Exhibit 27
**Financial Projections by Segment (in $ mil)**

| | | FY12 | FY13 | FY14A | FY15E | FY16E | FY17E |
|---|---|---|---|---|---|---|---|
| Oral Technologies | Revenue | $1,220.2 | $1,186.3 | $1,180.1 | $1,217.6 | $1,291.9 | $1,343.6 |
| | *y/y growth* | *0.0%* | *-2.8%* | *-0.5%* | *3.2%* | *6.1%* | *4.0%* |
| | EBITDA | $334.6 | $315.8 | $324.3 | $341.2 | $364.8 | $380.7 |
| | *y/y growth* | *6.2%* | *-5.6%* | *2.7%* | *5.2%* | *6.9%* | *4.4%* |
| | EBITDA Margin | 27.4% | 26.6% | 27.5% | 28.0% | 28.2% | 28.3% |
| | *y/y chg* | | *-80 bp* | *86 bp* | *54 bp* | *22 bp* | *10 bp* |
| Medication Delivery Solutions | Revenue | $223.9 | $219.3 | $246.1 | $254.9 | $269.1 | $282.5 |
| | *y/y growth* | *0.0%* | *-2.1%* | *12.2%* | *3.6%* | *5.6%* | *5.0%* |
| | EBITDA | $27.6 | $31.5 | $48.7 | $51.8 | $55.7 | $60.0 |
| | *y/y growth* | *6.2%* | *14.1%* | *54.6%* | *6.4%* | *7.6%* | *7.6%* |
| | EBITDA Margin | 12.3% | 14.4% | 19.8% | 20.3% | 20.7% | 21.2% |
| | *y/y chg* | | *204 bp* | *542 bp* | *54 bp* | *38 bp* | *51 bp* |
| Development and Clinical Services | Revenue | $268.4 | $404.8 | $412.2 | $442.3 | $475.6 | $511.4 |
| | *y/y growth* | *0.0%* | *50.8%* | *1.8%* | *7.3%* | *7.5%* | *7.5%* |
| | EBITDA | $53.0 | $75.1 | $83.5 | $91.9 | $101.3 | $109.5 |
| | *y/y growth* | *6.2%* | *41.7%* | *11.2%* | *10.1%* | *10.2%* | *8.1%* |
| | EBITDA Margin | 19.7% | 18.6% | 20.3% | 20.8% | 21.3% | 21.4% |
| | *y/y chg* | | *-119 bp* | *170 bp* | *52 bp* | *52 bp* | *12 bp* |

Source: Company Data, Morgan Stanley Research estimates

- **MDS segment:** topline growth of 5.6% in FY16 as volumes grow due to biologics and animal health vs. a 3.2% comp in FY15 and 5.0% in FY17 as growth normalizes. We model FY16/FY17 EBITDA growth of 7.6%/7.6% with leverage from continued volume growth and utilization of biologics facilities. Our EBITDA margin is expanding ~45 bps in FY16 and FY17 to 21.2% vs. 20.3% in FY15.

- **DCS segment:** topline growth of 7.5% in FY16 as core business continues to grow mid single digits with upside from growth in Imbruvica, and 7.5% in FY17 as core and Imbruvica continue to expand. We model FY16/FY17 EBITDA growth of 10.2%/8.1% with leverage from growth in Imbruvica manufacturing. Our EBITDA margin is expanding ~30 bps in FY16 and FY17 to 21.4% vs. 20.8% in FY15.

- **Total company adj. EBITDA margin:** we model expansion of ~25 bps in both FY16 and FY17 to 24.4% vs. 23.9% in FY15 with some margin pressure on mix due to faster growth in MDS and DCS, offset by corporate expense management.

- **Interest expense:** we model interest expense normalizing at ~$90 million in FY16/FY17 with no additional deleveraging. We note that following the Greenshoe announced on 9/8/14 and an expected $124.2 million in net proceeds that CTLT has room to delever further.

- **EPS:** we model FY16/FY17 EPS of $1.86/$2.01, representing growth of 2.5%/8.3%. Importantly, in FY16 EPS growth of 2.5% trails adj. EBITDA growth of 7.5% as we model share count increasing to 127 million in FY16 vs. 121 million in FY15 due to a full year with an increased share count following the IPO. If share count was unchanged, EPS growth would be in line with EBITDA growth. In FY17, our EPS growth of 8.3% is weighed by an increasing adj. tax rate from 17% to ~19%, which represents an anticipated end of NOLs in FY17.

- **Leverage:** we model debt to TTM adj. EBITDA of 3.8x in FY17 with no pay down of debt, driven by growth in adj. EBITDA.

**When evaluating Catalent results, we believe it is important to note the following:**

**Customer ordering and spending can make quarterly estimates volatile, with normalization annually.** Customer project and order delays can shift revenue from one quarter to the next, creating some volatility in CTLT's financial performance, particularly on the topline. EBITDA typically has lower volatility as CTLT has leverage on the expense line and in the case of delayed or cancelled customer orders, has mechanisms to get paid for delay.

**Earnings seasonality weights earnings toward 2H.** On average 55%-60% of CTLT's adjusted EBITDA occurs in the 2H of its fiscal year (January-June), due to contract structure and some seasonality in client spending.

Exhibit 28

## Catalent Income Statement, FY12A-FY17E

| INCOME STATEMENT (In millions, except per share) | 2012A | 2013A | 2014A | Fiscal Year End, June 30 2015 1QE | 2QE | 3QE | 4QE | 2015E | Fiscal Year End, June 30 2016 1QE | 2QE | 3QE | 4QE | 2016E | 2017E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Net revenue** | 1,694.8 | 1,800.3 | 1,827.7 | 407.7 | 450.9 | 483.8 | 559.2 | 1,901.7 | 438.0 | 481.6 | 512.3 | 591.6 | 2,023.5 | 2,124.4 |
| Cost of Sales (reported) | 1,136.2 | 1,231.7 | 1,229.1 | 294.1 | 315.8 | 322.8 | 343.1 | 1,275.8 | 316.5 | 338.2 | 341.8 | 360.7 | 1,357.1 | 1,422.7 |
| Gross Profit (reported) | 558.6 | 568.6 | 598.6 | 113.6 | 135.1 | 161.0 | 216.1 | 625.9 | 121.5 | 143.4 | 170.6 | 230.9 | 666.4 | 701.7 |
| **Operating Expenses** | | | | | | | | | | | | | | |
| Total Operating Expenses (Reported) | 328.9 | 331.7 | 334.0 | 76.0 | 81.6 | 85.9 | 96.1 | 339.7 | 75.1 | 81.0 | 85.0 | 95.9 | 337.0 | 340.7 |
| Income from operations, reported | 198.0 | 204.4 | 240.9 | 29.8 | 45.7 | 67.3 | 112.2 | 255.0 | 38.5 | 54.6 | 77.7 | 127.3 | 298.1 | 329.8 |
| Interest expense, net | 183.2 | 203.2 | 163.1 | 26.0 | 23.0 | 23.0 | 23.0 | 94.9 | 23.0 | 23.0 | 23.0 | 23.0 | 91.9 | 88.8 |
| Other (income) expense, net | (3.8) | 25.1 | 10.4 | 3.0 | 3.0 | 3.0 | 3.0 | 12.0 | 3.0 | 3.0 | 3.0 | 3.0 | 12.0 | 12.0 |
| Income from continuing operations before income taxes | 18.6 | (23.9) | 67.4 | 0.8 | 19.7 | 41.3 | 86.2 | 148.1 | 12.6 | 28.6 | 51.8 | 101.3 | 194.2 | 229.0 |
| Income tax expense (benefit) | 16.5 | 24.1 | 49.5 | 0.3 | 5.9 | 12.4 | 25.9 | 44.4 | 3.8 | 8.6 | 15.5 | 30.4 | 58.3 | 68.7 |
| Earnings/(loss) from continuing operations | 2.1 | (48.0) | 17.9 | 0.6 | 13.8 | 28.9 | 60.4 | 103.7 | 8.8 | 20.0 | 36.2 | 70.9 | 136.0 | 160.3 |
| Net Income from discontinued operations, net of tax | (41.3) | **1.2** | (2.7) | - | - | - | - | - | - | - | - | - | - | - |
| Noncontrolling interest | 1.2 | (0.1) | (1.0) | (0.2) | (0.2) | (0.2) | (0.2) | (0.8) | (0.2) | (0.2) | (0.2) | (0.2) | (0.8) | (0.8) |
| **Net Income attributable to Catalent** | **(38.0)** | **(46.7)** | **16.2** | **0.8** | **14.0** | **29.1** | **60.6** | **104.5** | **9.0** | **20.2** | **36.4** | **71.1** | **136.8** | **161.1** |
| **Adj. Net Income** | **81.2** | **82.4** | **142.4** | **24.2** | **40.6** | **58.2** | **97.1** | **220.2** | **28.9** | **42.5** | **60.7** | **104.2** | **236.2** | **257.5** |
| EPS (adjusted) | | $1.10 | $1.87 | $0.23 | $0.32 | $0.46 | $0.77 | $1.81 | $0.23 | $0.33 | $0.48 | $0.82 | $1.86 | $2.01 |
| 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 | 106.6 | 126.2 | 126.4 | 126.6 | 121.4 | 126.8 | 127.0 | 127.2 | 127.4 | 127.1 | 127.9 |
| Period end shares outstanding | ND | ND | 77.6 | 126.1 | 126.3 | 126.5 | 126.7 | 126.4 | 126.9 | 127.1 | 127.3 | 127.5 | 127.5 | 128.3 |
| **EBIT and EBITDA** | | | | | | | | | | | | | | |
| EBIT | 203.0 | 179.2 | 229.9 | 30.1 | 46.0 | 67.6 | 112.5 | 256.2 | 40.3 | 56.4 | 79.5 | 129.1 | 305.2 | 337.5 |
| Depreciation and amortization | 129.8 | 152.2 | 144.5 | 39.8 | 39.5 | 39.1 | 38.8 | 157.2 | 38.5 | 38.3 | 38.0 | 37.7 | 152.5 | 148.6 |
| EBITDA | 331.6 | 331.5 | 374.4 | 69.9 | 85.4 | 106.7 | 151.3 | 413.4 | 78.8 | 94.6 | 117.5 | 166.8 | 457.8 | 486.2 |
| **Adj. EBITDA** | **389.7** | **412.6** | 432.3 | **80.5** | **96.0** | **117.3** | **161.9** | 455.8 | **86.9** | **102.7** | **125.6** | **174.9** | 490.2 | 518.6 |
| **Margins** | | | | | | | | | | | | | | |
| Gross profit | 33.0% | 31.6% | 32.8% | 27.9% | 30.0% | 33.3% | 38.7% | 32.9% | 27.7% | 29.8% | 33.3% | 39.0% | 32.9% | 33.0% |
| Adj. EBITDA | 23.0% | 22.9% | 23.7% | 19.7% | 21.3% | 24.2% | 29.0% | 24.0% | 19.8% | 21.3% | 24.5% | 29.6% | 24.2% | 24.4% |
| Adj. Net Income | -2.2% | -2.6% | 7.8% | 5.9% | 9.0% | 12.0% | 17.4% | 11.6% | 6.6% | 8.8% | 11.8% | 17.6% | 11.7% | 12.1% |
| **Expenses** | | | | | | | | | | | | | | |
| Cost of sales | 67.0% | 68.4% | 67.2% | 72.1% | 70.0% | 66.7% | 61.3% | 67.1% | 72.3% | 70.2% | 66.7% | 61.0% | 67.1% | 67.0% |
| SG&A (reported) | 19.4% | 18.4% | 18.3% | 18.6% | 18.1% | 17.8% | 17.2% | 17.9% | 17.2% | 16.8% | 16.6% | 16.2% | 16.7% | 16.0% |
| Adj. Tax Rate | | 7.7% | 16.9% | 23.9% | 17.9% | 18.1% | 16.0% | 17.4% | 17.7% | 16.9% | 18.6% | 15.8% | 16.9% | 19.6% |
| **Y/Y Growth** | | | | | | | | | | | | | | |
| Net Revenue | 10.6% | 6.2% | 1.5% | -1.6% | 2.3% | 6.8% | 7.6% | 4.0% | 7.4% | 6.8% | 5.9% | 5.8% | 6.4% | 5.0% |
| Gross profit | 11.3% | 1.8% | 5.3% | -4.7% | -1.6% | 6.1% | 13.6% | 4.6% | 6.9% | 6.1% | 5.9% | 6.8% | 6.5% | 5.3% |
| Adj. EBITDA | 8.9% | 5.9% | 4.8% | -2.1% | 2.8% | 10.7% | 7.5% | 5.4% | 8.0% | 7.0% | 7.1% | 8.0% | 7.5% | 5.8% |
| EPS (adjusted) | | | | | | | | -2.9% | 0.3% | 3.9% | 3.5% | 6.6% | 2.5% | 8.3% |

Source: Company Data, Morgan Stanley Research estimates

Exhibit 29

## Catalent Balance Sheet, FY12A-FY17E

| BALANCE SHEET (In millions, except per share data) | 2012A | 2013A | 2014A | Fiscal Year End, June 30 2015 1QE | 2QE | 3QE | 4QE | 2015E | Fiscal Year End, June 30 2016 1QE | 2QE | 3QE | 4QE | 2016E | 2017E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | | | | | |
| Cash and cash equivalents | 139.0 | 106.4 | 74.4 | 370.6 | 366.9 | 376.4 | 382.5 | 382.5 | 513.0 | 521.1 | 529.8 | 550.0 | 550.0 | 731.7 |
| Trade receivables, net | 338.3 | 358.0 | 403.7 | 299.4 | 321.2 | 344.7 | 386.1 | 386.1 | 316.8 | 337.8 | 359.3 | 402.0 | 402.0 | 422.1 |
| Inventories | 118.7 | 124.9 | 134.8 | 118.0 | 127.6 | 130.7 | 139.7 | 139.7 | 116.5 | 125.4 | 126.9 | 134.6 | 134.6 | 144.3 |
| Prepaid expenses and other | 108.7 | 88.6 | 74.6 | 74.6 | 74.6 | 74.6 | 74.6 | 74.6 | 74.6 | 74.6 | 74.6 | 74.6 | 74.6 | 74.6 |
| Assets held for sale | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total current assets | 704.7 | 677.9 | 687.5 | 862.5 | 890.3 | 926.4 | 982.9 | 982.9 | 1,020.9 | 1,058.8 | 1,090.6 | 1,161.2 | 1,161.2 | 1,372.7 |
| Property and equipment, net | 809.7 | 814.5 | 873.0 | 861.9 | 851.2 | 840.8 | 830.8 | 830.8 | 822.2 | 814.0 | 806.0 | 798.2 | 798.2 | 769.6 |
| Goodwill | 1,029.9 | 1,023.4 | 1,088.3 | 1,062.5 | 1,062.5 | 1,062.5 | 1,062.5 | 1,062.5 | 1,087.7 | 1,087.7 | 1,087.7 | 1,087.7 | 1,087.7 | 1,087.7 |
| Other intangibles, net | 417.7 | 372.2 | 363.3 | 363.3 | 363.3 | 363.3 | 363.3 | 363.3 | 363.3 | 363.3 | 363.3 | 363.3 | 363.3 | 363.3 |
| Deferred income taxes | 135.2 | 132.2 | 132.2 | 132.2 | 132.2 | 132.2 | 132.2 | 132.2 | 132.2 | 132.2 | 132.2 | 132.2 | 132.2 | 132.2 |
| Other | 41.8 | 36.6 | (54.1) | (54.1) | (54.1) | (54.1) | (54.1) | (54.1) | (54.1) | (54.1) | (54.1) | (54.1) | (54.1) | (54.1) |
| Total assets | 3,139.0 | 3,056.8 | 3,090.2 | 3,228.4 | 3,245.4 | 3,271.1 | 3,317.5 | 3,317.5 | 3,372.2 | 3,401.9 | 3,425.7 | 3,488.5 | 3,488.5 | 3,671.4 |
| **Liabilities** | | | | | | | | | | | | | | |
| Current portion of long-term obligations and other short-term borrowings | 43.2 | 35.0 | 25.2 | 25.2 | 25.2 | 25.2 | 25.2 | 25.2 | 25.2 | 25.2 | 25.2 | 25.2 | 25.2 | 25.2 |
| Accounts payable | 134.2 | 150.8 | 148.1 | 122.5 | 124.6 | 120.3 | 105.3 | 105.3 | 124.9 | 133.4 | 119.9 | 110.7 | 110.7 | 128.9 |
| Other accrued liabilities | 261.9 | 224.5 | 279.7 | 279.7 | 279.7 | 279.7 | 279.7 | 279.7 | 279.7 | 279.7 | 279.7 | 279.7 | 279.7 | 279.7 |
| Liabilities held for sale | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Current liabilities | 439.3 | 410.3 | 453.0 | 427.4 | 429.5 | 425.2 | 410.2 | 410.2 | 429.8 | 438.3 | 424.8 | 415.6 | 415.6 | 433.8 |
| Long-term obligations, less current portion | 2,640.3 | 2,656.6 | 2,685.4 | 1,926.4 | 1,926.4 | 1,926.4 | 1,926.4 | 1,926.4 | 1,926.4 | 1,926.4 | 1,926.4 | 1,926.4 | 1,926.4 | 1,926.4 |
| Pension liability | 140.3 | 134.1 | 134.5 | 134.5 | 134.5 | 134.5 | 134.5 | 134.5 | 134.5 | 134.5 | 134.5 | 134.5 | 134.5 | 134.5 |
| Deferred income taxes | 219.9 | 219.1 | 213.1 | 213.1 | 213.1 | 213.1 | 213.1 | 213.1 | 213.1 | 213.1 | 213.1 | 213.1 | 213.1 | 213.1 |
| Other liabilities | 49.9 | 47.0 | (28.5) | (54.3) | (54.3) | (54.3) | (54.3) | (54.3) | (29.1) | (29.1) | (29.1) | (29.1) | (29.1) | (29.1) |
| Liabilities - Total | 3,489.7 | 3,467.1 | 3,457.5 | 2,647.1 | 2,649.2 | 2,644.9 | 2,629.9 | 2,629.9 | 2,674.7 | 2,683.2 | 2,669.7 | 2,660.5 | 2,660.5 | 2,678.7 |
| Redeemable noncontrolling interest | - | - | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 |
| **Stockholders' equity** | | | | | | | | | | | | | | |
| Common stock | - | - | - | 946.9 | 946.9 | 946.9 | 946.9 | 946.9 | 946.9 | 946.9 | 946.9 | 946.9 | 946.9 | 946.9 |
| Additional paid-in capital | 1,023.9 | 1,027.4 | 1,031.0 | 1,031.0 | 1,031.0 | 1,031.0 | 1,031.0 | 1,031.0 | 1,031.0 | 1,031.0 | 1,031.0 | 1,031.0 | 1,031.0 | 1,031.0 |
| Accumulated deficit | (1,382.1) | (1,428.8) | (1,411.2) | (1,409.5) | (1,394.6) | (1,364.6) | (1,303.1) | (1,303.1) | (1,293.2) | (1,272.1) | (1,234.8) | (1,162.8) | (1,162.8) | (998.1) |
| Accumulated other comprehensive income | 7.5 | (9.3) | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 |
| Total Catalent Stockholders' Equity | (350.7) | (410.7) | (371.4) | 577.2 | 592.1 | 622.1 | 683.6 | 683.6 | 693.5 | 714.6 | 751.9 | 823.9 | 823.9 | 988.6 |
| Noncontrolling interest | - | 0.4 | (0.4) | (0.4) | (0.4) | (0.4) | (0.4) | (0.4) | (0.4) | (0.4) | (0.4) | (0.4) | (0.4) | (0.4) |
| Total Stockholders' Equity | (350.7) | (410.3) | (371.8) | 576.8 | 591.7 | 621.7 | 683.2 | 683.2 | 693.1 | 714.2 | 751.5 | 823.5 | 823.5 | 988.2 |
| Total Liabilities and Shareholders Equity | 3,139.0 | 3,056.8 | 3,090.2 | 3,228.4 | 3,245.4 | 3,271.1 | 3,317.5 | 3,317.5 | 3,372.2 | 3,401.9 | 3,425.7 | 3,488.5 | 3,488.5 | 3,671.4 |

Source: Company Data, Morgan Stanley Research estimates

Exhibit 30

## Catalent Cash Flow Statement, FY12A-FY17E

| CASH FLOW STATEMENT (In millions, except per share data) | 2012A | 2013A | 2014A | Fiscal Year End, June 30 2015 1QE | 2QE | 3QE | 4QE | 2015E | Fiscal Year End, June 30 2016 1QE | 2QE | 3QE | 4QE | 2016E | 2017E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net income | 2.1 | (48.0) | 17.9 | 0.6 | 13.8 | 28.9 | 60.4 | 103.7 | 8.8 | 20.0 | 36.2 | 70.9 | 136.0 | 160.3 |
| Depreciation and amortization | 129.7 | 152.2 | 145.0 | 39.8 | 39.5 | 39.1 | 38.8 | 157.2 | 38.5 | 38.3 | 38.0 | 37.7 | 152.5 | 148.6 |
| Non-cash foreign currency transaction (gains)/losses, net | (3.7) | 6.6 | (5.6) | - | - | - | - | - | - | - | - | - | - | - |
| Amortization and write off of debt financing costs | 14.7 | 19.0 | 8.6 | - | - | - | - | - | - | - | - | - | - | - |
| Asset impairments and (gain)/loss on sale of assets | 9.8 | 5.2 | 0.4 | - | - | - | - | - | - | - | - | - | - | - |
| Equity compensation | 3.7 | 2.8 | 4.5 | 1.1 | 1.1 | 1.1 | 1.1 | 4.4 | 1.1 | 1.1 | 1.1 | 1.1 | 4.4 | 4.4 |
| Provision/(benefit) for deferred income taxes | (2.8) | 5.4 | (8.1) | - | - | - | - | - | - | - | - | - | - | - |
| Provision for bad debts and inventory | 9.5 | 10.4 | 4.5 | - | - | - | - | - | - | - | - | - | - | - |
| Others | (21.3) | 10.8 | 18.4 | - | - | - | - | - | - | - | - | - | - | - |
| **Cash from operations** | **87.9** | **137.7** | 178.3 | **137.1** | **25.0** | **38.3** | **34.8** | 235.2 | **160.5** | **38.1** | **38.7** | **50.2** | 287.5 | 301.7 |
| Acquisition of property and equipment and other productive assets | (104.2) | (122.5) | (122.4) | (28.8) | (28.8) | (28.8) | (28.8) | (115.0) | (30.0) | (30.0) | (30.0) | (30.0) | (120.0) | (120.0) |
| Proceeds from sale of property and equipment | 2.2 | 2.9 | 0.9 | - | - | - | - | - | - | - | - | - | - | - |
| Payment for acquisitions, net | (457.5) | (2.5) | (53.7) | - | - | - | - | - | - | - | - | - | - | - |
| Others | 21.3 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Net cash provided by investing activities from discontinued operations | 43.7 | - | 4.0 | - | - | - | - | - | - | - | - | - | - | - |
| **Cash from investing** | **(494.5)** | **(122.1)** | (171.2) | **(28.8)** | **(28.8)** | **(28.8)** | **(28.8)** | (115.0) | **(30.0)** | **(30.0)** | **(30.0)** | **(30.0)** | (120.0) | (120.0) |
| Net change in short-term borrowings | (2.9) | (3.9) | (17.5) | - | - | - | - | - | - | - | - | - | - | - |
| Proceeds from Borrowing, net | 393.3 | 672.7 | 1,723.7 | - | - | - | - | - | - | - | - | - | - | - |
| Payments related to long-term obligations | (37.0) | (708.5) | (1,741.3) | (759.0) | - | - | - | (759.0) | - | - | - | - | - | - |
| Equity contribution/(redemption) | 1.1 | 1.2 | 0.2 | 946.9 | - | - | - | 946.9 | - | - | - | - | - | - |
| Others | (1.6) | (10.8) | (7.2) | - | - | - | - | - | - | - | - | - | - | - |
| Net cash provided by financing activities from discontinued operations | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Cash from financing** | **352.9** | **(49.3)** | (42.1) | **187.9** | - | - | - | 187.9 | - | - | - | - | - | - |
| Net effect of exchange rate changes on cash | (12.4) | 1.1 | 3.0 | - | - | - | - | - | - | - | - | - | - | - |
| Restatement | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Net Increase (Decrease) in Cash and Cash Equivalents | (66.1) | (32.6) | (32.0) | 296.2 | (3.7) | 9.5 | 6.1 | 308.1 | 130.5 | 8.1 | 8.7 | 20.2 | 167.5 | 181.7 |

Source: Company Data, Morgan Stanley Research estimates

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| | |
|---|---|
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|---|---|---|---|---|---|
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| **Equal-weight/Hold** | **1378** | **44%** | **413** | **48%** | **30%** |
| **Not-Rated/Hold** | **108** | **3%** | **21** | **2%** | **19%** |
| **Underweight/Sell** | **566** | **18%** | **93** | **11%** | **16%** |
| **Total** | **3,130** | | **861** | | |

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**The Americas**
1585 Broadway
New York, NY 10036-8293
**United States**
Tel: +1 (1) 212 761 4000

**Europe**
20 Bank Street, Canary Wharf
London E14 4AD
**United Kingdom**
Tel: +44 (0) 20 7 425 8000

**Japan**
1-9-7 Otemachi, Chiyoda-ku
Tokyo 100-8104
**Japan**
Tel: +81 (0) 3 6836 5000

**Asia/Pacific**
1 Austin Road West
Kowloon
**Hong Kong**
Tel: +852 2848 5200

## Industry Coverage:Healthcare Services & Distribution

| Company (Ticker) | Rating (as of) | Price* (09/08/2014) |
|---|---|---|
| **Ricky R Goldwasser** | | |
| Catalent, Inc. (CTLT.N) | O (09/09/2014) | $22.5 |
| Albany Molecular Research, Inc (AMRI.O) | O (04/09/2014) | $20.14 |
| Allscripts Healthcare Solutions Inc. (MDRX.O) | O (04/26/2013) | $15.13 |
| AmerisourceBergen Corp. (ABC.N) | E (04/13/2012) | $78.33 |
| CVS/Caremark Corp. (CVS.N) | O (11/04/2011) | $81.4 |
| Cardinal Health Inc (CAH.N) | O (01/07/2010) | $75.41 |
| Catamaran Corp (CTRX.O) | E (09/23/2013) | $48.92 |
| Cerner Corporation (CERN.O) | E (08/17/2012) | $59.88 |
| Charles River Laboratories International (CRL.N) | E (03/03/2010) | $60.41 |
| Covance Inc. (CVD.N) | E (09/15/2010) | $84.5 |
| Express Scripts, Inc. (ESRX.O) | O (01/07/2010) | $74.82 |
| Laboratory Corp. of America Holdings (LH.N) | U (03/19/2010) | $108.13 |
| McKesson Corporation (MCK.N) | O (10/25/2013) | $199.63 |
| Quality Systems Inc (QSII.O) | U (04/23/2014) | $15.51 |
| Quest Diagnostics Inc. (DGX.N) | U (07/09/2013) | $64.08 |
| Quintiles Transnational Holdings Inc (Q.N) | O (06/18/2013) | $55.96 |
| Walgreens (WAG.N) | O (09/23/2013) | $62.96 |
| athenahealth Inc (ATHN.O) | O (04/23/2014) | $141.49 |

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.