Catalent, Inc. (CTLT)

Site Visit Message: Steady Advance; Management Confident in Opportunities

BUY
Price target $32.00
(from $28.50)
Price $27.34

Key Takeaway

Catalent boasts a highly diversified business, leadership in its industry, and industry tailwind demands for improved bioavailability. Management takes a long-term approach to fortifying the portfolio and growing the business. It is disciplined in its ROIC measurement both for organic investments and M&A. The stock was a little ahead of itself last week, but our visit affirms upside potential.

Organic Growth Plus M&A. Management continues to be comfortable with 4-6% revenue growth, 6-8% EBITDA growth, and double-digit EPS growth on an organic basis. We sensed some confusion as to whether acquisitions were needed to reach those goals. M&A would be additive.

M&A Includes Both Financial and Strategic. Management clearly intends to be acquisitive. It closed two small deals in 2Q bringing in complementary technologies. For established businesses, management's purchase discipline is based on ROIC > WACC, where its WACC is ~8%. For pre-revenue, technology-driven deals, the opportunity is evaluated on end-market opportunity, ability to cross-sell, and strength of the technology. We think investors want CTLT to close a sizeable deal, but management's price discipline could mean consummation takes a while.

Capacity Utilization Should Drive Margin Expansion. CTLT's manufacturing network is running at ~65% utilization. Management believes 85% is the realistic maximum. Mid-single digit growth should drive improved utilization and margins over several years. Efficiency initiatives typically achieve 5-6% savings, which both offsets cost inflation and contributes to margin expansion.

Earnings Seasonality Shifts a Little. Management reiterated that 2Q15 benefited from earlier completion of certain contracts, pulling revenue and profits forward from 3Q. 4Q15 is still expected to deliver the strongest revenue and growth for the year. FX took a bite out of revenue and profit growth forecasts.

Valuation/Risks

Our $32 PT is based on the average of three different valuation analyses—EV/EBITDA comparables ($28.50), P/E comparables ($35), and discounted cash flow ($32). Risks include success of client R&D projects, loss of large client contracts, and international (currency and geopolitical/regulatory) exposure.

USD	*Prev.*	2013A	*Prev.*	2014A	*Prev.*	2015E	*Prev.*	2016E
Rev. (MM)	--	1,800.3	--	1,827.4	*1,912.0*	1,849.0	*2,047.0*	1,986.3
EV/Rev		2.9x		2.9x		2.9x		2.7x
EBITDA (MM)	--	412.9	--	432.3	*460.4*	448.2	*498.4*	488.7
EV/EBITDA		12.8x		12.3x		11.8x		10.8x
EPS								
Sep	--	--	--	--	--	0.13A	--	--
Dec	--	--	--	--	*0.33*	0.44A	--	--
Mar	--	--	--	--	*0.45*	0.36	--	--
Jun	--	--	--	--	*0.79*	0.73	--	--
FY Jun	--	1.09	--	1.74	*1.77*	1.72	*1.99*	1.96
FY P/E		25.1x		15.7x		15.9x		13.9x

Financial Summary

Book Value (MM):	$492.4
Net Debt (MM):	$1,850.1
Long-Term Debt (MM):	$1,934.2
Cash & ST Invest. (MM):	$84.1

Market Data

52 Week Range:	$30.32 - $19.30
Total Entprs. Value (MM):	$5,297.7
Market Cap. (MM):	$3,447.6
Shares Out. (MM):	126.1
Float (MM):	42.4
Avg. Daily Vol.:	418,366

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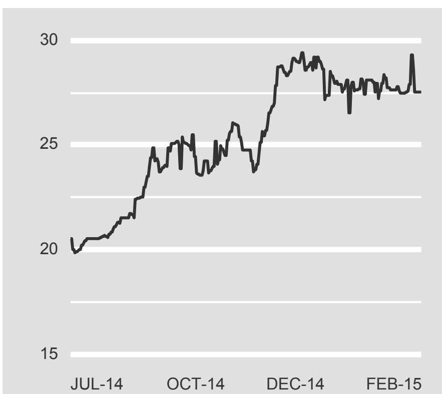
Price Performance



Catalent, Inc. (CTLT): Market Leader, Steady, but Slower Grower

Buy: $32 Price Target

Scenarios

Target Investment Thesis

- Oral Technologies and Medication Delivery Solutions revenue growth both ~5%
- Development & Clinical Services revenue grows 9%
- Adj EBITDA margin improves 40 bps YoY due to cost savings and capacity utilization
- Micron acquisition yields cross-selling that accelerates DevClin by 100 bps.
- 2016 Adj EPS: $1.94; Target Multiple: 16.5x; Target Price $32.00

Upside Scenario

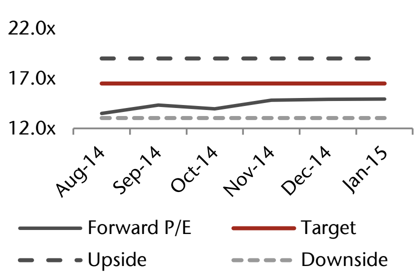
- 'Strategic deals' are signed; organic revenue growth exceeds 7%
- EBITDA margin improves 70+ bps with leverage from higher growth
- Free cash flow is used for accretive, tuck-in acquisitions
- Biologics opportunities begin to contribute material growth
- 2016 Adj EPS: $2.05; Target Multiple: 19x; Target Price $39

Downside Scenario

- New contract wins and/or ramping of existing contracts is slow; consolidated revenue growth slows to sub-6%
- Slower revenue growth limits margin improvements; costs tightly controlled to mitigate impact
- Free cash is used to repurchase shares
- 2016 Adj EPS: $1.80; Target Multiple: 13.1x; Target Price: $23.50

Long Term Analysis

1 Year Forward P/E



Source: FactSet and Jefferies LLC

Long Term Financial Model Drivers

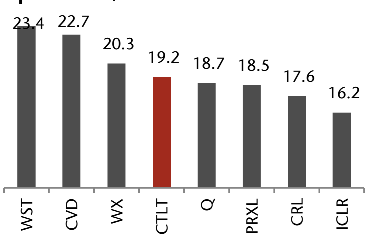
LT EPS CAGR	10-12%
Revenue Growth	5-6%
Operating Margin	16-18%
Effective Tax Rate	30%

Other Considerations

CTLT certainly deserves some valuation premium based on its industry leadership status, significantly diversified client base, and broader investability. We believe this should be balanced against its fuller margin and slightly lower forward EPS growth rate relative to peers. Management is focused on acquisitions and debt repayment to augment EPS growth.

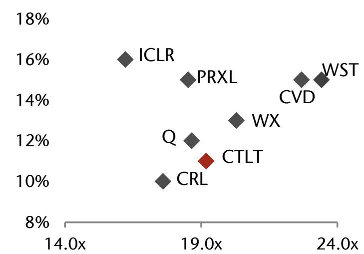
Peer Group

Group 2016 P/Es



Source: FactSet and Jefferies estimates

Earnings Growth vs P/E



Source: FactSet and Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
CRL	BUY	$85.00
CTLT	**BUY**	**$32.00**
CVD	HOLD	$104.00
ICLR	BUY	$68.50
PRXL	HOLD	$57.00
Q	HOLD	$65.00
WST	HOLD	$48.00
WX	BUY	$38.00

Catalysts

- Additional 'strategic' agreements
- Commercialization of Phase III projects
- Growth in pharma R&D budgets
- Growing formulation and solubility challenges pushing more compounds towards advanced technologies
- Increased clinical trial starts, especially global studies requiring complex supply

Company Description

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

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Utilization to Move Margins Higher

Across CTLT's manufacturing network, capacity utilization is running about 65%. Similar to other PP&E-heavy pharma services businesses; maximum utilization is about 85%. Management expects trend line organic growth in the 4-6% range, meaning the current platform can handle many years of growth, and that growth should drive overhead leverage.

Having said that, utilization improvement is not linear. Utilization by product area varies, such that some businesses need expansion in the near-term - controlled release in Winchester, KY for example. Thus, not all growth will drive margin leverage, and capital expansion spending will be a non-zero number. Taken together, management expects improving utilization to be a steady contributor to margin expansion.

Productivity Improvements Offset Inflation, Could Help Margin

This management team, heavy with former GE engineers, also is highly focused on productivity and efficiency initiatives. Mr. Chiminski indicated that the company typically achieves 5-6% savings from these initiatives. Those savings help to offset labor inflation, higher input costs, and the like.

M&A Fills Portfolio Gaps, Adds to Growth

Management clarified that its stated growth targets: 4-6% revenue, 6-8% EBITDA, and double-digit EPS, are based on organic expectations. On a constant dollar basis, stronger trends in DevClin and Medication Delivery are actually boosting growth above the targets. Obviously, the strong USD is more than offsetting the outperformance in the form of FX translation. M&A activities, specifically those targeting established businesses with revenue and cash flow, would be additive to managment's growth targets.

M&A Comes in Two Flavors - Strategic and Financial

In management's terminology, strategic deals (or those justified purely on strategic reasons) are ones that bring in a new technology that can be incubated to produce potentially significant businesses/revenues over the long-term. Redwood is an example. As with Redwood, these "strategic" deals do not have current revenue, so are not measured on a 3-year ROIC basis.

Financial deals are those that have established customer bases, revenue, and profitability (or near-term ramp to profitability). Management emphasized its discipline around pipeline evaluation (typically heavily discounting the target's expectations), ROIC measures and prices paid. Its primary measure for acquisition success is an ROIC hurdle, one that is certainly well in excess of its 8% WACC. It typically sees ROIC ramp to a sustainable level in the first three years after purchase. Management also described a successful track record of achieving synergy targets in completed deals.

Targets Fill Formulation Gaps

We would also note that management's "financial deals" are also strategic in nature. CTLT is not a private equity firm looking for attractive deals in numerous sectors or even broadly-defined pharma manufacturing. Management doesn't seem interested in API or advanced intermediate manufacturing. Even its established targets must fit logically in its "advanced formulation" buckets of interest. Those companies can increase value to CTLT by adding formulation solutions to its portfolio that can be offered to CTLT's voluminous existing client base. CTLT also can add value to the target via its established, disciplined business processes in quality, regulatory compliance, and contracting. Management notes that pipeline compounds with poor solubility are around 20-40% of the pipeline

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today and expected to reach 60-70% by 2020. In short, the easy stuff has been done. CTLT's product gaps in formulation include:

- Spray drying
- Hot melt extrusion (has a presence but would like to be bigger)
- Inhalation – particularly in the US
- Transdermal patch
- Biologics will present opportunities as large molecule products proliferate in a maturing pipeline
- Not interested in: API manufacturing (white powder), depot

Financial Wherewithal

Management is fairly transparent about its interest in a few larger assets that would be "must-haves" if their owners became itchy on the sell trigger. It would be willing to lever up to 5-5.5x EBITDA to acquire a business like that. Under private equity, Catalent has operated effectively with leverage ratios above 6x, and currently sits at ~4x. We estimate that this would allow CTLT to buy up to $100 – 150M in EBITDA at 10-12x EBITDA, while remaining under that 5.5x EBITDA leverage ceiling.

As with our contract research coverage, our primary expectation is that acquisition activity will be of the small, tuck-in variety. That said, management is direct and transparent about its desire to play the role of consolidator in this industry. Mr. Chiminski described several conversations he has with the leaders of companies that are high on his wish list. These companies often are private equity-backed. That said, these deals require willing sellers and a clearing price. That could take a while.

Outsourcing, Sourcing, and Cross-selling

Outsourcing vs. Sourcing

We discussed the differing drivers of the long-cycle business (Oral Technologies + Medication Delivery Solutions) versus the short-cycle, CRO-like business (Development & Clinical Services). Management emphasizes that advanced formulation manufacturing (i.e. softgel) is not outsourcing, when the pharma sponsors don’t have the capabilities in-house. Why make the point? Without internal capacity and expertise in those areas, customers cannot exert price pressure on CTLT for those services. Thus, CTLT’s growth in advanced formulation is dependent not so much on outsourcing trends, but on the flow of the R&D pipeline and the increasing challenges of bioavailability.

Further, CTLT has staked out the high ground on contracting excellence with its eight tenets of contracting. It invests in training its business development staff in these best practices, and even locks those people up under non-compete contracts.

On the other hand, the DevClin segment provides analytical and clinical services to customers’ compounds in preclinical through Phase III studies. These services include early formulation work that might leverage CTLT’s formulation platforms, but not exclusively those. As a result, DevClin depends not only on pipeline growth, but also clients’ propensity to outsource the activities.

We would call this distinction largely semantic. Biopharma companies often have the resources to run Phase III trials, in general, but might not have specific experience in an orphan indication. They may turn to a CRO with recent experience to run that trial due to that lack of capability. We and the investment community would still think of that as

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outsourcing. Yes, the time and expense to bring the expertise in house in these two examples (softgel manufacturing and orphan Phase III trial execution) are different, but the distinction is small. We highlight this issue to facilitate dialog in the same "language."

Cross-selling Micron

Micron's technology – particle size engineering – is applied to development compounds at early discovery stages. The Micron integration team has quickly evaluated customers' projects – both current and in the recent past – to identify ones that could benefit from CTLT's other technologies. Micron has nearly 500 of these projects. Many, if not most, of these projects are at stages that could use DevClin-type services. This cross-selling activity could produce backlog and revenue increases for DevClin as early as mid-2015. The opportunity to apply advanced formulation platforms to these customer compounds is a longer sales cycle that could mature over several years.

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Chart 1: Summary of the Quarter

Catalent, Inc.

F2Q15 (Dec) Earnings Summary

Source: Company filings and Jefferies LLC

Reports 2/11/2015 AMC

FY ending June 30	**Reported**		**Estimate**	**Actual**		**Percentage Change**		**Difference**		
in thousands except EPS	**F2Q14**	**F1Q15**	**F2Q15**	**F2Q15**	**Consensus**	**Seq**	**Y/Y**	**Seq**	**Y/Y**	**Est.**
Net revenue	**$ 440.7**	**$ 418.3**	**$ 454.3**	**$ 455.8**	451	*9.0%*	*3.4%*	**$ 37.5**	**$ 15.1**	**$ 1.5**
Cost of products sold	303.3	293.0	309.8	299.7		*2.3%*	*(1.2%)*	6.7	(3.6)	(10.1)
Gross Profit	137.4	125.3	144.5	156.1		*24.6%*	*13.6%*	30.8	18.7	11.6
SG&A	87.5	81.4	90.1	88.1		*8.2%*	*0.7%*	6.7	0.6	(2.0)
EBIT ex-nonrecurring	49.9	43.9	54.4	68.0		*54.9%*	*36.3%*	24.1	18.1	13.6
Impairments (gains on asset sales)	-	-	-	3.5		*NA*	*NA*	3.5	3.5	3.5
Non-recurring items	5.4	1.4	-	2.1		*50.0%*	*(61.1%)*	0.7	(3.3)	2.1
EBIT	44.5	42.5	54.4	62.4		*46.8%*	*40.2%*	19.9	17.9	8.0
Interest expense (income)	41.5	35.5	23.6	23.9		*(32.7%)*	*(42.4%)*	(11.6)	(17.6)	0.3
Other expense (income)	(1.4)	41.3	-	(3.6)		*(108.7%)*	*157.1%*	(44.9)	(2.2)	(3.6)
Pre-tax income	4.4	(34.3)	30.8	42.1		*(222.7%)*	*856.8%*	76.4	37.7	11.3
Taxes	23.3	(14.0)	9.2	(4.1)		*(70.7%)*	*(117.6%)*	9.9	(27.4)	(13.3)
Net income	(18.9)	(20.3)	21.6	46.2		*(327.6%)*	*(344.4%)*	66.5	65.1	24.6
Comparable NI	15.9	(9.6)	26.3	33.9		*(452.4%)*	*112.9%*	43.5	18.0	7.6
Adjusted NI	27.9	13.4	42.3	55.9		*317.2%*	*100.4%*	42.5	28.0	13.6
GAAP EPS	(0.25)	(0.19)	0.17	0.37	0.18	*(290.6%)*	*(247.3%)*	0.56	0.62	0.20
Comparable EPS	0.21	(0.09)	0.21	0.27		*(395.1%)*	*28.3%*	0.36	0.06	0.06
Adjusted EPS	0.37	0.13	0.33	0.44	0.34	*249.3%*	*20.8%*	0.32	0.08	0.11
Diluted shares	75.9	105.5	127.6	126.0		*19.4%*	*65.9%*	20.5	50.1	(1.6)
EBITDA	83.4	36.6	92.5	101.7		*177.9%*	*21.9%*	65.1	18.3	9.2
Comparable EBITDA	91.9	82.4	92.5	105.3		*27.8%*	*14.6%*	22.9	13.4	12.8
Adjusted EBITDA	93.3	83.4	97.8	112.9	96	*35.4%*	*21.0%*	29.5	19.6	15.1
COMMON SIZE										
Cost of products sold	*68.8%*	*70.0%*	*68.2%*	*65.8%*				*(430 bps)*	*(310 bps)*	*(240 bps)*
Gross margin	*31.2%*	*30.0%*	*31.8%*	*34.2%*				*430 bps*	*310 bps*	*240 bps*
SG&A	*19.9%*	*19.5%*	*19.8%*	*19.3%*				*(10 bps)*	*(50 bps)*	*(50 bps)*
EBIT ex-nonrecurring	*11.3%*	*10.5%*	*12.0%*	*14.9%*				*440 bps*	*360 bps*	*290 bps*
One-time charges	*1.2%*	*0.3%*	*0.0%*	*1.2%*				*90 bps*	*0 bps*	*120 bps*
EBIT	*10.1%*	*10.2%*	*12.0%*	*13.7%*				*350 bps*	*360 bps*	*170 bps*
Interest expense (income)	*9.4%*	*8.5%*	*5.2%*	*5.2%*				*(320 bps)*	*(420 bps)*	*10 bps*
Other expense (income)	*(0.3%)*	*9.9%*	*0.0%*	*(0.8%)*				*(1,070 bps)*	*(50 bps)*	*(80 bps)*
Pre-tax income	*1.0%*	*(8.2%)*	*6.8%*	*9.2%*				*1,740 bps*	*820 bps*	*250 bps*
Income taxes	*529.5%*	*40.8%*	*30.0%*	*(9.7%)*				*(5,060 bps)*	*(53,930 bps)*	*(3,970 bps)*
Net income	*(4.3%)*	*(4.9%)*	*4.7%*	*10.1%*				*1,500 bps*	*1,440 bps*	*540 bps*
Comparable NI	*3.6%*	*(2.3%)*	*5.8%*	*7.4%*				*970 bps*	*380 bps*	*160 bps*
Adjusted NI	*6.3%*	*3.2%*	*9.3%*	*12.3%*				*910 bps*	*590 bps*	*300 bps*
EBITDA	*18.9%*	*8.7%*	*20.4%*	*22.3%*				*1,360 bps*	*340 bps*	*190 bps*
Comparable EBITDA	*20.9%*	*19.7%*	*20.4%*	*23.1%*				*340 bps*	*220 bps*	*270 bps*
Adjusted EBITDA	*21.2%*	*19.9%*	*21.5%*	*24.8%*				*480 bps*	*360 bps*	*320 bps*
SEGMENTS										
Oral Technologies										
Revenue	285.9	261.1	294.5	277.2		*6.2%*	*(3.0%)*	16.1	(8.7)	(17.3)
% of total	*64.9%*	*62.4%*	*64.8%*	*60.8%*				*(160 bps)*	*(410 bps)*	*(400 bps)*
EBITDA	74.7	57.7	77.5	74.7		*29.5%*	*0.0%*	17.0	-	(2.8)
Margin	*26.1%*	*22.1%*	*26.3%*	*26.9%*				*480 bps*	*80 bps*	*60 bps*
Medication Delivery & Solutions										
Revenue	55.3	56.9	56.4	73.7		*29.5%*	*33.3%*	16.8	18.4	17.3
% of total	*12.5%*	*13.6%*	*12.4%*	*16.2%*				*260 bps*	*360 bps*	*380 bps*
EBITDA	6.9	9.9	7.3	18.1		*82.8%*	*162.3%*	8.2	11.2	10.8
Margin	*12.5%*	*17.4%*	*13.0%*	*24.6%*				*720 bps*	*1,210 bps*	*1,160 bps*
Development & Clinical Services										
Revenue	102.1	103.1	106.2	107.8		*4.6%*	*5.6%*	4.7	5.7	1.6
% of total	*23.2%*	*24.6%*	*23.4%*	*23.7%*				*(100 bps)*	*50 bps*	*30 bps*
EBITDA	18.5	21.4	19.8	21.9		*2.3%*	*18.4%*	0.5	3.4	2.1
Margin	*18.1%*	*20.8%*	*18.6%*	*20.3%*				*(40 bps)*	*220 bps*	*170 bps*
FY15 GUIDANCE										
		Previous	*Prior JEF*	*Revised*	*Prior Cons.*					
Revenue		$1,890-1,915M	$1,912M	$1,820-1,860M	$1,899M					
EBITDA		$450-460M	$460M	$434-444M	$456M					
Net Income		$215-225M		$204-214M						

Source: Company data and Jefferies LLC

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Catalent, Inc.
Earnings Model

FY June			2013					2014					2015E			
Source: Jefferies LLC	2012	Sep-12	Dec-12	Mar-13	Jun-13	2013	Sep-13	Dec-13	Mar-14	Jun-14	2014	Sep-14	Dec-14	Mar-15E	Jun-15E	2015E	2016E
Net revenue	$ 1,695.0	$ 412.0	$ 436.2	$ 447.0	$ 505.1	$ 1,800.3	$ 414.3	$ 440.7	$ 453.1	$ 519.6	$ 1,827.7	$ 418.3	$ 455.8	$ 453.0	$ 522.0	$ 1,849.0	$ 1,986.3
Cost of products sold	1,136.2	294.5	296.1	309.6	331.5	1,231.7	295.1	303.3	301.4	329.3	1,239.7	293.0	299.7	297.8	338.7	1,229.2	1,313.2
Gross profit	*558.8*	*117.5*	*140.1*	*137.4*	*173.6*	*568.6*	*119.2*	*137.4*	*151.7*	*190.3*	*588.0*	*125.3*	*156.1*	*155.2*	*183.2*	*619.8*	*673.1*
SG&A	348.1	81.8	86.2	83.7	88.9	340.6	81.1	87.5	87.6	78.6	334.8	81.4	88.1	96.8	76.5	342.8	358.1
EBIT ex-nonrecurring	*210.7*	*35.7*	*53.9*	*53.7*	*84.7*	*228.0*	*38.1*	*49.9*	*64.1*	*111.7*	*253.2*	*43.9*	*68.0*	*58.4*	*106.7*	*277.0*	*315.1*
Impairments (gains on asset sa	(7.0)	(0.2)	2.6	2.2	0.6	5.2	-	-	0.4	2.8	3.2	-	3.5	-	-	3.5	-
Non-recurring items	19.5	3.5	5.6	3.6	5.7	18.4	3.0	5.4	3.5	7.8	19.7	1.4	2.1	-	-	3.5	-
EBIT	198.2	32.4	45.7	47.9	78.4	204.4	35.1	44.5	60.2	101.1	230.3	42.5	62.4	58.4	106.7	270.0	315.1
Interest expense (income)	183.2	53.9	53.2	53.6	42.5	203.2	40.9	41.5	40.4	40.3	163.1	35.5	23.9	23.5	23.5	106.4	91.9
Other expense (income)	(3.8)	-	12.0	8.3	4.8	25.1	(1.0)	(1.4)	5.2	7.6	10.4	41.3	(3.6)	-	-	37.7	-
Pretax income	18.8	(21.5)	(19.5)	(14.0)	31.1	(23.9)	(4.8)	4.4	14.6	53.2	56.8	(34.3)	42.1	34.8	83.2	125.8	223.1
Minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes	16.5	(2.0)	8.0	(0.1)	18.2	24.1	(6.6)	23.3	6.6	26.2	49.5	(14.0)	(4.1)	10.4	25.0	17.3	66.9
Net income	2.3	(19.5)	(27.5)	(13.9)	12.9	(48.0)	1.8	(18.9)	8.0	27.0	7.3	(20.3)	46.2	24.4	58.3	108.5	156.2
Comparable NI	31.3	(20.2)	(0.2)	(8.9)	42.1	12.8	(13.5)	15.9	20.7	63.7	86.8	(9.6)	33.9	28.3	77.8	130.4	188.1
Adjusted NI	81.4	(5.9)	20.9	13.0	54.4	82.4	(1.4)	27.9	38.9	77.0	131.8	13.4	55.9	46.6	96.1	212.0	260.9
GAAP EPS	**0.03**	**(0.26)**	**(0.36)**	**(0.18)**	**0.17**	**(0.63)**	**0.02**	**(0.25)**	**0.11**	**0.36**	**0.10**	**(0.19)**	**0.37**	**0.19**	**0.44**	**0.88**	**1.17**
Comparable EPS	**0.41**	**(0.27)**	**(0.00)**	**(0.12)**	**0.55**	**0.17**	**(0.18)**	**0.21**	**0.27**	**0.84**	**1.14**	**(0.09)**	**0.27**	**0.22**	**0.59**	**1.06**	**1.41**
Adjusted EPS	**1.07**	**(0.08)**	**0.28**	**0.17**	**0.72**	**1.09**	**(0.02)**	**0.37**	**0.51**	**1.01**	**1.74**	**0.13**	**0.44**	**0.36**	**0.73**	**1.72**	**1.96**
Diluted shares	75.9	75.9	75.9	75.9	75.9	75.9	75.9	75.9	75.9	75.9	75.9	105.5	126.0	129.0	132.0	123.1	133.0
EBITDA	**330.5**	**69.7**	**72.1**	**78.8**	**111.2**	**331.8**	**72.8**	**83.4**	**90.5**	**127.7**	**374.4**	**36.6**	**101.7**	**97.4**	**145.6**	**381.3**	**471.4**
Comparable EBITDA	**356.4**	**76.3**	**94.5**	**88.4**	**129.7**	**388.9**	**79.1**	**91.9**	**97.7**	**152.8**	**421.5**	**82.4**	**105.3**	**94.2**	**142.4**	**424.3**	**458.6**
Adjusted EBITDA	**388.6**	**82.3**	**101.7**	**100.7**	**128.2**	**412.9**	**82.3**	**93.3**	**106.0**	**150.7**	**432.3**	**83.4**	**112.9**	**101.8**	**150.1**	**448.2**	**488.7**
Common Size:																	
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of products sold	67.0%	71.5%	67.9%	69.3%	65.6%	68.4%	71.2%	68.8%	66.5%	66.5%	67.8%	70.0%	65.8%	65.7%	64.9%	66.5%	66.1%
Gross margin	*33.0%*	*28.5%*	*32.1%*	*30.7%*	*34.4%*	*31.6%*	*28.8%*	*31.2%*	*33.5%*	*36.6%*	*32.2%*	*30.0%*	*34.2%*	*34.3%*	*35.1%*	*33.5%*	*33.9%*
SG&A	20.5%	19.9%	19.8%	18.7%	17.6%	18.9%	19.6%	19.9%	19.3%	19.3%	18.3%	19.5%	19.3%	21.4%	14.7%	18.5%	18.0%
EBIT ex-nonrecurring	*12.4%*	*8.7%*	*12.4%*	*12.0%*	*16.8%*	*12.7%*	*9.2%*	*11.3%*	*14.1%*	*21.5%*	*13.9%*	*10.5%*	*14.9%*	*12.9%*	*20.4%*	*15.0%*	*15.9%*
Impairments (gains on asset sa	(0.4%)	(0.0%)	0.6%	0.5%	0.1%	0.3%	0.0%	0.0%	0.1%	0.5%	0.2%	0.0%	0.8%	0.0%	0.0%	0.2%	0.0%
Non-recurring items	1.2%	0.8%	1.3%	0.8%	1.1%	1.0%	0.7%	1.2%	0.8%	1.5%	1.1%	0.3%	0.5%	0.0%	0.0%	0.2%	0.0%
EBIT	11.7%	7.9%	10.5%	10.7%	15.5%	11.4%	8.5%	10.1%	13.3%	19.5%	12.6%	10.2%	13.7%	12.9%	20.4%	14.6%	15.9%
Interest expense (income)	10.8%	13.1%	12.2%	12.0%	8.4%	11.3%	9.9%	9.4%	8.9%	7.8%	8.9%	8.5%	5.2%	5.2%	4.5%	5.8%	4.6%
Other expense (income)	1.2%	0.8%	1.3%	0.8%	1.1%	1.0%	0.7%	1.2%	0.8%	1.5%	1.1%	0.3%	0.5%	0.0%	0.0%	0.2%	0.0%
Pretax income	1.1%	(5.2%)	(4.5%)	(3.1%)	6.2%	(1.3%)	(1.2%)	1.0%	3.2%	10.2%	3.1%	(8.2%)	9.2%	7.7%	15.9%	6.8%	11.2%
Taxes	87.8%	9.3%	(41.0%)	0.7%	58.5%	(100.8%)	137.5%	529.5%	45.2%	49.2%	87.1%	40.8%	(9.7%)	30.0%	30.0%	13.8%	30.0%
Net income	0.1%	(4.7%)	(6.3%)	(3.1%)	2.6%	(2.7%)	0.4%	(4.3%)	1.8%	5.2%	0.4%	(4.9%)	10.1%	5.4%	11.2%	5.9%	7.9%
Adjusted net income	4.8%	(1.4%)	4.8%	2.9%	10.8%	4.6%	(0.3%)	6.3%	8.6%	14.8%	7.2%	3.2%	12.3%	10.3%	18.4%	11.5%	13.1%

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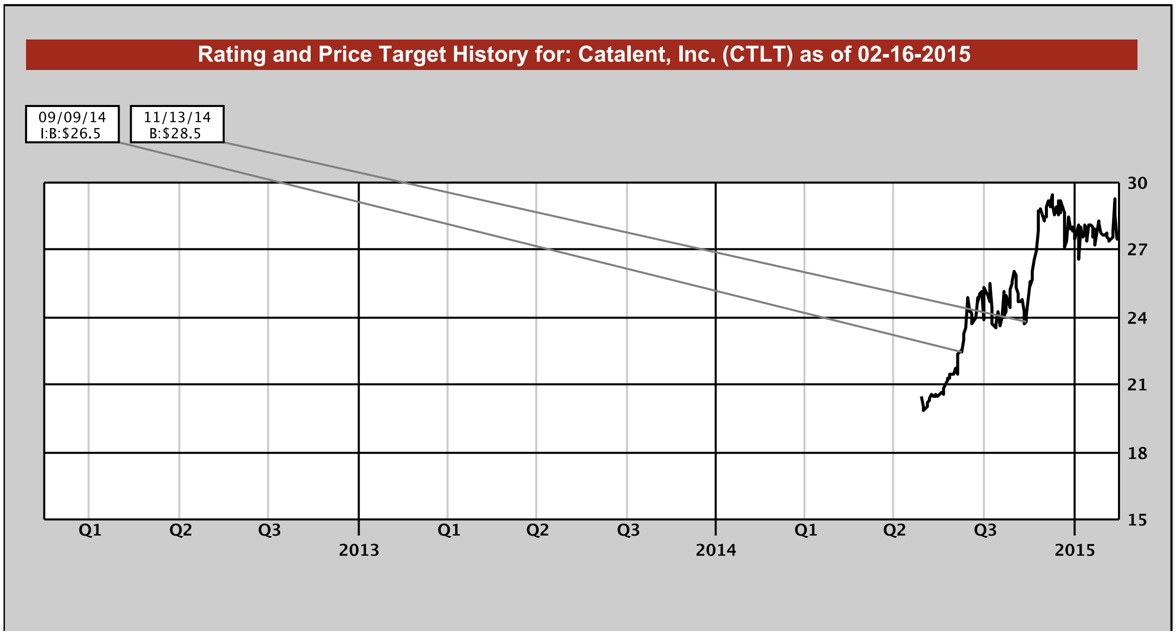
- Covance Inc. (CVD: $107.13, HOLD)
- ICON plc (ICLR: $60.12, BUY)
- PAREXEL International Corporation (PRXL: $63.35, HOLD)
- Quintiles Inc. (Q: $64.01, HOLD)
- West Pharmaceutical Services, Inc. (WST: $51.53, HOLD)
- WuXi PharmaTech Inc. (WX: $41.40, HOLD)



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Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY	1061	51.28%	288	27.14%
HOLD	835	40.36%	157	18.80%
UNDERPERFORM	173	8.36%	10	5.78%

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