



Rating  
**Hold**

North America  
United States

Health Care  
Health Care IT &  
Distribution

Company  
**Catalent Alert**

Reuters  
CTLT.N

Bloomberg  
CTLT US

Exchange  
NYS

Ticker  
CTLT

Date  
2 October 2014

**Breaking News**

Price at 1 Oct 2014 (USD)	23.85
Price Target	25.00
52-week range	25.17 - 19.85

## Going Where the Market Leads Them: CTLT Buys Balance of Redwood

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### Redwood Bioscience Acquisition

Catalent today announced that it has acquired the remaining stake in Redwood Bioscience Inc. for an undisclosed amount. The acquisition gives Catalent full control of the SMARTag Antibody-Drug Conjugate (ADC) technology platform, part of the strategy to grow the biologics business at Catalent. The acquisition of Redwood follows the exclusive license Catalent acquired for the SMARTag technology in April 2013 and the minority equity stake Catalent took in Redwood at that time. We view the acquisition positively, as Catalent is increasing its exposure to the potentially fast growing biologics manufacturing market.

### Positive Toxicology Data the Last Hurdle

The full acquisition of Redwood follows positive toxicology data for the SMARTag platform and indicates that Catalent is gaining full control of a targeted biologic solution for customers. The SMARTag ADC technology allows for more targeted drug placement, particularly in oncology treatment. Catalent generated about 10% of its F2013 revenue from biologics manufacturing, and we believe the success of this platform could accelerate growth in this segment.

### Biologics

Catalent continues to expand its offerings in the biologics space and diversify away from its core softgels business. We view this positively as the softgels business is generally mature, with growth largely coming from line extensions and greater penetration at existing customers. The biologics market continues to grow and we expect a majority of new drug introductions in the future will be biologics. The acquisition also complements Catalent's investment in its biologics facility.

### Maintain Hold on CTLT

We maintain our Hold rating on CTLT shares and our \$25 price target. Our price target is based on a blend of a P/E of 17.4x applied to our adjusted C2015 EPS estimate of \$1.50 and a 9.4x EV/EBITDA multiple applied to our C2015 EBITDA estimate of \$474mm. Negative risks to our thesis include any quality or reputational issues in Catalent's operations, Catalent's ability to maintain or grow market share, and the high level of investor concentration. Positive risks to our forecast include Catalent gaining market share faster than we forecast, competitor operational missteps, accretive acquisitions to consolidate a fragmented market, and technology innovations that drive better than expected financial results.

### Stock & option liquidity data

Market cap (USD)	2,898.4
Shares outstanding (m)	121.5
Free float (%)	100
Volume (1 Oct 2014)	253,151
Option volume (und. shrs., 1M avg.)	–

Source: Deutsche Bank

### Key data

FYE 6/30	2014A	2015E	2016E
1Q EPS	-0.02	0.24	–
2Q EPS	0.34	0.33	–
3Q EPS	0.48	0.46	–
4Q EPS	0.94	0.77	–
FY EPS (USD)	1.74	1.84	2.06
P/E (x)	–	13.0	11.6

Source: Deutsche Bank

\* Includes the impact of FAS123R requiring the expensing of stock options.

Deutsche Bank Securities Inc.

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