William Blair

Catalent, Inc.

September 09, 2014

Making It Right (70 Billion Times a Year); Initiating Coverage With an Outperform Rating

- Catalent is the leading provider of advanced delivery technologies to the pharmaceutical industry, producing 7,000 products and roughly 70 billion doses annually.
- We view the stock as a particularly defensive way to invest in pharmaceutical outsourcing given the high switching costs within commercial dose manufacturing.
- Launching coverage with an Outperform rating.
- Establishing adjusted EPS estimates of $1.82 for fiscal 2015 and $1.96 for fiscal 2016.
- Expect the company to generate low-double-digit earnings growth longer term, driven by 5% organic revenue growth, 2% from margin leverage, and 2% from balance sheet deleveraging. Look for capital to be redeployed primarily via M&A although only buybacks are assumed in our model, adding about 2% to annual EPS growth.

Conclusions
We are initiating coverage of Catalent with an Outperform rating and an Established Growth company profile following its recent initial public offering. Catalent, Inc. is the world's leading provider of finished dose manufacturing services to the pharmaceutical and consumer healthcare markets. The company specializes in advanced delivery technologies across oral, inhalation, and injectable routes of administration. It was founded on technology for manufacturing softgel capsules developed by R.P. Scherer in the 1930s. R.P. Scherer was a publicly traded company from 1991 to 1998, and was then acquired by Cardinal Health (CAH $75.41; Outperform) to form the pharmaceutical technologies and services (PTS) business unit. Cardinal added a number of other assets that expanded its capabilities into packaging, injectable formulations, and biologics. In 2007, Cardinal sold PTS to Blackstone (BX $32.75), creating the cornerstone of what today is Catalent, Inc.

We believe Catalent should be a strong defensive stock for investors looking to participate in pharmaceutical outsourcing from a manufacturing perspective. The stability in the business model comes from the fact that sponsors do not like to change a product's manufacturing process once it has navigated the regulatory inspection and approval process. Therefore, once Catalent secures a contract to produce the finished dose of a compound, it will likely retain that mandate through the life of the product. The growth in the business model comes from ongoing expansion in prescription consumption as people age, and a shift to greater outsourcing of manufacturing thanks to the increased regulatory burden and complexity of the pipeline. Catalent will produce 175 products that were approved and launched last year, up from 97 in 2013 and 59 in 2012, and the company has another 480 products in the pipeline that are still undergoing testing by clients. We also expect Catalent to be able to supplement organic growth with M&A, given the highly fragmented nature of contract manufacturing and development.

Stock Rating:	**Outperform**
Company Profile:	**Established Growth**
Symbol:	CTLT (NYSE)
Price:	$22.50 (52-Wk.: $19-$23)
Market Value (mil.):	$2,640
Fiscal Year End:	June
Long-Term EPS Growth Rate:	11%
Dividend/Yield:	None

	2014A	2015E	2016E
Estimates			
EPS FY	$1.89	$1.82	$1.96
CY			
Valuation			
FY P/E	NM	12.4x	11.5x
CY P/E		NA	NA

Trading Data (FactSet)	
Shares Outstanding (mil.)	NA
Float (mil.)	124
Average Daily Volume	1,165,589

Financial Data (FactSet)	
Long-Term Debt/Total Capital (MRQ)	1.1
Book Value Per Share (MRQ)	2.8
Return on Equity (TTM)	NA

Catalent is the world's leading provider of advanced delivery technologies to the pharmaceutical industry. The company was purchased by The Blackstone Group in 2007 from Cardinal Health and is based originally on R.P. Scherer's softgel manufacturing technology patented in 1934. The company operates in 27 facilities in five continents, and manufactures more than 70 billion doses of medication annually.

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With no other competitor offering a comparable degree of global scale, quality, and expertise, we believe Catalent is well positioned to gain share over time. The company has more than 1,000 customers, including at least 80% of the top branded pharmaceutical, generic, biotech, and consumer health companies, and has relationships with a number of customers lasting as long as 25 years. The company produces 70 billion doses annually through production facilities on five continents. Revenues now approach $1.9 billion, with $1.2 billion (65%) derived from the core oral technologies segment (softgel and modified release formulations), 13% from medication delivery solutions (sterile injectable solutions/blow-fill-seal technology, and biologics), and the remaining 23% from development solutions (clinical trial supply, development, and analytical services). The oral technologies segment is the most profitable at 27% EBITDA margin, while medication delivery and development solutions both generate roughly 20%.

Over the next several years, we assume Catalent will be able to grow earnings (ignoring tax rate changes) at a rate of about 10%-12%, driven by 5% organic revenue growth, 2% from margin leverage, and 3%-4% from balance sheet de-leveraging and share repurchases. M&A should add further to this total, but we have not included any future deals in our model. See exhibit 1 for a summary of our earnings buildup assumptions. We view revenue as having the most upside potential relative to our assumptions—particularly with the help of M&A. Conversely, we view margin leverage as the portion of the model with the most risk given mix shift and competitive dynamics.

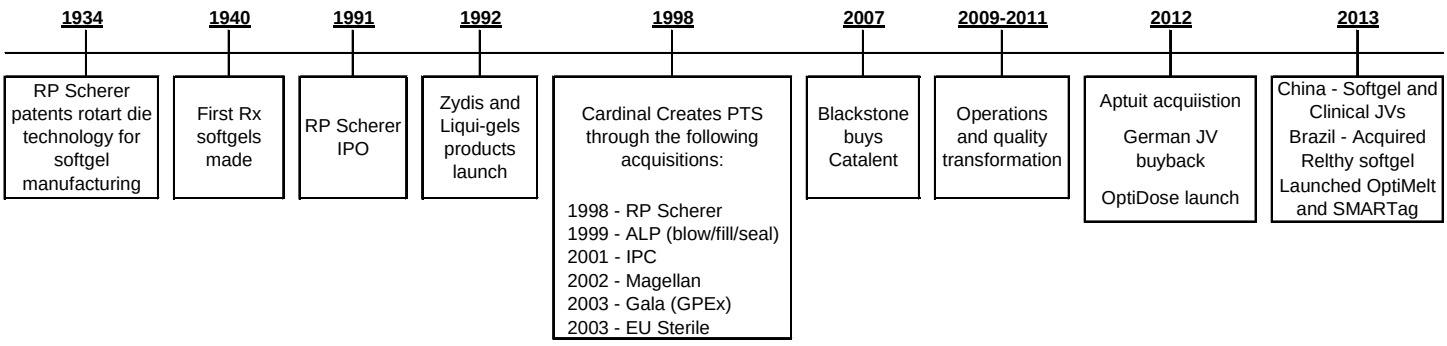
Exhibit 1. EPS Growth Build Up, Fiscal Years 2013 to 2020E (Year Ends June 30)

	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	6.2%	1.5%	3.8%	5.8%	4.7%	4.8%	4.9%	4.9%
Gross Margin	-3.5%	2.4%	-0.3%	-0.2%	0.5%	0.4%	0.4%	0.6%
Expense Leverage	3.5%	0.9%	1.6%	0.7%	2.2%	2.3%	1.2%	0.9%
EBITDA Growth	6.3%	4.8%	5.0%	6.3%	7.5%	7.6%	6.4%	6.3%
Depreciation	-2.4%	4.5%	1.0%	-1.7%	1.4%	1.3%	1.0%	1.3%
Interest Expense	-11.9%	58.5%	45.8%	6.5%	2.8%	2.4%	1.8%	1.8%
Tax	9.4%	5.2%	3.0%	-0.6%	-11.2%	-6.4%	0.0%	0.0%
Net Income	1.3%	73.0%	54.9%	10.4%	0.5%	4.9%	9.2%	9.4%
Share Count	0.0%	-0.8%	-58.7%	-2.5%	2.0%	2.2%	2.3%	2.1%
EPS Growth	1.3%	72.2%	-3.8%	7.9%	2.5%	7.2%	11.5%	11.5%

Sources: Company reports and William Blair estimates

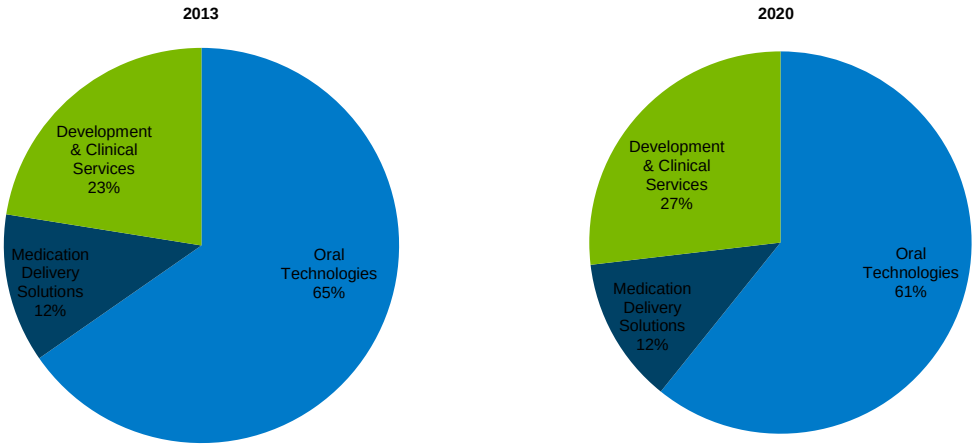
In terms of the stock's valuation, we believe Catalent will primarily be compared with other pharmaceutical outsourcing and services companies (such as IMS [IMS $28.15; Outperform], Quintiles [Q $55.96; Outperform], Covance [CVD $84.50; Outperform], and West [WST $44.16]). Given a leveraged balance sheet and shifting tax rate, we believe most investors will value the stock using an enterprise/EBITDA multiple. On this basis, the stock is now trading at a small discount to its peers following a 10% increase since the IPO. We view the valuation as reasonable with some room for multiple expansion (perhaps one turn) in light of the company's attractive risk profile.

Exhibit 2. Company History



Source: Company reports

Exhibit 3. Catalent Revenue by Segment



Source: Company reports and William Blair estimates

Investment Thesis

We believe Catalent should be a strong defensive stock for investors looking to participate in pharmaceutical outsourcing from a manufacturing perspective. The drivers behind this view are summarized below:

- ***Durable long-term contracts.*** Once a sponsor chooses how and where it produces a product, switching costs are very high since it forces the sponsor to secure a new regulatory review. Thus, once a company such as Catalent is tapped to produce a product, assuming that quality and execution remain high, it will typically produce that product for many years—often for the entire life cycle of the product. Seventy percent of manufacturing revenues (referred to as advanced delivery technologies) are covered by long-term contracts typically ranging from 3 to 10 years. Some of Catalent's manufacturing engagements have been running for over 20 years. Thus, we perceive the 77% of revenues and 80% of EBITDA that comes from dose manufacturing to be essentially locked in—making Catalent perhaps the lowest variability name on our coverage list.

- ***Regulatory scrutiny driving more outsourcing.*** The FDA's increased vigilance around GMP compliance in the past decade has made manufacturing harder to do in-house—particularly for smaller sponsors with more limited product portfolios, and particularly for injectables because of concerns of contamination. The increased regulatory burden, and increased risk from a failure to comply (including a plant shutdown in extreme cases), is driving more manufacturing to be outsourced, just as we have seen across many other areas within the biopharmaceutical industry. For outsourcing partners with excellent safety track records, we believe this regulatory burden will be a key driver of new contract wins in the coming years. We believe about 30% of dose manufacturing is outsourced today, and expect the number to trend steadily higher over the next several years.

- ***Large and fragmented market.*** Catalent is the largest, global player in what we estimate is a $20 billion outsourced market today across finished dose manufacturing and development services. We believe this market is growing in the midsingle digits, driven by moderate annual increases in drug utilization (1%-2%), pricing (1%-2%), and outsourcing penetration (1%-2%). If we include the work done in-house, we believe Catalent's addressable market is about $45 billion. With 10% market share today and roughly 50% of the market still in the hands of niche and undercapitalized players, we believe Catalent has abundant opportunities to extend its leadership through acquisition.

- ***Strong competitive positioning.*** We believe Catalent is well positioned to capture a growing share of the market given its specialty technology focus, its global footprint, and its clean regulatory track record. It is estimated that the portion of the pharmaceutical industry's pipeline that requires some form of advanced delivery will rise from about 50% today to more than 60% over time, which should play to Catalent's strengths. While we believe there are over 200 companies that compete for dose manufacturing work for the 4,000 or so products in the biopharmaceutical pipeline, only about 20% have multinational capabilities and multiple dose offerings such as Catalent.

- ***Moving upstream.*** In 2012, Catalent doubled its exposure to the CMC (chemistry, manufacturing, and controls) and development solutions market with the acquisition of the clinical trial supply business of Aptuit. Catalent now offers services to optimize drug formulation and production, analytical testing, clinical trial-quantities of drugs and comparators, and regulatory consulting. Drug companies spend an estimated 14% of their R&D budgets on CMC, or about $15 billion overall, of which $6 billion is outsourced. This strategy also enables the company to build relationships with sponsors years before they select a commercial manufacturer. The strategy to move upstream and follow the molecule through the development process appears to be working well, with the number of new product introductions jumping from 97 in fiscal 2013 to 175 in fiscal 2014, the commercial manufacturing backlog including another 480 products, and the development services backlog up 37% in the past year.

Investment Risks

- ***Safety concerns.*** The most significant risk to Catalent, in our view, would be a significant quality assurance problem with the FDA or other regulator. The consequences of an error in the manufacturing process are significant, as a tainted batch of product can generate significant constraints for the sponsor. Delays can last several days or even several months to identify and correct a contamination problem, potentially harming the manufacturer's reputation with other clients in the process. While a safety stumble would be perhaps the largest potential risk for Catalent, we also view it as a very low probability event considering the company's excellent record for quality and compliance.

- ***Increasing competition.*** The marketplace for outsourced manufacturing services is very fragmented, with a few hundred small, niche players making up roughly half the market. We believe these niche players have expertise in a particular discipline or local geography. In some cases, tax incentives from local governments could allow niche players to undercut global players on price, or could swing the math in the eyes of a sponsor back to keeping production in-house. In addition, there are a number of larger players competing for business and long-term relationships. We view the recently created DPx (the combination of DSM and Patheon) and Aenova as the two most credible threats as the market consolidates.

- ***Mix shift could limit margin leverage.*** Catalent's most profitable business, softgels, is also its slowest growing business. As a result, the company will have to contend with a negative mix shift longer term. Catalent dominates the softgel category, producing 90% of prescription drugs approved using this delivery technology over the past 25 years. Softgels account for about 46% of revenues and carry margins that are roughly 400 basis points above the consolidated average, but are trailing the company's overall revenue growth by about 1%-3% percentage points. As the lower margin businesses, such as sterile injectables and development solutions, gain a larger portion of the total revenue of the company, we calculate an annual EBITDA margin headwind of about 40-60 basis points. We believe management should be able to offset this pressure primarily through margin improvement in the medication delivery (sterile injectables) unit, which should be able to gain as much as 500 basis points of margin improvement in the next few years through improved capacity utilization. Overall, we forecast adjusted EBITDA margin to improve from 23.7% in fiscal 2014 to an estimated 26.1% by fiscal 2020.

- ***Biologics positioning.*** Biologics is underrepresented in Catalent's revenue stream today, accounting for only 10% of the company's total. Given that specialty biologics are expected to represent a growing percentage of the overall biopharmaceutical industry's pipeline and end-market sales, we believe Catalent will need to invest further to fully participate in this shift.

- ***Private equity ownership overhang.*** Finally, following the IPO, Catalent's private equity sponsors retain a 58% ownership stake in the company. While neither Blackstone (52% owner) nor Genstar (6% owner) sold any stock on the IPO—a bullish sign, in our view—we expect both to at least begin to liquidate their positions over the next one to two years.

Industry Overview

Catalent serves the advanced delivery portion of the dose manufacturing market, as well as the portion of R&D that is directed at chemistry, manufacturing, and controls (CMC). CMC service providers assist with formulation and manufacturing process development, analytical and stability testing, and production of clinical trial-quantities of new drug candidates. Contract manufacturers typically focus on the production of active pharmaceutical ingredients (API) or a product's finished dose. Across the spectrum of manufacturing services, we believe outsourcing penetration today is about 30%. Over time, we believe this will increase to roughly 50%, following a similar adoption curve to that of contract research organizations (CROs) over the past decade.

We believe that the market for contract manufacturing organization (CMO) services in aggregate is poised to grow 5% or more over the next five to seven years. Below, we discuss our assumptions for both the development solutions and advanced delivery technologies businesses in detail.

Development solutions market. In an attempt to quantify the opportunity for Catalent's development solutions business, we look at three factors: 1) current spending and growth trajectory of sponsor R&D spending, 2) the component of that spending focused on the manufacturing of the compound itself for use in the trial and the optimization of the compound's formulation and delivery, and 3) the percent of this spending that is outsourced.

We estimate that current global R&D spending is roughly $107 billion, with annual growth trending in line with industry sales, in the low-single-digit range. According to our data, global R&D typically accounts for about 15% of sales—fluctuating from 14% to 17% over the past 10 years. Catalent's services are most applicable to the CMC portion of that market, which we understand represents 14% of global R&D spending, or $14.9 billion. Of the total addressable market, industry data suggests roughly 40% of CMC work is currently outsourced, resulting in an outsourced market of $6.1 billion. We expect penetration rates to increase moderately over time. In our view, this represents an attractive opportunity for Catalent, as its development and analytical services business accounts for only $412 million, or 2.8% of the total addressable market and about 7% of the currently outsourced market.

We believe it is reasonable to assume CMC penetration rates could max out around 60%, which is similar to peak penetration expectations for the clinical component of the CRO market and below expectations for preclinical outsourcing. As summarized in exhibit 4, if penetration rates reach 44% by 2020, and global pharma sales grow 4.0% compounded annually, the CMC market is estimated to grow at a 5.5% compound annual rate.

Exhibit 4. Estimated CMC Market Model, 2013 to 2020E

	2013	2014	2015	2016	2017	2018	2019	2020
Global R&D Spend	**$ 103,168**	**$ 106,779**	**$ 111,050**	**$ 115,492**	**$ 120,112**	**$ 124,916**	**$ 129,913**	**$ 135,110**
% growth		3.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Development, clinical trial supplies & logistic spend	**$ 14,444**	**$ 14,949**	**$ 15,547**	**$ 16,169**	**$ 16,816**	**$ 17,488**	**$ 18,188**	**$ 18,915**
% of Global R&D	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
% growth		3.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
CMC Market	**$ 5,777**	**$ 6,069**	**$ 6,405**	**$ 6,759**	**$ 7,130**	**$ 7,520**	**$ 7,930**	**$ 8,361**
% penetration rate	40.0%	40.6%	41.2%	41.8%	42.4%	43.0%	43.6%	44.2%
% growth		5.1%	5.5%	5.5%	5.5%	5.5%	5.5%	5.4%

Sources: Company reports, FactSet, and William Blair & Company, L.L.C. estimates

Advanced delivery technologies market. We believe the market for dose manufacturing is best estimated as a percentage of biopharma industry cost of goods sold. Further, we expect growth will be driven by 1) drug consumption on a unit basis, 2) price inflation (CPI rather than branded drug inflation), and 3) the percentage of work outsourced.

Based on IMS data, total global spending on medicines was roughly $965 billion in 2012, with an expectation that it will reach $1.2 trillion by 2017. From 2013 to 2020 we estimate total unit growth will increase from 1% to 3.5% by the end of the decade. We also believe inflation will normalize, contributing about 1.6% annually over that same seven-year period. We note that contract manufacturers do not reap the benefits of branded drug inflation; rather, price increases are tied to broader metrics such as CPI. Thus, we expect the pricing component of revenue growth for manufacturers to be in the low single digits (slightly above CPI), rather than the high-single-digit inflation rates currently prevailing in the pharmaceutical market.

Based on management commentary, it is estimated that manufacturing costs account for 5% of total industry sales. We believe that this 5% is Catalent's target market. When applying this total to IMS sales figures for the pharma industry, we arrive at a total addressable market for dose manufacturing around $50 billion. Catalent's strategy is to focus on the portion of the market that requires specialized dosing, rather than simple, immediate oral delivery where price competition for new contracts can be most intense. We believe about half of the industry's marketing products currently require specialized dosing, but more than 60% of the pipeline under development is estimated to require some form of advanced delivery. Assuming the company's focus remains on the advanced delivery subset, this reduces the addressable market to close to $30 billion in 2014. Based on our market model (exhibit 5), we estimate outsourcing penetration rates to be 28% of the aggregate $50 billion market, translating to a $14 billion current market opportunity. Over time, we see that penetration rate rising to 34% by 2020. This increase in penetration, coupled with an estimate that 70% of compounds by that time may require advanced delivery, should lead to a compound annual market growth rate of 5%-6%.

Exhibit 5. Advanced Delivery Technology Market Model

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Global Spending on Medicines	**$ 965,000**	**$ 979,475**	**$ 1,008,859**	**$ 1,049,214**	**$ 1,093,805**	**$ 1,151,777**	**$ 1,215,125**	**$ 1,281,956**	**$ 1,352,464**
% growth		1.5%	3.0%	4.0%	4.3%	5.3%	5.5%	5.5%	5.5%
% inflation		0.5%	1.0%	1.0%	1.3%	1.6%	2.0%	2.0%	2.0%
% unit growth		1.0%	2.0%	3.0%	3.0%	3.7%	3.5%	3.5%	3.5%
Total Addressable Manuf. Market	$ 48,250	$ 48,974	$ 49,953	$ 50,952	$ 52,099	$ 53,453	$ 55,057	$ 56,709	$ 58,410
% Dose Inflation		1.5%	2.0%	2.0%	2.3%	2.6%	3.0%	3.0%	3.0%
Requiring Advanced Delivery	$ 26,538	$ 27,793	$ 29,223	$ 30,699	$ 32,301	$ 34,076	$ 36,062	$ 38,137	$ 40,303
% spend requiring ADT	55.0%	56.8%	58.5%	60.3%	62.0%	63.8%	65.5%	67.3%	69.0%
% growth		4.7%	5.1%	5.1%	5.2%	5.5%	5.8%	5.8%	5.7%
Not Requiring Advanced delivery	$ 21,713	$ 21,181	$ 20,731	$ 20,254	$ 19,798	$ 19,377	$ 18,995	$ 18,572	$ 18,107
% not requiring ADT	45.0%	43.3%	41.5%	39.8%	38.0%	36.3%	34.5%	32.8%	31.0%
% growth		-2.4%	-2.1%	-2.3%	-2.3%	-2.1%	-2.0%	-2.2%	-2.5%
Outsourced Manufacturing Market	**$ 13,028**	**$ 13,468**	**$ 13,987**	**$ 14,649**	**$ 15,395**	**$ 16,223**	**$ 17,260**	**$ 18,345**	**$ 19,480**
Penetration rate	27.0%	27.5%	28.0%	28.8%	29.6%	30.4%	31.4%	32.4%	33.4%
% growth		3.4%	3.9%	4.7%	5.1%	5.4%	6.4%	6.3%	6.2%
Compressed Tablet Market	$ 5,211	$ 5,065	$ 4,954	$ 4,938	$ 4,956	$ 5,001	$ 5,197	$ 5,377	$ 5,539
% of outsourced manuf market	40.0%	37.6%	35.4%	33.7%	32.2%	30.8%	30.1%	29.3%	28.4%
% outsourced	24.0%	23.9%	23.9%	24.4%	25.0%	25.8%	27.4%	29.0%	30.6%
% growth		-2.8%	-2.2%	-0.3%	0.4%	0.9%	3.9%	3.5%	3.0%
ADT Market	$ 7,817	$ 8,403	$ 9,033	$ 9,710	$ 10,439	$ 11,222	$ 12,063	$ 12,968	$ 13,941
% of outsourced market	60.0%	62.4%	64.6%	66.3%	67.8%	69.2%	69.9%	70.7%	71.6%
% outsourced	29.5%	30.2%	30.9%	31.6%	32.3%	32.9%	33.5%	34.0%	34.6%
% growth		7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Outsourced Softgel market	$ 1,000	$ 1,025	$ 1,053	$ 1,074	$ 1,095	$ 1,117	$ 1,139	$ 1,162	$ 1,185
% growth		2.5%	2.7%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
% of ADT	12.8%	12.2%	11.7%	11.1%	10.5%	10.0%	9.4%	9.0%	8.5%

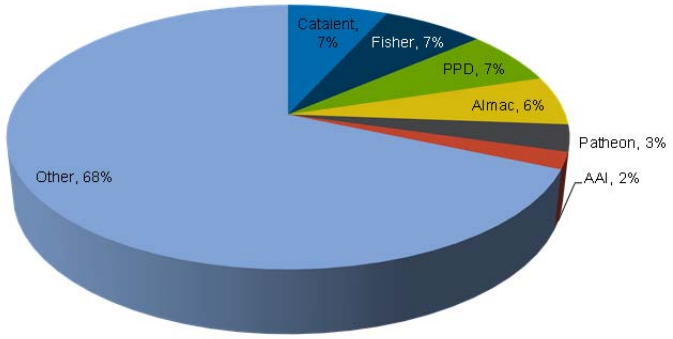
Sources: Company reports, FactSet, and William Blair & Company, L.L.C. estimates.

Overall, we believe the market dynamics for dose manufacturing and CMC development services are attractive, offering a sustainable growth opportunity of 5%-6% or better. We believe relationships tend to last for a relatively long time, with minimal volatility on a unit basis throughout the life cycle of a product. As unit volumes and outsourcing penetration rates increase, we believe this market can grow from a total outsourced opportunity of $20 billion today (development and dose manufacturing) to nearly $28 billion by 2020, a CAGR of 5.6%.

Competition. We believe the competitive landscape for manufacturing is very fragmented with a few hundred small, niche players making up roughly half the market. Though many of these smaller CMOs have expertise in a particular dosage form or local geography, similar to the dynamics in the CRO market, we believe larger players with geographic diversification and a wide breadth of dosage capabilities are likely to win a disproportionate share of the market over time. Similar to other areas of outsourcing, we have seen sponsors consolidate spending with a more limited number of vendors, forging deeper and broader relationships.

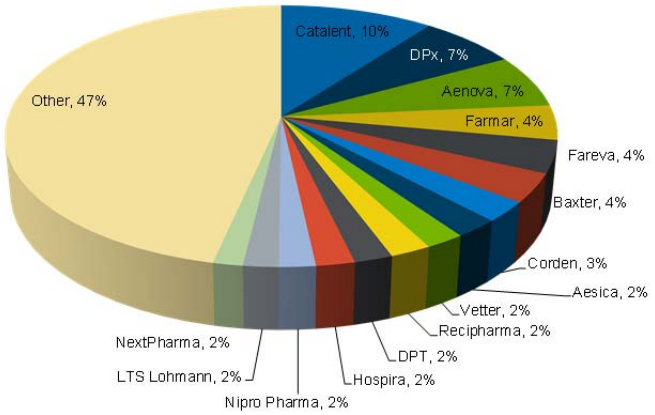
We believe Catalent is the industry's largest player with about 10% share in the commercial dose manufacturing market and 7% share in development services. We estimate that, following a number of recent acquisitions, DPx and Aenova both represent roughly a 7% share of the commercial market. Roughly 50% of spending is in the hands of smaller players that appear to be good acquisition candidates for the industry leaders, in our view. The development solutions market is even more fragmented, with 70% done by small, niche players.

Exhibit 6. Development Solutions Estimated 2014 Market Share



Sources: Company reports and William Blair estimates

Exhibit 7. Dose Manufacturing Estimated 2014 Market Share



Sources: Company reports, Frost & Sullivan, and William Blair estimates

Exhibit 8. Contract Dose Manufacturing Market Participants

Revenue Range ($ million)	Company	Solid / Semisolid / Liquid	Injectable	Specialty	Commercial Manufacturing Location
$500+	Aenova w/Tremmler & Haupt	x		Softgel	NA, EU
	Baxter		x		NA, EU
	Catalent	x	x	Softgel, Blow-Fill-Seal	NA, EU, SA, AUS, Japan
	DPx	x	x	Softgel	NA, EU
	Famar	x	x		EU
	Fareva	x	x		NA, EU
$250-499	Corden	x	x		EU
	DPT	x			NA
	Hospira		x		NA, EU, AUS
	LTS Lohmann			Transdermal, Oral Films	NA, EU
	Nipro Pharma	x	x		Japan
	Recipharm	x	x		EU
	Vetter		x		EU
$100-249	Abbvie	x			NA, EU, SA, Asia, Japan
	Aesica	x	x		EU
	Boehringer-Ingelheim	x	x		NA, EU, SA, Asia
	Bushu	x			Japan
	Cenexl	x	x		EU
	CMIC	x			NA, Japan
	Delpharm	x	x		EU
	Fertin Pharma	x			EU
	Jubilant HollisterStler	x	x		NA
	Kemwell	x	x		EU, India
	Klocke	x			EU
	Nextpharma	x			EU
	Rottendorf	x			EU
	Sanofi	x			EU
	Synerlab	x			EU
	Takeda	x	x		NA, EU, SA
	Unither			Blow-fill-seal	EU

Sources: PharmSource: *Contract Dose Manufacturing Industry by the Numbers,* 2013 Edition, and William Blair estimates

Company Overview

We believe Catalent is the largest and most specialized player in the dose manufacturing market with an opportunity to extend that position through its differentiated quality track record, geographic presence, and breadth of services. We also believe the company is primed to consolidate share via acquisition now that the IPO has de-leveraged the balance sheet. Below we briefly discuss and describe the company's various capabilities, financial characteristics, and growth outlook for each segment.

Exhibit 9. Catalent's Company Overview

	Oral Technologies		Medication Delivery Solutions	Development and Clinical Services
	Softgel	Modified Release		
Percent of Revenue (FY 2013)	46%	20%	12%	22%
Margin (recent)	27%		20%	20%
Estimated Growth Rate	Mid-Single Digits		Mid-Single Digits	High Single Digits
Percent Outsourced	25-30%	15-20%	15-20%	40-45%
Catalent Market Share	Poorly Soluble Prescriptions - 20-25% Consumer Softgels - 30-40%	Less than 5%	Blow/fill/seal - 15-20% Pre-filled Syringe - 5%	Development and analytical services - 5% Clinical Supply Solutions - 15%
Description	Use of R.P. Scherer technology to encase active pharmaceutical ingredient into animal or vegetable-based gelatin to improve absorption, solubility, and bioavailability	Optimelt - uses hot melt extrusion, an alternative production method, to achieve similar result Optidose - controlled release tablets Zydis - Fast dissolving tablets	Blow/fill/seal - aseptic process of filling and sealing newly formed plastic container with liquid-form medication within the confines of a sterile machine. SMARTag - new antibody-drug conjugate expected to improve delivery precision. GPEx - devleopment of high-yielding cell lines to produce biologic compounds	Clinical scale manufacturing, bioavailability enhancement, dose/formulation selection, cell line engineering.
Competitors	Patheon/DSM Aenova Other	Pharma in-house Patheon/DSM Haupt Rottendorf	Pre-filled syringe: Vetter Baxter Patheon Blow/fill/seal: Unither Holopak Rite-Dose Pharma in-house	PPD AAI Almac Thermofisher

Sources: Company reports and William Blair & Company, L.L.C. estimates

Oral technologies. This is the largest segment of the company, composing 66% of revenue and about 75% of adjusted EBITDA in fiscal 2014. This segment can be separated into two subsegments: softgel technology and modified release technology. We believe this segment is a key differentiator for the company, as it focuses on complex formulations and poorly soluble products rather than traditional (and relatively commoditized) pressed powder tablet formulations. In addition, we believe margin can continue to expand as increased capacity in the controlled release facility in Winchester, Kentucky, is better utilized. We believe this segment can grow in the 3%-4% range over the long term and generate modest margin expansion from 27.5% in fiscal 2014 to 28.4% by fiscal 2020.

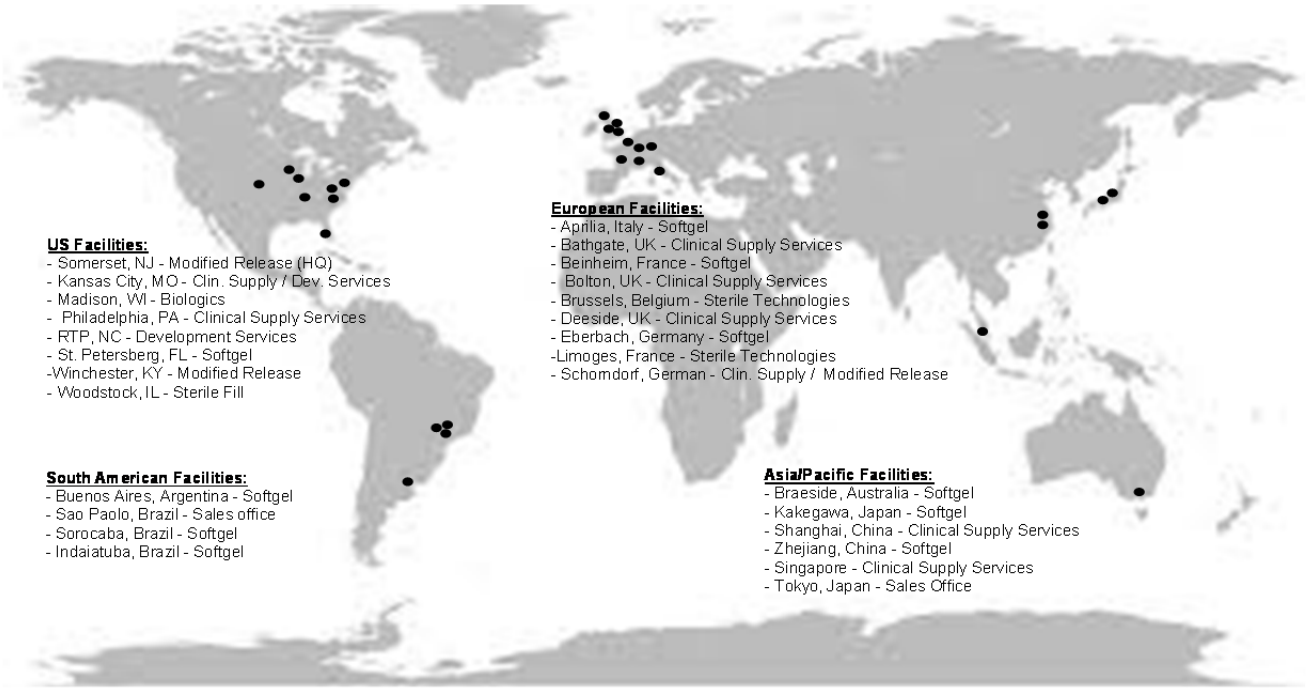
Medication delivery solutions. Medication delivery solutions accounts for 13% of revenue and 11% of adjusted EBITDA. This segment can be separated into three subsegments: blow/fill/seal technologies, injectables, and biologics. We forecast long-term growth of 4%-5% and annual margin leverage of about 70-100 basis points beginning in fiscal 2015 as excess capacity in the sterile fill and blow/fill/seal segment improves from 20% today to 23.5% by fiscal 2020.

Development and clinical services. Development and clinical services is expected to constitute 23% of revenue and 14% of adjusted EBITDA in fiscal 2014. This segment can be separated into two subsegments: development and analytical services and clinical supply solutions. We believe this will be the fastest growing segment for the company, in the high single digits. It is also an important driver of new contract wins in the ADT portion of the business. We forecast 7% long-term revenue growth and 40 basis points of annual margin leverage, increasing EBITDA margin from 20.3% today to 21.7% by fiscal 2020.

Other Differentiators

While we believe no competitor offers as broad a set of capabilities and expertise in such specialties as softgel manufacturing and blow/fill/seal, we believe there are two other key differentiators that set Catalent apart: 1) geographic reach, and 2) a track record of quality. First, on a geographic basis, we believe Catalent has the broadest footprint with 27 facilities on five continents (see exhibit 10). Although based in the United States, the company has an impressively balanced presence in the United States and Europe and a large footprint in fast-growing markets in Asia and South America. Though consolidation has created some large competitors with diverse footprints as well, we believe Catalent's reach leads the industry. This is particularly attractive in the manufacturing space as it simplifies logistics and creates a valuable presence in local markets.

Exhibit 10. Facility Map

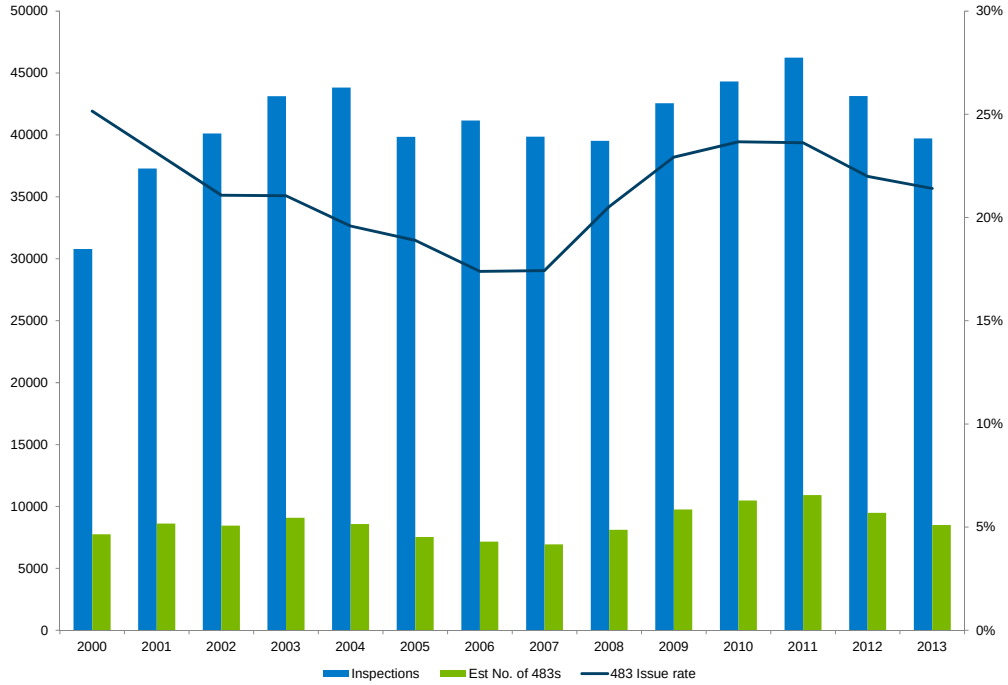


Source: Company reports

Second, and perhaps more importantly, we believe Catalent's safety record since the new management team has taken over is impressive and a potential differentiator. Loss of trust in a product's safety standards can take a very long time to rebuild even after only a single issue. Over the past 10-15 years, we believe regulatory requirements for the pharmaceutical manufacturing process have arguably become among the strictest of any product manufacturing industry. In the early 2000s, the U.S. FDA introduced a new set of current Good Manufacturing Practice rules (cGMP), which have been refined numerous times since. In addition, regulators have inspected facilities with increasing frequency and have more recently turned their attention to foreign facilities following a number of significant violations in recent years.

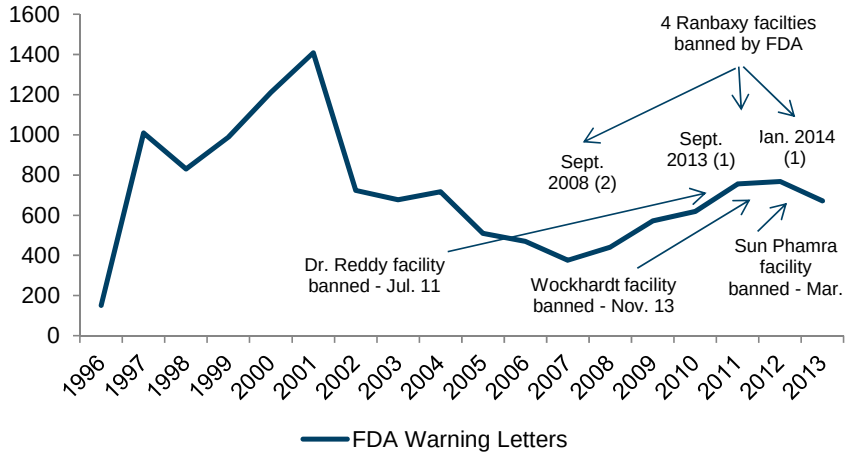
As shown in exhibits 11 and 12, after surging in 2001, the number of warning letters issued by the FDA troughed in 2007 and began increasing through 2012. In addition, though the number of inspections and form 483s (observations during inspection, not necessarily violations) has remained fairly consistent over time, the number of inspections of foreign facilities has increased significantly following a number of violations by foreign manufacturers, especially in India. We believe the FDA is reducing inspections of U.S. facilities by 40% in 2014 (591 expected, down from 967), but increasing foreign inspections by 30% (843 expected, up from 604). We believe the increased scrutiny on foreign facilities should bode well for larger players, particularly Catalent, whose facilities have a consistent look and layout across the globe. Since management assumed control in 2009, the company has not received any warning letters from the FDA and the company estimates it has received 60% fewer regulatory observations than its peers.

Exhibit 11. FDA Inspections and Form 483 Reports



Source: FDA

Exhibit 12. FDA Warning Letters



Sources: FDA and William Blair estimates

Growth Outlook and Key Modeling Assumptions

We believe Calalent can generate midsingle-digit organic revenue growth over the next several years as a result of steady utilization and pricing improvements, increased penetration of services with existing clients, and increased outsourcing. In addition, we believe management can supplement organic growth with acquisitions given the highly fragmented market in which it participates. We do not include acquisitions in our model, but we believe that 100 to 200 basis points of top-line growth can be acquired annually, given the company's strong free cash flows. Through a combination of margin leverage and accretive capital deployment, we believe this midsingle-digit organic revenue growth can be leveraged to generate 10%-12% EPS growth longer term. Given that we do not include acquisitions in our model, we assume 40% of free cash flow is used to buy back stock each year, rather than accruing on the balance sheet. This adds 1%-2% to annual EPS growth. Exhibit 13 breaks down our earnings growth assumptions.

Exhibit 13. Estimate Summary

	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020
Oral Technologies Revenue	$ 1,220	$ 1,186	$ 1,180	$ 1,215	$ 1,269	$ 1,317	$ 1,370	$ 1,424	1481.429
Growth	*5.3%*	*-2.8%*	*-0.5%*	*3.0%*	*4.5%*	*3.8%*	*4.0%*	*4.0%*	*4.0%*
Medication Delivery Solutions Revenue	$ 224	$ 219	$ 246	$ 240	$ 252	$ 264	$ 275	$ 288	$ 301
Growth	*-5.2%*	*-2.1%*	*12.2%*	*-2.4%*	*5.0%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*
Development & Clinical Services Revenue	$268	$405	$412	$451	$496	$530	$568	$607	$650
Growth	*71.0%*	*50.8%*	*1.8%*	*9.3%*	*10.0%*	*7.0%*	*7.0%*	*7.0%*	*7.0%*
Total Revenue	$ 1,695	$ 1,800	$ 1,828	$ 1,897	$ 2,007	$ 2,102	$ 2,204	$ 2,311	$ 2,423
Growth	*10.6%*	*6.2%*	*1.5%*	*3.8%*	*5.8%*	*4.7%*	*4.8%*	*4.9%*	*4.9%*
EBITDA Growth	$388	$413	$433	$454	$483	$519	$559	$595	$632
Margin	*22.9%*	*22.9%*	*23.7%*	*24.0%*	*24.1%*	*24.7%*	*25.4%*	*25.7%*	*26.1%*
Growth	*9.7%*	*6.3%*	*4.8%*	*5.0%*	*6.3%*	*7.5%*	*7.6%*	*6.4%*	*6.3%*
Adjusted Net Income	$ 81	$ 82	$ 142	$ 221	$ 244	$ 245	$ 257	$ 280	$ 307
Growth		*1.3%*	*73.0%*	*54.9%*	*10.4%*	*0.5%*	*4.9%*	*9.2%*	*9.4%*
Adjusted EPS	**$1.09**	**$1.10**	**$1.89**	**$1.82**	**$1.96**	**$2.01**	**$2.16**	**$2.41**	**$2.68**
Growth		***1.3%***	***72.2%***	***-3.8%***	***7.9%***	***2.5%***	***7.2%***	***11.5%***	***11.5%***

Sources: Company reports and William Blair estimates

Valuation and Conclusion

We assess Catalent's valuation using enterprise-value-to-forward-EBITDA and forward earnings multiples. We believe that investors will gravitate toward a comparable EV/EBITDA multiple given a leveraged capital structure and possible confusion about varying tax rate assumptions as the company uses previous net operating losses for the next few years. We believe the most appropriate comparable companies are outsourcing and service providers to the pharmaceutical industry with similar growth and risk profiles. Exhibit 14 shows the peer group we are using to value Catalent, including IMS Health, West, Quintiles, and Covance.

Catalent trades at 10.2 times our calendar 2015 EBITDA estimate, which compares with 10.4 times for the comparable manufacturer and service providers and 10.3 times for the public CROs. On a P/E basis, we suggest investors compare Catalent to its peers using a normalized longer-term tax rate of 30%, rather than the 14%-15% expected for the coming year. On this basis, Catalent trades at 17.8 times fully taxed calendar 2015 EPS (when applying a normalized tax rate of 30% and considering amortization expense), compared with 19.1 times for the manufacturer and service providers, and 18.1 times for the CROs.

Exhibit 14. Comparison Table

Company	Ticker	Debt / CY EBITDA	Fwd 2015 P/E	Fwd 2015 EV/EBITDA	Fwd 3-Yr Revenue CAGR
Hospira, Inc.	HSP	2.16	21.9x	12.0x	5.8%
West Pharmaceutical Services	WST	1.15	21.0x	10.4x	6.5%
Cambrex	CBM	0.81	16.8x	8.2x	13.2%
Aceto	ACET	0.45	19.6x	12.3x	8.5%
Albany Molecular	AMRI	1.63	17.7x	8.5x	16.9%
Lonza Group	LONN	3.02	16.5x	9.9x	4.4%
IMS Health	IMS	4.04	20.1x	11.8x	5.7%
Manufacturer & Service Providers		***1.89***	**19.1x**	**10.4x**	***8.7%***
Quintiles	Q	2.68	19.1x	11.2x	8.9%
Covance	CVD	0.60	19.0x	9.1x	7.0%
Parexel	PRXL	1.01	19.9x	9.8x	11.6%
Icon	ICLR	0.00	17.2x	10.2x	11.1%
Charles River	CRL	2.53	17.0x	10.9x	7.2%
Wuxi	WX	0.43	16.6x	10.9x	14.6%
CRO Avg.		***1.21***	**18.1x**	**10.3x**	***10.1%***
Catalent Inc.	**CTLT**	**4.25**	**17.8x**	**10.2x**	**6.0%**

Sources: Company reports, FactSet and William Blair estimates

Tax rate and NOLs. We expect Catalent to have an effective tax rate for adjusted EPS of 14% in fiscal 2015, gradually increasing to 30% by 2018, at which point we expect tax credits to be fully depleted. This significant difference in tax rate

produces an EPS swing of about $0.30 on an annualized basis. Thus, we suggest investors use 30% when calculating EPS to value the stock, while also considering the present value of NOLs.

We quantify the present value of the NOLs on a per share basis at just over $0.70 per share. In the analysis, we estimate a nondiscounted after-tax cash benefit of $109 million due to a lower tax rate in 2014, lasting through 2017. By subtracting $0.70 from the current stock price and applying our fully taxed calendar 2015 EPS estimate of $1.26, Catalent is currently valued at 17.3 times forward earnings. Considering the potential for the stock in the coming year, we believe it is reasonable to expect another turn in the multiple to perhaps 18.0 times assuming solid execution and some M&A, implying potential upside in the stock of about15%.

We believe Catalent carries a reasonable valuation relative to its peers—particularly considering our view of the durability of the company's commercial manufacturing portfolio. In exhibit 15, we examine the stock's risk-adjusted upside and downside using pessimistic and optimistic scenarios alongside our current model (again, we use a tax rate of 30% for this analysis). We arrive at a risk-adjusted potential upside in the coming year of 13%. Given the defensive nature of the business model and relatively low expected volatility compared with other names on our list, and the opportunity for industry consolidation, we view shares as attractive and initiate coverage with an Outperform rating. Our income statement is summarized in exhibit 16, on the following page.

Exhibit 15. Probability Weighted 12-Month Outlook, using Calendar 2016 Earnings

	Scenario 1 (A)	Scenario 2 (B)	Scenario 3 (C)
Earnings Per Share	$1.25	$1.41	$1.53
Implied Current P/E Multiple	18.0x	16.0x	14.7x
Estimated Multiple	15.0x	18.0x	21.0x
Implied Price	$19	$25	$32
Price Relative to Current Level	-17%	13%	43%
Probability	20%	60%	20%
Probability-Weighted Return		12.8%	

(A) Scenario 1 assumes a 3.5% increase in revenue and 20 basis points of operating margin leverage from 2014 through 2016
(B) Scenario 2 is our base case and assumes 5.85% revenue growth and 63 basis points of margin leverage from 2014 through 2016
(C) Scenario 3 assumes a 8.0% increase in revenue and 100 basis points of operating margin leverage from 2014 through 2016

Sources: FactSet and William Blair & Company, L.L.C. estimates

Exhibit 16. Income Statement Summary

	2011	2012	2013	2014	Q1'15E	Q2'15E	Q3'15E	Q4'15E	2015E	2016E	2017E	2018E	2019E	2020E
Net revenue	**$1,531.8**	**$1,694.8**	**$1,800.3**	**$1,827.7**	**$407.0**	**$450.2**	**$484.1**	**$555.9**	**$1,897.1**	**$2,006.7**	**$2,101.9**	**$2,203.6**	**$2,310.5**	**$2,422.9**
Cost of revenue	$954.0	$1,056.1	$1,143.8	$1,145.7	$273.7	$286.3	$299.2	$332.4	$1,191.6	$1,261.9	$1,317.9	$1,378.2	$1,442.1	$1,507.5
Gross profit	$577.8	$638.8	$656.5	$682.0	$133.3	$163.9	$184.9	$223.5	$705.5	$744.8	$784.0	$825.4	$868.4	$915.5
Selling, general and administrative expense	$224.0	$250.4	$243.8	$249.3	$55.8	$69.8	$68.0	$57.5	$251.1	$261.8	$264.8	$266.6	$273.6	$283.2
EBITDA	**$353.8**	**$388.3**	**$412.7**	**$432.6**	**$77.5**	**$94.1**	**$116.9**	**$165.9**	**$454.5**	**$483.0**	**$519.3**	**$558.8**	**$594.8**	**$632.2**
Depreciation	$86.7	$95.7	$108.8	$100.4	$24.8	$26.6	$25.7	$25.0	$102.1	$114.4	$117.8	$121.4	$125.0	$127.0
EBITA	$267.1	$292.6	$303.9	$332.2	$52.7	$67.5	$91.3	$140.9	$352.4	$368.5	$401.5	$437.3	$469.8	$505.3
Interest and other income (expense), net	($165.5)	($183.2)	($203.3)	($163.4)	($32.1)	($21.5)	($21.3)	($21.1)	($96.0)	($83.7)	($83.4)	($83.2)	($83.1)	($82.3)
Pretax income	$101.6	$109.4	$100.6	$168.9	$20.6	$46.1	$70.0	$119.8	$256.5	$284.8	$318.1	$354.1	$386.7	$422.9
Income tax expense	$27.7	$28.2	$18.3	$26.5	$2.88	$6.45	$9.8	$16.8	$35.9	$41.3	$73.5	$106.2	$116.0	$126.9
Adjusted Net Income	**$73.9**	**$81.2**	**$82.3**	**$142.4**	**$17.7**	**$39.6**	**$60.2**	**$103.0**	**$220.5**	**$243.5**	**$244.6**	**$247.9**	**$270.7**	**$296.0**
Minority Interest	$3.9	$1.2	($0.1)	($1.0)	($0.2)	($0.2)	($0.2)	($0.3)	($0.9)	($1.2)	($1.5)	($1.9)	($2.4)	($3.0)
Amortization	(28.8)	(34.0)	(43.4)	(42.5)	(10.2)	(10.8)	(11.6)	(11.1)	(43.7)	(46.2)	(48.4)	(50.8)	(53.2)	(54.1)
EBIT	238	259	261	289.8	42.5	56.7	79.6	129.8	308.7	322.3	353	387	417	451
Pretax Income (excl. Nonrecurring, incl. equity comp, amort.)	68.8	71.7	54.5	122	9.3	34.2	57.2	107.6	208.3	**234.2**	**265.3**	**298.9**	**329.0**	**364.4**
tax	20.6	21.5	16.4	36.6	2.8	10.2	17.2	32.3	62.5	70.2	79.6	89.7	98.7	109.3
Adjusted Net Income, Including amort and 30% tax rate	**48.2**	**50.2**	**38.2**	**85.3**	**6.5**	**23.9**	**40.1**	**75.3**	**145.8**	**163.9**	**185.7**	**209.2**	**230.3**	**255.1**
Adjusted EPS	$0.64	$0.67	$0.51	$1.14	$0.06	$0.19	$0.32	$0.60	$1.20	$1.32	$1.53	$1.76	$1.98	$2.23
Pretax Income (excl. Nonrecurring, equity comp, amort.)	101.6	109.4	100.6	168.9	20.6	46.1	70.0	119.8	256.5	284.8	318.1	354.1	386.7	422.9
tax	30.5	32.8	30.2	50.7	6.2	13.8	21.0	35.9	76.9	85.4	95.4	106.2	116.0	126.9
Adjusted Net Income, 30% tax rate	**71.1**	**76.6**	**70.4**	**118.2**	**14.4**	**32.2**	**49.0**	**83.9**	**179.5**	**199.4**	**222.7**	**247.9**	**270.7**	**296.0**
Nonrecurring items	(82.0)	(58.1)	(81.1)	(57.9)	$3.2	($0.3)	($3.5)	($3.2)	(3.8)	(5.6)	(8.4)	(8.4)	(8.4)	(8.4)
Tax adjustment	3.9	11.7	(8.7)	(23.0)	($3.1)	$0.4	$3.8	$10.8	11.9	15.3	45.5	78.2	88.0	98.9
Nonrecurring items (net of tax)	(78.1)	(46.4)	(89.8)	(81.0)	$0.1	$0.1	$0.3	$7.6	8.1	9.7	37.1	69.8	79.6	90.5
Net income from continuing operations (GAAP)	(29.1)	2.1	(50.9)	18.0	$7.4	$28.7	$48.6	$99.2	184.0	205.8	231.8	265.0	294.6	329.4
Income from Discontinued Operations	21.0	41.3	(1.2)	2.7	$0.5	$0.5	$0.5	$0.5	2.0	2.0	0.0	0.0	0.0	0.0
Net income	**($50.1)**	**($39.2)**	**($49.7)**	**$15.3**	**$6.9**	**$28.2**	**$48.1**	**$98.7**	**$182.0**	**$203.8**	**$231.8**	**$265.0**	**$294.6**	**$329.4**
EPS (excl. nonrecurring items, incl. options beg Q105)	**$0.99**	**$1.09**	**$1.10**	**$1.89**	**$0.17**	**$0.32**	**$0.48**	**$0.82**	**$1.82**	**$1.96**	**$2.01**	**$2.08**	**$2.32**	**$2.59**
EPS (excl. nonrecurring items, excl. options)	**$0.95**	**$1.02**	**$0.94**	**$1.57**	**$0.13**	**$0.26**	**$0.39**	**$0.67**	**$1.48**	**$1.61**	**$1.83**	**$2.08**	**$2.32**	**$2.59**
EPS (as reported)	**($0.67)**	**($0.52)**	**($0.66)**	**$0.20**	**$0.06**	**$0.23**	**$0.38**	**$0.78**	**$1.50**	**$1.64**	**$1.91**	**$2.23**	**$2.53**	**$2.88**
Weighted average shares outstanding (diluted)	74.8	74.8	74.8	75.2	107.4	125.4	125.6	125.9	121.1	123.9	121.5	119.0	116.5	114.3
MARGIN ANALYSIS:														
Gross profit	37.7%	37.7%	36.5%	37.31%	32.8%	36.4%	38.2%	40.2%	37.2%	37.1%	37.3%	37.46%	37.58%	37.78%
SG&A	14.6%	14.8%	13.5%	13.6%	13.7%	15.5%	14.1%	10.4%	13.2%	13.0%	12.6%	12.1%	11.8%	11.7%
EBITDA	23.1%	22.9%	22.9%	23.7%	19.1%	20.9%	24.2%	29.9%	24.0%	24.1%	24.7%	25.4%	25.7%	26.1%
Depreciation	5.7%	5.6%	6.0%	5.5%	6.1%	5.9%	5.3%	4.5%	5.4%	5.7%	5.6%	5.5%	5.4%	5.2%
Amortization	1.9%	2.0%	2.4%	2.3%	2.5%	2.4%	2.4%	2.0%	2.3%	2.3%	2.3%	2.3%	2.3%	2.2%
Depreciation & amortization	7.5%	7.7%	8.5%	7.8%	8.6%	8.3%	7.7%	6.5%	7.7%	8.0%	7.9%	7.8%	7.7%	7.5%
Operating income	17.4%	17.3%	16.9%	18.2%	13.0%	15.0%	18.9%	25.4%	18.6%	18.4%	19.1%	19.8%	20.3%	20.9%
Tax rate (adjusted)	27.2%	25.8%	18.2%	15.7%	14.0%	14.0%	14.0%	14.0%	14.0%	14.5%	23.1%	30.0%	30.0%	30.0%
Net income	4.8%	4.8%	4.6%	7.8%	4.4%	8.8%	12.4%	18.5%	11.6%	12.1%	11.6%	11.2%	11.7%	12.2%
GROWTH RATES:														
Revenue	**3.5%**	**10.6%**	**6.2%**	**1.5%**	**-2%**	**2%**	**7%**	**7%**	**3.80%**	**6%**	**5%**	**5%**	**5%**	**5%**
Revenue (excl. foreign exchange effect)			**0.0%**	**0.0%**										
Revenue (organic)			6%	2%					4%	6%	5%	5%	5%	5%
Gross profit	12%	11%	3%	4%	-3%	1%	8%	6%	3%	6%	5%	5%	5%	5%
SG&A	10%	12%	-3%	2%	2%	0%	4%	-3%	1%	4%	1%	1%	3%	4%
EBITDA	**13%**	**10%**	**6%**	**5%**	**-6%**	**1%**	**10%**	**10%**	**5.0%**	**6.3%**	**8%**	**8%**	**6%**	**6%**
EBITA	18%	10%	4%	9%	-6%	1%	11%	10%	6%	5%	9%	9%	7%	8%
Net income (excl. non-recurring items)	56%	10%	1%	73%	-1322%	42%	55%	34%	55%	10%	0%	1%	9%	9.38%
Net income (WB Calculation)	56%	8%	-8%	68%	37%	83%	69%	37%	52%	11%	12%	11%	9%	9.38%
EPS (exlc. non-recurring items, incl. options)	**56%**	**10%**	**1%**	**72%**	**-951%**	**-15%**	**-8%**	**-19%**	**-4%**	**8%**	**2%**	**3%**	**11%**	**11.49%**
Diluted shares outstanding	0%	0%	0%	0%	44%	68%	68%	65%	61%	2%	-2%	-2%	-2%	-1.89%

IMPORTANT DISCLOSURES

William Blair was a manager or co-manager of a public offering of equity securities for Catalent, Inc. within the prior 12 months.

William Blair is a market maker in the security of Catalent, Inc. and may have a long or short position.

William Blair intends to seek investment banking compensation in the next three months from Catalent, Inc.

Within the past 12 months William Blair has provided or is providing investment banking services to or has an investment services relationship with Catalent, Inc.

Additional information is available upon request.

This report is available in electronic form to registered users via R*Docs™ at www.rdocs.com or www.williamblair.com.

Please contact us at +1 800 621 0687 or consult williamblair.com/Research-and-Insights/Equity-Research/Coverage.aspx for all disclosures.

John Kreger attests that 1) all of the views expressed in this research report accurately reflect his/her personal views about any and all of the securities and companies covered by this report, and 2) no part of his/her compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed by him/her in this report. We seek to update our research as appropriate, but various regulations may prohibit us from doing so. Other than certain periodical industry reports, the majority of reports are published at irregular intervals as deemed appropriate by the analyst.

DOW JONES: 17,111.42
S&P 500: 2,001.54
NASDAQ: 4,592.29

Current Rating Distribution (as of 08/31/14)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	66	Outperform (Buy)	16
Market Perform (Hold)	31	Market Perform (Hold)	3
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

The compensation of the research analyst is based on a variety of factors, including performance of his or her stock recommendations; contributions to all of the firm's departments, including asset management, corporate finance, institutional sales, and retail brokerage; firm profitability; and competitive factors.

OTHER IMPORTANT DISCLOSURES

Stock ratings, price targets, and valuation methodologies: William Blair & Company, L.L.C. uses a three-point system to rate stocks. Individual ratings and price targets (where used) reflect the expected performance of the stock relative to the broader market (generally the S&P 500, unless otherwise indicated) over the next 12 months. The assessment of expected performance is a function of near-, intermediate-, and long-term company fundamentals, industry outlook, confidence in earnings estimates, valuation (and our valuation methodology), and other factors. Outperform (O) – stock expected to outperform the broader market over the next 12 months; Market Perform (M) – stock expected to perform approximately in line with the broader market over the next 12 months; Underperform (U) – stock expected to underperform the broader market over the next 12 months; not rated (NR) – the stock is not currently rated. The valuation methodologies used to determine price targets (where used) include (but are not limited to) price-to-earnings multiple (P/E), relative P/E (compared with the relevant market), P/E-to-growth-rate (PEG) ratio, market capitalization/revenue multiple, enterprise value/EBITDA ratio, discounted cash flow, and others.

Company Profile: The William Blair research philosophy is focused on quality growth companies. Growth companies by their nature tend to be more volatile than the overall stock market. Company profile is a fundamental assessment, over a longer-term horizon, of the business risk of the company relative to the broader William Blair universe. Factors assessed include: 1) durability and strength of franchise (management strength and track record, market leadership, distinctive capabilities); 2) financial profile (earnings growth rate/consistency, cash flow generation, return on investment, balance sheet, accounting); 3) other factors such as sector or industry conditions, economic environment, confidence in long-term growth prospects, etc. Established Growth (E) – Fundamental risk is lower relative to the broader William Blair universe; Core Growth (C) – Fundamental risk is approximately in line with the broader William Blair universe; Aggressive Growth (A) – Fundamental risk is higher relative to the broader William Blair universe.

The ratings, price targets (where used), valuation methodologies, and company profile assessments reflect the opinion of the individual analyst and are subject to change at any time.

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