Catalent, Inc. (CTLT – $98.54)

May 23, 2022*

Catalent, Inc. (CTLT) provides development and manufacturing services to drug, protein-based biologic, cell and gene therapy, and consumer health product companies. The Company's product development and manufacturing services, regulatory compliance, and clinical trial supply enable clients to take their products from laboratory to market faster. The Company was founded in 2007 and is headquartered in Somerset, NJ. Its fiscal year ends on 06/30.

Thesis Summary

We are concerned recent Biologics revenue strength may have materially benefited from COVID-related product demand. Further, we believe a COVID-related revenue disclosure removal may mask underlying business performance drivers and obfuscate analysis. In our view, a material portion of COVID-related product demand may abate as infection concerns ease and Catalent revenue growth may be pressured and make FY 23 revenue guidance difficult to achieve. Our concerns are heightened given near-term manufacturing and commercial product supply revenue may be pressured. Further, we believe FY 26 revenue guidance achievability may be dependent on development customer product approvals. Given COVID-related products generate attractive margins, we believe a COVID product demand slowdown may pressure margins. In our view, elevated contract asset levels highlight potentially aggressive revenue recognition. Our concerns are heightened given the fixed price nature of development contracts may make it difficult for Catalent to mitigate margin pressure through price increases in an inflationary environment and input cost inflation may have increased the risk of aggressive revenue recognition. In addition, we believe elevated inventory levels suggest the Company may have overbuilt inventory and our margin pressure concerns are heightened. Our earnings sustainability concerns are heightened given depressed contract liability levels, elevated prepaid expense levels, cash flow level deterioration, and CEO turnover.

Company Data

Country/Exchange	US/NYSE
Shares Outstanding (mil)	179.2
Float (mil)	168.5
Short Interest (mil)	2.6
% of Float Short	1.5%
Average Volume (mil)	$124.2
52 Week Range	$86.34 – $142.64
Dividend Yield	0.0%
Market Cap (bil)	$17.6
Net Debt (bil)	$3.4
Enterprise Value (bil)	$21.0
FY 21 Rev (mil)/Rev Growth	$3,998.0 / 29.2%
FY 21 Adj. EBITDA (mil)	$1,020.0
FY 21 GM %/Change	33.8% / 210 bps
FY 21 Adj. EBITDA Margin %/Chg	25.5% / 120 bps

Valuation (as of report date)

NTM P/S	3.4x
NTM EV/ EBITDA	15.0x
NTM P/E	24.6x

Consensus Estimate Drift

	EST	1M Ago	6M Ago	1YR Ago
Q4 22 Rev	$1,337.5	$1,341.7	$1,340.5	$1,220.1
FY 22 Rev	$4,851.2	$4,797.5	$4,695.6	$4,336.9
FY 23 Rev	$5,294.6	$5,294.6	$5,134.9	$4,728.6
Q4 22 EPS	$1.15	$1.20	$1.24	$1.15
FY 22 EPS	$3.80	$3.75	$3.70	$3.41
FY 23 EPS	$4.21	$4.21	$4.15	$4.04

Peers Mentioned In This Report

N/A

Catalysts and Timing

Q4 22 Results are weaker-than-expected

FY 23 or FY 26 guidance is reduced

COVID-related revenue abates & pressures revenue growth

Customer product introductions continue to deteriorate

*** All research is completed as of 4:00PM – 4:15PM Eastern Time unless otherwise noted.**
Please refer to the end of this report for an updated version of *The Short List*.

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Company Background

Company description: Catalent, Inc. (CTLT) provides development and manufacturing services to drug, protein-based biologic, cell and gene therapy, and consumer health product companies. The Company's product development and manufacturing services, regulatory compliance, and clinical trial supply enable clients to take their products from laboratory to market faster. The Company was founded in 2007 and is headquartered in Somerset, NJ. Its fiscal year ends on 06/30.

Results by segment: In FY 21, the Biologics segment accounted for 48.0% (54.7%) of revenue (EBITDA), the Softgel and Oral segment accounted for 25.2% (21.3%), the Oral and Specialty segment accounted for 17.1% (14.3%), and the Clinical Supply Services accounted for 9.7% (9.7%). The Biologics segment provides biologic cell-line, cell therapy, and viral-based gene therapy development and manufacturing; formulation, development, and manufacturing for parenteral dose forms; and analytical large molecule development and testing services. The Softgel and Oral segment provides formulation, development, and manufacturing for soft capsules, as well as large-scale manufacturing of oral solid dose forms for the pharmaceutical and consumer health markets. The Oral and Specialty segment provides advanced analytical and formulation development and manufacturing across a range of technologies along with integrated downstream clinical development and commercial supply solutions. The Clinical Supply Services provides manufacturing, packaging, storage, distribution, and inventory management of customer clinical trial material.

FY 21 Results By Segment Analysis	As % of Revenue	As % of EBITDA
Biologics	48.0%	54.7%
Softgel & Oral	25.2%	21.3%
Oral & Specialty	17.1%	14.3%
Clinical Supply Services	9.7%	9.7%
Total	100.0%	100.0%

Background on key customers: In its FY 21 10K, the Company disclosed it conducted business with 87 of the top 100 branded drug marketers, 23 of the top 25 generics marketers, 24 of the top 25 biologics marketers, and 17 of the top 25 consumer health marketers globally. In addition, the Company disclosed Biologics key customers included Moderna, Johnson & Johnson, BMS, AstraZeneca, and Sarepta; Softgel and Oral key customers included Pfizer, Novartis, Bayer, GlaxoSmithKline, and Procter & Gamble; Oral and Specialty key customers included Johnson & Johnson, Pfizer, Bayer, AbbVie, and Biohaven; and Clinical Supply Services key customers included Merck KGaA, IQVIA, Eli Lilly, AbbVie, and Incyte Corporation. In FY 21, no customer accounted for greater than 10.0% of revenue.

> In fiscal 2021, we conducted business with 87 of the top 100 branded drug marketers, 23 of the top 25 generics marketers, 24 of the top 25 biologics marketers, and 17 of the top 25 consumer health marketers globally. (FY 21 10K)

Revenue by type: In FY 21, manufacturing and commercial product supply accounted for 46.4% of revenue, development services accounted for 43.8%, and clinical supply services accounted for 9.7%. Manufacturing and commercial product supply revenue consists of supply sourcing, product manufacturing and packaging, product testing, and cold-chain or ambient temperature distribution for commercially approved products. Development services revenue includes biologic cell-line development, formulation, analytical stability, and other services (including manufacturing services) related to product development (i.e. products not otherwise approved and

intended for commercial sale). Clinical supply services revenue relates to the manufacturing, packaging, storage, distribution, and inventory management of customer clinical trial material.

FY 21 Revenue By Type Analysis	As % of revenue
Manufacturing & commercial product supply	46.4%
Development services	43.8%
Clinical supply services	9.7%
Total	100.0%

Revenue by geography: In FY 21, the US accounted for 60.2% of revenue, Europe accounted for 32.8%, and all other accounted for 7.0%. In its FY 21 10K, the Company disclosed it served more than 1,000 customers in approximately 80 countries.

FY 21 Revenue By Geography Analysis	As % of revenue
US	60.2%
Europe	32.8%
Other	7.0%
Total	100.0%

Competition: Catalent competes with other biotechnology and pharmaceutical development and manufacturing service providers including Aenova, Patheon, Procaps, and Societal CDMO, among others.[1] In addition, Catalent competes, in certain cases, with the internal operations of its customers that also have manufacturing capabilities.

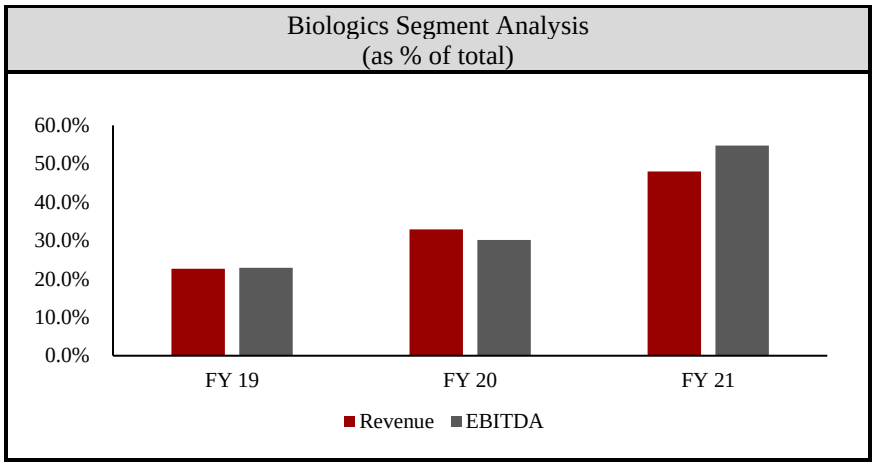
[1] Aenova Holding GmbH (private), Pantheon (subsidiary of TMO), Procaps Group S.A. (PROC), Societal CDMO, Inc. (SCTL)

Voyant's Earnings Risk Assessment

We are concerned recent Biologics revenue strength may have materially benefited from COVID-related product demand. Further, we believe a COVID-related revenue disclosure removal may mask underlying business performance drivers and obfuscate analysis. In our view, a material portion of COVID-related product demand may abate as infection concerns ease and Catalent revenue growth may be pressured and make FY 23 revenue guidance difficult to achieve. Our concerns are heightened given near-term manufacturing and commercial product supply revenue may be pressured. Further, we believe FY 26 revenue guidance achievability may be dependent on development customer product approvals. Given COVID-related products generate attractive margins, we believe a COVID product demand slowdown may pressure margins. In our view, elevated contract asset levels highlight potentially aggressive revenue recognition. Our concerns are heightened given the fixed price nature of development contracts may make it difficult for Catalent to mitigate margin pressure through price increases in an inflationary environment and input cost inflation may have increased the risk of aggressive revenue recognition. In addition, we believe elevated inventory levels suggest the Company may have overbuilt inventory and our margin pressure concerns are heightened. Our earnings sustainability concerns are heightened given depressed contract liability levels, elevated prepaid expense levels, cash flow level deterioration, and CEO turnover.

COVID-Related Product Demand May Abate & Pressure Revenue/Margins, In Our View

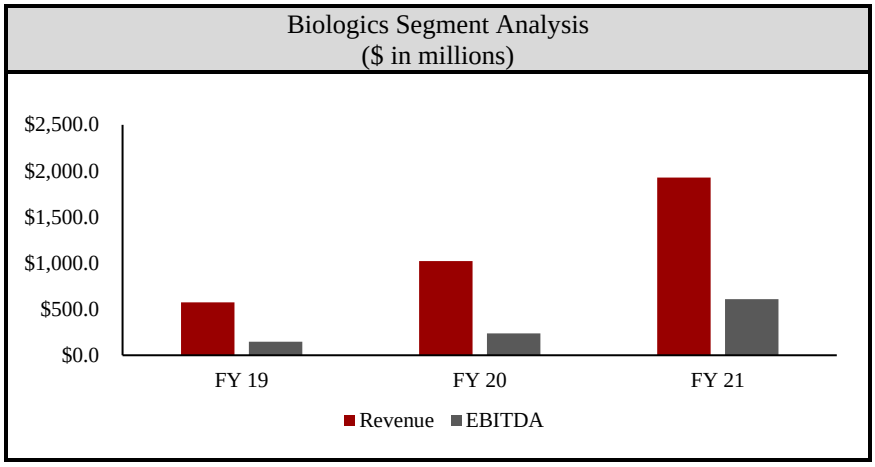
Background on Biologics segment: In FY 21, Biologics segment revenue (EBITDA) as a percent of total increased 1,510 basis points (2,460 basis points) to 48.0% (54.7%). The Biologics segment provides biologic cell-line, cell therapy, and viral-based gene therapy development and manufacturing; formulation, development, and manufacturing for parenteral dose forms; and analytical large molecule development and testing services. On its Q2 21 Conference Call on 02/02/21, Catalent represented it had been awarded work on over 80 COVID-related compounds, including three Operation Warp Speed vaccine programs. In its FY 21 10K, the Company disclosed key Biologics customers included Moderna, Johnson & Johnson, Bristol-Myers Squibb, AstraZeneca, and Sarepta. The Company represented it manufactured bulk drug substance for one COVID vaccine, provided fill and finish services for other COVID vaccines, and manufacturing, packaging, and distribution services of excipients used in a COVID treatment.



FY 21 Biologics revenue strength attributed to COVID-related product demand: In FY 21, Biologics revenue (EBITDA) increased 88.8% (157.3%) to $1,928.0 million ($609.0 million). In its FY 21 10K, the Company attributed Biologics strength to the testing, manufacturing, and packaging of COVID-related products for its customers.

> We have seen revenue increases and the potential for further revenue increases in some of our reporting segments, particularly our Biologics segment, resulting from the testing, manufacturing, and packaging of

COVID-19-related products for our customers. (FY 21 10K)



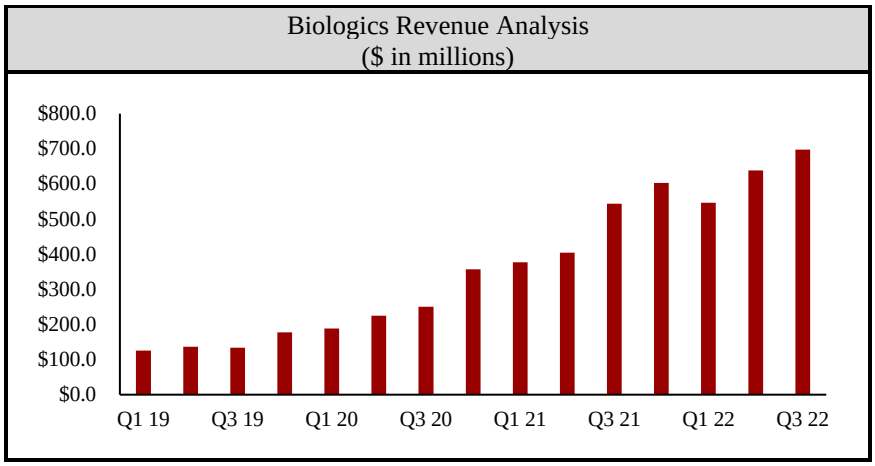
COVID-related product demand drove a material portion of Biologics segment revenue growth, in our view: On its Q4 21 Conference Call on 08/30/21, the Company represented FY 21 revenue generated from COVID-related products, net of COVID-related headwinds was $550.0 million. Accordingly, we estimate COVID-related products contributed at least $550.0 million of revenue to the Biologics segment representing 60.6% of FY 21 Biologics segment revenue growth. Given the COVID-related product growth benefit accounted for over 50.0% of total Biologics segment growth, we believe COVID-related product demand drove a material portion of Biologics segment growth.

We estimate approximately 18 percentage points or more than $550 million of our organic growth last year was derived from the net impact of the COVID-19 pandemic, after factoring in the amount of net revenue generated from COVID-19 projects against opportunity costs and pandemic-related headwinds that were created in some of our service offerings. (CEO Mr. John Chiminski, Q4 21 Conference Call, 08/30/21)

Biologics Revenue Growth Analysis ($ in millions)	Revenue
Net FY 21 COVID-related product demand benefit	$550.0
FY 21 Biologics revenue growth	$907.0
Net FY 21 COVID-related revenue as % of Biologics growth	60.6%
FY 21 Biologics revenue growth	88.8%
FY 21 Biologics revenue growth excluding COVID products	35.0%

COVID-related product revenue continued to provide material FY 22 revenue benefit: On its Q4 21 Conference Call, the Company guided for continued COVID project growth. In the nine-months ended Q3 22, Biologics revenue surged 42.1% year-over-year to $1,882.0 million. In its Q3 22 10Q, the Company continued to attribute Biologics growth to COVID-related programs. Given guidance for continued COVID project growth and year-to-date Biologics strength, we believe COVID-related product demand continued to provide a material Biologics revenue growth benefit in FY 22.

Net revenue increased 26% organically on a constant-currency basis, primarily related to (i) broad-based strength across all our Biologics offerings, in particular demand for our drug product and drug substance offerings for COVID-19-related programs. (Q3 22 10Q)



COVID-related revenue disclosure removal may mask underlying performance drivers & obfuscate analysis: Previously, on its FY 21 quarterly conference calls, the Company provided guidance for COVID-related product revenue. However on its Q4 21 Conference Call, the Company indicated it did not plan to provide guidance for COVID-related revenue. On its Q3 22 Conference Call on 05/03/22, the Company represented it intentionally did not disclose COVID product revenue contribution as it considered COVID products as "part of the base business." However, the Company represented its long-term guidance assumed COVID-related revenue would only account for a fraction of its current revenue contribution. In our view, the COVID-related revenue disclosure removal and conflicting commentary (i.e. part of base business despite guidance for material decline) may mask underlying business performance and obfuscate analysis.

> In fiscal '26 some projected revenue from respiratory vaccine, our model assumes that it will likely be only a fraction of the revenue generated today from COVID vaccines. (COO Mr. Alessandro Maselli, Q3 22 Conference Call, 05/03/22)

> We intentionally, as we entered fiscal year '22, have gone away from disclosing revenue contributions related to COVID demand as we consider that part of the base business. (CFO Mr. Thomas Castellano, Q3 22 Conference Call, 05/03/22)

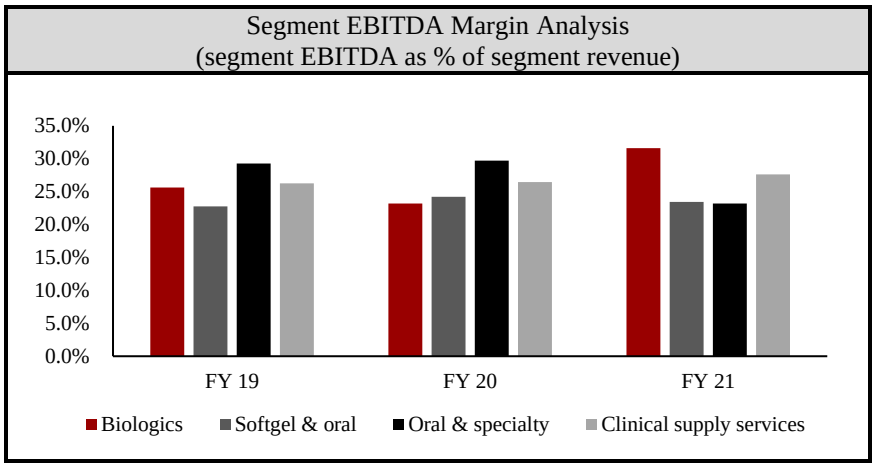
COVID demand may abate & pressure revenue growth, in our view: In its Q3 22 10Q, the Company disclosed the extent and duration of revenue associated with COVID-related products was uncertain and unknown. While COVID vaccine booster dose authorizations/approvals may persist and certain individuals may continue to inoculate themselves with multiple doses, we believe a material portion of COVID product demand may abate as COVID infection concerns ease. Accordingly, we are concerned Catalent may experience challenging comparable periods and revenue growth may be pressured.

> The extent and duration of revenue associated with COVID-19-related products is uncertain and dependent, in important respects, on factors outside our control. The future duration and extent of the COVID-19 pandemic and the future demand for COVID-19 vaccines and therapies is unknown. (Q3 22 10Q)

COVID-related product revenue pressure may pressure margins, in our view: On its Q3 22 Conference Call, the Company represented COVID products generated "absolutely attractive" margins, but the Company represented the margin profile was not much better than other Biologics programs. However, in FY 21, Biologics segment EBITDA margin increased 840 basis points to 31.6%, materially better than the margin performance of Catalent's other segments. While certain COVID product revenue may be lower margin, we believe the material EBITDA margin improvement amidst COVID product demand strength suggests COVID-related revenue may generate higher margins than other programs. Given our concerns about a material COVID product demand slowdown and guidance for a "considerable decline" in COVID-related revenue, we believe margins may be pressured.

> There's no question that **the margin profile of our COVID-related revenue was absolutely attractive**. And I think anytime you're running a product or a basket of products at high levels of utilization

on assets, you're going to get some operating leverage out of it and see good margin as a result of it. And we have seen that. But there is a competing dynamic here that I think investors may not have an appreciation for which is the component sourcing piece of the COVID-related revenue… The fact that we're getting some operating leverage from the higher levels of utilization, but that's being offset by the component sourcing dynamics. So really not an overly profitable business in regards to other programs that we'll be running through our Biologics assets. (CFO Mr. Thomas Castellano, Q3 22 Conference Call, 05/11/22) [emphasis added]



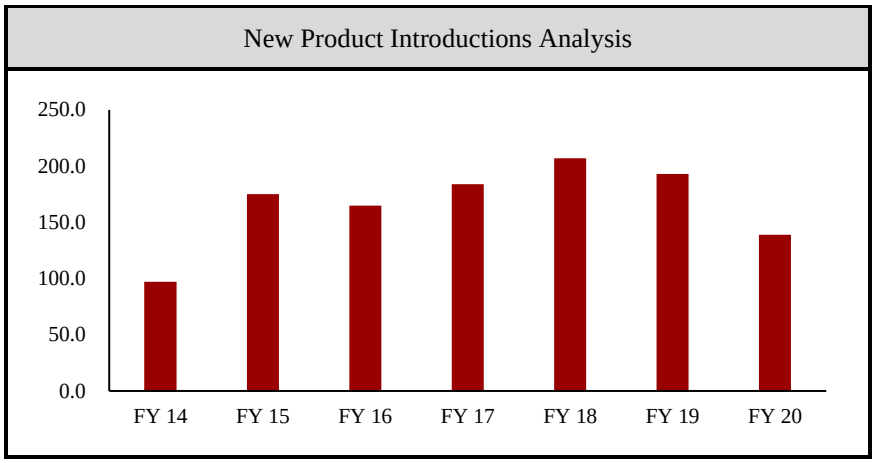
FY 23 & FY 26 Guidance May Be Difficult To Achieve, In Our View

Background on development programs & product introductions: In its 10K filings, the Company discloses the number of active customer development programs and new product introductions by customers. In its FY 21 10K, the Company disclosed it expected a portion of these development programs to reach full development and market approval and add to its commercial revenues under long-term contracts. Accordingly, we believe the number of active development programs and new product introductions by customers may be a leading indicator of revenue.

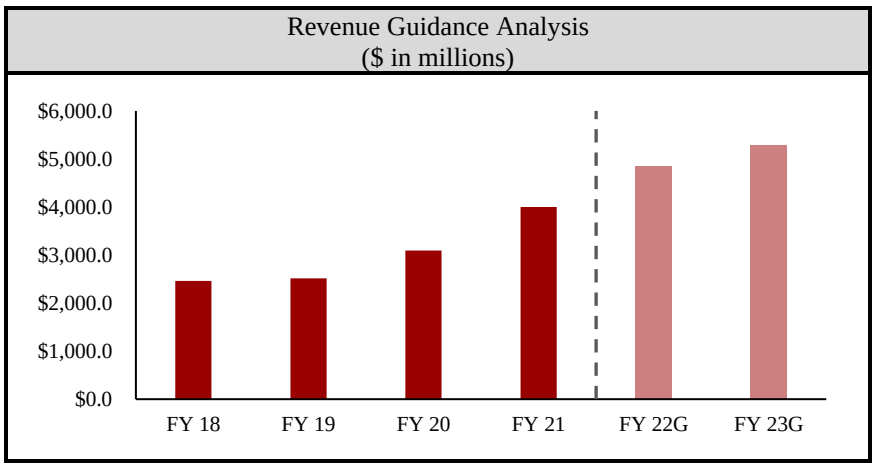
> We expect that a portion of these programs will reach full development and market approval in the future and thereby add to our long-duration commercial revenues under long-term contracts and grow our existing product base. (FY 21 10K)

New product introductions decline may be due to COVID-related FDA approval delays: In FY 21, the number of new products introduced by Catalent's customers declined 14.7% to 139, the third consecutive decline. In its FY 21 10K, the Company disclosed the pandemic delayed FDA inspections, reviews, and approvals which negatively impacted is customers ability to bring products to market. In our view, the new product introduction decline may have been driven by pandemic-related FDA delays. While we acknowledge there is likely a backlog of FDA applications, active development programs increased materially (discussed herein), and we have limited insight into Catalent's development customer product approval pipeline, we believe the FDA is unlikely to rush the approval process following the pandemic and we are concerned near-term manufacturing and commercial product supply revenue may be pressured.

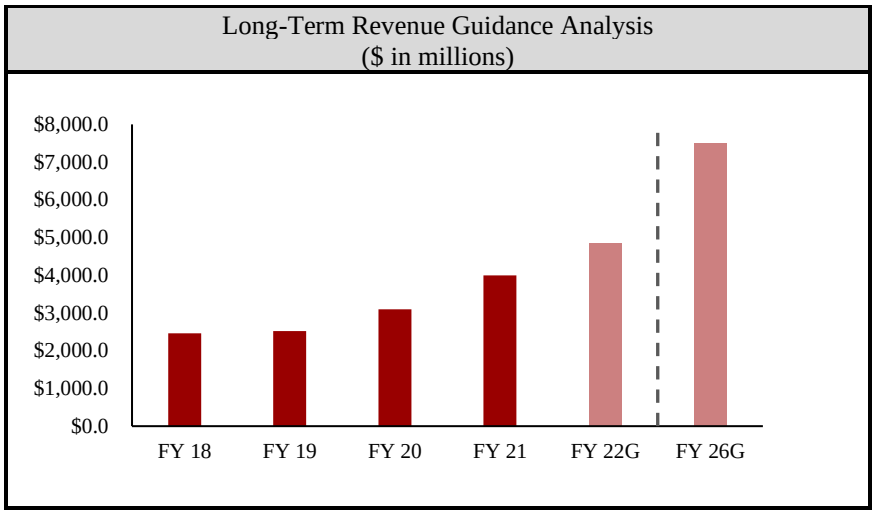
> Customers and suppliers have in some cases experienced negative impacts due to disruptions in supply chains and disruptions to the operations of the FDA and other drug regulatory authorities, which resulted in, among other things, delays of inspections, reviews, and approvals of our customers' products, as well as the volume and timing of orders from these customers. (FY 21 10K)



Preliminary FY 23 guidance may be difficult to achieve, in our view: In its Q3 22 Earnings Release on 05/03/22, the Company increased its FY 22 revenue guidance 1.0% to $4,850.0 million at midpoint. In addition, the Company guided for FY 23 revenue to increase 9.0% at midpoint. The Company indicated its FY 23 outlook assumed a "considerable decline" in COVID-related product revenue. While the Company represented its FY 23 guidance assumed a considerable COVID-related revenue decline, the Company did not quantify the COVID-related revenue in FY 22 and/or the guided COVID-related revenue in FY 23 and we believe the Company may face difficult comparable periods and the FY 23 revenue guidance may be overly optimistic and difficult to achieve. Our concerns are heightened given near-term manufacturing and commercial product supply revenue may be pressured in the near-term by limited recent product introductions (discussed above).



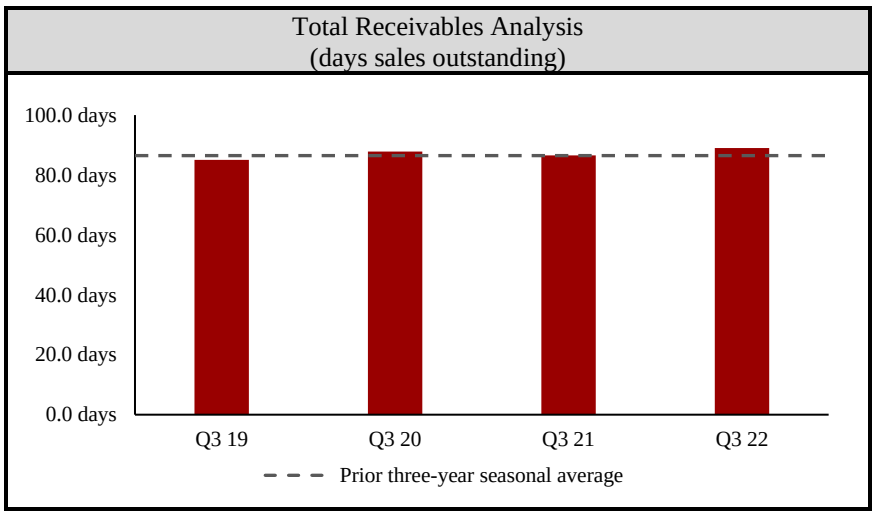
FY 26 guidance achievability may be dependent on new product introductions: In its Investor Presentation on 01/09/22, the Company guided for organic revenue to increase at a compound annual growth rate of 9.0% at midpoint from FY 22 to FY 26. The Company guided for FY 26 revenue of greater than $7,500.0 million, including acquisitions. On its Q3 22 Conference Call, the Company represented its long-term guidance was not reliant on "substantial" COVID vaccine related revenue. Given guidance for COVID related revenue to decline, we believe long-term guidance may be dependent on development customer product approvals and difficult to achieve.



Elevated Contract Asset Levels Highlight Revenue Growth Pressure, In Our View

Background on total receivables: In its 10Q and 10K filings, the Company discloses trade receivables on the face of the balance sheet and contract asset in its notes to the financial statements. In its FY 21 10K, the Company disclosed contract assets related to the Company's conditional right to receive consideration for development services that have been performed for the customer but not invoiced as of the balance sheet date. The Company disclosed contract assets were included within prepaid expenses and other on the face of the balance sheet. We analyzed DSO as trade receivables plus contract assets relative to total revenue and contract asset levels as contract assets relative to development services revenue.

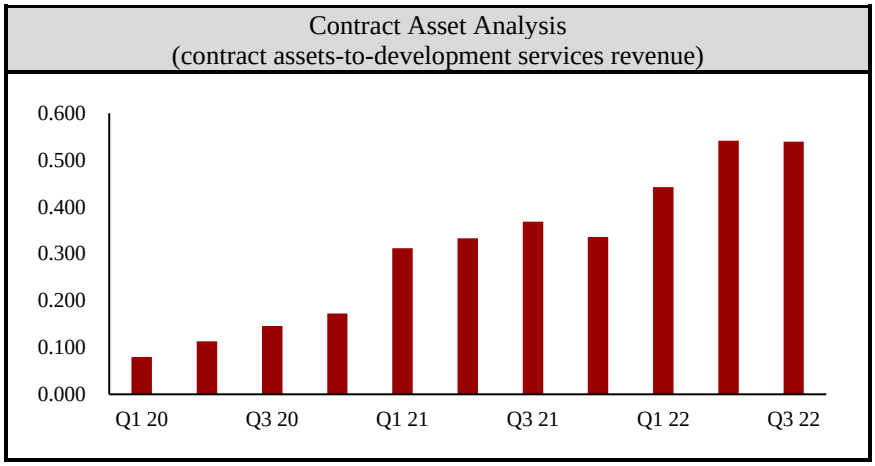
Total receivable levels increased to highest seasonal level in at least four years due to contract asset build: In Q3 22 total receivables increased 24.4% year-over-year to $1,259.0 million, while revenue increased 20.9% to $1,273.0 million. Accordingly, DSO increased 2.9% to 89.0 days, the highest seasonal level in at least five years. While DSO was not materially elevated relative the prior-three year seasonal average, we are concerned elevated DSO was driven by contract assets (discussed next).



Background on development services revenue: Development services revenue includes biologic cell-line development, formulation, analytical stability, and other services (including manufacturing services) related to product development (i.e. products not otherwise approved and intended for commercial sale). In its FY 21 10K, the Company disclosed development services contracts took the form of short-term, fee-for-service arrangements where

revenue was recognized over time as there was no alternative use to the Company for the asset created and the Company had an enforceable right to payment for performance completed as of that date. The Company indicated it measured progress toward completion of development services performance obligations using the output method based on the completion of tasks and activities performed to satisfy a performance obligation or the input method based on effort expended.

Contract asset levels increase to second highest reported level highlights aggressive revenue recognition: In Q3 22, contract assets increased 84.3% year-over-year to $327.0 million, while development services revenue increased 25.9% to $606.0 million. Accordingly, contract assets-to-development services revenue surged 46.4% to 0.540, the second highest level ever reported. The Company did not discuss contract asset levels on its Q3 22 Conference Call or in its Q3 22 10Q. In our view, the persistent contract asset build relative to development services revenue highlights potentially aggressive revenue recognition.



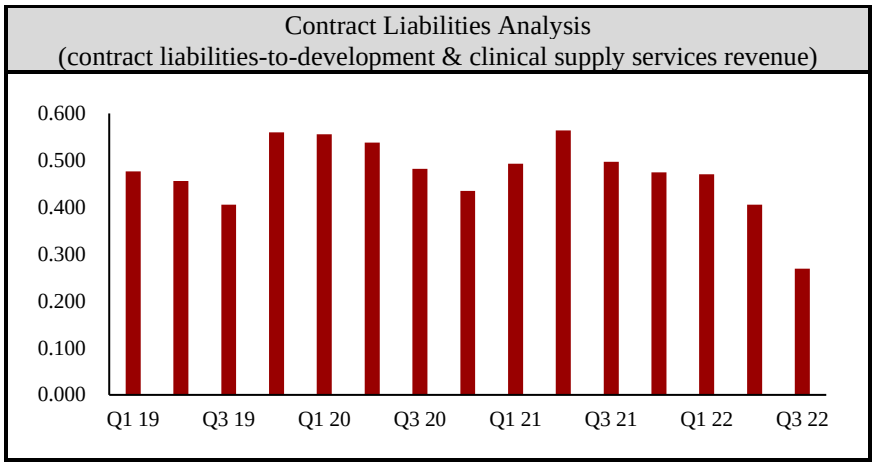
Fixed price contracts heighten our concerns: In its FY 21 10K, the Company disclosed the transaction prices for its development services contracts were fixed. While we acknowledge development services contracts may be shorter term relative to manufacturing contracts, we believe the fixed price nature of development contracts may make it difficult for Catalent to mitigate margin pressure through price increases in an inflationary environment. Further, we believe input cost inflation may have increased the risk of total contract cost underestimation and aggressive revenue recognition.

> The transaction prices for these arrangements are fixed and include amounts stated in the contracts for each promised service, and each service is generally considered to be a separate performance obligation. (FY 21 10K)

Depressed Contract Liability Levels Heighten Our Revenue Growth Concerns

Background on contract liability: In its FY 21 10K, the Company disclosed contract liabilities related to certain development service arrangements that required a portion of the contract consideration to be received in advance and clinical supply comparator sourcing arrangement payments received in advance of contract commencement. Accordingly, we analyzed contract liability levels relative to development and clinical supply services revenue.

Contract liability levels declined materially to multi-year low: In Q3 22, contract liabilities declined 34.3% year-over-year to $190.0 million, while development and clinical supply services revenue increased 21.6% to $707.0 million. Accordingly, contract liabilities-to-development and clinical supply services revenue declined 45.9% to 0.269, the lowest level since Q1 19. In our view, materially depressed contract liability levels suggest the Company may have required lower upfront payments for development and clinical supply services contracts. Accordingly, we are concerned revenue quality may have deteriorated and revenue growth may be pressured.

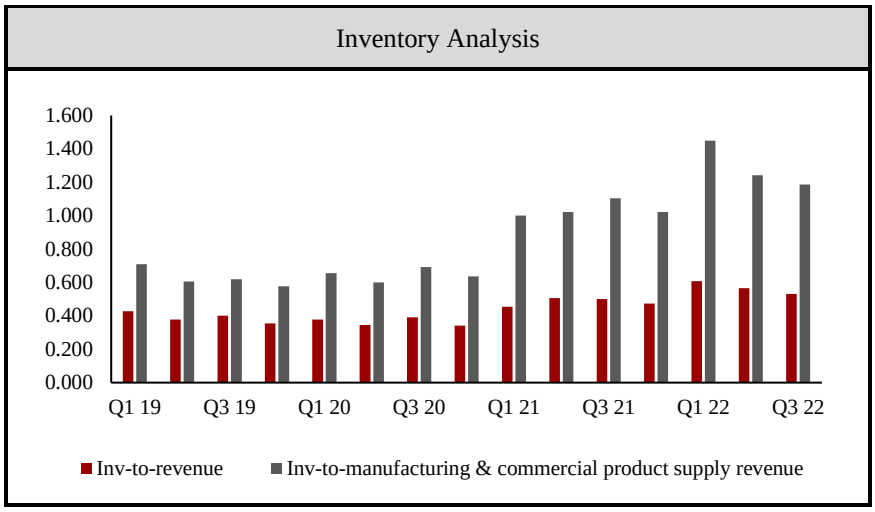


Persistent Inventory Level Build Highlights Potential Margin Pressure, In Our View

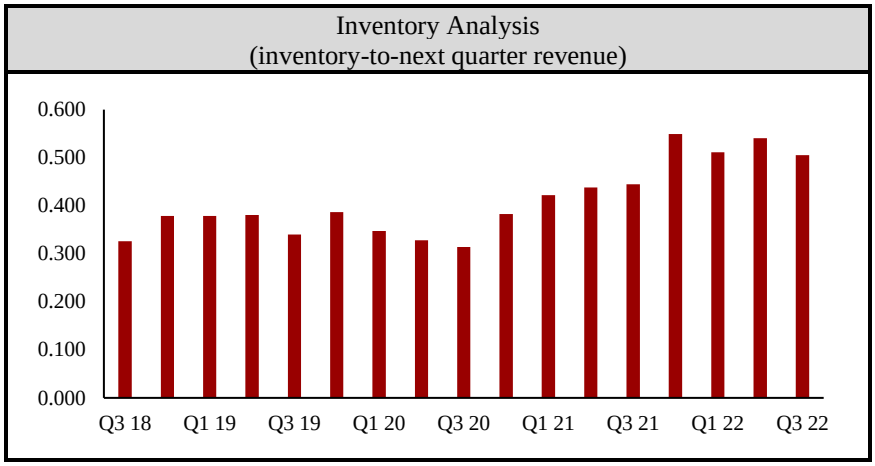
Background on inventory: The Company recognizes manufacturing and commercial product supply, development services, and clinical supply services revenue. Manufacturing and commercial product supply revenue consists of supply sourcing, product manufacturing and packaging, product testing, and cold-chain or ambient temperature distribution for commercially approved products. Development services revenue includes biologic cell-line development, formulation, analytical stability, and other services (including manufacturing services) related to product development (i.e. products not otherwise approved and intended for commercial sale). Clinical supply services revenue relates to the manufacturing, packaging, storage, distribution, and inventory management of customer clinical trial material. While development and clinical supply services revenue includes certain manufacturing, we believe inventory primarily relates to manufacturing and commercial product supply revenue. We analyzed inventory relative to total revenue and manufacturing and commercial product supply revenue to evaluate inventory levels.

Inventory level increase to multi-year seasonal high suggests margins may be pressured, in our view: In Q3 22, inventory-to-revenue (inventory-to-manufacturing & commercial product supply revenue) increased 5.9% (7.3%) year-over-year to 0.531 (1.186), the highest seasonal level in multiple years. On its Q3 22 Conference Call, the Company attributed elevated inventory to its strategic decision to increase inventory levels at the onset of the pandemic to ensure it could meet demand. In addition, the Company guided for inventory to remain elevated until it felt "comfortable" supply chains had stabilized. While increasing inventory levels over the past several quarters may have enabled the Company to meet strong demand amidst supply chain challenges, we believe the Company may have overbuilt inventory and margins may be pressured.

> Our free cash flow has also been negatively impacted the last 2 years by our strategic decision at the onset of the pandemic to increase inventory levels, which continue to allow us to have the inputs we need to meet our supply obligations to our patients and customers in a timely manner. When we feel the time is appropriate and are more comfortable with the stabilization of our supply chains, we will begin to reverse course. (CFO Mr. Thomas Castellano, Q3 22 Conference Call, 05/03/22)

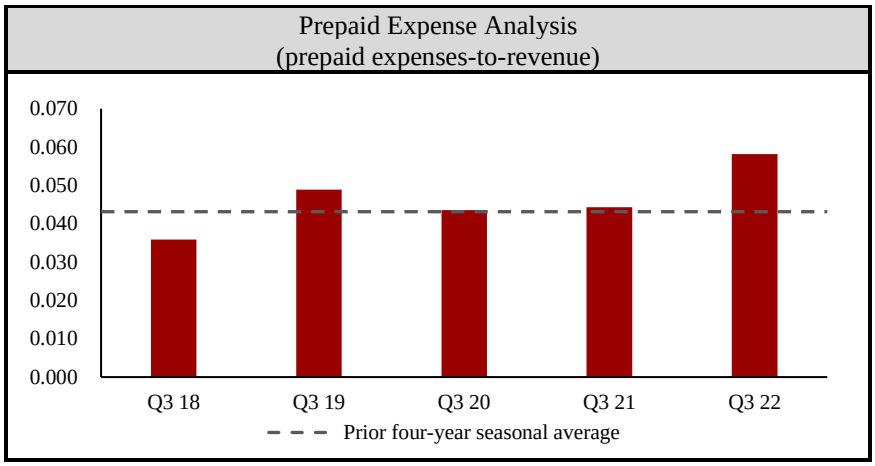


Inventory to expected revenue increase heightens our concerns: In Q3 22, inventory-to-next quarter revenue increased 13.7% year-over-year to 0.505. Given the inventory-to-next quarter revenue increase, the Company's FY 23 guidance implies a material revenue growth slowdown, and our concerns FY 23 guidance may be overly optimistic, our concerns about overbuilt inventory are heightened.



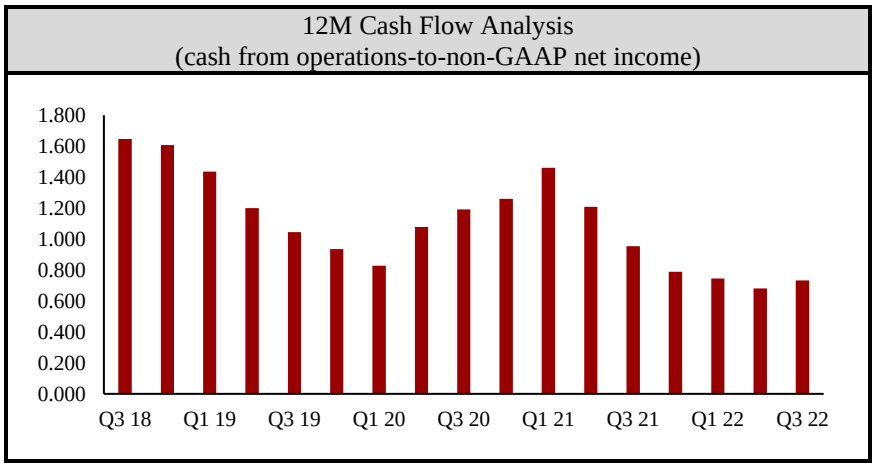
Elevated Prepaid Expenses Heighten Our Margin Pressure Concerns

In Q3 22, prepaid expenses increased 58.8% year-over-year to $74.0 million, while revenue increased 20.9% to $1,273.0 million. Accordingly, prepaid expenses-to-revenue surged 31.4% to 0.058, the highest seasonal level in at least five years. The Company did not discuss prepaid expenses on its Q3 22 Conference Call or in its Q3 22 10Q. In our view, margins may be pressured as prepaid expenses are recognized through the income statement.

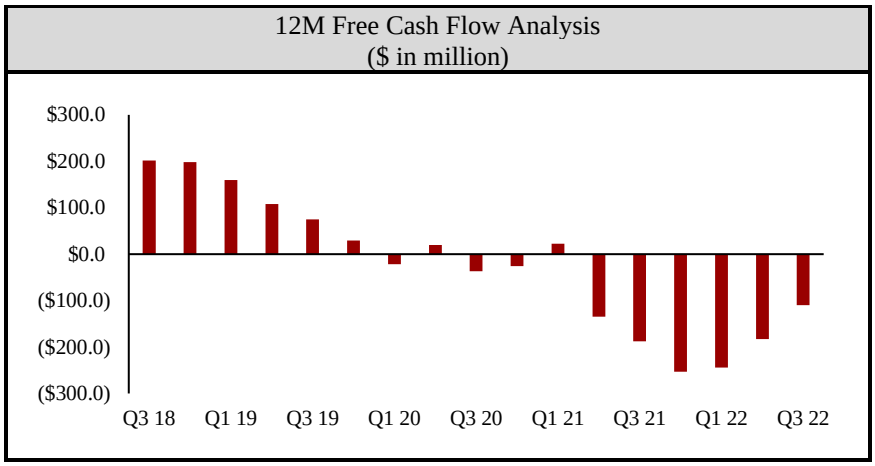


Cash Flow Level Deterioration Highlights Elevated Earnings Sustainability Risk

Cash flow level decline driven by working capital cash consumption highlights elevated earnings risk: In the twelve-months ended Q3 22, cash from operations increased 6.8% year-over-year to $504.0 million, while non-GAAP net income increased 39.3% year-over-year to $688.0 million. Accordingly, cash from operations-to-non-GAAP net income declined 23.3% to 0.733, the second lowest level in at least five years. In addition, working capital consumed $549.0 million in cash. In our view, cash flow level deterioration driven by material working capital cash consumptions highlights elevated earnings sustainability risk.



Persistently negative free cash flow levels heighten our concerns: In the twelve-months ended Q3 22, free cash flow was negative $110.0 million, the sixth consecutive period of negative free cash flow. On its Q3 22 Conference Call, the Company attributed free cash flow pressure to elevated capital expenditures and inventory. Persistently negative free cash flow heightens our earnings sustainability concerns.



Other Observations: CEO Turnover

In its 8K on 01/05/22, Catalent announced CEO Mr. John Chiminski would transition out of his role as CEO into Executive Chair effective 07/01/22. The Company announced current COO Mr. Alessandro Maselli would succeed Mr. Chiminski as CEO. While we acknowledge the CEO is being replaced with an internal promotion and Mr. Chiminski will remain involved as Executive Chair, we believe the CEO turnover highlights elevated near-term disruption risk.

Conclusion

We are concerned recent Biologics revenue strength may have materially benefited from COVID-related product demand. Further, we believe a COVID-related revenue disclosure removal may mask underlying business performance drivers and obfuscate analysis. In our view, a material portion of COVID-related product demand may abate as infection concerns ease and Catalent revenue growth may be pressured and make FY 23 revenue guidance difficult to achieve. Our concerns are heightened given near-term manufacturing and commercial product supply revenue may be pressured. Further, we believe FY 26 revenue guidance achievability may be dependent on development customer product approvals. Given COVID-related products generate attractive margins, we believe a COVID product demand slowdown may pressure margins. In our view, elevated contract asset levels highlight potentially aggressive revenue recognition. Our concerns are heightened given the fixed price nature of development contracts may make it difficult for Catalent to mitigate margin pressure through price increases in an inflationary environment and input cost inflation may have increased the risk of aggressive revenue recognition. In addition, we believe elevated inventory levels suggest the Company may have overbuilt inventory and our margin pressure concerns are heightened. Our earnings sustainability concerns are heightened given depressed contract liability levels, elevated prepaid expense levels, cash flow level deterioration, and CEO turnover.

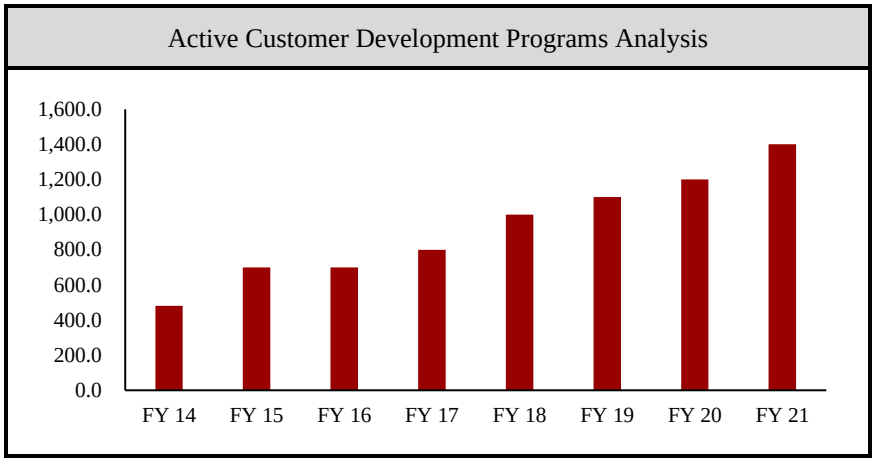
Risks to Our Thesis & Valuation

Market Share, Drug Development Services, & FY 26 Guidance

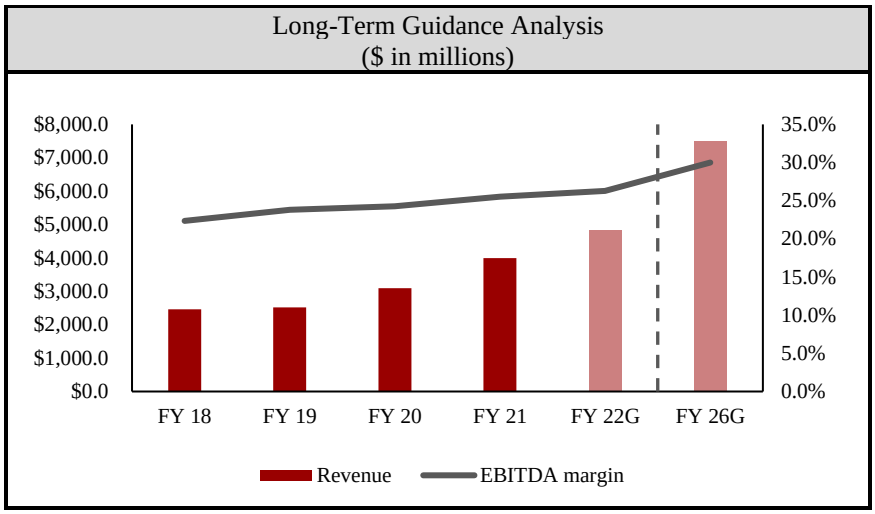
Catalent has a leading market position: In its FY 21 10K, the Company disclosed it held a leading market position. The Company indicated its technology platforms and scientific expertise enables its customers to bring products to market faster. In addition, the Company highlighted it conducted business with 87 of the top 100 branded drug marketers, 23 of the top 25 generic marketers, 24 of the top 25 biologics marketers, and 17 of the top 25 consumer health marketers. Further, on its JP Morgan Conference Call on 01/09/22, Catalent indicated it assisted on 50.0% of all FDA approvals over the last 10 years. On its Q3 22 Conference Call, the Company indicated it had never been in a stronger position in the markets it serves.

> We have broad and diverse technology platforms that are supported by deep scientific expertise, extensive know-how, and more than 1,300 patents and patent applications in approximately 158 families across advanced delivery, drug and biologics formulation, and manufacturing. For example, we have significant softgel fill and formulation know-how, databases of formulated products, and substantial softgel regulatory approval expertise, and, as a result, approximately 90% of approvals by the FDA over the last 25 years of new chemical entities presented in a softgel format have been developed and supplied by us. (FY 21 10K)

Increased development programs guided to drive manufacturing & commercial product supply revenue: In its FY 21 10K, the Company disclosed its product development teams were working on approximately 1,400 active customer development programs, 16.7% more than the prior year and the highest amount ever reported. The Company represented its active development programs expanded in recent years due to growing market demand and its improved capabilities and technology platforms. The Company disclosed it expected a portion of these programs to reach full development and market approval and add to its commercial revenues under long-term contracts.



Catalent guided for robust revenue growth & margin expansion through FY 26: In its Investor Presentation on 01/09/22, the Company guided for organic revenue to increase at a compound annual growth rate of 9.0% at midpoint from FY 22 to FY 26. The Company guided for FY 26 revenue of greater than $7,500.0 million, including acquisitions. In addition, the Company guided for EBITDA margin to increase 370 basis points from FY 22 to FY 26. On its Q3 22 Conference Call, the Company represented its long-term guidance was not reliant on "substantial" COVID vaccine related revenue.



Valuation Analysis

As of the date of this publication, Catalent traded at 15.4x enterprise value to next twelve-month EBITDA, 69.3% above Procaps' forward EBITDA multiple.

Valuation Analysis	NTM EV/EBITDA
Catalent, Inc. (CTLT)	14.9x
Procaps Group S.A. (PROC)	8.8x
% above (below) PROC	*69.3%*

Disclaimer and Disclosure

This report was produced by Voyant Advisors, LLC ("Voyant"). The following Research Analysts employed by Voyant contributed to this report: Graeme Lazarus, Dayne Burzinski, Miles Trevelyan, and Ryan DesJardin. Voyant's home office is at 15373 Innovation Dr, Suite 365 San Diego, CA 92128. The firm's home office is where information about the valuations herein are located, unless otherwise indicated in the report.

At the time of this report, Voyant expects to provide updates on a quarterly or semi-annual basis depending on the frequency of when the above company discloses material financial results. We will cease providing updates if we are discontinuing research coverage as disclosed on the front page of this report in the Thesis Summary.

Voyant has not provided previous recommendations concerning the same financial instrument or issuer during the preceding twelve-month period.