

Catalent, Inc.
Form 10-Q
February 05, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended December 31, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

001-36587

(Commission File Number)

Catalent, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

20-8737688

(I.R.S. Employer Identification No.)

14 Schoolhouse Road, Somerset, NJ
(Address of principal executive offices)

(732) 537-6200

08873

(Zip code)

Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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On February 2, 2018, there were 133,318,679 shares of the Registrant's common stock, par value \$0.01 per share, issued and outstanding.

Table of Contents

CATALENT, INC. and Subsidiaries

INDEX TO FORM 10-Q

For the Three and Six Months Ended December 31, 2017

Item	Page
Part I. <u>Financial Information</u>	
Item 1. <u>Financial Statements</u> (unaudited)	<u>6</u>
<u>Consolidated Statements of Operations for the Three and Six Months Ended December 31, 2017 and December 31, 2016</u>	<u>6</u>
<u>Consolidated Statements of Comprehensive Income/(Loss) for the Three and Six Months Ended December 31, 2017 and December 31, 2016</u>	<u>7</u>
<u>Consolidated Balance Sheets as of December 31, 2017 and June 30, 2017</u>	<u>8</u>
<u>Consolidated Statement of Changes in Shareholders' Equity/(Deficit) as of December 31, 2017</u>	<u>9</u>
<u>Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2017 and December 31, 2016</u>	<u>10</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>11</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>46</u>
Item 4. <u>Controls and Procedures</u>	<u>47</u>
Part II. <u>Other Information</u>	<u>48</u>
Item 1. <u>Legal Proceedings</u>	<u>48</u>
Item 1A. <u>Risk Factors</u>	<u>48</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>49</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>49</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>49</u>
Item 5. <u>Other Information</u>	<u>49</u>
Item 6. <u>Exhibits</u>	<u>49</u>

Signatures

50

2

Table of Contents

Special Note Regarding Forward-Looking Statements

In addition to historical information, this Quarterly Report on Form 10-Q may contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which are subject to the “safe harbor” created by those sections. All statements, other than statements of historical facts, included in this Quarterly Report on Form 10-Q are forward-looking statements. In some cases, you can identify these forward-looking statements by the use of words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “could,” “seeks,” “approximates,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or the negative version of these words or other comparable words. These statements are based on assumptions and assessments made by our management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. Any forward-looking statement is subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements.

Some of the factors that may cause actual results, developments and business decisions to differ materially from those contemplated by such forward-looking statements include, but are not limited to, those described under the section entitled “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 and the following:

• We participate in a highly competitive market, and increased competition may adversely affect our business.

• The demand for our offerings depends in part on our customers’ research and development and the clinical and market success of their products. Our business, financial condition and results of operations may be harmed if our customers spend less on, or are less successful in, these activities.

• We are subject to product and other liability risks that could adversely affect our results of operations, financial condition, liquidity, and cash flows.

• Failure to comply with existing and future regulatory requirements could adversely affect our results of operations and financial condition or result in claims from customers.

• Failure to provide quality offerings to our customers could have an adverse effect on our business and subject us to regulatory actions or costly litigation.

• The services and offerings we provide are highly exacting and complex, and if we encounter problems providing the services or support required, our business could suffer.

• Our global operations are subject to economic, political, and regulatory risks, including the risks of changing regulatory standards or changing interpretations of existing standards, that could affect the profitability of our operations or require costly changes to our procedures.

• The referendum in the United Kingdom (the “U.K.”) and resulting decision of the U.K. government to consider exiting from the European Union could have future adverse effects on our revenues and costs, and therefore our profitability.

• If we do not enhance our existing or introduce new technology or service offerings in a timely manner, our offerings may become obsolete over time, customers may not buy our offerings, and our revenue and profitability may decline.

• We and our customers depend on patents, copyrights, trademarks, trade secrets, and other forms of intellectual property protections, but these protections may not be adequate.

Our future results of operations are subject to fluctuations in the costs, availability, and suitability of the components of the products we manufacture, including active pharmaceutical ingredients, excipients, purchased components, and raw materials.

Changes in market access or healthcare reimbursement for our customers' products in the United States or internationally, including the possible repeal or replacement of the Affordable Care Act in the United States, could adversely affect our results of operations and financial condition by affecting demand for our offerings.

Table of Contents

As a global enterprise, fluctuations in the exchange rate of the U.S. dollar against foreign currencies could have a material adverse effect on our financial performance and results of operations.

The impact to our business of recently enacted U.S. tax legislation could differ materially from our current estimates.

Tax legislative or regulatory initiatives or challenges to our tax positions could adversely affect our results of operations and financial condition.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

Changes to the estimated future profitability of the business may require that we establish an additional valuation allowance against all or some portion of our net U.S. deferred tax assets.

We are dependent on key personnel.

We use advanced information and communication systems to run our operations, compile and analyze financial and operational data, and communicate among our employees, customers, and counter-parties, so the risks generally associated with information and communications systems could adversely affect our results of operations. We are continuously working to install new, and upgrade existing, systems and provide employee awareness training around phishing, malware, and other cyber security risks to enhance the protections available to us, but such protections may be inadequate to address malicious attacks or inadvertent compromises of data security.

We engage, from time to time, in acquisitions and other transactions that may complement or expand our business or divest of non-strategic businesses or assets. We may not be able to complete such transactions, and such transactions, if executed, pose significant risks, including risks relating to our ability to successfully and efficiently integrate acquisitions and realize anticipated benefits therefrom. The failure to execute or realize the full benefits from any such transaction could have a negative effect on our operations.

Our offerings or our customers' products may infringe on the intellectual property rights of third parties.

We are subject to environmental, health, and safety laws and regulations, which could increase our costs and restrict our operations in the future.

We are subject to labor and employment laws and regulations, which could increase our costs and restrict our operations in the future.

Certain of our pension plans are underfunded, and additional cash contributions we may make to increase the funding level will reduce the cash available for our business, such as the payment of our interest expense.

Our substantial leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or in our industry, expose us to interest-rate risk to the extent of our variable rate debt and prevent us from meeting our obligations under our indebtedness.

We caution you that the risks, uncertainties and other factors referenced above may not contain all of the risks, uncertainties, and other factors that are important to you. In addition, we cannot assure you that we will realize the results, benefits, or developments that we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our business in the way expected. There can be no assurance that (i) we have correctly measured or identified all of the factors affecting our business or the extent of these factors' likely impact, (ii)

the available information with respect to these factors on which such analysis is based is complete or accurate, (iii) such analysis is correct, or (iv) our strategy, which is based in part on this analysis, will be successful. All forward-looking statements in this report apply only as of the date of this report or as of the date they were made and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

Social Media

We use our website (www.catalent.com), our corporate Facebook page (<https://www.facebook.com/CatalentPharmaSolutions>), and our corporate Twitter account (@catalentpharma) as channels for the distribution of

Table of Contents

information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, Securities and Exchange Commission ("SEC") filings and public conference calls and webcasts. The contents of our website and social media channels are not, however, a part of this report.

5

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Catalent, Inc. and Subsidiaries

Consolidated Statements of Operations

(Unaudited; Dollars in millions, except per share data)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Net revenue	\$606.3	\$483.7	\$1,150.2	\$925.9
Cost of sales	418.9	335.8	822.7	653.9
Gross margin	187.4	147.9	327.5	272.0
Selling, general and administrative expenses	114.3	96.2	221.3	194.4
Impairment charges and (gain)/loss on sale of assets	4.2	0.5	4.2	0.5
Restructuring and other	0.1	3.3	1.3	4.4
Operating earnings	68.8	47.9	100.7	72.7
Interest expense, net	27.2	22.8	51.5	44.9
Other expense/(income), net	13.6	(1.8)	19.3	(3.9)
Earnings from continuing operations, before income taxes	28.0	26.9	29.9	31.7
Income tax expense	49.9	9.5	48.0	9.7
Net earnings/(loss)	\$(21.9)	\$17.4	\$(18.1)	\$22.0

Earnings per share:

Basic