

Catalent, Inc.

Form 10-Q

February 05, 2019

FALSEDecember 31, 20182019Q2Catalent, Inc.--06-30Large Accelerated

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**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, 2018
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 20-8737688

(State or other
jurisdiction of
incorporation or
organization)

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

**14
Schoolhouse
Road,
Somerset, NJ**

08873

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(Address of principal executive offices) (Zip code)

(732) 537-6200

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 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 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
x

Non-accelerated filer
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

On February 1, 2019, there were 145,632,701 shares of the Registrant's common stock, par value \$0.01 per share, issued and outstanding.

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CATALENT, INC. and Subsidiaries

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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, 2018 (the “Fiscal 2018 10-K”) 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 exceed our anticipated costs or 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 exit of the United Kingdom (the “U.K.”) from the European Union could have future adverse effects on our operations, 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 ("U.S.") or internationally, including possible changes to the U.S. Affordable Care Act, could adversely affect our results of operations and financial condition by affecting demand for our offerings or the financial health of our customers.

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

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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 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.

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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 December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net revenue	\$ 623.0	\$ 606.3	\$ 1,174.8	\$ 1,150.2
Cost of sales	421.6	418.9	824.9	822.7
Gross margin	201.4	187.4	349.9	327.5
Selling, general, and administrative expenses	123.2	114.8	238.7	222.3
Impairment charges and (gain)/loss on sale of assets	(0.1)	4.2	2.8	4.2
Restructuring and other	0.1	0.1	9.8	1.3
Operating earnings	78.2	68.3	98.6	99.7
Interest expense, net	25.5	27.2	53.6	51.5
Other expense, net	1.4	13.1	7.1	18.3
Earnings from continuing operations before income taxes	51.3	28.0	37.9	29.9
Income tax expense	2.3	49.9	3.3	48.0
Net earnings/(loss)	\$ 49.0	\$ (21.9)	\$ 34.6	\$ (18.1)
Earnings/(loss) per share:				
Basic				
Net earnings/(loss)	\$ 0.34	\$ (0.16)	\$ 0.24	\$ (0.14)

Diluted

Net earnings/(loss)	\$ 0.33	\$ (0.16)	\$ 0.24	\$ (0.14)
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The accompanying notes are an integral part of these unaudited consolidated financial statements.

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Table of Contents**Catalent, Inc. and Subsidiaries****Consolidated Statements of Comprehensive Income/(Loss)****(Unaudited; Dollars in millions)**

	Three Months Ended December 31,			Six Months Ended December 31,	
	2018	2017	2018	2017	
Net earnings/(loss)	\$ 49.0	\$ (21.9)	\$ 34.6	\$ (18.1)	
Other comprehensive income/(loss), net of tax					
Foreign currency translation adjustments	(17.6)	(13.4)	(26.4)	24.7	
Pension and other post-retirement adjustments	0.6	0.5	1.0	0.9	
Available for sale investments	—	(3.0)	—	(6.4)	
Other comprehensive income/(loss), net of tax	(17.0)	(15.9)	(25.4)	19.2	
Comprehensive income/(loss)	\$ 32.0	\$ (37.8)	\$ 9.2	\$ 1.1	

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Table of Contents**Catalent, Inc. and Subsidiaries****Consolidated Balance Sheets****(Unaudited; Dollars in millions, except share and per share data)**

December 31, 2018	June 30, 2018
ASSETS	
Current assets:	
Cash and cash equivalents	
\$ 207.9	\$ 410.2
Trade receivables, net	
551.3	555.8
Inventories	
235.0	209.1
Prepaid expenses and other	
77.1	65.2
Total current assets	
1,071.5	1,240.3
Property, plant, and equipment, net	
1,285.8	1,270.6
Other assets:	
Goodwill	
43.4	1,397.2
Other intangibles, net	
58.1	544.9
Deferred income taxes	
31.7	32.9
Other	
10.2	45.2
Total assets	
\$ 4,441.6	\$ 4,531.1

LIABILITIES AND SHAREHOLDER'S DEFICIT

Current liabilities:

Current portion of long-term obligations and other short-term borrowings	69.9	\$	71.9
Accounts payable	184.4		192.1
Other accrued liabilities	260.6		312.9
Total current liabilities	514.9		576.9
Long-term obligations, less current portion	2,130.0		2,649.4
Pension liability	129.6		131.6
Deferred income taxes	50.1		32.5
Other liabilities	54.6		54.0
Commitment and contingencies (see Note 14)			
Shareholders' equity:			
Common stock \$0.01 par value; 1.0 billion shares authorized on December			1.3

31,
 2018
 and
 June
 30,
 2018,
 145,622,900
 and
 133,423,628
 issued
 and
 outstanding
 on
 December
 31,
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Preferred
 stock
 \$0.01
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—

2,735.1

2,283.3

Additional paid in capital			
Accumulated deficit (822.4)		(872.1)	
Accumulated other comprehensive income/(loss) (351.2)		(325.8)	
Total shareholder's equity	1,563.0		1,086.7
Total liabilities and shareholder's equity	\$ 4,441.6	\$	4,531.1

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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Table of Contents**Catalent, Inc. and Subsidiaries****Consolidated Statement of Changes in Shareholders' Equity/(Deficit)****(Unaudited; Dollars in millions, except share data in thousands)**

	Shares of Common Stock	Common Stock	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity/ (Deficit)
Balance at June 30, 2018	133,423.6	\$ 1.3	\$ 2,283.3	\$ (872.1)	\$ (325.8)	\$ 1,086.7
Cumulative effect of change in accounting for ASC 606, net of tax				15.1		15.1
Equity offering, sale of common stock	11,431.4	0.1	445.4			445.5
Share issuances related to stock-based compensation	767.9	0.1	(0.1)			—
Stock-based compensation			17.5			17.5
Cash paid, in lieu of equity, for tax withholding			(11.0)			(11.0)
Net earnings				34.6		34.6
Other comprehensive income/(loss), net of tax					(25.4)	(25.4)
Balance at December 31, 2018	145,622.9	\$ 1.5	\$ 2,735.1	\$ (822.4)	\$ (351.2)	\$ 1,563.0

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Table of Contents**Catalent, Inc. and Subsidiaries**
Consolidated Statements of Cash Flows
(Unaudited; Dollars in millions)

	Six Months Ended	
	December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings/(loss)	\$ 34.6	\$ (18.1)
Adjustments to reconcile earnings/(loss) from operations to net cash from operations:		
Depreciation and amortization	107.5	85.8
Non-cash foreign currency transaction (gain)/loss, net	3.2	7.1
Amortization and write-off of debt financing costs	6.1	2.5
Asset impairments charges and (gain)/loss on sale of assets	2.8	4.2
Reclassification of financing fees paid	—	11.8
Stock-based compensation	17.5	15.5
Provision/(benefit) for deferred income taxes	(0.1)	35.6
Provision for bad debts and inventory	5.1	3.5
Change in operating assets and liabilities:		
Decrease/(increase) in trade receivables	3.1	104.6
Decrease/(increase) in inventories	(26.0)	—
Increase/(decrease) in accounts payable	(11.3)	(0.4)
Other assets/acrued liabilities, net — current and non-current	(58.0)	(76.1)
Net cash provided by operating activities	84.5	176.0
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment and other productive assets	(81.3)	(82.9)
Proceeds from sale of property and equipment	—	1.8
Proceeds from sale of subsidiaries	—	3.4
Payment for acquisitions, net of cash acquired	(127.5)	(748.0)
Net cash (used in) investing activities	(208.8)	(825.7)

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CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in other borrowings	(4.9)	(0.6)
Proceeds from borrowing, net	—	442.6
Payments related to long-term obligations	(503.4)	(9.4)
Financing fees paid	—	(15.6)
Proceeds from sale of common stock, net	445.5	277.8
Cash paid, in lieu of equity, for tax-withholding obligations	(11.0)	(12.4)
Net cash (used in)/provided by financing activities	(73.8)	682.4
Effect of foreign currency exchange on cash	(4.2)	8.5
NET INCREASE/(DECREASE) IN CASH AND EQUIVALENTS	(202.3)	41.2
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	410.2	288.3
CASH AND EQUIVALENTS AT END OF PERIOD	\$ 207.9	\$ 329.5
SUPPLEMENTARY CASH FLOW INFORMATION:		
Interest paid	\$ 52.2	\$ 41.5
Income taxes paid, net	\$ 24.4	\$ 8.0

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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Catalent, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Catalent, Inc. ("Catalent" or the "Company") directly and wholly owns PTS Intermediate Holdings LLC ("Intermediate Holdings"). Intermediate Holdings directly and wholly owns Catalent Pharma Solutions, Inc. ("Operating Company"). The financial results of Catalent are comprised of the financial results of Operating Company and its subsidiaries on a consolidated basis.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the six months ended December 31, 2018 are not necessarily indicative of the results that may be expected for the year ending June 30, 2019. The consolidated balance sheet at June 30, 2018 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information on the Company's accounting policies and footnotes, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2018 filed with the Securities and Exchange Commission (the "SEC").

In fiscal 2018, the Company engaged in a business reorganization to better align its internal business unit structure with its "Follow the Molecule" strategy and the increased focus on its biologics-related offerings. Under the revised structure, the Company created two new operating segments from the former Drug Delivery Solutions segment:

- Biologics and Specialty Drug Delivery, which encompasses biologic cell-line development and manufacturing, development and manufacturing services for blow-fill-seal unit doses, prefilled syringes, vials, and cartridges; analytical development and testing services for large molecules; and development and manufacturing for inhaled products for delivery via metered dose inhalers, dry powder inhalers, and intra-nasal sprays; and
- Oral Drug Delivery, which encompasses comprehensive formulation development, manufacturing, and analytical development capabilities using advanced processing technologies such as bioavailability enhancement, controlled release, particle size engineering, and taste-masking for solid oral-dose forms.

Each of the two new segments reports through a separate management team and ultimately reports to the Company's Chief Executive Officer who is designated as the Chief Operating Decision Maker for segment reporting purposes. The Company's operating segments are the same as its reporting segments. All prior-period comparative segment information has been restated to reflect the current reportable segments in accordance with Accounting Standards Codification ("ASC") 280, *Segment Reporting*.

Foreign Currency Translation

The financial statements of the Company's operations outside the U.S. are generally measured using the local currency as the functional currency. Adjustments to translate the assets and liabilities of these foreign operations into U.S. dollars are accumulated as a component of other comprehensive income/(loss) utilizing period-end exchange rates. In June 2018, as a result of the three-year cumulative consumer price index exceeding 100%, Argentina was classified as having a highly inflationary economy. Beginning on July 1, 2018, the Company accounts for its Argentine operations as highly inflationary.

Research and Development Costs

The Company expenses research and development costs as incurred. Costs incurred in connection with the development of new offerings and manufacturing process improvements are recorded within selling, general, and administrative expenses. Such research and development costs included in selling, general, and administrative expenses amounted to \$1.0 million and \$1.5 million for the three and six months ended December 31, 2018,

respectively, and \$1.5 million and \$3.3 million for the three and six months ended December 31, 2017, respectively.
Costs incurred in connection with research and

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development services the Company provides to customers and services performed in support of the commercial manufacturing process for customers are recorded within cost of sales. Such research and development costs included in cost of sales amounted to \$14.3 million and \$25.6 million for the three and six months ended December 31, 2018, respectively, and \$12.4 million and \$22.4 million for the three and six months ended December 31, 2017, respectively.

Recent Financial Accounting Standards**Recently Adopted Accounting Standards**

In May 2014, the Financial Accounting Standard Board ("FASB") issued *Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers*, which was codified as *ASC 606* and superseded nearly all existing revenue-recognition guidance. The guidance's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, the guidance creates a five-step model that requires a company to exercise judgment when considering the terms of the contracts and all relevant facts and circumstances. The five steps require a company to identify customer contracts, identify the separate performance obligations, determine the transaction price, allocate the transaction price to the separate performance obligations, and recognize revenue when or as each performance obligation is satisfied. The guidance allows for either full retrospective adoption, where the standard is applied to all periods presented, or modified retrospective adoption, where the standard is applied only to the most current period presented in the financial statements. The Company adopted the guidance as of July 1, 2018 using the modified retrospective approach applied to contracts that were not completed as of that date. The Company recorded a cumulative effect adjustment to the fiscal 2019 opening balance of its accumulated deficit upon adoption of this guidance, which decreased beginning accumulated deficit by \$15.1 million.

The following table provides the impact of adopting the guidance on the Company's financial statements:

(Dollars in millions)	Three months Ended December 31, 2018			Six months Ended December 31, 2018		
	As Reported	Effects of Change	Amount without Adoption of ASC 606	As Reported	Effects of Change	Amount without Adoption of ASC 606
Net revenue	\$ 623.0	\$ 5.0	\$ 628.0	\$ 1,174.8	\$ 18.6	\$ 1,193.4
Cost of sales	421.6	20.2	441.8	824.9	31.6	856.5
Gross margin	201.4	(15.2)	186.2	349.9	(13.0)	336.9
Earnings from continuing operations before income taxes	51.3	(15.2)	36.1	37.9	(13.0)	24.9
Income tax expense	2.3	(4.0)	(1.7)	3.3	(3.8)	(0.5)
Net earnings/(loss)	\$ 49.0	\$ (11.2)	\$ 37.8	\$ 34.6	\$ (9.2)	\$ 25.4

The impact of ASC 606 on the Company's consolidated balance sheet is immaterial.

The adoption of ASC 606 resulted in three primary changes as compared to the previous revenue recognition guidance: (a) revenue from commercial product supply is recognized following successful completion of the required quality assurance process where it was previously recognized upon shipment of the product to the customer; (b) earlier recognition of revenue from certain commercial supply contract cancellations is recognized as variable consideration

as the Company's performance obligations are satisfied rather than only upon agreement of the amount with the customer; and (c) revenue from sourcing comparator drug product for clinical supply services is recorded net of the cost of procuring it rather than at full value with a corresponding expense. Refer to Note 2 for the Company's revenue recognition policy.

In March 2017, the FASB issued *ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires entities to report the service cost component of the net periodic benefit cost in the same income statement line as other compensation costs arising from services rendered by employees during the reporting period. The other components of the net benefit costs will be presented in the income statement separately from the service cost and below the income from operations subtotal. The Company adopted this guidance as of July 1, 2018, on a retrospective basis, which had an effect on the consolidated statement of operations for the three and six months ended December 31, 2017. The following table summarizes the Company's As Previously Reported and As Adjusted changes to the consolidated statement of operations for the three and six months ended December 31, 2017:

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(Dollars in millions)	Three Months Ended December 31, 2017		Six Months Ended December 31, 2017	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
Selling, general, and administrative expenses	\$ 114.3	\$ 114.8	\$ 221.3	\$ 222.3
Operating earnings	68.8	68.3	100.7	99.7
Other expense, net	13.6	13.1	19.3	18.3

In August 2017, the FASB issued *ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which reduces the complexity of and simplifies the application of hedge accounting by issuers. The ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within those years. Early adoption is permitted. The Company early adopted this guidance as of July 1, 2018 on a prospective basis. The adoption of this guidance was not material to the Company's consolidated financial statements.

In May 2017, the FASB issued *ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*, which clarifies when an entity will apply modification accounting for changes to stock-based compensation arrangements. Modification accounting applies if the value, vesting conditions, or classification of an award changes. The Company adopted this guidance prospectively at the beginning of fiscal 2019. The adoption of this guidance was not material to the Company's consolidated financial statements.

In January 2017, the FASB issued *ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business*, which provides additional guidance on the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions of assets or businesses. The Company adopted this guidance prospectively at the beginning of fiscal 2019. The adoption of this guidance was not material to the Company's consolidated financial statements.

In January 2016, the FASB issued *ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which changes the accounting for equity investments and financial liabilities under the fair value option, and presentation and disclosure requirements for financial instruments. The ASU requires equity investments with readily determinable fair values to be measured at fair value and to recognize change in fair value in net earnings. The ASU is not applicable to equity investments accounted for under the equity method of accounting or those that result in consolidation of the investee. The Company adopted this guidance at the beginning of fiscal 2019. The adoption of this guidance was not material to the Company's consolidated financial statements.

New Accounting Standards Not Adopted as of December 31, 2018

In August 2018, the FASB issued *ASU 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU will be effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years and allows for either a retrospective or prospective application. The Company is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

In February 2018, the FASB issued *ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which permits an entity to reclassify to retained earnings the stranded tax effects caused by the Tax Cuts and Jobs Act of 2017 on items within accumulated other comprehensive income/(loss). The ASU will be effective for fiscal years beginning after December 15, 2018 and interim periods within those years. Early adoption is permitted. The Company is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

In June 2016, the FASB issued *ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which introduces a new accounting model Credit Expected Credit Losses model ("CECL"). CECL requires earlier recognition of credit losses, while also providing additional transparency about credit risk. The CECL model utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses for receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. This model replaces the multiple existing impairment models in current GAAP, which generally require that a loss be incurred before it is recognized. The new standard will also apply to receivables arising from revenue transactions such as contract assets and accounts receivables. The ASU will be effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

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In February 2016, the FASB issued *ASU 2016-02, Leases (Topic 842)*, which will supersede *ASC 840 Leases*. The new guidance requires lessees to recognize most leases on their balance sheets for the rights and obligations created by those leases. The guidance requires enhanced disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases and will be effective for public reporting entities in annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The guidance is required to be adopted using the modified retrospective approach. The Company anticipates that most of its operating leases will result in the recognition of additional assets and corresponding liabilities on its consolidated balance sheets. The Company continues to evaluate the impact of adopting this guidance on its consolidated financial statements.

2. REVENUE RECOGNITION

The Company recognizes revenue in accordance with ASC 606. The Company generally earns its revenue by supplying goods or providing services under contracts with its customers in three primary revenue streams: manufacturing and commercial product supply, development services, and clinical supply services. The Company measures the revenue from customers based on the consideration specified in its contracts, excluding any sales incentive or amount collected on behalf of a third party.

The company generally expenses sales commissions as incurred because either the amortization period is one year or less, or the balance with an amortization period greater than one year is not material.

The following tables allocate revenue for the three and six months ended December 31, 2018 by type of activity and reporting segment (in millions):

Three months ended December 31, 2018	Softgel Technologies	Biologics & Specialty Drug Delivery	Oral Drug Delivery	Clinical Supply Services	Total
Manufacturing & commercial product supply	\$ 197.0	\$ 88.6	\$ 100.5	\$ —	\$ 386.1
Development services	16.7	95.7	53.5	—	165.9
Clinical supply services	—	—	—	80.8	80.8
Total	\$ 213.7	\$ 184.3	\$ 154.0	\$ 80.8	\$ 632.8
Inter-segment revenue elimination					(9.8)
Combined net revenue					\$ 623.0

Six months ended December 31, 2018	Softgel Technologies	Biologics & Specialty Drug Delivery	Oral Drug Delivery	Clinical Supply Services	Total
Manufacturing & commercial product supply	\$ 381.4	\$ 162.4	\$ 182.2	\$ —	\$ 726.0
Development services	31.5	176.5	101.9	—	309.9
Clinical supply services	—	—	—	158.5	158.5
Total	\$ 412.9	\$ 338.9	\$ 284.1	\$ 158.5	\$ 1,194.4
Inter-segment revenue elimination					(19.6)
Combined net revenue					\$ 1,174.8

The following table allocates revenue by the location where the goods were made or the service performed:

(Dollars in millions)	Three months ended December 31, 2018	Six months ended December 31, 2018
United States	\$ 315.1	\$ 579.5
Europe	214.8	411.2
International	119.7	227.3
Other		
Elimination of revenue attributable to multiple locations	(26.6)	(43.2)
Total	\$ 623.0	\$ 1,174.8

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Manufacturing & Commercial Product Supply Revenue

Manufacturing and commercial product supply revenue consists of revenue earned by manufacturing products supplied to customers under long-term commercial supply arrangements. The Company recognizes revenue for manufacturing and supplying commercial products as control is transferred to the customer, which is measured based on product that has successfully completed contractually required quality assurance process. Revenue is measured based on the amount of consideration the Company expects to receive in exchange for providing these products and services. The contractual performance obligation generally includes manufacture and the completion of product quality release testing procedures specified in the contract. These activities are interdependent and thus are considered to be a single combined performance obligation. Payment is typically due 30 to 90 days after the goods are shipped to the customer based on the payment terms set forth in the applicable customer agreement.

Development Services Revenue

Development services contracts generally take the form of short-term, fee-for-service arrangements. Performance obligations vary, but frequently include (1) the delivery of a formulation report, analytical and stability testing report, or other report on product- or molecule-based studies or (2) the manufacture of products under development or otherwise not intended for commercial sale. The transaction prices for these arrangements include fixed consideration of the amounts stated in the contracts for each promised good or service, which are generally considered to be separate performance obligations. The Company recognizes revenue when or as control of each individual performance obligation is transferred to the customer and exercises judgment in determining the timing of revenue recognition by analyzing the point in time or period over which the customer has the ability to direct the use of and obtain substantially all of the remaining benefits of the arrangement. Control generally transfers to the customer when services have been completed or the customer has accepted the product or service deliverable and the Company has right to payment based on the terms of the agreement.

In certain arrangements, the Company recognizes revenue over time as the Company satisfies performance obligations. Satisfaction of the performance obligations is measured using an output method measure of progress based on effort expended by the Company. In other arrangements, revenue is recognized when the customer has taken legal title to or accepted the product or service deliverable and the Company has a right to payment based on the terms of the arrangement.

Development services contracts may also include certain success-based milestone payments for completed performance obligations, such as regulatory approval and product validation prior to the commencement of commercial supply. Revenue associated with developmental milestones is considered variable consideration and is typically recognized when the success-based milestone is achieved, and no significant revenue reversal is anticipated. The Company allocates consideration to each performance obligation based on the relative selling price. Payment is typically due 30 to 90 days following the completion of services provided to the customer based on the payment terms set forth in the applicable customer agreement. Certain development service arrangements require a portion of the contract consideration to be received in advance at the commencement of the contract and is initially recorded as a contract liability.

Clinical Supply Services Revenue

Clinical supply services contracts generally take the form of fee-for-service arrangements. Performance obligations for clinical supply services revenue typically include a combination of the following services: the manufacturing, packaging, storage, distribution, destruction, and inventory management of customer clinical trials materials. Performance obligations can also include the sourcing of comparator drug products on behalf of customers to be used in clinical trials to compare performance with the drug under clinical investigation. In certain arrangements, the Company recognizes revenue over time when the Company satisfies performance obligations. Satisfaction of the performance obligations is measured using an output method measure of progress based on effort expended by the Company. In other arrangements, revenue is recognized when the customer has taken legal title or accepted the product or service deliverable and the Company has right to payment based on the terms of the arrangement. Payment is typically due 30 to 90 days following the completion of services provided to the customer based on the payment terms set forth in the applicable customer agreement.

The Company records revenue for comparator sourcing arrangements on a net basis because it is acting as an agent that does not control the product or service before it is transferred to the customer. Payment for comparator sourcing

activity is typically received in advance at the commencement of the contract and is initially recorded as a contract liability.

Contract Liabilities

Contract liabilities relate to cash consideration that the Company receives in advance of satisfying the related performance obligations. Changes in the contractual liabilities balance during the six months ended December 31, 2018 are as follows:

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millions)**Contract
liability**

Balance at June 30, 2018	\$ 100.9
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Balance at December 31, 2018	\$ 112.4
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Revenue
recognized
in the period
from:

Amounts included in contracts liability at the beginning of the period	\$ 48.9
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Remaining Performance Obligations

For the Softgel Technologies, Biologics and Specialty Drug Delivery, and Oral Drug Delivery segments, remaining performance obligations represent firm orders for manufacturing and commercial product supply, including minimum volume commitments and future development services, for which there are incomplete performance obligations. For the Clinical Supply Services segment, remaining performance obligations represent estimated future service revenues from work not yet completed under signed contracts. The remaining performance obligations as of December 31, 2018 were \$1,274.5 million, including approximately \$319.2 million related to our Clinical Supply Services segment. We expect to recognize approximately 58% of the remaining performance obligations in existence as of December 31, 2018 over the next six months, with the remaining recognized thereafter.

3. BUSINESS COMBINATIONS***Juniper Pharmaceuticals Acquisition***

On August 14, 2018, Operating Company acquired Juniper Pharmaceuticals, Inc., a Delaware corporation ("Juniper") through a tender offer and back-end merger, pursuant to the terms of an agreement and plan of merger (the "Juniper Merger Agreement"), and Juniper became a wholly owned subsidiary of Operating Company. Under the terms of the Juniper Merger Agreement, all outstanding options to purchase Juniper shares were canceled in exchange for cash equal to the product of the number of Juniper shares subject to the option and the difference between the price per share paid in the tender offer and the exercise price. Similarly, all outstanding restricted stock units in respect of Juniper shares were canceled in exchange for cash equal to the product of the number of units and the price per share paid in the tender offer. Juniper has expertise in formulation development and supply and augments the Company's pre-existing portfolio of solid-state screening, pre-formulation, formulation, analytical, and bioavailability enhancement solutions, including the development of drug products produced using spray-dried dispersion, with integrated development, analytical, and clinical manufacturing. Juniper also owns the ex-U.S. rights to and supplies for sale to its licensee of such rights CRINONE®, a reproductive therapy. The primary operations of the acquired business are located in owned facilities aggregating 38,000 square feet in Nottingham, U.K. and is now included in the Oral Drug Delivery segment. Results of this segment include the results of Juniper for the period since the acquisition.

The aggregate purchase consideration, net of cash acquired, was \$127.5 million, which was funded by cash on hand. As a result of the preliminary fair value allocations, the Company recognized intangible assets of \$69.0 million and \$10.0 million for product relationships and customer relationships, respectively. The remainder of the preliminary fair value was allocated to tangible assets acquired and goodwill. The fair value allocation is expected to be completed upon finalization of an independent appraisal over the next several months, but no later than one year from the acquisition date.

4. GOODWILL

The following table summarizes the changes between June 30, 2018 and December 31, 2018 in the carrying amount of goodwill in total and by reporting segment:

(Dollars in millions)	Softgel Technologies	Biologics and Specialty Drug Delivery	Oral Drug Delivery	Clinical Supply Services	Total
Balance at June 30, 2018	\$ 415.2	\$ 505.7	\$ 319.9	\$ 156.4	\$ 1,397.2
Additions	—	—	42.9	—	42.9
Foreign currency translation adjustments	(7.1)	(0.9)	(5.2)	(5.5)	(18.7)
Balance at December 31, 2018	\$ 408.1	\$ 504.8	\$ 357.6	\$ 150.9	\$ 1,421.4

The increase in goodwill in the Oral Drug Delivery reporting segment is a result of the Juniper acquisition. The Company did not record an impairment charge in the current period.

Table of Contents**5. DEFINITE-LIVED LONG-LIVED ASSETS**

The Company's definite-lived long-lived assets include property, plant, and equipment as well as intangible assets with definite lives. Refer to Note 16, *Supplemental Balance Sheet Information* for details related to property, plant, and equipment.

The details of other intangibles, net as of December 31, 2018 and June 30, 2018 are as follows:

(Dollars in millions)	Weighted Average Life	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
December 31, 2018				
Amortized intangibles:				
Core technology	18 years	\$ 168.0	\$ (88.7)	\$ 79.3
Customer relationships	14 years	589.9	(158.4)	431.5
Product relationships	11 years	275.3	(205.1)	70.2
Total intangible assets		\$ 1,033.2	\$ (452.2)	\$ 581.0

The increases in customer relationships and product relationships as of December 31, 2018 are associated with the acquisition of Juniper in August 2018.

(Dollars in millions)	Weighted Average Life	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
June 30, 2018				
Amortized intangibles:				
Core technology	18 years	\$ 170.8	\$ (85.3)	\$ 85.5
Customer relationships	14 years	587.0	(140.9)	446.1
Product relationships	12 years	210.5	(197.2)	13.3
Total intangible assets		\$ 968.3	\$ (423.4)	\$ 544.9

Amortization expense was \$19.5 million and \$37.7 million for the three and six months ended December 31, 2018, respectively, and \$16.1 million and \$27.5 million for the three and six months ended December 31, 2017, respectively. Future amortization expense for the next five fiscal years is estimated to be:

(Dollars in millions)	Remainder Fiscal 2019	2020	2021	2022	2023	2024
Amortization expense	\$ 33.8	\$ 58.4	\$ 58.4	\$ 58.4	\$ 58.4	\$ 58.3

Table of Contents**6. LONG-TERM OBLIGATIONS AND SHORT-TERM BORROWINGS**

Long-term obligations and short-term borrowings consist of the following at December 31, 2018 and June 30, 2018:

(Dollars in millions)	Maturity as of December 31, 2018	December 31, 2018	June 30, 2018
Senior Secured Credit Facilities			
Term loan facility U.S. dollar-denominated	May 2024	\$ 775.8	\$ 1,228.4
Term loan facility euro-denominated	May 2024	349.0	358.9
Euro-denominated 4.75% Senior Notes due 2024	December 2024	428.7	438.4
U.S. dollar-denominated 4.875% Senior Notes due 2026	January 2026	444.2	443.8
Deferred purchase consideration	October 2021	141.7	188.9
\$200 million revolving credit facility	May 2022	—	—
Capital lease obligations	2020 to 2032	58.6	60.8
Other obligations	2018 to 2019	1.9	2.1
Total		2,199.9	2,721.3
Less: Current portion of long-term obligations and other short-term borrowings		69.9	71.9
Long-term obligations, less current portion		\$ 2,130.0	\$ 2,649.4

Senior Secured Credit Facilities and Third Amendment

On October 18, 2017, Operating Company completed Amendment No. 3 (the "Third Amendment") to its Amended and Restated Credit Agreement, dated as of May 20, 2014 (as subsequently amended, the "Credit Agreement"), governing the senior secured credit facilities that provide U.S. dollar, denominated term loans, euro-denominated term loans, and a revolving credit facility. The Third Amendment lowered the interest rate on U.S. dollar-denominated and euro-denominated term loans and the revolving credit facility and extended the maturity dates on the senior secured credit facilities by three years. From the Third Amendment, the applicable rate for U.S. dollar-denominated term loans is LIBOR (the London Interbank Offered Rate, subject to a floor of 1.00%) plus 2.25%, and the applicable rate for euro-denominated term loans is Euribor (the Euro Interbank Offered Rate published by the European Money Markets

Institute, subject to a floor of 1.00%) plus 1.75%. The applicable rate for the revolving loans was initially set at LIBOR plus 2.25%, and such rate can additionally be reduced to LIBOR plus 2.00% in future periods based on a measure of Operating Company's total leverage ratio. The term loans and revolving loans will now mature in May 2024 and May 2022, respectively.

On July 27, 2018, the Company completed an underwritten public equity offering (the "2018 Equity Offering") and used the net proceeds coupled with cash on hand to repay \$450.0 million of the outstanding borrowings under its U.S. dollar-denominated term loans on July 31, 2018.

Euro-denominated 4.75% Senior Notes due 2024

On December 9, 2016, Operating Company completed a private offering of €380.0 million aggregate principal amount of 4.75% Senior Notes due 2024 (the "Euro Notes"). The Euro Notes are fully and unconditionally guaranteed, jointly and severally, by all of the wholly owned U.S. subsidiaries of Operating Company that guarantee its senior secured credit facilities. The Euro Notes were offered in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the "Securities Act") and outside the United States only to non-U.S. investors pursuant to Regulation S under the Securities Act. The Euro Notes will mature on December 15, 2024, bear interest at the rate of 4.75% per annum and are payable semi-annually in arrears on June 15 and December 15 of each year.

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U.S. Dollar-denominated 4.875% Senior Notes due 2026

On October 18, 2017, Operating Company completed a private offering (the "Debt Offering") of \$450.0 million aggregate principal amount of 4.875% Senior Notes due 2026 (the "USD Notes"). The USD Notes are fully and unconditionally guaranteed, jointly and severally, by all of the wholly owned U.S. subsidiaries of Operating Company that guarantee its senior secured credit facilities. The USD Notes were offered in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act and outside the United States only to non-U.S. investors pursuant to Regulation S under the Securities Act. The USD Notes will mature on January 15, 2026, bear interest at the rate of 4.875% per annum, and are payable semi-annually in arrears on January 15 and July 15 of each year, beginning on July 15, 2018. The net proceeds of the Debt Offering, after payment of the initial purchasers' discount and related fees and expenses, were used to fund a portion of the consideration for the Catalent Indiana acquisition due at its closing.

Deferred Purchase Consideration

In connection with the acquisition of Catalent Indiana in October 2017, \$200.0 million of the \$950.0 million aggregate nominal purchase price is payable in \$50 million installments, on each of the first four anniversaries of the closing date. The Company paid the first of these four payments in October 2018. The deferred purchase consideration was initially recorded at fair value and included a component of imputed interest.

Bridge Loan Facility

On September 18, 2017, contemporaneous with the Company entering into the agreement to acquire Catalent Indiana, Operating Company entered into a debt commitment letter with Morgan Stanley Senior Funding, Inc., JP Morgan Chase Bank, N.A., Royal Bank of Canada, RBC Capital Markets, Bank of America, N.A., and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as commitment parties. Pursuant to the debt commitment letter and subject to its terms and conditions, the commitment parties agreed to provide a senior unsecured bridge loan facility (the "Bridge Facility") of up to \$700.0 million in the aggregate for the purpose of providing any back-up financing necessary to fund a portion of the consideration to be paid in the acquisition and related fees, costs, and expenses (the "Bridge Loan Commitment"). In connection with entering into the Bridge Facility, Operating Company incurred \$6.1 million of associated fees. Operating Company did not draw on it to fund the acquisition and the Company expensed the \$6.1 million in the second quarter of fiscal 2018 as part of other expense, net and the facility was closed.

Debt Covenants

Senior Secured Credit Facilities

The Credit Agreement contains a number of covenants that, among other things, restrict, subject to certain exceptions, Operating Company's (and Operating Company's restricted subsidiaries') ability to incur additional indebtedness or issue certain preferred shares; create liens on assets; engage in mergers and consolidations; sell assets; pay dividends and distributions or repurchase capital stock; repay subordinated indebtedness; engage in certain transactions with affiliates; make investments, loans, or advances; make certain acquisitions; enter into sale and leaseback transactions; amend material agreements governing Operating Company's subordinated indebtedness; and change Operating Company's lines of business.

The Credit Agreement also contains change-of-control provisions and certain customary affirmative covenants and events of default. The revolving credit facility requires compliance with a net leverage covenant when there is a 30% or more draw outstanding at a period end. As of December 31, 2018, Operating Company was in compliance with all material covenants under the Credit Agreement.

Subject to certain exceptions, the Credit Agreement permits Operating Company and its restricted subsidiaries to incur certain additional indebtedness, including secured indebtedness. None of Operating Company's non-U.S. subsidiaries or Puerto Rico subsidiaries is a guarantor of the loans.

Under the Credit Agreement, Operating Company's ability to engage in certain activities such as incurring certain additional indebtedness, making certain investments, and paying certain dividends is tied to ratios based on Adjusted EBITDA (which is defined as "Consolidated EBITDA" in the Credit Agreement). Adjusted EBITDA is based on the definitions in the Credit Agreement, is not defined under GAAP, and is subject to important limitations.

The Euro Notes and the USD Notes

The Indentures governing the Euro Notes and the USD Notes (the "Indentures") contain certain covenants that, among other things, limit the ability of Operating Company and its restricted subsidiaries to incur or guarantee more debt or issue certain preferred shares; pay dividends on, repurchase, or make distributions in respect of their capital stock or make other

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restricted payments; make certain investments; sell certain assets; create liens; consolidate, merge, sell; or otherwise dispose of all or substantially all of their assets; enter into certain transactions with their affiliates, and designate their subsidiaries as unrestricted subsidiaries. These covenants are subject to a number of exceptions, limitations, and qualifications as set forth in the Indentures. The Indentures also contain customary events of default including, but not limited to, nonpayment, breach of covenants, and payment or acceleration defaults in certain other indebtedness of Operating Company or certain of its subsidiaries. Upon an event of default, either the holders of at least 30% in principal amount of each of the then-outstanding Euro Notes or the then-outstanding USD Notes, or either of the Trustees under the Indentures, may declare the applicable notes immediately due and payable; or in certain circumstances, the applicable notes will become automatically immediately due and payable. As of December 31, 2018, Operating Company was in compliance with all material covenants under the Indentures.

Fair Value of Debt Instruments

The estimated fair value of the senior secured credit facility, a Level 2 fair-value estimate, is based on the quoted market prices for the same or similar issues or on the current rates offered for debt of the same remaining maturities and considers collateral, if any. The estimated fair value of the Euro and USD Notes, a Level 1 fair-value estimate, is based on the quoted market prices of the instruments. The carrying amounts and the estimated fair values of financial instruments as of December 31, 2018 and June 30, 2018 are as follows:

(Dollars in millions)	Fair Value Measurement	December 31, 2018		Carrying Value	June 30, 2018	
		Carrying Value	Estimated Fair Value		Carrying Value	Estimated Fair Value
Euro-denominated						
4.75% Senior Notes	Level 1	\$ 428.7	\$ 428.7	\$ 438.4	\$ 457.6	
U.S. Dollar-denominated						
4.875% Senior Notes	Level 1	444.2	419.8	443.8	428.3	
Senior Secured Credit Facilities & Other	Level 2	1,327.0	1,246.0	1,839.1	1,768.0	
Total		\$ 2,199.9	\$ 2,094.5	\$ 2,721.3	\$ 2,653.9	

7. EARNINGS PER SHARE

The reconciliations between basic and diluted earnings per share attributable to Catalent common shareholders for the three and six months ended December 31, 2018 and 2017, respectively, are as follows (in millions, except share and per share data):

	Three Months Ended December 31,			Six Months Ended December 31,	
	2018	2017	2018	2017	
Net earnings/(loss)	\$ 49.0	\$ (21.9)	\$ 34.6	\$ (18.1)	
Weighted average shares outstanding	145,058,230	132,983,262	143,285,870	129,327,188	
Dilutive securities issuable-stock plans	1,602,109	—	1,775,739	—	

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Total weighted average diluted shares outstanding	146,660,339	132,983,262	145,061,609	129,327,188
Earnings/(loss) per share:				
Basic	\$ 0.34	\$ (0.16)	\$ 0.24	\$ (0.14)
Diluted	\$ 0.33	\$ (0.16)	\$ 0.24	\$ (0.14)

The computation of diluted earnings per share for the three and six months ended December 31, 2018 excludes the effect of the potential common shares issuable under employee-held stock options and restricted stock units of approximately 1.1 million and 1.0 million shares, respectively, because they are anti-dilutive. The computation of diluted earnings per share for the three and six months ended December 31, 2017 excludes the maximum effect of the potential common shares issuable under employee-held stock options and restricted stock units of approximately 2.6 million shares, and excludes restricted share awards of 2.1 million shares, because the Company had a net loss for the period and the effect would therefore be anti-dilutive.

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Table of Contents**8. OTHER EXPENSE, NET**

The components of other expense, net for the three and six months ended December 31, 2018 and 2017 are as follows:

(Dollars in millions)	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Other expense, net				
Debt refinancing costs ⁽¹⁾	\$ —	\$ 11.8	\$ 4.2	\$ 11.8
Foreign currency (gains) and losses ⁽²⁾	0.7	1.3	2.4	6.9
Other	0.7	—	0.5	(0.4)
Total other expense, net	\$ 1.4	\$ 13.1	\$ 7.1	\$ 18.3

(1) The expense in the six months ended December 31, 2018 includes a write-off of \$4.2 million of previously capitalized financing charges related to the Company's U.S. dollar term loan under its senior secured credit facility. The prior-year debt refinancing costs include financing charges related to the offering of the USD Notes and the Third Amendment and also include a \$6.1 million charge for commitment fees paid during the first quarter of fiscal 2018 on the Bridge Facility.

(2) Foreign currency remeasurement (gains) and losses include both cash and non-cash transactions.

9. RESTRUCTURING AND OTHER COSTS***Restructuring Costs***

From time to time, the Company has implemented plans to restructure certain operations, both domestically and internationally. The restructuring plans focused on various aspects of operations, including closing and consolidating certain manufacturing operations, rationalizing headcount and aligning operations in a strategic and more cost-efficient structure. In addition, the Company may incur restructuring charges in the future in cases where a material change in the scope of operation with its business occurs. Employee-related costs consist primarily of severance costs and also include outplacement services provided to employees who have been involuntarily terminated and duplicate payroll costs during transition periods. Facility exit and other costs consist of accelerated depreciation, equipment relocation costs and costs associated with planned facility expansions and closures to streamline Company operations.

Other Costs/(Income)

Other costs/(income) includes settlement charges, net of any insurance recoveries, related to the probable resolution of certain customer claims related to a previous temporary suspension of operations at a softgel manufacturing facility.

The following table summarizes the significant costs recorded within restructuring and other costs:

(Dollars in millions)	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Restructuring costs:				
Employee-related reorganization	\$ 0.1	\$ 1.6	\$ 9.8	\$ 3.3
Facility exit and other costs	—	(0.7)	—	(0.2)

Total restructuring costs	\$ 0.1	\$ 0.9	\$ 9.8	\$ 3.1
Other - customer claims, net of insurance recoveries	—	(0.8)	—	(1.8)
Total restructuring and other costs	\$ 0.1	\$ 0.1	\$ 9.8	\$ 1.3

10. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to fluctuations in the applicable exchange rate on its investments in foreign operations. While the Company does not actively hedge against changes in foreign currency, the Company has mitigated its exposure from its investments in its European operations by denominating a portion of its debt in euros. At December 31, 2018, the Company had euro-denominated debt outstanding of \$777.7 million that is designated and qualifies as a hedge of a net investment in foreign operations. For non-derivatives designated and qualifying as net investment hedges, the translation gains or losses are reported in accumulated other comprehensive income/(loss) as part of the cumulative translation adjustment. The non-hedge portions of

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the translation gains or losses are reported in the statement of operations. The following table includes net investment hedge activity during the three and six months ended December 31, 2018 and 2017.

(Dollars in millions)	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Unrealized foreign exchange gain/(loss) within other comprehensive income	\$ 15.6	\$ (3.9)	\$ 11.4	\$ (21.5)
Unrealized foreign exchange gain/(loss) within statement of operations	\$ 9.4	\$ (2.8)	\$ 6.9	\$ (16.2)

The net accumulated gain of the instrument designated as a hedge as of December 31, 2018 within other comprehensive income/(loss) was approximately \$59.0 million. Amounts are reclassified out of accumulated other comprehensive income/(loss) into earnings when the entity to which the gains and losses relate is either sold or substantially liquidated.

11. INCOME TAXES***U.S. Tax Reform***

On December 22, 2017, the U.S. government enacted wide-ranging tax legislation, the Tax Cuts and Jobs Act (the "2017 Tax Act"). The 2017 Tax Act significantly revises U.S. tax law by, among other provisions, (a) lowering the applicable U.S. federal statutory income tax rate from 35% to 21%, (b) creating a partial territorial tax system that includes imposing a mandatory one-time transition tax on previously deferred foreign earnings, (c) creating provisions regarding the (1) Global Intangible Low Tax Income ("GILTI"), (2) the Foreign Derived Intangible Income ("FDII") deduction, and (3) the Base Erosion Anti-Abuse Tax ("BEAT"), and (d) eliminating or reducing certain income tax deductions, such as interest expense, executive compensation expenses, and certain employee expenses. While the impact of the mandatory one-time transition tax was recognized in fiscal 2018, the remaining provisions are effective for fiscal years after 2018.

ASC 740, Income Taxes ("ASC 740") requires the effects of changes in tax laws to be recognized in the period in which the legislation is enacted. However, due to the complexity and significance of the 2017 Tax Act's provisions, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which allowed companies to record the tax effects of the 2017 Tax Act on a provisional basis based on a reasonable estimate and then, if necessary, subsequently adjust such amounts during a limited measurement period as more information became available. The measurement period ended December 22, 2018 and our accounting for the tax effects of the Act through December 31, 2018 is complete as of December 31, 2018. For the three and six months ended December 31, 2018, the Company recorded a net benefit of \$6.9 million, reducing the estimated net charge from \$42.5 million previously recorded during fiscal 2018, to \$35.6 million. This reduction was primarily related to additional foreign tax credit benefits associated with the mandatory transition tax charge for deemed repatriation of deferred foreign income. There were no other changes recorded to the tax provision related to the 2017 Tax Act. The Company continues to evaluate the potential impact of all provisions of the 2017 Tax Act, as the U.S. Treasury Department has and is expected to continue issuing guidance related to the 2017 Tax Act during the Company's fiscal year 2019.

As noted above, the 2017 Tax Act subjects a US Company to tax on GILTI earned by certain foreign subsidiaries. The Company will account for GILTI in the year the tax is incurred as a period cost.

Other Tax Matters

The Company accounts for income taxes in accordance with ASC 740. Generally, fluctuations in the effective tax rate

are primarily due to changes in U.S. and non-U.S. pretax income resulting from the Company's business mix and changes in the tax impact of special items and other discrete tax items, which may have unique tax implications depending on the nature of the item. Such discrete items include, but are not limited to, changes in foreign statutory tax rates, the amortization of certain assets, and the tax impact of changes in its ASC 740 unrecognized tax benefit reserves. In the normal course of business, the Company is subject to examination by taxing authorities around the world, including such major jurisdictions as the United States, Germany, France, and the United Kingdom. The Company is no longer subject to examinations by the relevant tax authorities for years prior to fiscal year 2009. Under the terms of the 2007 purchase agreement by which the stockholders at that time acquired their interest in the Company, the Company is indemnified by its former owner for tax liabilities that may arise after the 2007 purchase that relate to tax periods prior to April 10, 2007. The indemnification agreement applies to, among other taxes, any and all federal, state, and international income-based taxes as well as related interest and penalties. As of December 31, 2018 and June 30, 2018, approximately \$0.6 million and \$0.7 million, respectively, of unrecognized tax benefit are subject to indemnification by the Company's former owner.

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ASC 740 includes guidance on the accounting for uncertainty in income taxes recognized in the financial statements. This standard provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolution of any related appeal or litigation process, based on the technical merits. As of December 31, 2018 and June 30, 2018, the Company had a total of \$2.0 million and \$2.2 million of unrecognized tax benefits, respectively.

As of December 31, 2018 and June 30, 2018, the Company had a total of \$3.7 million and \$4.1 million, respectively, of uncertain tax positions (including accrued interest and penalties). As of these dates, \$2.0 million and \$2.2 million, respectively, represent the amount of unrecognized tax benefits, which, if recognized, would favorably affect the effective income tax rate. The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense. As of December 31, 2018 and June 30, 2018, the Company has approximately \$1.7 million and \$2.0 million, respectively, of accrued interest and penalties related to uncertain tax positions. As of these dates, the portion of such interest and penalties subject to indemnification by its former owner is \$1.3 million and \$1.6 million, respectively.

12. EMPLOYEE RETIREMENT BENEFIT PLANS

Components of the Company's net periodic benefit costs are as follows:

(Dollars in millions)	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Components of net periodic benefit cost:				
Service cost	\$ 0.9	\$ 0.9	\$ 1.8	\$ 1.8
Interest cost	1.9	1.8	3.8	3.6
Expected return on plan assets	(2.6)	(2.9)	(5.2)	(5.8)
Amortization ⁽¹⁾	0.6	0.6	1.2	1.2
Net amount recognized	\$ 0.8	\$ 0.4	\$ 1.6	\$ 0.8

(1) Amount represents the amortization of unrecognized actuarial gains/(losses).

As previously disclosed, the Company notified the trustees of a multi-employer pension plan of its withdrawal from participation in such plan in fiscal 2012. The actuarial review process administered by the plan trustees ended in fiscal 2015. The liability reported reflects the present value of the Company's expected future long-term obligations. The estimated discounted value of the projected contributions related to such plans was \$38.9 million and \$39.0 million as of December 31, 2018 and June 30, 2018, respectively, and is included within pension liability on the consolidated balance sheets. The annual cash impact associated with the Company's obligations in such plan is approximately \$1.7 million per year.

13. EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)***Description of Capital Stock***

The Company is authorized to issue 1,000,000,000 shares of common stock, par value \$0.01 per share ("Common Stock"), and 100,000,000 shares of preferred stock, par value \$0.01 per share. Under the Company's certificate of incorporation, each share of Common Stock has one vote, and the Common Stock votes together as a single class.

Public Stock Offering

On July 27, 2018, the Company completed the 2018 Equity Offering, a public offering in which the Company sold 11.4 million shares, including the underwriters' over-allotment option, of Common Stock at a price of \$40.24 per share, before underwriting discounts and commissions. Net of these discounts and commissions and other offering expenses, the Company obtained total net proceeds from the 2018 Equity Offering, including the over-allotment

exercise, of \$445.5 million. The net proceeds of the 2018 Equity Offering were used to repay a corresponding portion of the outstanding borrowings under Operating Company's U.S. dollar-denominated term loans.

On September 29, 2017, the Company completed a public offering (the "2017 Equity Offering"), pursuant to which the Company sold 7.4 million shares, including the underwriters' over-allotment option, of Common Stock at a price of \$39.10 per share, before underwriting discounts and commissions. Net of these discounts and commissions and other offering expenses, the Company obtained total net proceeds from the 2017 Equity Offering, including the over-allotment exercise, of \$277.8 million. The net proceeds of the 2017 Equity Offering were used to fund a portion of the consideration for the Catalent Indiana acquisition due at its closing.

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Shares outstanding include shares of unvested restricted stock. Unvested restricted stock included in reportable shares outstanding was 0.7 million shares as of December 31, 2018. Shares of unvested restricted stock are excluded from our calculation of basic weighted average shares outstanding, but their dilutive impact is added back in the calculation of diluted weighted average shares outstanding, except when the effect would be anti-dilutive.

Stock Repurchase Program

On October 29, 2015, the Company's Board of Directors authorized a share repurchase program to use up to \$100.0 million to repurchase shares of outstanding Common Stock. Under the program, the Company is authorized to repurchase shares through open market purchases, privately negotiated transactions, or otherwise as permitted by applicable federal securities laws. There has been no purchase pursuant to this program as of December 31, 2018.

Accumulated Other Comprehensive Income/(loss)

The components of the changes in the cumulative translation adjustment, minimum pension liability, and available for sale investment for the three and six months ended December 31, 2018 and 2017 are presented below.

(Dollars in millions)	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Foreign currency translation adjustments:				
Net investment hedge	\$ 15.6	\$ (3.9)	\$ 11.4	\$ (21.5)
Long-term intercompany loans	(10.8)	(2.3)	(14.1)	11.2
Translation adjustments	(18.9)	(5.2)	(21.7)	30.9
Total foreign currency translation adjustment, pretax	(14.1)	(11.4)	(24.4)	20.6
Tax expense/(benefit)	3.5	2.0	2.0	(4.1)
Total foreign currency translation adjustment, net of tax	\$ (17.6)	\$ (13.4)	\$ (26.4)	\$ 24.7
Net change in minimum pension liability				
Net gain recognized during the period	\$ 0.7	\$ 0.6	1.3	1.2
Total pension liability, pretax	0.7	0.6	1.3	1.2
Tax expense	0.1	0.1	0.3	0.3

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Net change in minimum pension liability, net of tax	\$ 0.6	\$ 0.5	\$ 1.0	\$ 0.9
Net change in available for sale investment:				
Net loss recognized during the period	\$ —	\$ (3.6)	—	(8.8)
Total available for sale investment, pretax	—	(3.6)	—	(8.8)
Tax benefit	—	(0.6)	—	(2.4)
Net change in available for sale investment, net of tax	\$ —	\$ (3.0)	\$ —	\$ (6.4)

For the three months ended December 31, 2018, the changes in accumulated other comprehensive income/(loss), net of tax by component are as follows:

(Dollars in millions)	Foreign Exchange Translation Adjustments	Pension and Liability Adjustments	Available for Sale Investment Adjustments	Total
Balance at September 30, 2018	\$ (293.9)	\$ (39.2)	\$ (1.1)	\$ (334.2)
Other comprehensive income/(loss) before reclassifications	(17.6)	—	—	(17.6)
Amounts reclassified from accumulated other comprehensive income/(loss)	—	0.6	—	0.6
Net current period other comprehensive income/(loss)	(17.6)	0.6	—	(17.0)
Balance at December 31, 2018	\$ (311.5)	\$ (38.6)	\$ (1.1)	\$ (351.2)

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For the six months ended December 31, 2018, the changes in accumulated other comprehensive income/(loss), net of tax by component are as follows:

(Dollars in millions)	Foreign Exchange Translation Adjustments	Pension and Liability Adjustments	Available for Sale Investment Adjustments	Total
Balance at June 30, 2018	\$ (285.1)	\$ (39.6)	\$ (1.1)	\$ (325.8)
Other comprehensive income/(loss) before reclassifications	(26.4)	—	—	(26.4)
Amounts reclassified from accumulated other comprehensive income/(loss)	—	1.0	—	1.0
Net current period other comprehensive income/(loss)	(26.4)	1.0	—	(25.4)
Balance at December 31, 2018	\$ (311.5)	\$ (38.6)	\$ (1.1)	\$ (351.2)

14. COMMITMENTS AND CONTINGENCIES***SEC inquiry into Juniper Pharmaceuticals, Inc.***

On August 14, 2018, Operating Company acquired Juniper pursuant to the Juniper Merger Agreement. On November 14, 2016, Juniper filed with the SEC restated audited consolidated financial statements for the fiscal years ended December 31, 2013 through December 31, 2015, including the unaudited consolidated financial information for each quarterly period within the fiscal years ended December 31, 2014 and 2015, and restated unaudited consolidated financial statements for the quarters ended March 31, 2016 and June 30, 2016 and the related quarters in 2015, in order to correct certain timing errors regarding how it recognized revenue from a supply contract with an affiliate of Merck KGaA. On January 24, 2017, Juniper received a subpoena from the SEC requesting information concerning these restatements and related issues. Juniper responded to the subpoena and is cooperating with the SEC's inquiry, including the taking of testimony from former Juniper employees and others. The Company understands that the inquiry is ongoing but does not believe the outcome of the investigation will be material to it; nonetheless, the Company cannot provide any assurance regarding that outcome.

Other

From time to time, the Company may be involved in legal proceedings arising in the ordinary course of business, including, without limitation, inquiries and claims concerning environmental contamination as well as litigation and allegations in connection with acquisitions, product liability, manufacturing or packaging defects, and claims for reimbursement for the cost of lost or damaged active pharmaceutical ingredients, the cost of any of which could be significant. The Company intends to vigorously defend itself against any such litigation and does not currently believe that the outcome of any such litigation will have a material adverse effect on the Company's financial statements. In addition, the healthcare industry is highly regulated and government agencies continue to scrutinize certain practices affecting government programs and otherwise.

From time to time, the Company receives subpoenas or requests for information relating to the business practices and activities of customers or suppliers from various governmental agencies or private parties, including from state attorneys general, the U.S. Department of Justice, and private parties engaged in patent infringement, antitrust, tort, and other litigation. The Company generally responds to such subpoenas and requests in a timely and thorough manner, which responses sometimes require considerable time and effort and can result in considerable costs being incurred. The Company expects to incur costs in future periods in connection with future requests.

15. SEGMENT INFORMATION

The Company conducts its business within the following operating segments: Softgel Technologies, Biologics and Specialty Drug Delivery, Oral Drug Delivery, and Clinical Supply Services. The Company evaluates the performance of its segments based on segment earnings before other (expense)/income, impairments, restructuring costs, interest expense, income tax expense/(benefit), and depreciation and amortization ("Segment EBITDA"). "EBITDA from operations" is consolidated earnings from operations before interest expense, income tax expense/(benefit), and depreciation and amortization. Segment EBITDA and EBITDA from operations are not defined in GAAP and may not be comparable to similarly titled measures used by other companies.

The following tables include net revenue and Segment EBITDA during the three and six months ended December 31, 2018 and 2017:

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(Dollars in millions)	Three Months Ended December 31,		2018	Six Months Ended December 31,	
	2018	2017		2017	
Softgel Technologies					
Net revenue	\$ 213.7	\$ 228.1	\$ 412.9	\$ 447.8	
Segment EBITDA	\$ 44.2	\$ 50.1	\$ 77.5	\$ 85.2	
Biologics and Specialty Drug Delivery					
Net revenue	184.3	148.7	338.9	240.4	
Segment EBITDA	50.8	39.9	77.3	48.6	
Oral Drug Delivery					
Net revenue	154.0	137.2	284.1	271.8	
Segment EBITDA	44.8	41.2	72.2	79.9	
Clinical Supply Services					
Net revenue	80.8	108.7	158.5	218.4	
Segment EBITDA	21.0	19.0	41.2	35.7	
Inter-segment revenue elimination	(9.8)	(16.4)	(19.6)	(28.2)	
Unallocated costs ⁽¹⁾	(29.4)	(48.2)	(69.2)	(82.2)	
Combined totals:					
Net revenue	\$ 623.0	\$ 606.3	\$ 1,174.8	\$ 1,150.2	
EBITDA from operations	\$ 131.4	\$ 102.0	\$ 199.0	\$ 167.2	

(1) Unallocated costs include restructuring and special items, equity-based compensation, impairment charges, certain other corporate directed costs, and other costs that are not allocated to the segments as follows:

(Dollars in millions)	Three Months Ended December 31,		2018	Six Months Ended December 31,	
	2018	2017		2017	
Impairment charges and gain/(loss) on sale of assets	\$ 0.1	\$ (4.2)	\$ (2.8)	\$ (4.2)	

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Stock-based compensation	(7.5)	(8.5)	(17.5)	(15.5)
Restructuring and other special items ^(a)	(5.9)	(11.9)	(19.1)	(24.2)
Other (expense), net ^(b)	(1.4)	(13.1)	(7.1)	(18.3)
Non-allocated corporate costs, net	(14.7)	(10.5)	(22.7)	(20.0)
Total unallocated costs	\$ (29.4)	\$ (48.2)	\$ (69.2)	\$ (82.2)

(a) Restructuring and other special items include transaction and integration costs associated primarily with the acquisitions of Catalent Indiana and Juniper.

(b) Refer to Note 8, *Other Expense for details of financing changes and foreign currency translation adjustments recorded within Other (expense), net.*

Provided below is a reconciliation between net earnings/(loss) and EBITDA from operations:

(Dollars in millions)	Three Months Ended December 31,		2018	Six Months Ended December 31,	
	2018	2017		2017	
Net earnings/(loss)	\$ 49.0	\$ (21.9)	\$ 34.6	\$ (18.1)	
Depreciation and amortization	54.6	46.8	107.5	85.8	
Interest expense, net	25.5	27.2	53.6	51.5	
Income tax expense	2.3	49.9	3.3	48.0	
EBITDA from operations	\$ 131.4	\$ 102.0	\$ 199.0	\$ 167.2	

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The following table includes total assets for each segment, as well as reconciling items necessary to total the amounts reported in the consolidated financial statements:

(Dollars in millions)	December 31, 2018	June 30, 2018
Assets		
Softgel Technologies	\$ 1,385.0	\$ 1,402.0
Biologics and Specialty Drug Delivery	1,793.4	1,739.7
Oral Drug Delivery	1,211.9	1,074.2
Clinical Supply Services	642.0	613.0
Corporate and eliminations	(590.7)	(297.8)
Total assets	\$ 4,441.6	\$ 4,531.1

16. SUPPLEMENTAL BALANCE SHEET INFORMATION

Supplemental balance sheet information at December 31, 2018 and June 30, 2018 is detailed in the following tables.

Inventories

Work-in-process and finished goods inventories include raw materials, labor, and overhead. Total inventories consist of the following:

(Dollars in millions)	December 31, 2018	June 30, 2018
Raw materials and supplies	\$ 157.3	\$ 137.1
Work-in-process	43.8	42.3
Finished goods	54.8	48.3
Total inventories, gross	255.9	227.7
Inventory cost adjustment	(20.7)	(18.6)
Inventories	\$ 235.2	\$ 209.1

Prepaid expenses and other

Prepaid expenses and other consist of the following:

(Dollars in millions)	December 31, 2018	June 30, 2018
Prepaid expenses	\$ 20.8	\$ 19.2
Spare parts supplies	10.6	11.1
Prepaid income tax	11.0	7.2
Non-U.S. value-added	17.7	12.5

tax

Other current assets	17.0	15.2
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Prepaid expenses and other	\$ 77.1	\$ 65.2
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Property, plant, and equipment, net consist of the following:

(Dollars in millions)	December 31, 2018	June 30, 2018
Land, buildings, and improvements	\$ 940.0	\$ 928.1
Machinery, equipment, and capitalized software	1,037.6	988.1
Furniture and fixtures	16.3	14.9
Construction in progress	179.5	166.8
Property, plant, and equipment, at cost	2,173.4	2,097.9
Accumulated depreciation	(887.6)	(827.3)
Property, plant, and equipment, net	\$ 1,285.8	\$ 1,270.6

Depreciation expense was \$35.1 million and \$69.8 million for the three and six months ended December 31, 2018, respectively, and \$30.7 million and \$58.3 million for the three and six months ended December 31, 2017, respectively. Depreciation expense includes amortization of assets related to capital leases. The Company charges repairs and maintenance costs to expense as incurred. The amount of capitalized interest was immaterial for all periods presented.

Other accrued liabilities

Other accrued liabilities consist of the following:

(Dollars in millions)	December 31, 2018	June 30, 2018
Accrued employee-related expenses	\$ 72.8	\$ 104.3
Restructuring accrual	11.5	9.4
Accrued interest	10.9	16.5
Contract liability	112.4	100.9
Accrued income tax	6.5	25.9
Other accrued liabilities and expenses	45.9	55.9
Other accrued liabilities	\$ 260.0	\$ 312.9

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****The Company**

We are the leading global provider of advanced delivery technologies and development solutions for drugs, biologics, and consumer and animal health products. Our oral, injectable, and respiratory delivery technologies address the full diversity of the pharmaceutical industry, including small molecules, biologics, and consumer and animal health products. Through our extensive capabilities and deep expertise in product development, we help our customers take products to market faster, including nearly half of new drug products approved by the U.S. Food and Drug Administration in the last decade. Our advanced delivery technology platforms, which include those in our Softgel Technologies, Biologics and Specialty Drug Delivery, and Oral Drug Delivery segments, our proven formulation, manufacturing, and regulatory expertise, and our broad and deep intellectual property enable our customers to develop more products and better treatments for patients and consumers. Across both development and delivery, our commitment to reliably supply our customers' and their patients' needs is the foundation for the value we provide; annually, we produce approximately 73 billion doses for nearly 7,000 customer products or approximately 1 in every 20 doses of such product taken each year by patients and consumers around the world. We believe that through our investments in growth-enabling capacity and capabilities, our ongoing focus on operational and quality excellence, the sales of existing customer products, the introduction of new customer products, our innovation activities and patents, and our entry into new markets, we will continue to benefit from attractive and differentiated margins and realize the growth potential from these areas.

Critical Accounting Policies and Estimates

We prepare our financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). These standards require management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates include, but are not limited to, allowance for doubtful accounts, variable consideration in revenue recognition, inventory and long-lived asset valuation, goodwill and other intangible asset impairment, income taxes, derivative financial instruments, self-insurance accruals, loss contingencies, and restructuring charge reserves. Actual amounts may differ from these estimated amounts.

There was no material change to our critical accounting policies or in the underlying accounting assumptions and estimates from those described in our Fiscal 2018 10-K, other than recently adopted accounting principles as disclosed in Note 1 to the unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q, which adoptions had no material impact on net earnings.

Non-GAAP Performance Metrics***Use of EBITDA from operations***

Management measures operating performance based on consolidated earnings from operations before interest expense, expense/(benefit) for income taxes, and depreciation and amortization ("EBITDA from operations"). EBITDA from operations is not defined under GAAP, is not a measure of operating income, operating performance, or liquidity presented in accordance with GAAP, and is subject to important limitations.

We believe that the presentation of EBITDA from operations enhances an investor's understanding of our financial performance. We believe this measure is a useful financial metric to assess our operating performance from period to period by excluding certain items that we believe are not representative of our core business and use this measure for business planning purposes. In addition, given the significant investments that we have made in the past in property, plant, and equipment, depreciation and amortization expenses represent a meaningful portion of our cost structure. We believe that EBITDA from operations will provide investors with a useful tool for assessing the comparability between periods of our ability to generate cash from operations sufficient to pay taxes, to service debt, and to undertake capital expenditures because it eliminates depreciation and amortization expense. We present EBITDA from operations in order to provide supplemental information that we consider relevant for the readers of our consolidated financial statements, and such information is not meant to replace or supersede GAAP measures. Our definition of EBITDA from operations may not be the same as similarly titled measures used by other companies. The most directly comparable GAAP measure to EBITDA from operations is net earnings. Included in this report is a reconciliation of net earnings to EBITDA from operations.

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In addition, we evaluate the performance of our segments based on segment earnings before other expense, impairments, restructuring costs, interest expense, income tax expense/(benefit), and depreciation and amortization ("Segment EBITDA").

Use of Constant Currency

As exchange rates are an important factor in understanding period-to-period comparisons, we believe the presentation of results on a constant currency basis in addition to reported results helps improve investors' ability to understand our operating results and evaluate our performance in comparison to prior periods. Constant currency information compares results between periods as if exchange rates had remained constant period-over-period. We use results on a constant currency basis as one measure to evaluate our performance. In this Quarterly Report on Form 10-Q, we compute constant currency by calculating current-year results using prior-year foreign currency exchange rates. We generally refer to such amounts calculated on a constant currency basis as excluding the impact of foreign exchange. These results should be considered in addition to, not as a substitute for, results reported in accordance with GAAP. Results on a constant currency basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not measures of performance presented in accordance with GAAP.

Other Non-GAAP Measures

Organic revenue growth and Segment EBITDA growth are useful measures calculated by the Company to explain the underlying results and trends in the business. Organic revenue growth and Segment EBITDA growth are measures used to show current year sales and earnings from existing operations and include joint ventures and revenue from product-participation-related activities entered into within the year. Organic revenue growth and Segment EBITDA growth exclude the impact of foreign currency, acquisitions of operating or legal entities, and divestitures within the year. These measures should be considered in addition to, not as a substitute for, performance measures reported in accordance with GAAP. These measures, as we present them, may not be comparable to similarly titled measures used by other companies and are not measures of performance presented in accordance with GAAP.

Three Months Ended December 31, 2018 Compared to the Three Months Ended December 31, 2017

The below tables summarize several financial metrics we use to measure performance for the three months ended December 31, 2018 and three months ended December 31, 2017. Refer to the discussions below regarding performance and use of key financial metrics.

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We adopted Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"), as of July 1, 2018 using the modified retrospective method. The reported results for the three and six months ended December 31, 2018 reflects the application of the new standard while the reported results for the three and six months ended December 31, 2017 were prepared under the previously effective guidance of ASC 605, *Revenue Recognition*.

Results for the three months ended December 31, 2018 compared to the three months ended December 31, 2017 were as follows:

	Three Months Ended December 31,			FX Impact	Constant Currency
	2018	2017		Change \$	Increase/(Decrease) Change %
Net revenue	\$ 623.0	\$ 606.3	\$ (10.9)	\$ 27.6	5%
Cost of products sold	421.6	418.9	(7.9)	10.6	3%
Gross margin	201.4	187.4	(3.0)	17.0	9%
Selling, general and administrative expenses	123.2	114.8	(1.0)	9.4	8%
Impairment charges and (gain)/loss on sale of assets	(0.1)	4.2	0.2	(4.5)	*
Restructuring and other	0.1	0.1	—	—	*
Operating earnings	78.2	68.3	(2.2)	12.1	18%
Interest expense, net	25.5	27.2	(0.2)	(1.5)	(6%)
Other expense, net	1.4	13.1	(0.7)	(11.0)	(84%)
Earnings from continuing operations before income taxes	51.3	28.0	(1.3)	24.6	88%
Income tax expense	2.3	49.9	(0.1)	(47.5)	(9%)
Net earnings/(loss)	\$ 49.0	\$ (21.9)	\$ (1.2)	\$ 72.1	*

*Percentage not meaningful

Net Revenue

Factors Contributing to Year-Over-Year Change	2018 vs. 2017 Three Months Ended December
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	31, Net Revenue
Revenue without acquisitions/divestitures	(1%)
Impact of acquisitions	6%
Impact of divestitures	—%
Constant currency change	5%
Foreign currency translation impact on reporting	(2%)
Total % change	3%

Net revenue increased \$27.6 million, or 5%, compared to the three months ended December 31, 2017, excluding the impact of foreign exchange, primarily driven by growth from acquisitions. We acquired Cook Pharmica LLC (now doing business as Catalent Indiana, LLC, "Catalent Indiana") in October 2017, and Juniper Pharmaceuticals, Inc. ("Juniper") in August 2018. Net revenue decreased 1% without the impact of acquisitions or divestitures primarily related to a reduction in revenue from comparator sourcing arrangements within our Clinical Supply Services segment. As a result of the adoption of ASC 606, we recorded comparator sourcing arrangements on a net basis versus a gross basis, resulting in a decrease in net revenue of 5%, with no corresponding decrease to EBITDA, partially offset by increased net revenue within our Biologics and Specialty Drug Delivery segment.

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Table of Contents*Gross Margin*

Gross margin increased \$17.0 million, or 9%, compared to the three months ended December 31, 2017, excluding the impact of foreign exchange, primarily as a result of the Catalent Indiana and the Juniper acquisitions. On a constant-currency basis, gross margin, as a percentage of revenue, increased 130 basis points to 32.2% in the three months ended December 31, 2018, compared to 30.9% in the prior-year period. As a result of the adoption of ASC 606, the Company recorded comparator sourcing arrangements on a net basis versus a gross basis, which resulted in an increase to gross margin percentage of 140 basis points.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses increased \$9.4 million, or 8%, compared to the three months ended December 31, 2017, excluding the impact of foreign exchange, primarily due to increased employee-related costs of approximately \$4 million as compared to the prior-year period. Selling, general, and administrative expenses further increased approximately \$4 million as a result of the Juniper acquisition, which included approximately \$3 million of incremental depreciation and amortization expense and \$1 million related to incremental employee related costs.

Impairment Charges and Loss on Sale of Assets

Impairment charges for the three months ended December 31, 2018 and December 31, 2017 were \$0.1 million and \$4.2 million, respectively. The prior year included the loss on the sales of two Softgel Technologies segment manufacturing sites in the Asia Pacific region. The site divestitures were not material, either individually or in the aggregate, to the segment or to our business as a whole.

Restructuring and Other

Restructuring and other costs of \$0.1 million for the three months ended December 31, 2018 were unchanged compared to the three months ended December 31, 2017. Restructuring expense will vary period-to-period based on site consolidation efforts and other efforts to further streamline the business.

Interest Expense, net

Interest expense, net of \$25.5 million for the three months ended December 31, 2018 decreased by \$1.7 million compared to the three months ended December 31, 2017, primarily driven by a \$450 million payment on our U.S. dollar-denominated term loans on August 1, 2018, principally funded by our underwritten public equity offering of July 27, 2018 (the "2018 Equity Offering"), a \$50 million payment on our deferred purchase consideration related to Catalent Indiana in October 2018, ordinary-course principal payments on our term loans, and an overall reduction in our interest rates on our senior secured credit facilities compared to the prior-year period partially offset by deferred purchase consideration for the Catalent Indiana acquisition in October 2017.

In October 2017, Operating Company completed a private offering of USD Notes. The USD Notes bear interest at the rate of 4.875% per annum and are payable semi-annually in arrears on January 15 and July 15 of each year.

Concurrent with the USD Notes offering, Operating Company completed Amendment No. 3 (the "Third Amendment") to its Credit Agreement, which governs the senior secured credit facilities that provide U.S. dollar-denominated term loans, euro-denominated term loans, and a revolving credit facility. The Third Amendment lowered the interest rate on the term loans and the revolving credit facility. The applicable rate for U.S. dollar-denominated term loans decreased 0.50%, the applicable rate for euro-denominated term loans decreased 0.75%, and the applicable rate for the revolving loans decreased 1.25%. For additional information concerning the terms of the Credit Agreement and the Third Amendment, see Note 6 to the Consolidated Financial Statements.

A component of the purchase price for the Catalent Indiana acquisition consists of \$200.0 million in deferred purchase consideration payable in four annual \$50.0 million installments on the anniversary date of the acquisition. We made the first such payment in October 2018, and the present value of the balance is accounted for as debt, with the difference between the nominal value and the present value considered imputed interest expense.

Other Expense, net

Other expense, net of \$1.4 million for the three months ended December 31, 2018 was primarily driven by non-cash foreign currency translation losses in the period of \$0.7 million.

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Other expense, net of \$13.1 million for the three months ended December 31, 2017 was primarily driven by \$11.8 million of financing charges related to the USD Notes offering and the Third Amendment, and includes a \$6.1 million charge for commitment fees paid during the first quarter of fiscal 2018 on a proposed bridge loan made available to us but not used for the purpose of providing back-up financing to fund a portion of the Catalent Indiana acquisition purchase price (the "Bridge Facility").

Income Tax Expense

On December 22, 2017, the U.S. government enacted wide-ranging tax legislation, the Tax Cuts and Jobs Act (the "2017 Tax Act"). The 2017 Tax Act significantly revises U.S. tax law by, among other provisions, (a) lowering the applicable U.S. federal statutory income tax rate from 35% to 21%, (b) creating a partial territorial tax system that includes imposing a mandatory one-time transition tax on previously deferred foreign earnings, (c) creating provisions regarding (1) Global Intangible Low Tax Income ("GILTI"), (2) the Foreign Derived Intangible Income ("FDII") deduction, and (3) the Base Erosion Anti-Abuse Tax ("BEAT"), and (d) eliminating or reducing certain income tax deductions, such as interest expense, executive compensation expenses, and certain employee expenses.

The SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which allowed companies to record the tax effects of the 2017 Tax Act on a provisional basis based on a reasonable estimate and then, if necessary, subsequently adjust such amounts during a limited measurement period as more information became available. The Company's measurement period has expired as of December 31, 2018. For the three months ended December 31, 2018, we recorded a net benefit of \$6.9 million reducing the estimated net charge from \$42.5 million previously recorded during fiscal 2018, to \$35.6 million. This reduction is primarily related to additional foreign tax credit benefits associated with the mandatory transition tax charge for deemed repatriation of deferred foreign income. There were no other changes recorded to the tax provision related to the 2017 Tax Act. The Company continues to evaluate the potential impact of all provisions of the 2017 Tax Act, as the U.S. Treasury Department has and is expected to continue issuing guidance related to the 2017 Tax Act during the Company's fiscal year 2019.

Our provision for income taxes for the three months ended December 31, 2018 was \$2.3 million relative to earnings from operations before income taxes of \$51.3 million. Our provision for income taxes for the three months ended December 31, 2017 was \$49.9 million relative to earnings from operations before income taxes of \$28.0 million. The income tax provision for the current period is not comparable to the same period of the prior year due to the impact of the 2017 Tax Act as previously discussed, changes in pretax income over many jurisdictions, and the impact of discrete items. Generally, fluctuations in the effective tax rate are primarily due to changes in our geographic pretax income resulting from our business mix and changes in the tax impact of permanent differences, restructuring, other special items, and other discrete tax items, which may have unique tax implications depending on the nature of the item.

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The following charts depict the percentages of revenue allocable to each of the Company's four segments for the three months ended December 31, 2018 compared to the three months ended December 31, 2017. Refer below for discussions regarding the segments' revenue and EBITDA performance.

Our results on a segment basis for the three months ended December 31, 2018 compared to the three months ended December 31, 2017 were as follows:

	Three Months Ended December 31,		FX Impact Change \$	Constant Currency Increase/(Decrease) Change %
	2018	2017		
Softgel Technologies				
Net revenue	\$ 213.7	\$ 228.1	\$ (7.0)	\$ (7.4) (3%)
Segment EBITDA	\$ 44.2	\$ 50.1	\$ (1.4)	\$ (4.5) (9%)
Biologics and Specialty Drug Delivery				
Net revenue	184.3	148.7	(1.2)	36.8 25%
Segment EBITDA	50.8	39.9	(0.3)	11.2 28%
Oral Drug Delivery				
Net revenue	154.0	137.2	(1.8)	18.6 14%
Segment EBITDA	44.8	41.2	(0.8)	4.4 11%
Clinical Supply Services				
Net revenue	80.8	108.7	(1.2)	(26.7) (2%)
Segment EBITDA	21.0	19.0	(0.5)	2.5 13%
Inter-segment revenue elimination				
	(9.8)	(16.4)	0.3	6.3 (3%)
Unallocated Costs⁽¹⁾				
	(29.4)	(48.2)	0.9	17.9 (3%)
Combined Total				
Net revenue	\$ 623.0	\$ 606.3	\$ (10.9)	\$ 27.6 5%
EBITDA from continuing operations	\$ 131.4	\$ 102.0	\$ (2.1)	\$ 31.5 3%

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(1) Unallocated costs include restructuring and special items, stock-based compensation, impairment charges, certain other corporate directed costs, and other costs that are not allocated to the segments as follows:

(Dollars in millions)	Three Months Ended December 31,	
	2018	2017
Impairment charges and gain/(loss) on sale of assets	\$ 0.1	\$ (4.2)
Stock-based compensation	(7.5)	(8.5)
Restructuring and other special items ^(a)	(5.9)	(11.9)
Other (expense), net ^(b)	(1.4)	(13.1)
Non-allocated corporate costs, net	(14.7)	(10.5)
Total unallocated costs	\$ (29.4)	\$ (48.2)

(a) Restructuring and other special items include transaction and integration costs associated primarily with the acquisitions of Catalent Indiana and Juniper.

(b) Amounts for three months ended December 31, 2017 include \$11.8 million of financing expenses related to the offering of the USD Notes and the Third Amendment and include a \$6.1 million charge for commitment fees paid during the first quarter of fiscal 2018 on the Bridge Facility.

Provided below is a reconciliation of net earnings/(loss) to EBITDA from operations:

(Dollars in millions)	Three Months Ended December 31,	
	2018	2017
Net earnings/(loss)	\$ 49.0	\$ (21.9)
Depreciation and amortization	54.6	46.8
Interest expense, net	25.5	27.2
Income tax expense	2.3	49.9
EBITDA from operations	\$ 131.4	\$ 102.0

Softgel Technologies segment

Factors Contributing to Year-Over-Year Change	2018 vs. 2017	
	Three Months Ended	
	December 31,	
	Net Revenue	Segment EBITDA
Revenue/Segment EBITDA without divestitures	(1)%	(9)%
Impact of divestitures	(2)%	—%
Constant currency change	(3)%	(9)%
Foreign currency translation impact on reporting	(3)%	(3)%
Total % change	(6)%	(12)%

Softgel Technologies net revenue decreased by \$7.4 million, or 3%, excluding the impact of foreign exchange, compared to the three months ended December 31, 2017, primarily driven by decreased volume in the segment's consumer health business of 5% resulting from a shortage in our ibuprofen supply, partially offset by increased volume demand in our European prescription business.

Softgel Technologies segment EBITDA decreased \$4.5 million, or 9%, compared to the three months ended December 31, 2017, excluding the impact of foreign exchange, driven primarily by a shortage in our ibuprofen supply, which led to a decrease in our consumer health business by 16%, partially offset by favorable shift in product mix within our European prescription business.

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In December 2017, we divested two manufacturing sites in Asia Pacific operated within the Softgel Technologies segment in order to better streamline our global operations. The site divestitures resulted in a decrease to net revenue of 2% and no impact to Segment EBITDA in the three months ended December 31, 2018 compared to the three months ended December 31, 2017.

Biologics and Specialty Drug Delivery segment

Factors Contributing to Year-Over-Year Change	2018 vs. 2017	
	Three Months Ended	
	December 31,	
	Net Revenue	Segment EBITDA
Revenue/Segment EBITDA without acquisitions	15%	18%
Impact of acquisitions	10%	10%
Constant currency change	25%	28%
Foreign exchange fluctuation	(1)%	(1)%
Total % change	24%	2%

Net revenue in our Biologics and Specialty Drug Delivery segment increased by \$36.8 million, or 25%, compared to the three months ended December 31, 2017, excluding the impact of foreign exchange. Net revenue without acquisitions increased by 15% due to favorable end-customer demand for our U.S. based drug substance biologics offerings of 9% and increased revenue within our respiratory and ophthalmic platform primarily as a result of timing of shipments in the prior year of 8%, partially offset by decreased end-market demand for our European-based drug product offerings of 2%.

Biologics and Specialty Drug Delivery segment EBITDA increased by \$11.2 million, or 28%, compared to the three months ended December 31, 2017, excluding the impact of foreign exchange. Segment EBITDA without acquisitions increased by 18%, primarily due to increased volume demand as discussed above.

On October 23, 2017, we acquired Catalent Indiana, which increased net revenue and Segment EBITDA in our Biologics and Specialty Drug Delivery segment by 10% and 10%, respectively, in the three months ended December 31, 2018 compared to the corresponding prior-year period.

Oral Drug Delivery segment

Factors Contributing to Year-Over-Year Change	2018 vs. 2017	
	Three Months Ended	
	December 31,	
	Net Revenue	Segment EBITDA
Revenue without acquisitions/divestitures	(3)%	(1)%
Impact of acquisitions	1%	2%
Constant currency change	14%	11%
Foreign currency translation impact on reporting	(2)%	(2)%
Total % Change	12%	9%

Net revenue in our Oral Drug Delivery segment increased by \$18.6 million, or 14%, compared to the three months ended December 31, 2017, excluding the impact of foreign exchange, primarily as a result of the Juniper acquisition. Revenue without acquisitions decreased 3%, primarily driven by decreased end-market demand for certain higher-margin offerings within our commercial oral delivery solutions platform, partially offset by increased demand for our development and analytical services platform.

Oral Drug Delivery segment EBITDA increased by \$4.4 million, or 11%, compared to the three months ended December 31, 2017, excluding the impact of foreign exchange, primarily as a result of the Juniper acquisition. Segment EBITDA without acquisitions decreased 15%, primarily due to decreased volumes and an unfavorable mix shift related to certain higher-margin offerings primarily within our commercial oral delivery solutions platform, partially offset by increased volume related to fee-for-service development work and analytical testing in the U.S. On August 14, 2018, we acquired Juniper, which increased net revenue and Segment EBITDA in our Oral Drug Delivery segment for the three months ended December 31, 2018, by 17% and 26%, respectively, compared to the prior-year period.

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Factors Contributing to Year-Over-Year Change	2018 vs. 2017	
	Three Months Ended	
	December 31,	
	Net Revenue	Segment EBITDA
Revenue/Segment EBITDA	2%	13%
Comparator revenue recognition adoption impact	(27)	—%
Constant currency change	(25)	13%
Foreign currency translation impact on reporting	(1%)	(2%)
Total % Change	(26)	1%

Clinical Supply Services net revenue decreased by \$26.7 million, or 25%, excluding the impact of foreign exchange, compared to the three months ended December 31, 2017. As a result of the adoption of ASC 606, the Company recorded comparator sourcing arrangements on a net basis versus a gross basis resulting in a decrease to net revenue by 27%, partially offset by a 2% increase in revenue due to higher volume in our storage and distribution business. Clinical Supply Services segment EBITDA increased by \$2.5 million, or 13%, excluding the impact of foreign exchange, compared to the three months ended December 31, 2017, primarily due to increased sales volumes and favorable mix in our storage and distribution business and improved capacity utilization across the network.

Six Months Ended December 31, 2018 Compared to the Six Months Ended December 31, 2017

The below tables summarize several financial metrics we use to measure performance for the six months ended December 31, 2018 and six months ended December 31, 2017. Refer to the discussions below regarding performance and use of key financial metrics.

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	Six Months Ended December 31,			FX Impact	Constant Currency
	2018	2017		Change \$	Increase/(Decrease) Change %
Net revenue	\$ 1,174.8	\$ 1,150.2	\$ (18.8)	\$ 43.4	4%
Cost of products sold	824.9	822.7	(13.5)	15.7	2%
Gross margin	349.9	327.5	(5.3)	27.7	8%
Selling, general and administrative expenses	238.7	222.3	(1.6)	18.0	8%
Impairment charges and (gain)/loss on sale of assets	2.8	4.2	(0.1)	(1.3)	(3%)
Restructuring and other	9.8	1.3	(0.3)	8.8	*
Operating earnings	98.6	99.7	(3.3)	2.2	2%
Interest expense, net	53.6	51.5	(0.1)	2.2	4%
Other expense, net	7.1	18.3	(1.2)	(10.0)	(5%)
Earnings from continuing operations before income taxes	37.9	29.9	(2.0)	10.0	33%
Income tax expense	3.3	48.0	(0.1)	(44.6)	(9%)
Net earnings/(loss)	\$ 34.6	\$ (18.1)	\$ (1.9)	\$ 54.6	*

*Percentage not meaningful

Net Revenue

Factors Contributing to Year-Over-Year Change	2018 vs. 2017
	Six Months Ended December 31, Net Revenue
Revenue without acquisitions/divestitures	(3%)
Impact of acquisitions	9%
Impact of divestitures	—%

Constant currency change **4%**

Foreign currency translation impact on reporting ~~(2%)~~

Total % change 2%

Net revenue increased by \$43.4 million, or 4%, compared to the six months ended December 31, 2017, excluding the impact of foreign exchange, primarily due to acquisitions. We acquired Catalent Indiana in October 2017 and Juniper in August 2018. Further excluding the impact of acquisitions and divestitures, net revenue decreased 5%, primarily related to a reduction in revenue from comparator sourcing arrangements within our Clinical Supply Services segment. As a result of the adoption of ASC 606, we recorded comparator sourcing arrangements on a net basis versus a gross basis, resulting in a decrease in net revenue of 5%, with no corresponding decrease to EBITDA.

Gross Margin

Gross margin increased by \$27.7 million, or 8%, compared to the six months ended December 31, 2017, excluding the impact of foreign exchange, primarily due to increased sales volumes as a result of acquisitions as discussed above.

On a constant currency basis, gross margin, as a percentage of revenue, was 29.8% in the six months ended December 31, 2018, an increase from the prior year of 130 basis points, primarily as a result of the adoption of ASC 606, the Company recorded comparator sourcing arrangements on a net basis versus a gross basis, which resulted in an increase to gross margin percentage of 150 basis points.

Selling, General, and Administrative Expense

Selling, general, and administrative expense increased by \$18 million, or 8%, compared to the six months ended December 31, 2017, excluding the impact of foreign exchange, primarily as a result of the Catalent Indiana and Juniper acquisitions by approximately \$13 million, which included approximately \$10 million of incremental depreciation and amortization expense and approximately \$2 million of employee-related costs. Selling, general, and administrative expenses further increased by approximately \$9 million due to increased employee-related costs, of which \$2 million was non-cash.

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equity compensation, as compared to the prior-year period, partially offset by a reduction of acquisition-related expenses during the year.

Impairment Charges and Loss on Sale of Assets

Impairment charges for the six months ended December 31, 2018 and December 31, 2017 were \$2.8 million and \$4.2 million, respectively. Impairment charges in the current year were related to fixed assets that ceased being used and whose value was therefore not recoverable. The prior year included the loss on the sales of two Softgel Technologies segment manufacturing sites in the Asia Pacific region. The site divestitures were not material, either individually or in the aggregate, to the segment or to our business as a whole.

Restructuring and Other

Restructuring and other charges of \$9.8 million for the six months ended December 31, 2018 increased by \$8.5 million, compared to the six months ended December 31, 2017 and were driven by increases in employee-related actions to further streamline the business. Restructuring expense will vary period-to-period based on site consolidation efforts and other efforts to further streamline the business.

Interest Expense, net

Interest expense, net of \$53.6 million for the six months ended December 31, 2018 increased by \$2.1 million, or 4%, compared to the six months ended December 31, 2017, primarily driven by a higher average level of outstanding debt during the first quarter of fiscal 2019 and deferred purchase consideration for the Catalent Indiana acquisition in October 2017, partially offset by the 2018 Equity Offering, ordinary-course principal payments on our term loans, and an overall reduction in our interest rates on our senior secured credit facilities compared to the prior-year period.

Other Expense, net

Other expense, net of \$7.1 million for the six months ended December 31, 2018 was primarily driven by a \$4.2 million charge from the partial extinguishment of our U.S. dollar-denominated term loans on August 1, 2018 to reduce our debt discount and deferred financing costs. Other expense, net also includes non-cash foreign currency translation losses in the period of \$2.4 million.

Other expense, net for the six months ended December 31, 2017 of \$18.3 million was primarily driven by financing charges of \$11.8 million related to the USD Notes offering and the Third Amendment, which included a \$6.1 million charge for commitment fees paid during the first quarter of fiscal 2018. Other expense, net also included \$6.9 million of foreign currency gains in the year.

Income Tax Expense

In December 2017, the U.S. government enacted wide-ranging tax legislation, the Tax Cuts and Jobs Act (the "2017 Tax Act"). The 2017 Tax Act significantly revised U.S. income tax law by, among other provisions, (a) lowering the applicable U.S. federal statutory income tax rate from 35% to 21%, (b) creating a partial territorial tax system that includes imposing a mandatory one-time transitional tax on previously deferred foreign earnings, (c) creating provisions regarding (1) income deemed to be Global Intangible Low Tax Income ("GILTI"), (2) the Foreign Derived Intangible Income ("FDII") deduction, and (3) the Base Erosion Anti-Abuse Tax ("BEAT"), and (d) eliminating or reducing certain income tax deductions, such as deductions for interest expense, executive compensation expense, and certain employee expenses.

The SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which allowed companies to record the tax effects of the 2017 Tax Act on a provisional basis based on a reasonable estimate and then, if necessary, subsequently adjust such amounts during a limited measurement period as more information became available. The Company's measurement period has expired as of December 31, 2018. For the three months ended December 31, 2018, we recorded a net benefit of \$6.9 million reducing the estimated net charge from \$42.5 million previously recorded during fiscal 2018, to \$35.6 million. This reduction is primarily related to additional foreign tax credit benefits associated with the mandatory transition tax charge for deemed repatriation of deferred foreign income. There were no other changes recorded to the tax provision related to the 2017 Tax Act. The Company continues to evaluate the potential impact of all provisions of the 2017 Tax Act, as the U.S. Treasury Department has and is expected to continue issuing guidance related to the 2017 Tax Act during the Company's fiscal year 2019.

Our provision for income taxes for the six months ended December 31, 2018 was \$3.3 million relative to earnings from continuing operations before income taxes of \$37.9 million. Our provision for income taxes for the six months ended December 31, 2017 was \$48.0 million relative to earnings from continuing operations before income taxes of

\$29.9 million. The income tax provision for the current period is not comparable to the same period of the prior year due to the impact of the 2017 Tax Act,
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changes in pretax income over many jurisdictions, and the impact of discrete items including equity compensation. Generally, fluctuations in our effective tax rate are primarily due to changes in the geographic distribution of our pretax income resulting from our business mix and changes in the tax impact of permanent differences, restructuring, other special items, and other discrete tax items, which may have unique tax implications depending on the nature of the item.

Segment Review

The below charts depict the percentage of revenue allocable to each of the Company's four segments for the six months ended December 31, 2018 compared to the six months ended December 31, 2017. Refer below for discussions regarding the segments' revenue and EBITDA performance.

Our results on a segment basis for the six months ended December 31, 2018 compared to the six months ended December 31, 2017 were as follows:

	Six Months Ended December 31,			FX Impact	Constant Currency
	2018	2017		Change \$	Increase/(Decrease) Change %
Softgel Technologies					
Net revenue	\$ 412.9	\$ 447.8	\$ (13.3)	\$ (21.6)	5%
Segment EBITDA	77.5	85.2	(2.8)	(4.9)	6%
Biologics and Specialty Drug Delivery					
Net revenue	338.9	240.4	(1.6)	100.1	4%
Segment EBITDA	77.3	48.6	(0.3)	29.0	6%
Oral Drug Delivery					
Net revenue	284.1	271.8	(2.3)	14.6	5%
Segment EBITDA	72.2	79.9	(0.9)	(6.8)	9%
Clinical Supply Services					
Net revenue	158.5	218.4	(1.5)		