

FINAL TRANSCRIPT

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****CPS - Q4 2008 Catalent Pharma Solutions, Inc Earnings Conference Call**

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PRESENTATION

Operator

Good day, ladies and gentlemen. And welcome to the fourth quarter 2008 Catalent Pharma Solutions, Inc. earnings conference call. My name is Erica, and I'll be your coordinator for today. At this time, all participants are in a listen-only mode. We'll be facilitating a question and answer session towards the end of this conference. (OPERATOR INSTRUCTIONS) As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to your host for today's call, Mr. Cornell Stamoran. You may proceed, sir.

Cornell Stamoran - *Catalent Pharma Solutions, Inc. - IR*

Thank you. And thank you, all, for coming to the call. Just before proceeding to the discussion, I'd like to review the forward-looking statement and non-GAAP financial measures language. You'll also find this on your presentation slides on pages two and three.

On the forward-looking statement side, this presentation and our announcement contains both historical and forward-looking statements. All statements other than statements of historical fact are or may be deemed to be forward-looking statements within the meaning of Section 27 of the Securities Act of 1933 as amended and Section 21E of the Securities Exchange Act of 1934 as amended.

These forward-looking statements can generally be identified by the use of statements that include phrases such as believe, expect, anticipate, intend, estimate, plan, project, foresee, likely, may, will, would or other words and phrases with similar meanings. Similarly, statements that describe our objectives, plans, or goals are or may be forward-looking statements.

These statements are based on current expectations of future events. If underlying assumptions prove inaccurate or unknown risks or uncertainties materialize, actual results could vary materially from Catalent Pharma Solutions' expectations and projections. Some of the factors that could cause actual results to differ include, but are not limited to, the following -- general industry

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conditions and competition; product or other liability risk inherent in the design, development, manufacture, and marketing of our offerings; inability to enhance our existing or introduce new technology or services in a timely manner; economic conditions, such as interest rate and currency exchange rate fluctuations; technological advances and patents attained by our competitors; and our substantial debt and debt service requirements that restrict our operating and financial flexibility and impose significant interest and financial costs.

For a more detailed discussion of these and other factors, see the information under the caption Risk Factors in our prospectus dated March 6th, 2008, filed with the Securities and Exchange Commission on that date. All forward-looking statements speak only as of the date of this release or as of the date they are made. And Catalent Pharma Solutions does not undertake to update any forward-looking statements as a result of new information or future events or developments unless required by law.

On non-GAAP financial measures, in addition to disclosing financial results that are determined in accordance with US GAAP, Catalent discloses EBITDA and adjusted EBITDA, which are non-GAAP measures. You should not consider EBITDA or adjusted EBITDA as an alternative to operating or net earnings determined in accordance with US GAAP as an indicator of Catalent's operating performance or as an alternative to cash flows from operating activities determined in accordance with US GAAP as an indicator of cash flows or as a measure of liquidity. EBITDA is calculated by the sum of earnings before interest, taxes, depreciation, and amortization.

The Company's credit facilities and the indentures governing the outstanding notes have certain covenants that use ratios utilizing a measure referred to as adjusted EBITDA. The supplementary adjustments to EBITDA to derive adjusted EBITDA may not be in accordance with current SEC practices or the rules and regulations adopted by the SEC that apply to periodic reports filed under the Securities Exchange Act of 1934.

Accordingly, the SEC may require that adjusted EBITDA be presented differently in filings that may be made with the SEC than as presented in this release or not be presented at all. The most directly comparable US GAAP measure to EBITDA and adjusted EBITDA is net earnings or loss. Included in this release, in this announcement and presentation, is a reconciliation of net earnings or loss to EBITDA and adjusted EBITDA.

So with this, we'll have two speakers today, George Fotiades, our acting President and Chief Executive Officer, and Matt Walsh, our Senior Vice President and CFO. So I'd like to turn this over to George. George?

George Fotiades - Catalent Pharma Solutions, Inc. - President & CEO

Okay. Thanks, Cornell. Since this is the first time I have participated in one of these calls, I thought I would just very quickly mention my background and relationship to Catalent. I've been associated with the Company or its predecessor company since 1996. I served as President of the predecessor company of Catalent when it was part of Cardinal Health in 2000 to 2004 and have been Chairman of the Company since it was acquired from Cardinal by Blackstone earlier in 2007. And most recently, I've spent two months as the interim CEO. And I'll talk about the search later.

But so the last two months, I have been able to spend even more time than I have as Chairman in the Company and have been able to work with the management team as we closed out 2008 and have set the budget and plans for our fiscal year 2009.

It's been great to be able to get the opportunity to be involved like this because obviously it's given me a chance to be even closer to the business. But part of working on the plans and to get a much better sense of how things are progressing in the Company, which I've been very pleased with.

What I'd like to do is just give you a sense of -- characterize fiscal year '08 for you and just talk about where we're at now in literally two minutes because Matt Walsh, our Chief Financial Officer, is going to do this in much more detail that you're obviously looking for.

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This past fiscal year 2008, which is now three months ago -- so we obviously are well into fiscal year 2009 -- I would characterize -- and I characterize from the Board's position as a very good year for Catalent. We extricated ourselves from Cardinal Health in great fashion, on time, under cost, established the brand name Catalent, retained customers, continued to focus on some of the key invested projects, progressed each of the three segments, sold Albuquerque facility, which we were looking to do because it no longer really fit our plans, and positioned ourselves well for the future.

As I said, continued investments with some of the key opportunities we think are going to benefit not just the near term from a capacity standpoint, but long-term projects that are a means of capturing more value from our technologies.

Where are we today? Today, if we look, we have three segments -- oral technology, sterile, and packaging. That's how we look at our business. The oral business is about nearly 70% of our EBITDA. And it is a business that has performed to expectations. It's been very predictable, stable. And there's good visibility in the business looking ahead.

Our sterile technologies business is really sort of a tale of two stories. On one hand, the story that's related to our Blow/Fill/Seal business and our Pre-Filled-Syringe business, which are specialty dosage form technology and manufacturing operations, are doing well. And those really form the basis for where we see our future opportunity and growth in sterile.

The other side of that tale, Albuquerque, we've talked about in the past. So I won't dwell on it here. We just made an announcement about the North Raleigh facility, which is a facility primarily that houses lyophilization. It's a business we have been in for well over six years. In fact, I was part of its acquisition at the outset when it was part of Cardinal Health.

This is a business that we have struggled with for some time. We've ultimately made a decision that this wasn't going to be part of the growth story going forward, that we could achieve what we wanted to achieve and more with where we were operating well. And that's in our Blow/Fill/Seal and our Pre-Filled-Syringe.

Packaging is a business we'll talk probably quite a bit about on the phone. I'm sure maybe some questions around packaging. We have struggled with packaging over the past few months, the seeds of which started 18 months ago, where frankly we took our eye off the ball or the leadership took the eye off its ball in packaging, particularly in the North American operations. On-time delivery suffered. And that really didn't manifest itself in softer business results for some time later when people or customers were -- had time to leave. And so we basically have been dealing with that over the last few months.

We have addressed that, the operating issues, those have been fixed. On-time deliveries are where they ought to be. But it takes time to get customers back. We've devoted a lot of resource to that. Our belief is we've hit bottom. And that's happening in this first quarter of 2009. And we will work our way through this over the course of the -- over the fiscal year.

So this is in essence where we stand today. As I said, I'm very pleased and encouraged by where we're at. We've got work to do. But the opportunity that we saw 18 months ago when we put this company together under Blackstone continues to be every bit as exciting as we thought it would be.

So with that, I'd like to turn this over to Matt, who will walk through the details of both the fourth quarter and where we are headed today. Matt?

Matt Walsh - *Catalent Pharma Solutions, Inc. - SVP & CFO*

Thank you, George. And good morning to everyone on the call. Today, we'll be discussing Catalent's fourth quarter and fiscal 2008 results. For those of you that haven't already accessed them, the discussion materials for today's webcast, which include a press release and a 14-page PowerPoint presentation, they're available at the Investor Center on our website, www.catalent.com.

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On page four of the presentation, you can find the agenda for today's webcast. We'll start with a brief summary of the overall highlights of our fourth quarter, some of which George just touched on, then proceed to the business update, where we'll discuss important developments in each of our three operating segments that occurred during our most recently completed fiscal year.

Following the business update, I will review Catalent's financial performance for the fourth quarter and fiscal year ended June 30th, 2008, as compared to the relevant prior-year period. Continuing with the financial review, we'll discuss our adjusted EBITDA for the LTM period ending June 30th as well as our fiscal year 2008 cash flow statement in summary format. Then we'll open the call to questions.

Turning to page five of the presentation now, our fourth quarter highlights. With this fiscal year end, we completed our first year as a standalone company. We've discussed previously that the separation from Cardinal Health was executed ahead of schedule and under budget. And during this time, we've been working to establish the Catalent brand both internally and externally with some pretty good traction.

During fiscal 2008, our business achieved growth in certain key areas. As George had mentioned, oral technology is our largest segment, comprising 56% of consolidated revenue, grew its sales and EBITDA 10% and 8%, respectively. The weak dollar provided some tail wind, as we'll illustrate later in the presentation. But even if we exclude FX, the business grew sales and EBITDA in the low single digits.

Sterile technologies, while our smallest segment at 16% of the consolidated sales, achieved the strongest growth in terms of its sales and EBITDA.

Offsetting these favorable developments, our packaging services segment faced significant challenges during 2008, particularly in the third and fourth quarters. We'll come back to these issues a little bit later. But the message here consisting with what we discussed -- started to discuss -- on the third quarter call, that the Company has identified action plans on several fronts that are being implemented as we speak to improve sales and profitability within packaging services. This will not be a quick fix. We expect to recognize improvement gradually over the next several quarters.

We've made visible progress in reducing our cash cycle working capital. During 2008, we generated about \$30 million of cash flow through reducing our cash cycle working capital. We accomplished this result based on the good work of a dedicated cross-functional team of our employees. And that team is still together and will be looking for further improvements in this coming year.

We continue to invest in productive capacity to serve our customers. We'll discuss certain key investments, the most visible related to our proprietary Zydis fast-dissolve technology throughout the course of the presentation here.

In certain cases, our customers may fund these capacity expansions or purchase and provide specific capital equipment for our facility. That has been a feature of our business. And that remains a feature of our business.

During 2008, we expanded our efforts in product and technology innovation and are continuously exploring ways to identify, develop, and commercialize proprietary delivery technologies, like Zydis.

The economic return from these types of projects is outside of the near term. So we'll share tangible details when appropriate. But the takeaway here is that we see multiple time horizons as regards investment in our business and technologies. And we're funding the long-term component just as much as we're funding our near-term needs.

Finally, new talent -- with the change in ownership, we've made some key changes in leadership roles around the Company. This has helped our overall competitiveness, our ability to identify growth opportunities with attractive returns. And generally speaking, it's brought a more appropriate level of urgency to our activities.

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Moving to page six, the business update for oral technologies -- one of the fastest growing areas of oral technology is our Zydys fast-dissolve delivery technology. We're making capital investment both in the UK and in the US to expand our capacity in response to new development projects that are in the pipeline. Both of these investments are proceeding according to our initial timing and cost expectations.

Our controlled-release product line also remains strong. And the pipeline of new business there is as good as it's ever been. We remain confident in our outlook for our controlled-release product.

In our softgel business, where we have the leading market share in pharmaceuticals, our prescription business performed ahead of expectations during 2008. The offset was in the vitamins, minerals, and supplement portion of this business as we saw softer demand in 2008 than we were initially expecting.

Moving to page seven, the business update for sterile technologies -- the significant development within sterile subsequent to fiscal year end, which we announced by an 8-K filing earlier this week, was our decision to explore a strategic alternative with respect to the North Raleigh site.

We believe our market position in the glass vial segment of the injectibles business when we owned both Albuquerque and North Raleigh was something like sixth or seventh globally. We reached the conclusion, as do many companies in similar circumstances, that it may not be in our strategic interest to be in businesses which were not among the market leaders. We divested Albuquerque first and then attempted to pursue a niche marketing strategy for North Raleigh. But ultimately, we came to the realization that we have more attractive investment alternatives in our technologies with global leading positions.

I should say the FDA warning letter, which we received at North Raleigh and to which we're dedicating substantial internal and external resources in addressing, played only a minor role in this really strategic decision, which was driven by the larger competitive issues, which I just alluded to.

On the subject of competitive strengths, we like the end-market dynamics and our market position in sterile Pre-Filled-Syringes. Our Brussels facility started up on time and on budget in 2008 and has recently achieved a successful FDA inspection within the last several months, which we expect should ultimately pave the way for a step change in available volume for US-based products, which they're not serving right now. In addition, we've seen the strong start in Brussels to this year's flu vaccine campaign.

We also have a leading market position in sterile Blow/Fill/Seal and significantly improved our production efficiencies and on-time delivery at our facility this past fiscal year. That was a very positive development for us.

Finally, our analysis of the pipeline of new product in both Blow/Fill/Seal and Pre-Filled-Syringe suggest that we have room to grow in this space. We continue to focus on what's really important, which is flawless execution of the basics. And in this business, that means consistent attention and focus on compliance and regulatory [CGMP] and customer quality expectations and on meeting customer delivery and price requirements.

Moving to slide eight of the presentation now, the business update for packaging services -- we'll discuss the numbers for packaging overall shortly. And the results are clearly down versus prior year. So that'll be a sobering dialogue when we reach that portion of the webcast.

But I first start out with some good news. We have three legs to the packaging services business. And one of them performed well above our expectations in 2008. But to quickly review, the three legs are -- we refer to them as our contract packaging business, which is the traditional blisters, bottles, pouches, sachets, kitting activity, et cetera, that perhaps our analysts are most familiar with.

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We have a printed components business in which we manufacture the printed materials and cartons that accompany and contain pharmaceutical and other products. And finally, clinical services, where we provide a wide range of services, including packaging, storage, and distribution services to customers conducting clinical trials.

The last leg, the clinical services business, performed above our expectations during 2008. For competitive reasons, we don't disclose clinical services results separately. But for some context, this business grew its profitability in excess of 50% in 2008 versus 2007, posting good performance in all geographic areas where our clinical facilities are located.

The declines that we experienced in the packaging segment were realized mostly in contract packaging and printed components, the first two legs that I discussed, and particularly in North America, which for Catalent includes the three facilities we have in Puerto Rico as well as the four in continental US

The declines were the result of a combination of effects. Certain of our customers decided to insource business to their own packaging assets at volumes in excess of those deciding to send business our way; an increase in competitive intensity, especially as regards pricing in the printed components business; lower overall customer demand, due in part to relatively weak overall prescription and consumer health volumes in the US versus historical trends.

Now I mentioned that we're undertaking action plans. And we've already done so in fiscal 2008. And we'll begin to realize the benefits in 2009. Some of these include, obviously, headcount and cost reductions in plants that are experiencing volume declines. It's incumbent upon us to align our staffing levels and our fixed cost infrastructure to current volumes that we're seeing right now. And we're making firm movement in that direction.

We are adding resources to regain top line growth. And so we've actually added targeted headcount in expanding our sales force supporting contract packaging and printed components business to help drive new top line demand.

We've also built a new leadership team, including a new packaging head, new global head for printed components, and a soon-to-be-announced head for the contract services business as well.

Finally, we expect to see operational and cost improvements in these two segments arising from our continuing focus on Lean Six Sigma and from recent investments in new digital printing equipment.

So as I've discussed, we've taken actions on multiple fronts, all of which we expect to drive value growth. The benefits to sales and earnings, which we expect to see as a result of these initiatives, will be realized gradually over the next several quarters. We are, however, paying close attention to leading indicators, quote volumes, et cetera. And we're already seeing some encouraging signs. But I'll reiterate that the fix in packaging will not be a quick one.

Moving now to the financial discussion, page nine of the presentation, we break out revenue and EBITDA for the fourth quarter among our three operating segments. As an opener to the financial discussion, I'd like to explain just briefly a basis of presentation issue. I remind everyone that the prior-year financials are partially for the predecessor entity when we were a division of Cardinal Health. As a result, the line labeled other EBITDA is not directly comparable. There are some differences in SG&A cost between the predecessor entity and Catalent today in areas, such as SG&A allocations, which existed in the prior year, equity compensation charges, and the currency translation impact of inner-company debt. However, the segment operating performance as disclosed here is directly comparable year over year. And that's where we'll focus most of our discussion.

Starting with oral technologies, revenues of \$285.4 million for the fourth quarter increased by \$30 million or 11.7% over last year's fourth quarter. The weaker US dollar favorably impacted revenue growth by approximately 7.6 percentage points as most of our plants in this segment are outside the US. The remaining growth over prior year, about 4.1%, was realized across most product offerings but weighted toward Zydis and controlled-release formats, which we group together as our modified-release technologies business. And I'll keep referring to that term through the rest of this presentation -- modified-release technologies.

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Oral technology segment EBITDA of \$73.9 million increased by \$12.1 million or 19.5% over the prior year. The weaker US dollar favorably impacted EBITDA here by about 7.3 percentage points. Excluding the impact of foreign exchange, EBITDA grew by \$7.5 million or 12.2%, largely attributable to modified-release technologies and softgel pharma products. This also explains the increase in EBITDA margins year over year, 25.9% in 2008 versus 24.2% in 2007 as the areas of increased EBITDA are also relatively higher margin.

In sterile technologies, revenues of \$79.7 million increased by \$12.4 million or 18.4% due to increased demand at nearly all of our sterile manufacturing sites and specifically our Pre-Filled-Syringe facility in Brussels and our Blow/Fill/Seal plant in Woodstock, IL. The weaker US dollar favorably impacted revenue growth by approximately 4.3 percentage points for the quarter.

EBITDA of \$8.7 million increased by \$300,000 relative to the prior year. This variance would otherwise be higher. But we experienced higher operating costs at North Raleigh. And that masked some significant EBITDA growth in the rest of the segment.

We're not yet in a position to make this disclosure. But when we have met the necessary accounting requirements to classify North Raleigh as a discontinued operation, we'll be doing that. And we'll be able to present our financial reporting to show the sterile technology segment exclusive of North Raleigh both for current and historical periods.

In packaging services, revenues of \$120.6 million decreased by \$17 million or 12.4% as compared to the same period of 2007. As we've already discussed, we experienced lower demand in printed components and commercial packaging end market, particularly in North America. Falling US dollar favorably impacted revenue by approximately 3 percentage points. So without that, our packaging services revenue was off by 15.5% versus prior year.

EBITDA of \$10 million decreased by \$20.2 million or 67% due to the top line issues already described. We've spoken about the action plans to increase top line growth and right-size plant costs, once again looking for gradual improvement over the next several quarters.

Continuing on to other EBITDA, which in this case is expense of \$364 million for the fourth quarter, this reflects significant non-cash charges, \$357.2 million to be precise, related to goodwill and other asset impairments. Specifically, we recorded the following -- \$239 million of goodwill impairment related to the packaging services division, \$49 million of other tangible and intangible asset impairments, once again within the packaging services division, and \$69 million of other asset impairments within the sterile technologies and oral technologies segments. And the majority of this impairment pertained to the North Raleigh facility.

These impairments resulted from our required annual goodwill impairment assessment under FAS 142 and the subsequent required review of other definite live tangible and intangible assets under FAS 144 when an impairment under FAS 142 has occurred.

The prior-year period also contained significant non-cash charges, principally related to the Company's acquisition by affiliates of the Blackstone Group.

Turning to page ten of the presentation now, I'm going to be reviewing our fiscal year results. Many of the variances to the prior year carry the same explanations as the discussion we've just conducted for Q4. So I'll just focus on the highlights and maybe what's a little different than what you've already heard.

Starting with oral technologies, revenue of \$1.39 billion grew 10.1% over the prior year. Exclusive of foreign exchange translation benefits, oral technologies grew 3.2% due to the continued strong demand for modified release technologies, including Zydis, although all of our product offerings registered gain some level versus the prior year.

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Oral technologies EBITDA of \$236 million was impacted by a previously disclosed second quarter charge principally related to inventory of \$11 million, \$10 million of which was related to prior year at one of our European softgel facilities. Excluding the \$10 million charge related to prior years and exchange rate impact, EBITDA would have grown by \$13.5 million or 6.2%.

With this same adjustment, the EBITDA margin for 2008 of 23.7% is about 50 basis points ahead of the prior-year figure of 23.2%.

Within sterile technologies, revenue and EBITDA growth over prior year is impressive, reflecting strong performance from the new Belgium facility and improving throughput and efficiencies within Blow/Fill/Seal.

And finally, packaging services unfavorable variance to prior year was realized almost completely in the fourth quarter for the reasons we already discussed in the previous slide for that time period.

Moving to other EBITDA, same as in Q4, we see a significantly negative figure for the full year. In this figure, \$557.5 million of expense, we have the same \$357.2 million non-cash charge for goodwill and asset impairments recorded during Q4, which we've just discussed, as well as non-cash charges for unrealized foreign exchange losses on debt denominated in currencies other than the US dollar. And for the full year, we've recorded \$159.5 million of such non-cash unrealized FX losses.

The sum of these two items explains over 92% of the other EBITDA figure. Our 10-K, which will be filed on Monday, September 29th, has a complete reconciliation of the \$557 million figure.

Coming back to the FX issue, about two-thirds of the non-cash unrealized foreign exchange loss results from the restatement that Catalent announced via 8-K on September 8th, which pertains to non-cash unrealized FX losses on the euro-denominated tranches of our long-term debt. I'll say this is a fairly complex accounting issue. But it is addressing non-cash unrealized items. So I prefer not to devote undue air time to it in this venue. Anyone with questions can contact Cornell at some point after the call. And he can walk you through the issue.

I think our 8-K disclosure clearly explains the matter and the Company's intention to establish the required documentation to adopt hedge accounting treatment for the euro-denominated debt and thereby enabling us to account for any future non-cash gains and losses in other comprehensive income contemporaneous with establishing the documentation. So we'll move these expenses off the P&L to the balance sheet and strive to improve the quality of our reported earnings.

Moving to slide 11 now, this is a reconciliation of last 12 months' EBITDA from the most proximate GAAP measure, which is income or in our case loss from continuing operations. We have displayed this by quarter once again, as we did on the last call, in response from analysts that we do that.

This is a standard computation. There's not much required in the way of supporting statement. More important, our LTM EBITDA requires certain adjustments to better reflect the run rate profitability of Catalent. And those adjustments are detailed on the next slide.

So let's go to slide 12, where we've got a reconciliation from EBITDA to adjusted EBITDA quarter by quarter in our LTM number. That starts with the unadjusted EBITDA loss of \$233.6 million from the prior slide. Briefly touching on each of the add backs, equity compensation of \$8.2 million -- this represents FAS 123R non-cash expenses related to Catalent's long-term equity compensation program.

Impairment charges and gains and loss on assets here, this is precisely as the title suggests. We discussed already we have some significant non-cash charges recorded in the fourth quarter, all of which are being added back according to the definition of this calculation.

Purchase accounting, restructuring, other special items, \$23.7 million -- this line addresses add backs which relate to expenses that are enabling us to strategically position our plant network for the future.

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Other non-recurring items of \$7.8 million -- this particular item is weighted heavily to the second quarter non-cash charge of \$10 million, which we just talked about related to the inventory accounting issue at one of our manufacturing facilities.

Unrealized FX loss of \$159.5 million -- again, this item relates to what we discussed earlier. And that's the unrealized non-cash loss on foreign exchange translation of inner-company as well as long-term debt balances denominated in currencies other than the US dollar.

Other at \$18.6 million reflects sponsor monitoring fees and other adjustments required in the calculation for covenant compliance under the indentures.

And disposition adjustments of \$1.9 million relates to the exclusion of certain costs associated with closed or sold facilities that have remained in continuing operations for accounting reasons, but we couldn't load them into disc ops. But it's not part of our ongoing operations, so subject to add back.

And finally estimated cost savings of \$2.3 million -- this reflects the increment required to annualize the impact of cost-saving projects and headcount restructuring initiatives, which were implemented part way through the last 12 months. And because of the nature of this calculation can only be computed on a basis of a 12-month look back, which changes every quarter. So as a result, we've separated this particular line item from the other adjustments and show it in the right-most column in the table.

Relative to the third quarter, this figure has decreased, reflecting that many of the larger projects completed earlier in the year are now showing their benefit in our reported EBITDA. So that necessitates a smaller pro forma add back.

This yields a final adjusted EBITDA of \$346 million, which is up modestly from the \$342.7 million last 12-month figure quoted as of the end of Q3.

Moving now to slide 13, we present a summary version of our cash flow statement for fiscal 2008. This is the same format as we've used for the last couple of calls. The top of the chart separates cash flow from operations and CapEx between continuing and discontinued operations.

Net cash provided by operations was \$76.7 million or \$88.9 million including the currency translation adjustment if you look at this schedule in the form of the sources and uses of cash.

With this, we covered our CapEx to within a few million dollars. And the reduction in debt was fundamentally covered by existing cash balances and a small residual equity contribution during the year.

On the lower part of the schedule, we show several items of note from a cash flow perspective. Contributing to our positive cash flow through 12 months is our success in reducing cash cycle working capital, which netted us over \$30 million of improvement at constant FX rate.

The UK pension contribution of GBP13.5 million or just over \$27 million occurred in Q1. We don't expect lump contributions at this level going forward.

Our revolver was undrawn as of June 30th. This is a \$350 million facility. Our net debt is \$2.339 billion, reflects the impact of the weak dollar at June 30th, which increased the reported value of the euro debt by approximately \$110 million since inception of the financing in 2007.

That concludes our prepared comments. And I thank you for the opportunity to address you today. Operator, we'd like to open the call for questions at this time.

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QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) And your first question comes from the line of Henry Reukauf from Deutsche Bank. You may proceed.

Henry Reukauf - *Deutsche Bank - Analyst*

(inaudible question - microphone inaccessible)

Cornell Stamoran - *Catalent Pharma Solutions, Inc. - IR*

Henry, we're having a really hard time hearing you.

Henry Reukauf - *Deutsche Bank - Analyst*

(inaudible question - microphone inaccessible)

Cornell Stamoran - *Catalent Pharma Solutions, Inc. - IR*

We're still -- sorry, we're still unable. We must have a really bad connection. Do you want to try again?

Henry Reukauf - *Deutsche Bank - Analyst*

(inaudible question - microphone inaccessible)

Cornell Stamoran - *Catalent Pharma Solutions, Inc. - IR*

I'm sorry. We're not hearing anything on this end. Let's move to the next question, operator. Henry, maybe if you can get a different connection. Or otherwise, we can catch up after. Operator, go ahead.

Operator

And your next question comes from the line of [E Jong] from Credit Suisse. You may proceed.

E. Jong - *Credit Suisse - Analyst*

Hello?

Cornell Stamoran - *Catalent Pharma Solutions, Inc. - IR*

Hello.

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E. Jong - *Credit Suisse - Analyst*

Hello. It's E. Jong here from Credit Suisse (inaudible) in London. My questions -- just a couple -- relate to the sterile technologies business. Basically, what was the growth in capacity year on year for this business, taking into account that North Raleigh encountered some problems earlier this year? And what's the current capacity utilization? And what is the expected capacity utilization in the -- for the rest of the year or for the next financial year? Thanks.

Matt Walsh - *Catalent Pharma Solutions, Inc. - SVP & CFO*

Okay. As far as capacity utilization within our sterile segment, we have actually diverse product offerings there. So it's a difficult question to answer concisely. I think I would make the position that we have the capacity that we need to sustain the pipeline that we have and near-term growth. So capacity will not be a constraint for us is probably the best answer I can give you.

E. Jong - *Credit Suisse - Analyst*

Okay. So how about the growth in capacity from last year because there was a new -- the plant in Brussels only came up and running officially -- was it in the past six months or something?

George Fotiades - *Catalent Pharma Solutions, Inc. - President & CEO*

Yes, Matt, I'll answer this question. First of all, what you have here for capacity, as Matt commented on, Blow/Fill/Seal, Pre-Filled-Syringe, I mean, they're very different types of operations. It's not interchangeable capacities. You have to look at these plants individually.

The capacity's not an issue in the near term. I don't even think it's an issue for the next 24 months. The Brussels facility came online within the past year. There's no capacity issue there in the near term to support the flu vaccine that we manufacture there. We have the ability to expand capacity within that operation. It was built so that we could add a line when needed. And we have sufficient lead time with respect to the pipeline or when things would come on stream. We have enough visibility to be able to take in purchase to capital and put in place in order to address the opportunity. So that's probably the best way I can answer the capacity story for you in sterile.

E. Jong - *Credit Suisse - Analyst*

Okay. So can I infer that EBITDA growth then would then be kind of like as capacity comes on, you expect EBITDA to increase quite substantially because everything's kind of already there? And if so, what do you expect the steady-state EBITDA margin to be because right now I've got it at about 11%, 11.5%? And the last time I spoke to someone, an analyst, I was given guidance that it was -- should be close or around the EBITDA margin of the oral technologies business.

George Fotiades - *Catalent Pharma Solutions, Inc. - President & CEO*

Yes, I mean, I'll give you a point of view. Matt may have something to add. Obviously, sterile has been in a state of -- I said it was a tale of two cities or two stories -- excuse me. You have North Raleigh. You had Albuquerque. And then you have -- which weren't making money. And then the other side of the equation, you have Brussels coming on stream. And then you have Woodstock which is a going business. So you have different kinds of entities that you're [accumulating] into a margin.

I would expect long term that the EBITDA margin in that business should be where oral is. And if it's in the 15% to 20% range, I would expect it could get there because the economics are so good. But it's just, as I said, particularly in a Brussels situation

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where the capital's in the ground, the leverage to the bottom line is significant. But since we work our way through this year and into next year, you'll see those margins materialize.

But in the short term, when you're adding sterile together and you add North Raleigh in there and Albuquerque at one point in time, which is now (inaudible) skewers what the margin could be.

E. Jong - *Credit Suisse - Analyst*

Okay.

Cornell Stamoran - *Catalent Pharma Solutions, Inc. - IR*

Okay. Actually, we need to move on. If you have further questions, please contact Cornell, me, after the call. So we have other investor questions as well. So operator, please?

Operator

And your next question comes from the line of John O'Meara from Morgan Stanley. You may proceed.

John O'Meara - *Morgan Stanley - Analyst*

Hi. Thanks. Can you guys hear me?

Cornell Stamoran - *Catalent Pharma Solutions, Inc. - IR*

Yes.

John O'Meara - *Morgan Stanley - Analyst*

I had two questions, one on North Raleigh as you look at strategic alternatives there -- will the FDA warning letter need to be resolved before anything can happen there? So it was really a decision that was not around the FDA issue. It was really a strategic issue. It wasn't that you couldn't fix that problem. And two is what would you expect CapEx to look like in fiscal '09?

Matt Walsh - *Catalent Pharma Solutions, Inc. - SVP & CFO*

Okay. Thanks for your question. Let's cover the North Raleigh issue first. We will be addressing the FDA warning letter in parallel with the strategic process that we're undertaking. Whether or not an actual obligation may exist, we do feel an obligation to our customers to resolve that issue. So that's what we intend to do there.

As far as CapEx goes, if you were to take a five-year average -- and I think we'll have that sort of information in the K when it comes out -- it wouldn't be unusual to see this business spend in excess of \$100 million on capital. And something in that range plus or minus \$10 million would be, I think, a reasonable expectation.

John O'Meara - *Morgan Stanley - Analyst*

Okay. Thanks.

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Operator

And your next question comes from the line of [Ray Garson] from RBS. You may proceed.

Ray Garson - RBS - Analyst

Thanks. I just had two quick ones. First, I guess just with respect to your outlook for discontinued operations next year, do you have a sense for how much cash that will consume, at least for some number we can think about there? And then you also highlighted the working capital improvements that you made this year. I'm just wondering if you can give us some perspective for if you have additional targets next year that you can help us think about. Thanks.

Matt Walsh - Catalent Pharma Solutions, Inc. - SVP & CFO

Okay. Sure. As far as the cash for disc ops in the coming year, we haven't really estimated that yet. So it's unclear at this time. I would say that it would not be material would be the first statement I would make in terms of trying to provide some advice there.

As far as working capital goes, we have additional targets that we're shooting for. However, it's not something that I'm comfortable disclosing because the first \$30 million was relatively easy to get. The incremental amount becomes quite a bit more strenuous in terms of achieving it. So I think those additional working capital benefits are out there. But I am not comfortable providing you with a specific target at this point.

Ray Garson - RBS - Analyst

Okay. Can I sneak one more in? With respect to the packaging business, you mentioned several of the restructuring and other initiatives that are kind of ongoing. Is that going to result in a big charge in the first quarter with respect to kind of repositioning that business? And then just as a follow on to that, you also mentioned some pricing weakness, particularly in the printing side. I'm just curious if the pricing environment has stabilized at all. Thanks.

Matt Walsh - Catalent Pharma Solutions, Inc. - SVP & CFO

As far as restructuring goes, part of the parcel of that, it will be a reduction in headcount. So there will be restructuring charges. We are computing those as we speak. But I don't have a forecast for you. But they will be substantial.

As far as pricing in printed components goes, I would say that pricing has, generally speaking, been trending downward. Whether we've hit the bottom or not I think is not determinable at this point. And I think we're going to be looking hard at the results of the increased headcount that we put into the sales force to help us answer that question over the next six to nine months.

Ray Garson - RBS - Analyst

Thank you.

Operator

(OPERATOR INSTRUCTIONS) And your next question comes from the line of Matthew Armas from Goldman Sachs. You may proceed.

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Matthew Armas - *Goldman Sachs - Analyst*

Good morning. Just a quick question, maybe not so quick, for George. But with the closure of North Carolina, which at the time the deal was brought and sold seems to be a key equity story component of Catalent, what is the strategic direction that's going to fill that growth void? You see it in Blow/Fill/Seals. You see it in sterile syringe. And is this a build or buy strategy?

George Fotiades - *Catalent Pharma Solutions, Inc. - President & CEO*

Yes, okay. I think North Raleigh, at the time we did the acquisition, I don't really recall what we expected over the five-year horizon. I think it was modest in contrast to the EBITDA overall. But nonetheless, there was expectations at one point in time that this would be a contributor. I don't want to minimize that.

That said, Pre-Filled-Syringe today is I think better than what we thought a year ago in terms of its progress. I mean, it has at least met if not slightly exceeded expectation. And we continue to believe based on pipeline that that is going to be a very meaningful contributor.

Blow/Fill/Seal always has been, continues to be, and even more so as we look ahead, a contributor. The pipeline is very strong, strong as it's ever been. So we are particularly encouraged about that.

So the combination of those two things we think will help sterile get to where we thought it would be originally. Having said that, we are also -- we've got things that are not going to contribute necessarily in the next two or three years, but as we look ahead I think could be meaningful contributors.

We have a business that we've not talked about a lot located in Wisconsin called Gala Biotech, which is gene expression technology. We're now doing clinical kinds of work, a number of customers. It yields a small profit today. We acquired it five years ago. And so it's taken time for it to mature. And it's making great progress. We think it'll be a contributor as we look into the out years.

I think we're also investing in Blow/Fill/Seal, have a very interesting modification to Blow/Fill/Seal that will expand its relevance in terms of the types of drug that can be in a Blow/Fill/Seal technology.

So most of these are build rather than buy at the short term. But that said, there are some things we've also looked at on the outside that could be buy opportunities, but not in the short term.

Matthew Armas - *Goldman Sachs - Analyst*

Great. And just real quickly, if Matt or Cornell can kind of detail what the seasonality looks like in the business. We're rolling into what I believe to be a seasonally soft period. If you could just kind of detail which segment is soft and how the roll-through of the flu vaccine is going to impact that.

Matt Walsh - *Catalent Pharma Solutions, Inc. - SVP & CFO*

I think our business tends to have slower first quarters and stronger fourth quarters. And that's a feature that we expect will be repeated during fiscal 2009. So if you see a first quarter number, it's not accurate to multiply it by four and say that that will be the full-year expectation for Catalent. And conversely, the same is true for generally, our fourth quarter. And as you can see in the 2008 fiscal year, we've turned in a pretty strong Q4.

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Matthew Armas - *Goldman Sachs - Analyst*

Great.

George Fotiades - *Catalent Pharma Solutions, Inc. - President & CEO*

Let me just add that relates to plant shutdowns that take place in the first quarter, which is why it sort of is not really seasonality as much as it is the fact that we choose to take it during that timeframe.

Matthew Armas - *Goldman Sachs - Analyst*

Great.

Matt Walsh - *Catalent Pharma Solutions, Inc. - SVP & CFO*

And then there was an open issue related to the flu season. We typically see the revenues from that sort of split. Depending on when we get the active, we'll see some of it in Q4 and some of it in Q1. It all depends on when the Company gets the active. So but that is typically -- if the impact of the flu season happens to be weighted to Q1, let's say, in a certain year, that's typically overshadowed by the plant turnaround activity that we do, as George just alluded to.

Matthew Armas - *Goldman Sachs - Analyst*

Great. Thank you very much.

Operator

This concludes our question and answer portion of the call. I would now like to turn it over to Mr. Walsh for closing remarks.

Matt Walsh - *Catalent Pharma Solutions, Inc. - SVP & CFO*

Thank you, everyone. On behalf of George Fotiades and myself, we'd like to thank you for joining the call. And we look forward to talking to you next quarter, which is not too far into the future. Thank you, everybody.

Operator

Thank you for your participation. You may now disconnect. And have a wonderful day.

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