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 September 30, 2020

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**
(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). ☒ Yes ☐ No

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to 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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbols(s)	Name of each exchange on which registered
Common Stock	CTLT	New York Stock Exchange

On October 29, 2020, there were 164,697,598 shares of the Registrant's common stock, par value $0.01 per share, issued and outstanding.

CATALENT, INC. and Subsidiaries

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For the Three Months Ended September 30, 2020

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,” “approximately,” “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, 2020 (the “Fiscal 2020 10-K”) and the following:

- Our business, financial condition, and results of operations may be adversely affected by global health epidemics, including the novel strain of coronavirus (“COVID-19”) pandemic.
- 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. In addition, customer spending may be affected by, among other things, the COVID-19 pandemic or recessionary economic conditions caused in whole or in part by the pandemic.
- 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. In addition, changes to our procedures, or additional procedures, implemented to comply with public health orders or best practice guidelines as a result of the COVID-19 pandemic may increase our costs or reduce our productivity and thereby affect our business, financial condition, or results of operations.
- The exit of the United Kingdom (the “U.K.”) from the European Union, particularly after the end of the current transitional period, 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 or buy less of them, and our revenue and profitability may decline.
- We and our customers depend on patents, copyrights, trademarks, know-how, trade secrets, and other forms of intellectual property protections, but these protections may not be adequate.
- Our offering or our customers’ products may infringe on the intellectual property rights of third parties.
- 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. In addition, the COVID-19 pandemic may interfere with the

operations of certain of our direct or indirect suppliers or with international trade for these supplies, which may either raise our costs or reduce the productivity or slow the timing of our operations.

- Changes in market access or healthcare reimbursement for our customers' products in the United States ("U.S.") or other countries, 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.
- As a global enterprise, fluctuations in the exchange rate of the U.S. dollar, our reporting currency, against other currencies could have a material adverse effect on our financial performance and results of operations.
- Tax legislative or regulatory initiatives, new interpretations or developments concerning existing tax laws, 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, foreign tax credit 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 deferred tax assets.
- We depend on key personnel whose continued employment and engagement at current levels cannot be assured.
- 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.
- Cell and gene therapies are relatively new and still-developing modes of treatment, dependent on cutting-edge technologies, and our customers' cell or gene therapies may be perceived as unsafe or may result in unforeseen adverse events. Negative public opinion, continuing research, or increased regulatory scrutiny of cell or gene therapies and their financial cost may damage public perception of the safety, utility, or efficacy of cell or gene therapies and harm our customers' ability to conduct their business or obtain regulatory approvals for their cell or gene therapy products, and thereby have an indirect, adverse effect on our cell or gene therapy offerings.
- 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. These risks may be increased in a recessionary environment, particularly as sources of capital may become less available or more expensive.
- Despite our high indebtedness level, we and our subsidiaries are still capable of incurring significant additional debt, which could further exacerbate the risks associated with our substantial indebtedness.
- Our debt agreements contain restrictions that limit our flexibility in operating our business.

- Despite the limitations in our debt agreements, we retain the ability to take certain actions that may interfere with our ability timely to pay our substantial indebtedness.
- We are currently using and may in the future use derivative financial instruments to reduce our exposure to market risks from changes in interest rates on our variable-rate indebtedness or changes in currency exchange rates, and any such instrument may expose us to risks related to counterparty credit worthiness or non-performance of these instruments.

We caution you that the risks, uncertainties and other factors referenced above may not contain all of the risks, uncertainties, and other factors that are important to you. In addition, we cannot assure you that we will realize the results, benefits, or developments that we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our business in the way expected. There can be no assurance that (i) we have correctly measured or identified all of the factors affecting our business or the extent of these factors' likely impact, (ii) the available information with respect to these factors on which such analysis is based is complete or accurate, (iii) such analysis is correct, or (iv) our strategy, which is based in part on this analysis, will be successful. All forward-looking statements in this report apply only as of the date of this report or as of the date they were made, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments, or otherwise, except as required by law.

Social Media

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

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 September 30,	
	2020	**2019**
Net revenue	$ 845.7	$ 664.7
Cost of sales	596.8	487.0
Gross margin	248.9	177.7
Selling, general, and administrative expenses	164.7	142.8
Impairment charges and (gain)/loss on sale of assets	1.8	(0.2)
Restructuring and other	0.9	0.7
Operating earnings	81.5	34.4
Interest expense, net	25.3	36.3
Other (income)/expense, net	(11.2)	4.9
Earnings/(loss) before income taxes	67.4	(6.8)
Income tax benefit	(15.0)	(6.9)
Net earnings	82.4	0.1
Less: Net earnings attributable to preferred shareholders	(13.6)	(8.1)
Net earnings/(loss) attributable to common shareholders	$ 68.8	$ (8.0)
Earnings (loss) per share:		
Basic		
Net earnings/(loss)	$ 0.42	$ (0.05)
Diluted		
Net earnings/(loss)	$ 0.41	$ (0.05)

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

Catalent, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income/(Loss)
(Unaudited; dollars in millions)

	Three Months Ended September 30,	
	2020	**2019**
Net earnings	$ 82.4	$ 0.1
Other comprehensive income/(loss), net of tax		
Foreign currency translation adjustments	15.9	(21.8)
Pension and other post-retirement adjustments	0.5	(0.3)
Derivatives and hedges	(0.1)	—
Other comprehensive income/(loss), net of tax	16.3	(22.1)
Comprehensive income/(loss)	$ 98.7	$ (22.0)

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

Catalent, Inc. and Subsidiaries
Consolidated Balance Sheets
(Unaudited; in millions, except share and per share data)

	September 30, 2020	June 30, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,007.0	$ 953.2
Trade receivables, net	700.9	838.1
Inventories	384.3	323.8
Prepaid expenses and other	263.9	177.9
Total current assets	2,356.1	2,293.0
Property, plant, and equipment, net	2,035.5	1,900.8
Other assets:		
Goodwill	2,490.4	2,470.6
Other intangibles, net	870.3	888.7
Deferred income taxes	57.1	49.4
Other	174.8	174.0
Total assets	$ 7,984.2	$ 7,776.5
LIABILITIES, REDEEMABLE PREFERRED STOCK, AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations and other short-term borrowings	$ 73.4	$ 72.9
Accounts payable	329.4	321.0
Other accrued liabilities	516.9	499.3
Total current liabilities	919.7	893.2
Long-term obligations, less current portion	2,985.3	2,945.1
Pension liability	135.5	135.2
Deferred income taxes	83.6	94.0
Other liabilities	181.4	203.6
Commitment and contingencies (see Note 15)	—	—
Total liabilities	4,305.5	4,271.1
Redeemable preferred stock, $0.01 par value; 1.0 million shares authorized at September 30 and June 30, 2020; 650,000 shares issued and outstanding at September 30 and June 30, 2020	606.6	606.6
Shareholders' equity:		
Common stock, $0.01 par value; 1.0 billion shares authorized at September 30 and June 30, 2020; 164.6 million and 162.8 million issued and outstanding at September 30 and June 30, 2020, respectively	1.6	1.6
Preferred stock, $0.01 par value; 99 million authorized at September 30 and June 30, 2020; 0 issued and outstanding at September 30 and June 30, 2020	—	—
Additional paid in capital	3,901.4	3,818.7
Accumulated deficit	(460.9)	(535.2)
Accumulated other comprehensive loss	(370.0)	(386.3)
Total shareholders' equity	3,072.1	2,898.8
Total liabilities, redeemable preferred stock, and shareholders' equity	$ 7,984.2	$ 7,776.5

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

Catalent, Inc. and Subsidiaries
Consolidated Statement of Changes in Shareholders' Equity
(Unaudited; dollars in millions, except share data in thousands)

Three Months Ended September 30, 2020

	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, 2020	**162,788.0**	**$ 1.6**	**$ 3,818.7**	**$ (535.2)**	**$ (386.3)**	**$ 2,898.8**
Equity offering, sale of common stock	1,162.5	—	81.8			81.8
Share issuances related to stock-based compensation	616.6	—				—
Stock-based compensation			18.7			18.7
Cash paid, in lieu of equity, for tax withholding			(19.6)			(19.6)
Employee stock purchase plan			1.8			1.8
Preferred dividend				(8.1)		(8.1)
Net earnings				82.4		82.4
Other comprehensive income, net of tax					16.3	16.3
Balance at September 30, 2020	**164,567.1**	**$ 1.6**	**$ 3,901.4**	**$ (460.9)**	**$ (370.0)**	**$ 3,072.1**

Three Months Ended September 30, 2019

	Shares of Common Stock	Common Stock	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity/ (Deficit)
Balance at June 30, 2019	**145,738.3**	**$ 1.5**	**$ 2,757.4**	**$ (723.4)**	**$ (353.9)**	**$ 1,681.6**
Share issuances related to stock-based compensation	497.4	—				—
Stock-based compensation			16.6			16.6
Cash paid, in lieu of equity, for tax withholding			(18.1)			(18.1)
Non-Qualified Stock			(0.7)			(0.7)
Preferred dividend				(8.1)		(8.1)
Net earnings				0.1		0.1
Other comprehensive loss, net of tax					(22.1)	(22.1)
Balance at September 30, 2019	**146,235.7**	**$ 1.5**	**$ 2,755.2**	**$ (731.4)**	**$ (376.0)**	**$ 1,649.3**

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

Catalent, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited; dollars in millions)

	Three Months Ended September 30,	
	2020	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 82.4	$ 0.1
Adjustments to reconcile earnings from operations to net cash from operations:		
Depreciation and amortization	69.1	60.6
Non-cash foreign currency transaction loss (gain), net	(3.8)	(0.1)
Amortization and write-off of debt financing costs	1.7	1.5
Asset impairments charges and /loss on sale of assets	1.8	(0.2)
(Gain) / loss on derivative instrument	(9.0)	8.9
Equity compensation	18.7	16.6
Benefit for deferred income taxes	(10.6)	(0.6)
Provision for bad debts and inventory	7.9	4.1
Change in operating assets and liabilities:		
Decrease in trade receivables	143.7	34.1
(Increase)/decrease in inventories	(65.4)	0.2
Increase/(decrease) in accounts payable	6.6	(47.3)
Other assets/accrued liabilities, net—current and non-current	(93.4)	(52.7)
Net cash provided by operating activities	149.7	25.2
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, equipment, and other productive assets	(149.6)	(73.5)
Payment for acquisitions, net of cash acquired	—	(10.7)
Payment made for investments	(1.6)	(0.7)
Net cash used in investing activities	(151.2)	(84.9)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in other borrowings	(3.9)	(2.5)
Payments related to long-term obligations	(2.4)	(3.3)
Dividends paid	(8.1)	(11.9)
Proceeds from sale of common stock, net	83.6	—
Cash paid, in lieu of equity, for tax-withholding obligations	(19.6)	(18.1)
Net cash provided by/(used in) financing activities	49.6	(35.8)
Effect of foreign currency exchange on cash	5.7	(6.5)
NET INCREASE/(DECREASE) IN CASH AND EQUIVALENTS	53.8	(102.0)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	953.2	345.4
CASH AND EQUIVALENTS AT END OF PERIOD	$ 1,007.0	$ 243.4
SUPPLEMENTARY CASH FLOW INFORMATION:		
Interest paid	$ 43.4	$ 24.8
Income taxes paid, net	$ 8.8	$ 12.7

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

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 ("U.S. 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 U.S. 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 three months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the year ending June 30, 2021. The consolidated balance sheet at June 30, 2020 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. 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, 2020 filed with the Securities and Exchange Commission (the "SEC").

Foreign Currency Translation

The financial statements of the Company's operations are generally measured using the local currency as the functional currency. Adjustments to translate the assets and liabilities of operations outside the U.S. into U.S. dollars are accumulated as a component of other comprehensive income/(loss) utilizing period-end exchange rates. Since July 1, 2018, the Company has accounted for its Argentine operations as highly inflationary.

Research and Development Costs

The Company expenses research and development costs as incurred. Research and development costs amounted to $6.4 million and $4.6 million for the three months ended September 30, 2020 and 2019, respectively.

Recent Financial Accounting Standards

Recently Adopted Accounting Standards

In August 2018, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("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 Company adopted the guidance on July 1, 2020. The guidance did not have a material impact on the Company's financial condition or results of operations.

In August 2018, the FASB issued ASU 2018-13*, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirement for Fair Value Measurement*, which changes the disclosure requirements on fair value measurements in Accounting Standards Codification ("ASC") 820 *Fair Value Measurement*. The guidance eliminates certain disclosure requirements that are no longer considered cost beneficial and adds new disclosure requirements for Level 3 fair value measurements. The Company adopted the guidance on July 1, 2020. The guidance did not have a material impact on the Company's financial condition or results of operations.

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 known as Credit Expected Credit Losses ("CECL"). CECL requires earlier recognition of credit losses on financial assets, 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 financial assets at the time they are 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 U.S. GAAP, which generally require that a loss be incurred before it is recognized. The new standard applies to receivables arising from revenue transactions such as contract assets and accounts receivables. The Company adopted the amended guidance using a modified retrospective approach on July 1, 2020. The amended guidance did not have a material impact on the Company's financial condition or results of operations.

New Accounting Standards Not Adopted as of September 30, 2020

In March 2020, the FASB issued ASU 2020-04*, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional guidance to ease the potential burden in accounting for the discontinuation of a reference rate such as LIBOR, formerly known as the London Interbank Offered Rate, because of reference rate reform. The expedients and exceptions provided by the guidance do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The ASU is effective for all entities as of March 12, 2020 through December 31, 2022. The Company is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12*, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which eliminates certain exceptions related to the incremental approach for intra-period allocation, deferred tax recognition requirement for changes in equity method investments and foreign subsidiaries, and methodology for calculating income taxes in an interim period. The guidance also simplifies certain aspects of the accounting for franchise taxes, the accounting for step-up in the tax basis of goodwill, and accounting for the change in the enacted change in tax laws or rates. The ASU will be effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

2. REVENUE RECOGNITION

The Company recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customers*. 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 months ended September 30, 2020 and September 30, 2019, by type of activity and reporting segment (in millions):

Three Months Ended September 30, 2020	**Biologics**	**Softgel & Oral Technologies**	**Oral & Specialty Delivery**	**Clinical Supply Services**	**Total**
Manufacturing & commercial product supply	$ 89.9	$ 190.6	$ 103.5	$ —	$ 384.0
Development services	287.2	30.5	54.8	—	372.5
Clinical supply services	—	—	—	92.7	92.7
Total	$ 377.1	$ 221.1	$ 158.3	$ 92.7	$ 849.2
				Inter-segment revenue elimination	(3.5)
				Combined net revenue	$ 845.7

Three Months Ended September 30, 2019	**Biologics**	**Softgel & Oral Technologies**	**Oral & Specialty Delivery**	**Clinical Supply Services**	**Total**
Manufacturing & commercial product supply	$ 64.4	$ 242.0	$ 76.0	$ —	$ 382.4
Development services	124.2	21.7	56.6	—	202.5
Clinical supply services	—	—	—	84.6	84.6
Total	$ 188.6	$ 263.7	$ 132.6	$ 84.6	$ 669.5
				Inter-segment revenue elimination	(4.8)
				Combined net revenue	$ 664.7

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

	Three Months Ended September 30,	
(Dollars in millions)	2020	2019
United States	$ 516.9	$ 362.3
Europe	281.4	210.1
International Other	68.8	110.9
Elimination of revenue attributable to multiple locations	(21.4)	(18.6)
Total	$ 845.7	$ 664.7

Contract Liabilities

Contract liabilities relate to cash consideration that the Company receives in advance of satisfying the related performance obligations. The contract liabilities balance as of September 30, 2020 and June 30, 2020 are as follows:

(Dollars in millions)	
Balance at June 30, 2020	$ 218.4
Balance at September 30, 2020	$ 243.9
Revenue recognized in the period from July 1 through September 30, 2020:	
Amounts included in contract liability at the beginning of the period	$ 48.2

Contract Assets

*C*ontract assets primarily relate to the Company's conditional right to receive consideration for services that have been performed for the customer as of September 30, 2020 relating to its development services but had not yet been invoiced as of September 30, 2020. Contract assets are transferred to trade receivables, net when the Company’s right to receive the consideration becomes unconditional. Contract assets totaled $116.2 million and $61.4 million as of September 30, 2020 and June 30, 2020, respectively. Contract assets are included in Prepaid expenses and other as they are expected to be transferred to trade receivables within 12 months of September 30, 2020.

Receivables and Allowance for Doubtful Accounts

Trade receivables are primarily comprised of amounts owed to the Company through its operating activities and are presented net of an allowance for doubtful accounts that includes an assessment of expected credit losses. The Company determines its allowance methodology by considering a number of factors, including the length of time accounts receivable are past due, the Company’s previous loss history, the specific customer’s ability to pay its obligation to the Company including a review of the current status of customers' trade receivables, and the current and future condition of the general economy and the customer’s industry.

3. BUSINESS COMBINATIONS

Novavax Transaction

In July 2019, the Company acquired from Novavax Inc. (“Novavax”) certain property, plant and equipment, rights to two facilities under leases in southern Maryland, certain raw material inventory, and the right to assume the employment of more than 100 Novavax employees located at those facilities in the areas of operations, quality, and product development, among other things. The Company made a cash payment of $18.3 million in connection with the acquisition. The Company considers the transaction to be a business combination under ASC 805, *Business Combinations* and accounted for it using the acquisition method of accounting. The Company estimated fair values at the acquisition date for the allocation of consideration to the acquired items.

The aggregate purchase consideration was funded with cash on hand. As a result of the fair value allocations, the Company recognized property, plant, and equipment of $15.6 million and $0.3 million for inventory. The remainder of the fair value, $2.4 million, was preliminarily allocated to goodwill, primarily the value of the existing organized and trained work force.

During the measurement period that ended in July 2020, the Company finalized the fair values of the net assets acquired, which was not materially different from the preliminary estimates.

The Novavax transaction expanded the Company's gene therapy early-development capabilities and supplemented its pool of experienced biologics operatives to support growth in its Biologics segment.

Anagni Acquisition

In January 2020, the Company acquired an oral solid, biologics, and sterile product manufacturing and packaging facility in Anagni, Italy ("Anagni") from a unit of Bristol-Myers Squibb Company ("BMS"). The Company paid to BMS $55.3 million in cash as part of the purchase consideration and as consideration for the provision of certain services to facilitate the transition from BMS to Company ownership. At the closing of this acquisition, BMS also entered into a five-year agreement for continuing supply by the Company of certain products formerly produced by BMS at the Anagni facility. Due to the variety of activities performed at Anagni, the results of the Anagni facility are allocated between the Oral and Specialty Delivery and Biologics segments.

The total cash consideration was allocated between the facility purchase and the transitional services arrangement, with $52.2 million assigned to the purchase consideration and the balance to transitional services. The Company funded the entire amount with cash on hand and has preliminarily allocated the purchase price among the acquired assets, recognizing property, plant, and equipment of $34.2 million, inventory of $6.5 million, and prepaid expenses and other of $12.2 million. The remainder of the value was allocated to deferred tax assets and certain employee-related liabilities assumed in the acquisition. The Company expects to finalize its allocation over the next several months, but, in any event, within one year from the closing.

Masthercell Global Inc. Acquisition

In February 2020, the Company acquired 100% of the equity interest in Masthercell Global Inc. ("MaSTherCell") for an aggregate purchase price of $323.3 million, subject to adjustment, which was funded with the net proceeds of the Company's February 2020 public offering (the "February 2020 Equity Offering") of its common stock, par value $0.01 ("Common Stock"). See Note 13, *Equity and Accumulated Other Comprehensive Income/(Loss)*. MaSTherCell is a contract development and manufacturing organization focused on the development and manufacture of autologous and allogeneic cell therapies for third parties, as well as a variety of related analytical services.

The Company accounted for the MaSTherCell acquisition using the acquisition method in accordance with ASC 805. The operating results of MaSTherCell have been included in the Company's consolidated financial statements for the period following the acquisition date.

The Company preliminarily estimated fair values at the date of acquisition for the preliminary allocation of consideration to the net tangible and intangible assets acquired and liabilities assumed as part of the MaSTherCell acquisition. The Company recognized, property, plant and equipment of $25.5 million, $51.0 million for identifiable intangible assets, $2.0 million for other net assets, and $7.7 million for deferred income tax liabilities. The remainder of the fair value, $252.5 million, was preliminarily allocated to goodwill. Goodwill is mainly comprised of the growth from an expected increase in capacity utilization, potential new customers, and advanced cell therapy development and manufacturing capabilities.

During the measurement period ending no later than one year after the acquisition date, the Company will continue to obtain information to assist in finalizing the fair values of the net assets acquired, which may differ materially from these preliminary estimates. The amounts subject to finalization include working capital and income taxes. If any measurement period adjustment is material, the Company will record such adjustment, including any related impact on net income, in the reporting period in which the adjustment is determined. The Company expects to finalize its allocation over the next several months, but, in any event, within one year from the closing.

4. GOODWILL

The following table summarizes the changes between June 30, 2020 and September 30, 2020 in the carrying amount of goodwill in total and by reporting segment:

(Dollars in millions)	Biologics	Softgel & Oral Technologies	Oral & Specialty Delivery	Clinical Supply Services	Total
Balance at June 30, 2020	$ 1,462.2	$ 505.5	$ 354.7	$ 148.2	$ 2,470.6
Other	(0.4)	—	—	—	(0.4)
Foreign currency translation adjustments	8.6	6.1	3.1	2.4	20.2
Balance at September 30, 2020	$ 1,470.4	$ 511.6	$ 357.8	$ 150.6	$ 2,490.4

The Company recorded no impairment charge to goodwill in the current period.

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 17, *Supplemental Balance Sheet Information* for details related to property, plant, and equipment.

The details of other intangibles, net as of September 30, 2020 and June 30, 2020 are as follows:

(Dollars in millions)	Weighted Average Life	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
September 30, 2020				
Amortized intangibles:				
Core technology	19 years	$ 136.9	$ (86.4)	$ 50.5
Customer relationships	14 years	1,027.4	(268.4)	759.0
Product relationships	11 years	273.8	(223.1)	50.7
Other	5 years	15.6	(5.5)	10.1
Total intangible assets		$ 1,453.7	$ (583.4)	$ 870.3

(Dollars in millions)	Weighted Average Life	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
June 30, 2020				
Amortized intangibles:				
Core technology	19 years	$ 134.5	$ (83.0)	$ 51.5
Customer relationships	14 years	1,021.3	(248.0)	773.3
Product relationships	11 years	270.4	(217.5)	52.9
Other	5 years	15.5	(4.5)	11.0
Total intangible assets		$ 1,441.7	$ (553.0)	$ 888.7

Amortization expense related to definite-lived long-lived assets was $23.0 million and $21.5 million for the three months ended September 30, 2020 and September 30, 2019, respectively.

Future amortization expense related to definite-lived long-lived assets for the next five fiscal years is estimated to be:

(Dollars in millions)	Remainder Fiscal 2021	2022	2023	2024	2025	2026
Amortization expense	$ 68.6	$ 90.7	$ 90.1	$ 89.5	$ 88.5	$ 81.4

6. LONG-TERM OBLIGATIONS AND SHORT-TERM BORROWINGS

Long-term obligations and short-term borrowings consisted of the following at September 30, 2020 and June 30, 2020:

(Dollars in millions)	Maturity as of September 30, 2020	September 30, 2020	June 30, 2020
Senior secured credit facilities			
U.S. dollar-denominated term loan facility	May 2026	$ 926.5	$ 928.5
U.S. dollar-denominated 4.875% senior notes due 2026	January 2026	445.6	445.4
U.S. dollar-denominated 5.00% senior notes due 2027	July 2027	493.3	493.1
Euro-denominated 2.375% senior notes due 2028	March 2028	944.6	909.9
Deferred purchase consideration	October 2021	98.2	97.5
Finance lease obligations	2020 to 2044	149.5	142.2
Other obligations	2020 to 2024	1.0	1.4
Total		$ 3,058.7	$ 3,018.0
Less: current portion of long-term obligations and other short-term borrowings		73.4	72.9
Long-term obligations, less current portion		$ 2,985.3	$ 2,945.1

Deferred Purchase Consideration

In connection with the acquisition of Catalent Indiana, LLC in October 2017, $200.0 million of the $950.0 million aggregate nominal purchase price is payable in $50.0 million installments on each of the first four anniversaries of the closing date. The Company made installment payments in October 2018, in October 2019, and, following the end of the first quarter of fiscal 2021, in October 2020. The balance of the deferred purchase consideration was recorded at fair value as of the acquisition date, with the difference between the remaining nominal amount and the fair value treated as imputed interest.

Measurement of the Fair Value of Debt

The measurement of the estimated fair value of the Company's senior secured credit facilities and other senior indebtedness is classified as a Level 2 determination in the fair-value hierarchy and is calculated by using a discounted cash flow model with the market interest rate as a significant input. The carrying amounts and the estimated fair values of the Company's principal categories of debt as of September 30, 2020 and June 30, 2020 are as follows:

		September 30, 2020		June 30, 2020	
(Dollars in millions)	Fair Value Measurement	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
U.S. dollar-denominated 4.875% senior notes due 2026	Level 2	445.6	463.4	445.4	463.6
U.S. dollar-denominated 5.00% senior notes due 2027	Level 2	493.3	533.7	493.1	537.9
Euro-denominated 2.375% senior notes due 2028	Level 2	944.6	894.9	909.9	844.1
Senior secured credit facilities & other	Level 2	1,175.2	1,177.8	1,169.6	1,160.1
Total		$ 3,058.7	$ 3,069.8	$ 3,018.0	$ 3,005.7

7. EARNINGS PER SHARE

The Company computes earnings per share of the Company's Common Stock using the two-class method required due to the participating nature of the Series A Preferred Stock (as defined and discussed in Note 14, *Redeemable Preferred Stock—Series A Preferred*). Diluted net income per share is computed using the weighted average number of shares of Common Stock outstanding plus the weighted average number of shares of Common Stock that would be issued assuming exercise or conversion of all potentially dilutive instruments. Dilutive securities having an anti-dilutive effect on diluted net income per share are excluded from the calculation. The dilutive effect of the securities that are issuable under the Company's equity incentive plans are reflected in diluted earnings per share by application of the treasury stock method. The reconciliations between basic and diluted earnings per share attributable to Catalent common shareholders for the three months ended September 30, 2020 and 2019, respectively, are as follows (in millions, except share and per share data):

(Dollars in millions)	Three Months Ended September 30, 2020	2019
Net earnings	$ 82.4	$ 0.1
Less: Net earnings attributable to preferred shareholders	(13.6)	(8.1)
Net earnings/(loss) attributable to common shareholders	$ 68.8	$ (8.0)
Weighted average shares outstanding	164,088,003	145,663,115
Weighted average dilutive securities issuable-stock plans	2,441,035	—
Total weighted average diluted shares outstanding	166,529,038	145,663,115
Earnings (loss) per share:		
Basic	$ 0.42	$ (0.05)
Diluted	$ 0.41	$ (0.05)

The computation of diluted earnings per share for the three months ended September 30, 2020 excludes the effect of approximately 13.1 million "if-converted" shares of Common Stock potentially issuable on the conversion of Series A Preferred Stock, as those shares would be anti-dilutive. The computation of diluted earnings per share for the three months ended September 30, 2019 also excludes the effect of these shares, as well as the effect of the assumed exercise of stock options, as all such shares would be anti-dilutive in a period with a net loss attributable to common shareholders.

8. OTHER (INCOME)/EXPENSE, NET

The components of other (income)/expense, net for the three months ended September 30, 2020 and 2019 are as follows:

(Dollars in millions)	Three Months Ended September 30, 2020	2019
Other (income)/expense, net		
Debt refinancing costs	$ —	$ 0.1
Foreign currency gains (1)	(0.6)	(3.1)
Other (2)	(10.6)	7.9
Total other (income)/expense, net	$ (11.2)	$ 4.9

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

(2) Included within Other for the three months ended September 30, 2020 and 2019 is an unrealized gain of $9.0 million and an unrealized loss of $8.9 million, respectively, each related to the fair value of the derivative liability associated with the Series A Preferred Stock.

9. RESTRUCTURING AND OTHER 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. The restructuring costs for the three months ended September 30, 2020 and 2019 were $0.9 million and $0.7 million, respectively.

10. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to fluctuations in the applicable exchange rate on its investments in operations outside the U.S. 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 September 30, 2020, the Company had euro-denominated debt outstanding of $944.6 million (U.S. dollar equivalent) 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 the euro-denominated debt translation gains or losses are reported in the consolidated statement of operations. The following table includes net investment hedge activity during the three months ended September 30, 2020 and 2019.

	Three Months Ended September 30,	
(Dollars in millions)	**2020**	**2019**
Unrealized foreign exchange gain/(loss) within other comprehensive income	$ (32.4)	$ 20.3
Unrealized foreign exchange gain/(loss) within statement of operations	$ (1.9)	$ 9.7

The net accumulated loss on the instrument designated as a hedge as of September 30, 2020 within other comprehensive income/(loss) was approximately $30.1 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.

Preferred Stock Derivative Liability

As discussed in Note 14, *Redeemable Preferred Stock—Series A Preferred,* in May 2019, the Company issued shares of Series A Preferred Stock in exchange for net proceeds of $646.3 million after taking into account the $3.7 million issuance cost.

The dividend rate used to determine the amount of the quarterly dividend payable on shares of the Series A Preferred Stock is subject to adjustment so as to provide holders of shares of Series A Preferred Stock with certain protections against a decline in the trading price of shares of Common Stock. The Company determined that this feature should be accounted for as a derivative liability, since the feature fluctuates inversely to changes in the trading price and is also linked to the performance of the S&P 500 stock index. Accordingly, the Company bifurcated the adjustable dividend feature from the remainder of the Series A Preferred Stock and accounted for this feature as a derivative liability at fair value. The Company will recognize changes in the fair value of the derivative liability in the consolidated statements of operations for each reporting period. The fair value was determined using an option pricing methodology, specifically both a Monte Carlo simulation and a binomial lattice model. The methodology incorporates the terms and conditions of the preferred stock arrangement, historical stock price volatility, the risk-free interest rate, a credit spread based on the yield indexes of high-yield bonds, and the trading price of shares of the Common Stock. The calculation of the estimated fair value of the derivative liability is highly sensitive to changes in unobservable inputs, such as the expected volatility and the Company's specific credit spread.

The Company recorded a gain of $9.0 million on the change in the estimated fair value of the derivative liability from June 30, 2020 through September 30, 2020, primarily related to volatility in the price of the Company's Common Stock that is used to estimate the fair value, which is reflected as a non-operating expense in the consolidated statements of operations. The fair value of the derivative liability as of September 30, 2020 was $14.6 million.

The fair value is classified as Level 3 in the fair-value hierarchy due to the significant management judgment required for the assumptions underlying the calculation of value. The following table sets forth a summary of changes in the estimated fair value of the derivative liability:

(Dollars in millions)	Fair Value Measurements of Series A Preferred Stock Derivative Liability Using Significant Unobservable Inputs (Level 3)	
Balance at June 30, 2020	$	23.6
Change in estimated fair value of Series A Preferred Stock derivative liability		(9.0)
Balance at September 30, 2020	$	14.6

Interest-Rate Swap

Pursuant to its interest rate and risk management strategy, in April 2020, Operating Company entered into an interest-rate swap agreement with Bank of America N.A. as a hedge against the economic effect of a portion of the variable interest obligation associated with its U.S dollar-denominated term loans under its senior secured credit facilities, so that the interest payable on that portion of the debt becomes fixed at a certain rate, thereby reducing the impact of future interest rate changes on future interest expense. As a result of entering into the interest-rate swap agreement, the floating portion of the applicable rate on $500.0 million of the term loans is now effectively fixed at 1.26%, for a total fixed rate of 3.51%.

The interest-rate swap agreement qualifies for and is designated as a cash-flow hedge. The Company evaluates hedge effectiveness at the inception of the hedge and on an ongoing basis.

The fair value of the interest-rate swap agreement is determined at the end of each reporting period based on valuation models that use interest rate yield curves and discount rates as inputs. The discount rates are based on U.S. deposit or U.S. Treasury rates. The significant inputs used in the valuation models are readily available in public markets or can be derived from observable market transactions, and, therefore, the valuation has been classified as a Level 2 in the fair-value hierarchy. The estimated fair value of the interest rate swap as of September 30, 2020 and as of June 30, 2020 was reported as a derivative liability of $3.8 million and $3.7 million, respectively, within other liabilities in the consolidated balance sheets. The cash flows associated with the interest-rate swap are reported in net cash provided by operating activities in the consolidated statements of cash flows. The unrealized loss or unrealized gain from the mark-to-market of the interest rate swap valuation during the three months ended September 30, 2020 and the fiscal year ended June 30, 2020 was immaterial in each period.

11. INCOME TAXES

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*. 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, the tax impact of changes in the Company’s unrecognized tax benefit reserves and the tax impact of certain equity compensation.

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, and the United Kingdom. The Company is no longer subject to examinations by the relevant tax authorities for years prior to fiscal year 2009.

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 September 30, 2020 and June 30, 2020, the Company had an aggregate of $4.5 million and $5.6 million, respectively, of uncertain tax positions (including accrued interest and penalties). As of these dates, $3.2 million and $4.4 million, respectively, represent the amount of unrecognized tax benefits, which, if recognized, would favorably affect the effective income tax rate. The reduction to unrecognized tax benefits is primarily driven by a settlement of Italian income taxes that occurred in the current period. Interest and penalties related to uncertain tax positions are recognized as a component of income tax expense.

The Company recorded a benefit for income taxes for the three months ended September 30, 2020 of $15.0 million relative to earnings before income taxes of $67.4 million. The Company recorded a benefit for income taxes for the three months ended September 30, 2019 of $6.9 million relative to a loss before income taxes of $6.8 million. The income tax benefit for the current period is not comparable to the same period of the prior year due to changes in pretax income over many jurisdictions and the impact of discrete items, including a $22.2 million benefit for U.S. foreign tax credits resulting from amending a prior year return. Generally, fluctuations in the 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, special items, certain equity related compensation, and other discrete tax items, which may have unique tax implications depending on the nature of the item.

12. EMPLOYEE RETIREMENT BENEFIT PLANS

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

	Three Months Ended September 30,	
(Dollars in millions)	**2020**	**2019**
Components of net periodic benefit cost:		
Selling, general, and administrative expenses:		
Service cost	$ 1.0	$ 0.6
Other (income)/expense, net:		
Interest cost	1.0	1.7
Expected return on plan assets	(2.4)	(2.7)
Amortization (1)	0.7	0.8
Net amount recognized	$ 0.3	$ 0.4

(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 $38.6 million as of September 30, 2020 and June 30, 2020, 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 its Common Stock and 100,000,000 shares of preferred stock, par value $0.01 per share. In accordance with the Company's amended and restated certificate of incorporation, each share of Common Stock has one vote, and the Common Stock votes together as a single class.

Recent Public Offerings of its Common Stock

On June 15, 2020, the Company completed a public offering of its Common Stock (the "June 2020 Equity Offering"), in which the Company sold 7.7 million shares of Common Stock at a price of $70.72 per share, net of underwriting discounts and commissions. The Company obtained total net proceeds from the June 2020 Equity Offering of $547.5 million after the payment of associated offering expenses. The net proceeds of the June 2020 Equity Offering were used to repay $200.0 million of precautionary borrowings from the third quarter of fiscal 2020 under Operating Company's revolving credit facility, with the remainder available for general corporate purposes. On July 10, 2020, the underwriter for the June 2020 Equity Offering exercised its over-allotment option on 1.2 million additional shares, resulting in supplemental net proceeds of $81.8 million from the June 2020 Equity Offering, which was recorded in the current period.

On February 6, 2020, the Company completed the February 2020 Equity Offering, in which the Company sold 8.4 million shares of Common Stock at a price of $58.58 per share, net of underwriting discounts and commissions. The Company obtained total net proceeds from the February 2020 Equity Offering of $494.2 million. The net proceeds of the February 2020 Equity Offering were used to repay $100.0 million of borrowings earlier in the quarter under Operating Company's revolving credit facility and pay the consideration for the MaSTherCell acquisition due at its closing, with the remainder available for general corporate purposes.

Effect of Restricted Stock

Shares of Common Stock outstanding include shares of unvested restricted stock. Unvested restricted stock included in reportable shares outstanding was 0.2 million shares as of September 30, 2020. Shares of unvested restricted stock are excluded from the 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.

Accumulated Other Comprehensive Loss

The components of the changes in the cumulative translation adjustment, derivatives and hedges, and minimum pension liability for the three months ended September 30, 2020 and 2019 are presented below.

	Three Months Ended September 30,	
(Dollars in millions)	**2020**	**2019**
Foreign currency translation adjustments:		
Net investment hedge	$ (32.4)	$ 20.3
Long-term intercompany loans	6.3	(6.5)
Translation adjustments	35.4	(32.3)
Total foreign currency translation adjustment, pretax	9.3	(18.5)
Tax expense/(benefit)	(6.6)	3.3
Total foreign currency translation adjustment, net of tax	$ 15.9	$ (21.8)
Net change in derivatives and hedges:		
Net loss recognized during the period	$ (0.1)	$ —
Total derivatives and hedges, pretax	(0.1)	—
Tax expense/(benefit)	—	—
Net change in derivatives and hedges, net of tax	$ (0.1)	$ —
Net change in minimum pension liability		
Net gain/(loss) recognized during the period	$ 0.7	$ (0.6)
Total pension liability, pretax	0.7	(0.6)
Tax expense/(benefit)	0.2	(0.3)
Net change in minimum pension liability, net of tax	$ 0.5	$ (0.3)

For the three months ended September 30, 2020, the changes in accumulated other comprehensive loss, net of tax by component are as follows:

(Dollars in millions)	**Foreign Exchange Translation Adjustments**	**Pension and Liability Adjustments**	**Derivatives and Hedges**	**Other**	**Total**
Balance at June 30, 2020	$ (335.1)	$ (47.5)	$ (2.6)	$ (1.1)	$ (386.3)
Other comprehensive income before reclassifications	15.9	—	(0.1)	—	15.8
Amounts reclassified from accumulated other comprehensive income	—	0.5	—	—	0.5
Net current period other comprehensive income	15.9	0.5	(0.1)	—	16.3
Balance at September 30, 2020	$ (319.2)	$ (47.0)	$ (2.7)	$ (1.1)	$ (370.0)

14. REDEEMABLE PREFERRED STOCK — SERIES A PREFERRED

In May 2019, the Company designated 1,000,000 shares of its preferred stock, par value $0.01, as its Series A Convertible Preferred Stock (the "Series A Preferred Stock"), pursuant to a certificate of designation of preferences, rights, and limitations (as amended, the "Certificate of Designation") filed with the Delaware Secretary of State, and issued and sold 650,000 shares of the Series A Preferred Stock for an aggregate purchase price of $650.0 million, to affiliates of Leonard Green & Partners, L.P., each share having an initial stated value of $1,000 (as such value may be adjusted in accordance with the terms of the Certificate of Designation). The Series A Preferred Stock ranks senior to the Company's Common Stock with respect to dividend rights and rights upon the voluntary or involuntary liquidation, dissolution, or winding up of the affairs of the Company.

Proceeds from the offering of the Series A Preferred Stock, net of stock issuance costs, were $646.3 million. Of the net proceeds, $39.7 million was allocated to the dividend-adjustment feature at its issuance and separately accounted for as a derivative liability, as disclosed in Note 10, Derivative Instruments and Hedging Activities*;* thus, the proceeds of the issuance were allocated as follows:

(Dollars in millions)

Issuance of Series A Preferred Stock	$	650.0
Stock issuance costs		(3.7)
Net of stock issuance costs		646.3
Derivative liability (portion of preferred stock allocated to dividend-adjustment feature at inception - see Note 10)		(39.7)
Net proceeds from Series A Preferred Stock issuance	$	606.6

Any change in the fair value of derivative liability during a fiscal quarter is recorded as a non-operating expenses in the consolidated statement of operations for that quarter. See Note 10, Derivative Instruments and Hedging Activities for detail concerning the change in fair value during the three months ended September 30, 2020.

15. COMMITMENTS AND CONTINGENCIES

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 consolidated 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.

16. SEGMENT INFORMATION

The Company now conducts its business within the following operating segments: Biologics, Softgel and Oral Technologies, Oral and Specialty 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 U.S. GAAP and may not be comparable to similarly titled measures used by other companies.

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The following tables include net revenue and Segment EBITDA for each of the Company's current reporting segments during the three months ended September 30, 2020 and 2019:

	Three Months Ended September 30,	
(Dollars in millions)	**2020**	**2019**
Net revenue:		
Biologics	$ 377.1	$ 188.6
Softgel and Oral Technologies	221.1	263.7
Oral and Specialty Delivery	158.3	132.6
Clinical Supply Services	92.7	84.6
Inter-segment revenue elimination	(3.5)	(4.8)
Net revenue	$ 845.7	$ 664.7

	Three Months Ended September 30,	
(Dollars in millions)	**2020**	**2019**
Segment EBITDA reconciled to net earnings:		
Biologics	$ 106.5	$ 35.8
Softgel and Oral Technologies	37.8	46.4
Oral and Specialty Delivery	21.4	27.7
Clinical Supply Services	25.0	21.6
Sub-Total	$ 190.7	$ 131.5
Reconciling items to net earnings		
Unallocated costs [(1)]	(28.9)	(41.4)
Depreciation and amortization	(69.1)	(60.6)
Interest expense, net	(25.3)	(36.3)
Income tax expense/(benefit)	15.0	6.9
Net earnings	$ 82.4	$ 0.1

(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:

	Three Months Ended September 30,	
(Dollars in millions)	**2020**	**2019**
Impairment charges and gain/(loss) on sale of assets	$ (1.8)	$ 0.2
Stock-based compensation	(18.7)	(16.6)
Restructuring and other special items [(a)]	(4.9)	(11.8)
Other income/(expense), net [(b)]	11.2	(4.9)
Unallocated corporate costs, net	(14.7)	(8.3)
Total unallocated costs	$ (28.9)	$ (41.4)

(a) Restructuring and other special items during the three months ended September 30, 2020 include transaction and integration costs associated with the Anagni and MaSTherCell acquisitions, the disposal of a site in Australia, and other restructuring initiatives across the Company’s network of sites. Restructuring and other special items during the three months ended September 30, 2019 include transaction and integration costs associated with the Company’s cell and gene therapy acquisitions.

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

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)	September 30, 2020	June 30, 2020
Assets:		
Biologics	$ 3,995.1	$ 3,775.0
Softgel and Oral Technologies	1,527.8	1,501.8
Oral and Specialty Delivery	1,228.3	1,247.4
Clinical Supply Services	460.6	451.2
Corporate and eliminations	772.4	801.1
Total assets	$ 7,984.2	$ 7,776.5

17. SUPPLEMENTAL BALANCE SHEET INFORMATION

Supplemental balance sheet information at September 30, 2020 and June 30, 2020 is detailed in the following tables.

Inventories

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

(Dollars in millions)	September 30, 2020	June 30, 2020
Raw materials and supplies	$ 278.8	$ 222.6
Work-in-process	135.0	123.2
Total inventories, gross	413.8	345.8
Inventory cost adjustment	(29.5)	(22.0)
Inventories	$ 384.3	$ 323.8

Prepaid expenses and other

Prepaid expenses and other consist of the following:

(Dollars in millions)	September 30, 2020	June 30, 2020
Prepaid expenses	$ 49.9	$ 28.6
Contract assets	116.2	61.4
Spare parts supplies	22.4	23.1
Prepaid income tax	18.1	15.0
Non-U.S. value-added tax	23.5	19.0
Other current assets	33.8	30.8
Prepaid expenses and other	$ 263.9	$ 177.9

Property, plant, and equipment, net

Property, plant, and equipment, net consist of the following:

(Dollars in millions)	September 30, 2020	June 30, 2020
Land, buildings, and improvements	$ 1,277.1	$ 1,250.9
Machinery and equipment	1,290.6	1,233.6
Furniture and fixtures	22.6	20.9
Construction in progress	546.4	440.0
Property, plant, and equipment, at cost	3,136.7	2,945.4
Accumulated depreciation	(1,101.2)	(1,044.6)
Property, plant, and equipment, net	$ 2,035.5	$ 1,900.8

Depreciation expense was $46.1 million for the three months ended September 30, 2020, and $39.1 million for the three months ended September 30, 2019. Depreciation expense includes amortization of assets related to finance leases. The Company charges repairs and maintenance costs to expense as incurred. The Company capitalized interest cost of $6.2 million for the three months ended September 30, 2020.

Other accrued liabilities

Other accrued liabilities consist of the following:

(Dollars in millions)	September 30, 2020	June 30, 2020
Accrued employee-related expenses	$ 140.3	$ 140.8
Restructuring accrual	2.4	2.8
Accrued interest	12.2	29.1
Contract liability	229.4	191.0
Accrued income tax	—	4.5
Other accrued liabilities and expenses	132.6	131.1
Other accrued liabilities	$ 516.9	$ 499.3

18. SUBSEQUENT EVENTS

On October 28, 2020, the Company entered into an agreement to acquire all of the shares of Skeletal Cell Therapy Support SA (“Skeletal”) from Bone Therapeutics SA (“Bone”) for €12.0 million, subject to customary adjustments, as well as related supply agreements with Bone. Skeletal leases and operates a cell therapy manufacturing facility in Gosselies, Belgium. Upon closing, the facility and operations will become part of the Company’s Biologics business unit, expanding the Company’s cell therapy capacity for clinical and commercial supply. The agreement is subject to customary closing conditions and is expected to close during the second quarter of fiscal 2021.

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, development, and manufacturing solutions for drugs, protein, nucleic acid, cell, and gene therapy biologics, and consumer health products. Our oral, injectable, cell and gene therapy, and respiratory delivery technologies address the full diversity of the pharmaceutical industry, including small molecules; protein, cell, and gene therapy biologics; and consumer 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 and Oral Technologies, Biologics, and Oral and Specialty 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 74 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 and 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.

The COVID-19 Pandemic

The COVID-19 pandemic has spread across the globe and is affecting economic activity worldwide, including in the countries in which we, our customers, our suppliers, and our other business partners conduct business. Governments in affected regions have implemented, and may continue to implement, measures to protect public health, including quarantines, travel restrictions, business closures, cancellations of public gatherings, and measures that affect the flow of goods, services, and people between different regions. We have taken and continue to take steps to avoid or reduce infection or contamination and otherwise protect our employees and our business, in line with guidelines issued by the U.S. Centers for Disease Control and Prevention (CDC), the World Health Organization (WHO), and local authorities where we operate, to re-emphasize good hygiene practices, severely restrict non-employee access to our sites, reorganize our workflows where permitted to maximize social distancing, limit our employees to only business-critical travel (where permitted by local law), facilitate safer alternatives to travel to and from work, and employ remote-working strategies. In addition, to address the multiple dimensions of the pandemic, senior, multi-disciplinary teams reporting directly to our Chief Executive Officer have been continuously monitoring the global situation, executing mitigation activities whenever and wherever required, and planning for a phased and structured return to our facilities as circumstances will permit for those employees who have been remote-working.

We have reviewed and will continue to analyze our supply chain to identify any risk, delay, or concern that may have an impact on our ability to deliver our services and products. To date, we have not identified any significant risk, delay, or concern that would have a substantial effect on such delivery. We have adopted various procedures to minimize and manage any future disruption to our ongoing operations. These include procuring expanded safety stocks of raw materials and personal protective equipment across our network, as well as ongoing monitoring of our suppliers' stock levels to assure future deliveries. Our existing procedures, which are consistent with cGMP and other regulatory standards, are intended to assure the integrity of our supply, including against any contamination. We have a detailed response plan to manage any impact of the virus on employee health, site operations, and product supply, including immediate assessment of the health of employees reporting symptoms, comprehensive risk assessment of any impact to quality, additional cleaning protocols, and alternative shift patterns to compensate should fewer employees be available.

The COVID-19 pandemic has not had a material adverse impact on our business, financial condition, or results of operations to date, but, at this point, the extent to which the COVID-19 pandemic may affect our future financial condition or results of operations remains uncertain and will depend on future developments that are highly uncertain, including the duration of the pandemic, new information that may emerge concerning the severity of the virus, and the actions governments, the pharmaceutical industry, competitors, suppliers, customers, patients, and others may take to contain or address its direct and indirect effects. The COVID-19 pandemic and associated mitigation measures may also have an adverse impact on healthcare systems, global economic conditions, or economic conditions in one or more regions where we, our suppliers, or our customers operate, which could have an adverse effect on our business and financial condition. We have observed some increases in customer delays and cancellations, occasional increases in absenteeism of production employees in our facilities in certain affected regions, and a small percentage of our customers expecting a reduction in demand and a larger percentage expecting an increase in demand, in each case due to circumstances relating to the COVID-19 pandemic and the responsive measures. We have also seen revenue increases and the potential for further revenue increases related to projects seeking to address the

COVID-19 pandemic or its effects. Future financial periods may reflect greater effects of the pandemic on the results of our operations.

See also "Risk Factors — Risks Related to Our Business and Industry — Our business, financial condition, and results of operations may be adversely affected by global health epidemics, including the COVID-19 pandemic" in our Fiscal 2020 10-K.

Critical Accounting Policies and Estimates

We prepare our financial statements in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). Management made certain estimates and assumptions during the preparation of the consolidated financial statements in accordance with U.S. GAAP. These estimates and assumptions affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities in the consolidated financial statements. These estimates also affect the reported amount of net earnings during the reporting periods. Actual results could differ from those estimates. Because of the size of the financial statement elements to which they relate, some of our accounting policies and estimates have a more significant impact on the consolidated financial statements than others.

There was no material change to our critical accounting policies or in the underlying accounting assumptions and estimates from those described in our Fiscal 2020 10-K, other than recently adopted accounting principles disclosed in Note 1 to the unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q (the "Consolidated Financial Statements"), which adoptions had no material impact on net earnings.

Non-GAAP Metrics

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, adjusted for the income or loss attributable to non-controlling interests ("EBITDA from operations"). EBITDA from operations is not defined under U.S. GAAP, is not a measure of operating income, operating performance, or liquidity presented in accordance with U.S. 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 U.S. 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 measure to EBITDA from operations defined under U.S. GAAP is net earnings/(loss). Included in this Management's Discussion and Analysis is a reconciliation of net earnings/(loss) to EBITDA from operations.

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

Use of Constant Currency

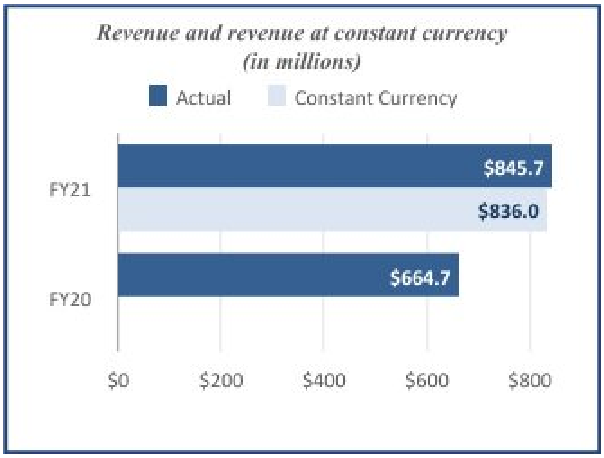
As exchange rates are an important factor in understanding period-to-period comparisons, we believe the presentation of results on a constant-currency basis in addition to reported results helps improve investors' ability to understand our operating results and evaluate our performance in comparison 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 U.S. 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 U.S. GAAP.

Other Non-GAAP Measures

Organic revenue growth and Segment EBITDA growth are measures we use 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 revenue from licensing 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 U.S. 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 U.S. GAAP.

Three Months Ended September 30, 2020 Compared to the Three Months Ended September 30, 2019

The below tables summarize several financial metrics we use to measure performance for the three months ended September 30, 2020 and three months ended September 30, 2019. Refer to the discussions below regarding performance and use of key financial metrics.



Results for the three months ended September 30, 2020 compared to the three months ended September 30, 2019 were as follows:

	Three Months Ended September 30,		FX Impact	Constant Currency Increase/(Decrease)	
(Dollars in Millions)	**2020**	**2019**		**Change $**	**Change %**
Net revenue	$ 845.7	$ 664.7	$ 9.7	$ 171.3	26 %
Cost of sales	596.8	487.0	5.8	104.0	21 %
Gross margin	248.9	177.7	3.9	67.3	38 %
Selling, general, and administrative expenses	164.7	142.8	0.9	21.0	15 %
Impairment charges and (gain)/loss on sale of assets	1.8	(0.2)	—	2.0	(1,000)%
Restructuring and other	0.9	0.7	0.1	0.1	14 %
Operating earnings	81.5	34.4	2.9	44.2	128 %
Interest expense, net	25.3	36.3	0.2	(11.2)	(31)%
Other (income)/expense, net	(11.2)	4.9	1.5	(17.6)	(359)%
Earnings/(loss) before income taxes	67.4	(6.8)	1.2	73.0	(1,074)%
Income tax benefit	(15.0)	(6.9)	(0.1)	(8.0)	116 %
Net earnings	$ 82.4	$ 0.1	$ 1.3	$ 81.0	81,000 %

Net Revenue

Factors Contributing to Year-Over-Year Change	2020 vs. 2019 Three Months Ended September 30, Net Revenue	
Net revenue without acquisitions/divestitures	20	%
Impact of acquisitions	8	%
Impact of divestitures	(2)	%
Constant currency change	**26**	**%**
Foreign currency translation impact on reporting	1	%
Total % change	27	%

Net revenue increased $171.3 million, or 26%, excluding the impact of foreign exchange, compared to the three months ended September 30, 2019. Net revenue increased 8% as a result of acquisitions, which was partially offset by a 2% decrease in net revenue due to divestitures. We acquired a facility in Anagni, Italy ("Anagni") in January 2020, and Masthercell Global Inc. ("MaSTherCell") in February 2020 and divested a manufacturing site in Australia in October 2019. Net revenue increased 20% without the impact of acquisitions and divestitures on a constant-currency basis, primarily due to robust demand across all Biologics offerings, offset in part due to reduced demand in the Softgel and Oral Technologies Segment for certain prescription products in North America, as well as decreased demand for our consumer health products.

Gross Margin

Gross margin increased $67.3 million, or 38%, compared to the three months ended September 30, 2019, excluding the impact of foreign exchange, primarily as a result of the strong margin profile for all Biologics segment offerings, offset by decreased demand for our prescription and consumer health products in the Softgel and Oral Technologies segment and charges in the Oral and Specialty Delivery segment associated with the voluntary U.S. recall of a recently launched product within our respiratory and ophthalmic specialty platform. On a constant-currency basis, gross margin, as a percentage of revenue, increased 260 basis points to 29.3% in the three months ended September 30, 2020, compared to 26.7% in the prior-year period, primarily due to the factors described above.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses increased by $21.0 million, or 15%, compared to the three months ended September 30, 2019, excluding the impact of foreign exchange, due to incremental expenses from acquired companies of $5.6 million, which includes $1.1 million of incremental depreciation and amortization expense, $1.8 million of employee-related costs and $1.3 million related to various transitional services. Selling, general, and administrative expenses further increased by $2.0 million due to non-cash equity-based compensation and $7.7 million for employee-related costs primarily incurred for wages and bonuses, partially offset by savings in travel and entertainment expenses.

Interest Expense, net

Interest expense, net of $25.3 million for the three months ended September 30, 2020 decreased by $11.2 million, or 31%, compared to the three months ended September 30, 2019, excluding the impact of foreign exchange, driven by savings from repayment of Operating Company's formerly outstanding euro-denominated term loan, euro-denominated 4.75% senior notes due 2024 and favorable interest rate movement on the U.S. dollar-denominated term loan, partially offset by interest expenses on Operating Company's euro-denominated 2.375% senior notes due 2028 (the "Euro 2028 Notes"). The savings also includes $6.2 million of capitalized interest costs for the three months ended September 30, 2020.

For additional information concerning our debt and financing arrangements, including the changing mix of debt and equity in our capital structure, see "—Liquidity and Capital Resources" and Note 6 to our Consolidated Financial Statements.

Other (Income)/Expense, net

Other income, net of $11.2 million for the three months ended September 30, 2020 was primarily driven by a gain of $9.0 million related to the change in the fair value of the derivative liability arising from the dividend-adjustment mechanism of our series A convertible preferred stock, par value $0.01 (the "Series A Preferred Stock"). See Notes 10 and 14 to our Consolidated Financial Statements for more details on the Series A Preferred Stock dividend-adjustment mechanism.

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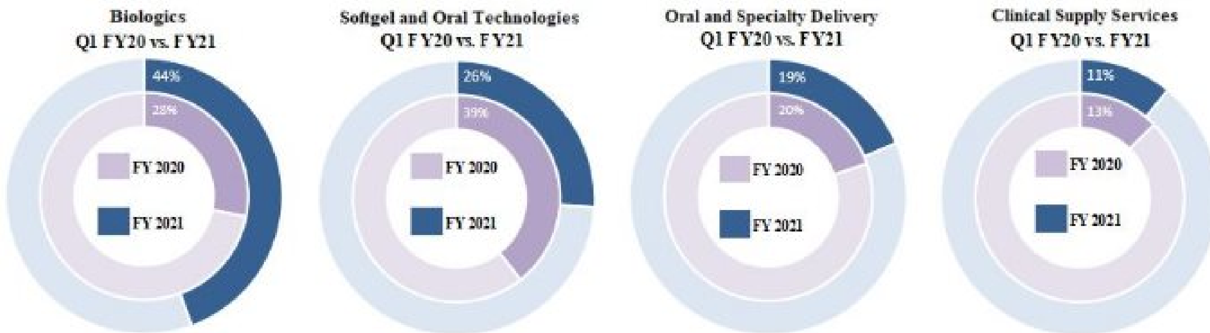
Other expense, net of $4.9 million for the three months ended September 30, 2019 was primarily driven by a loss of $8.9 million related to the change in the fair value of the derivative liability arising from the dividend-adjustment mechanism of the Series A Preferred Stock. The loss was partially offset by non-cash foreign currency translation gains.

Income Tax Expense (Benefit)

Our benefit for income taxes for the three months ended September 30, 2020 was $15.0 million relative to earnings before income taxes of $67.4 million. Our benefit for income taxes for the three months ended September 30, 2019 was $6.9 million relative to a loss before income taxes of $6.8 million. The income tax benefit for the current period is not comparable to the same period of the prior year due to changes in pretax income over many jurisdictions and the impact of discrete items, including a $22.2 million benefit for U.S. foreign tax credits resulting from amending a prior year return. Generally, fluctuations in the 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, special items, certain equity related compensation, and other discrete tax items, which may have unique tax implications depending on the nature of the item.

Segment Review

The following charts depict the percentages of net revenue from each of our four reporting segments for the three months ended September 30, 2020 compared to the three months ended September 30, 2019. Refer below for discussions regarding each segment's net revenue and EBITDA performance and to "—Non-GAAP Metrics" for a discussion of our use of Segment EBITDA, a measure that is not defined under U.S. GAAP.



Our results on a segment basis for the three months ended September 30, 2020 compared to the three months ended September 30, 2019 were as follows:

	Three Months Ended September 30,		FX Impact	Constant Currency Increase/(Decrease)	
(Dollars in Millions)	2020	2019		Change $	Change %
Biologics					
Net revenue	$ 377.1	$ 188.6	$ 3.4	$ 185.1	98 %
Segment EBITDA	$ 106.5	$ 35.8	$ 1.2	$ 69.5	194 %
Softgel and Oral Technologies					
Net revenue	221.1	263.7	2.0	(44.6)	(17) %
Segment EBITDA	37.8	46.4	0.8	(9.4)	(20) %
Oral and Specialty Delivery					
Net revenue	158.3	132.6	2.9	22.8	17 %
Segment EBITDA	21.4	27.7	1.0	(7.3)	(26) %
Clinical Supply Services					
Net revenue	92.7	84.6	1.5	6.6	8 %
Segment EBITDA	25.0	21.6	0.7	2.7	13 %
Inter-segment revenue elimination	(3.5)	(4.8)	(0.1)	1.4	29 %
Unallocated Costs (1)	(28.9)	(41.4)	(1.7)	14.2	34 %
Combined totals					
Net revenue	$ 845.7	$ 664.7	$ 9.7	$ 171.3	26 %
EBITDA from operations	$ 161.8	$ 90.1	$ 2.0	$ 69.7	77 %

(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 September 30, 2020	Three Months Ended September 30, 2019
Impairment charges and gain/(loss) on sale of assets	$ (1.8)	$ 0.2
Stock-based compensation	(18.7)	(16.6)
Restructuring and other special items [a]	(4.9)	(11.8)
Other income/(expense), net [b]	11.2	(4.9)
Unallocated corporate costs, net	(14.7)	(8.3)
Total unallocated costs	$ (28.9)	$ (41.4)

(a) Restructuring and other special items during the three months ended September 30, 2020 include transaction and integration costs associated with our Anagni and MaSTherCell acquisitions, the disposal of a site in Australia, and other restructuring initiatives across our network of sites. Restructuring and other special items during the three months ended September 30, 2019 include transaction and integration costs associated with our cell and gene therapy acquisitions.

(b) Refer to Note 8, *Other (income)/expense, net,* for details of financing charges and foreign currency translation adjustments recorded within other income/(expense), net in our Consolidated Financial Statements.

Provided below is a reconciliation of net earnings to EBITDA from operations:

(Dollars in millions)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Net earnings	$ 82.4	$ 0.1
Depreciation and amortization	69.1	60.6
Interest expense, net	25.3	36.3
Income tax benefit	(15.0)	(6.9)
EBITDA from operations	$ 161.8	$ 90.1

Biologics segment

Factors Contributing to Year-Over-Year Change	2020 vs. 2019 Three Months Ended September 30, Net Revenue	2020 vs. 2019 Three Months Ended September 30, Segment EBITDA
Net revenue/Segment EBITDA without acquisitions	83 %	179 %
Impact of acquisitions	15 %	15 %
Constant currency change	**98 %**	**194 %**
Foreign exchange fluctuation	2 %	3 %
Total % change	100 %	197 %

Biologics net revenue increased by $185.1 million, or 98%, excluding the impact of foreign exchange, compared to the three months ended September 30, 2019. Net revenue increased 83%, compared to the three months ended September 30, 2019, excluding the impact of acquisitions. The increase was driven across all segment offerings with robust end-market demand for the global drug product, drug substance and cell and gene therapy offerings, in part related to demand for COVID-19 related programs.

Biologics Segment EBITDA increased by $69.5 million, or 194%, excluding the impact of foreign exchange, compared to the three months ended September 30, 2019. Segment EBITDA increased 179%, compared to the three months ended September 30, 2019, excluding the impact of acquisitions. The increase was driven across all segment offerings with robust end-market demand for the global drug product, drug substance, and cell and gene therapy offerings, in part related to demand for COVID-19 related programs.

Since September 30, 2019, we have acquired Anagni, part of which operates within the Biologics segment, and MaSTherCell, which together increased net revenue and Segment EBITDA on an inorganic basis in our Biologics segment by 15% and 15%, respectively, in the three months ended September 30, 2020 compared to the corresponding prior-year period.

Softgel and Oral Technologies segment

Factors Contributing to Year-Over-Year Change	2020 vs. 2019 Three Months Ended September 30,	
	Net Revenue	**Segment EBITDA**
Net revenue/Segment EBITDA without divestitures	(12) %	(21) %
Impact of divestitures	(5) %	1 %
Constant currency change	**(17) %**	**(20) %**
Foreign currency translation impact on reporting	1 %	2 %
Total % change	(16) %	(18) %

Softgel and Oral Technologies net revenue decreased by $44.6 million, or 17%, excluding the impact of foreign exchange, compared to the three months ended September 30, 2019. Net revenue decreased 12%, compared to the three months ended September 30, 2019, excluding the impact of divestitures. The decrease primarily relates to reduced demand for prescription products within North America, as well as lower demand in consumer health products, particularly in cough, cold, and over-the-counter pain relief products.

Softgel and Oral Technologies Segment EBITDA decreased $9.4 million, or 20%, excluding the impact of foreign exchange, compared to the three months ended September 30, 2019. Segment EBITDA decreased 21%, compared to the three months ended September 30, 2019, excluding the impact of divestitures. The decrease, similar to that of net revenue, is primarily driven by a decrease in demand in both the prescription and consumer health portfolio of products.

In October 2019, we divested a manufacturing site in Australia in order to better streamline our global operations. The site divestiture resulted in a decrease in net revenue of 5% and an increase in Segment EBITDA of 1%, in the three months ended September 30, 2020 compared to the three months ended September 30, 2019.

Oral and Specialty Delivery segment

Factors Contributing to Year-Over-Year Change	2020 vs. 2019 Three Months Ended September 30,	
	Net Revenue	**Segment EBITDA**
Net revenue/Segment EBITDA without acquisitions	(1) %	(61) %
Impact of acquisitions	18 %	35 %
Constant currency change	**17 %**	**(26) %**
Foreign currency translation impact on reporting	2 %	3 %
Total % change	19 %	(23) %

Oral and Specialty Delivery net revenue increased by $22.8 million, or 17%, excluding the impact of foreign exchange, compared to the three months ended September 30, 2019. Net revenue decreased 1%, compared to the three months ended September 30, 2019, excluding the impact of acquisitions. Increased demand for orally delivered commercial products was more than offset by decreased demand for the segment's early-phase development programs.

Oral and Specialty Delivery Segment EBITDA decreased by $7.3 million, or 26%, excluding the impact of foreign exchange, compared to the three months ended September 30, 2019. Segment EBITDA decreased 61% compared to the three months ended September 30, 2019, excluding the impact of acquisitions. The decrease from the prior-year period was primarily driven by the voluntary U.S. recall of a recently launched product in our respiratory and ophthalmic specialty platform, inclusive of one-time charges totaling $12 million, associated with the recall. Strong end-market demand for orally delivered commercial products within Europe and favorable manufacturing efficiencies within our respiratory and ophthalmic specialty platform partially offset the charges associated with this product recall.

On January 1, 2020, we acquired Anagni, and the portion of this facility allocated to our Oral and Specialty Delivery segment increased net revenue and Segment EBITDA on an inorganic basis by 18% and 35%, respectively, in the three months ended September 30, 2020, compared to the corresponding prior-year period.

Clinical Supply Services segment

Factors Contributing to Year-Over-Year Change	2020 vs. 2019 Three Months Ended September 30, Net Revenue	Segment EBITDA
Net revenue/Segment EBITDA	8 %	13 %
Constant currency change	**8 %**	**13 %**
Foreign currency translation impact on reporting	2 %	3 %
Total % change	10 %	16 %

Clinical Supply Services net revenue increased by $6.6 million, or 8%, excluding the impact of foreign exchange, compared to the three months ended September 30, 2019. The increase was driven by strong demand in our storage and distribution offerings across all regions, offset in part by a decrease in demand for our manufacturing and packaging business within North America.

Clinical Supply Services Segment EBITDA increased by $2.7 million, or 13%, excluding the impact of foreign exchange, compared to the three months ended September 30, 2019. The increase was driven by strong demand in our storage and distribution offerings across all regions, offset in part, by a decrease in demand for our manufacturing and packaging business within North America.

Liquidity and Capital Resources

Sources and Uses of Cash

Our principal sources of liquidity have been cash flows generated from operations and occasional capital market activities. The principal uses of cash are to fund operating and capital expenditures, business or asset acquisitions, interest payments on debt, the payment of deferred purchase consideration from the Cook Pharmica LLC (now named Catalent Indiana, LLC (“Catalent Indiana”)) acquisition, the payment of the quarterly dividend on the Series A Preferred Stock, and any mandatory or discretionary principal payment on our debt. At the current stated value of the Series A Preferred Stock outstanding as of September 30, 2020, the aggregate amount of each regular quarterly dividend, if paid in cash, is $8.1 million. As of September 30, 2020, the Operating Company had available a $550 million revolving credit facility that matures in May 2024, the capacity of which was reduced by $6.7 million in letters of credit outstanding as of September 30, 2020. The revolving credit facility includes borrowing capacity available for letters of credit and for short-term borrowings, referred to as swing-line borrowings.

We believe that our cash on hand, cash from operations, and available borrowings under our revolving credit facility will be adequate to meet our future liquidity needs for at least the next twelve months, including our quarterly regular dividend on the Series A Preferred Stock, if paid in cash, as well as the amounts expected to become due with respect to our pending capital projects. We have no significant maturity under any of our bank or note debt until the U.S. dollar-denominated 4.875% senior notes due 2026 (the “USD 2026 Notes”) mature in January 2026. As of September 30, 2020, we had only two remaining payments of $50.0 million each, due in October 2020 and 2021, on the deferred purchase consideration for the acquisition of Catalent Indiana, and one of those payments was made in October 2020.

Cash Flows

The following table summarizes our consolidated statements of cash flows:

(Dollars in millions)	Three Months Ended September 30, 2020	2019	$ Change
Net cash provided by/(used in):			
Operating activities	$ 149.7	$ 25.2	$ 124.5
Investing activities	$ (151.2)	$ (84.9)	$ (66.3)
Financing activities	$ 49.6	$ (35.8)	$ 85.4

Operating Activities

For the three months ended September 30, 2020, cash provided by operating activities was $149.7 million, compared to $25.2 million for the corresponding prior-year period. Cash flow from operating activities for the three months ended September 30, 2020 increased primarily due to an increase in operating earnings, which increased from $34.4 million in the corresponding prior-year period to $81.5 million for the three months ended September 30, 2020.

Investing Activities

For the three months ended September 30, 2020, cash used in investing activities was $151.2 million, compared to $84.9 million for the three months ended September 30, 2019. The higher level of cash use was primarily driven by an increase in cash used in the acquisition of property, plant, and equipment, which totaled $149.6 million in the three months ended September 30, 2020 compared to $73.5 million for the three months ended September 30, 2019.

Financing Activities

For the three months ended September 30, 2020, cash provided by financing activities was $49.6 million, compared to cash used in financing activities of $35.8 million for the three months ended September 30, 2019. The increase in cash from financing activities is primarily driven by the exercise of an over-allotment option on 1.2 million additional shares by the underwriter for the June 2020 Equity Offering on July 10, 2020, resulting in net proceeds of $81.8 million for the three months ended September 30, 2020.

Guarantees and Security

The Senior Notes

All obligations under Operating Company's Euro 2028 Notes, USD 2026 Notes, and U.S. dollar-denominated 5.00% senior notes due 2027 (collectively, the "Senior Notes") are general, unsecured, and subordinated to all existing and future secured indebtedness of the guarantors to the extent of the value of the assets securing such indebtedness. Each of the Senior Notes is separately guaranteed by all of Operating Company's wholly owned U.S. subsidiaries that guarantee the senior secured credit facilities. None of the Senior Notes is guaranteed by either PTS Intermediate Holdings LLC or Catalent, Inc.

Debt Covenants

Senior Secured Credit Facilities

The credit agreement governing Operating Company’s senior secured credit facilities (as amended, 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 September 30, 2020, 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 its Puerto Rico subsidiary 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 U.S. GAAP, and is subject to important limitations.

As market conditions warrant, we and our affiliates may from time to time seek to purchase our outstanding debt in privately negotiated or open-market transactions, by tender offer or otherwise. Subject to any applicable limitation contained in the Credit Agreement, any purchase made by us may be funded by the use of cash on hand or the incurrence of new secured or unsecured debt. The amounts involved in any such purchase transaction, individually or in the aggregate, may be material. Any such purchase may be with respect to a substantial amount of a particular class or series of debt, with the attendant reduction in the trading liquidity of such class or series. In addition, any such purchase made at prices below the “adjusted issue price” (as defined for U.S. federal income tax purposes) may result in taxable cancellation of indebtedness income to us, which amounts may be material, or in related adverse tax consequences to us.

The Senior Notes

The several indentures governing each series of the Senior Notes (collectively, 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 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 series of Senior Notes, or the applicable Trustee under the Indentures, may declare the applicable Senior Notes immediately due and payable; or in certain circumstances, the applicable Senior Notes will become automatically immediately due and payable. As of September 30, 2020, Operating Company was in compliance with all material covenants under the Indentures.

Geographic Allocation of Cash

As of September 30, 2020 and June 30, 2020, our subsidiaries held cash and cash equivalents of $287.4 million and $228.0 million, respectively, out of the total consolidated cash and cash equivalents of $1,007.0 million and $953.2 million, respectively. These balances are dispersed across many locations around the world.

Interest Rate Risk Management

A portion of the debt used to finance our operations is exposed to interest-rate fluctuations. We may use various hedging strategies and derivative financial instruments to create an appropriate mix of fixed- and floating-rate assets and liabilities. In April 2020, we entered into an interest-rate swap agreement with Bank of America N.A. as a hedge against the economic effect of a portion of the variable-interest obligation associated with our U.S dollar-denominated term loans under our senior secured credit facilities, so that the interest payable on that portion of the debt becomes fixed at a certain rate, thereby reducing the impact of future interest-rate changes on future interest expense. The applicable rate for the U.S. dollar-denominated term loan is LIBOR (subject to a floor of 1.00%) plus 2.25%; however, as a result of entering into the interest-rate swap agreement, the floating portion of the applicable rate on $500.0 million of the term loan is now effectively fixed at 1.26% for a total fixed rate of 3.51%.

Currency Risk Management

We are exposed to fluctuations in the euro-U.S. dollar exchange rate on our investments in our foreign operations in Europe. While we do not actively hedge against changes in foreign currency, we have mitigated the exposure of our investments in our European operations by denominating a portion of our debt in euros. At September 30, 2020, we had $944.6 million of euro-denominated debt outstanding that qualifies as a hedge of a net investment in foreign operations. Refer to Note 10 to our Consolidated Financial Statements for further discussion of net investment hedge activity in the period

From time to time, we may use forward foreign currency exchange contracts to manage our exposure to the variability of cash flows primarily related to the foreign exchange rate changes of future foreign currency transaction costs. In addition, we may use such contracts to protect the value of existing foreign currency assets and liabilities. Currently, we do not use any forward foreign currency exchange contracts. We expect to continue to evaluate hedging opportunities for foreign currency in the future.

Contractual Obligations

There has been no significant change to our contractual obligations since our Fiscal 2020 10-K. Refer to Note 6 to our Consolidated Financial Statements for a further discussion regarding our long-term obligations.

Off-Balance Sheet Arrangements

Other than short-term operating leases and outstanding letters of credit as discussed above, we do not have any material off-balance sheet arrangement as of September 30, 2020.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to cash flow and earnings fluctuations as a result of certain market risks. These market risks primarily relate to changes in interest rates associated with our long-term debt obligations and foreign exchange rate changes.

Interest Rate Risk

We have historically used interest-rate swaps to manage the economic effect of variable-rate interest obligations associated with our floating-rate term loans so that the interest payable on the term loans effectively becomes fixed at a certain rate, thereby reducing the impact of future interest-rate changes on our future interest expense.

In April 2020, we entered into an interest-rate swap agreement with Bank of America N.A. as a hedge against the economic effect of a portion of the variable-interest obligation associated with our U.S dollar-denominated term loans under our senior secured credit facilities, so that the interest payable on that portion of the debt becomes fixed at a certain rate, thereby reducing the impact of future interest-rate changes on future interest expense. The applicable rate for the U.S. dollar-denominated term loan is LIBOR (subject to a floor of 1.00%) plus 2.25%; however, as a result of entering into the interest-rate swap agreement, the floating portion of the applicable rate on $500.0 million of the term loan is now effectively fixed at 1.26%, for a total fixed rate of 3.51%.

Foreign Currency Exchange Risk

By the nature of our global operations, we are exposed to cash flow and earnings fluctuations resulting from foreign exchange rate variation. These exposures are transactional and translational in nature. Since we manufacture and sell our products throughout the world, our foreign-currency risk is diversified. Principal drivers of this diversified foreign-exchange exposure include the European euro, British pound, Argentinean peso, and Brazilian real. Our transactional exposure arises from the purchase and sale of goods and services in currencies other than the functional currency of our operational units. We also have exposure related to the translation of financial statements of our foreign subsidiaries into U.S. dollars, our functional currency. The financial statements of our operations outside the U.S. are measured using the local currency as the functional currency, except in Argentina. Adjustments to translate the assets and liabilities of these foreign operations in U.S. dollars are accumulated as a component of accumulated other comprehensive income/(loss) utilizing period-end exchange rates. Foreign-currency transaction gains and losses calculated by utilizing weighted average exchange rates for the period are included in the statements of operations in other (income)/expense, net. Such foreign-currency transaction gains and losses include inter-company loans denominated in non-U.S. dollar currencies.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Senior Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any control or procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management, with the participation of our Chief Executive Officer and our Senior Vice President and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, our Chief Executive Officer and our Senior Vice President and Chief Financial Officer concluded that, as of September 30, 2020, our disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

During the first quarter ended September 30, 2020, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time, we 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. We intend to vigorously defend ourselves against any such litigation and do not currently believe that the outcome of any such litigation will have a material adverse effect on our consolidated 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, we receive 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. We generally respond 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. We expect to incur costs in future periods in connection with future requests.

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the section entitled “Risk Factors” in our Fiscal 2020 10-K, which could materially affect our business, financial condition, or future results. The risks described in such report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, or operating results.

Other than what was disclosed in the Special Note Regarding Forward-Looking Statements, there has been no material change to the risk factors disclosed in our Fiscal 2020 10-K.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Purchase of Equity Securities

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

Exhibits:

10.1	Form of Management Incentive Plan for the fiscal year ending June 30, 2021. † *
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended. *
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended. *
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **
101.1	The following financial information from Catalent, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 formatted in inline XBRL: (i) Consolidated Statements of Operations for the Three Months Ended September 30, 2020 and 2019; (ii) Consolidated Statements of Comprehensive Income/(Loss) for the Three Months Ended September 30, 2020 and 2019 (iii) Consolidated Balance Sheets as of September 30, 2020 and June 30, 2020; (iv) Consolidated Statement of Changes in Shareholders' Equity/(Deficit) as of September 30, 2020 and 2019; (v) Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2020 and 2019; and (vi) Notes to Unaudited Consolidated Financial Statements.

† Represents a management contract, compensatory plan or arrangement in which directors and/or executive officers are eligible to participate.

* Filed herewith

** Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CATALENT, INC.
(Registrant)

Date:	November 3, 2020	By:	/s/ John R. Chiminski
			John R. Chiminski
			Chief Executive Officer
Date:	November 3, 2020	By:	/s/ Wetteny Joseph
			Wetteny Joseph
			Senior Vice President & Chief Financial Officer

Catalent

Exhibit 10.1

Management Incentive Plan
FY2021 Summary

Introduction

The Management Incentive Plan (MIP) is a variable annual cash incentive program under the Catalent, Inc. 2018 Omnibus Incentive Plan (the Plan) that rewards performance against annual individual and business-based goals. Individual performance goals designed to support the broader business goals are established each year between eligible participants and their respective managers. The Compensation and Leadership Committee (the Committee) of the Board of Directors (the Board) of Catalent, Inc. (Catalent or the Company) selects the business-based goals for the MIP from among the corporate financial and strategic growth objectives approved each year by the Board.

Eligibility for the MIP is based on several criteria, including position in the organization and past performance. MIP participants are expected to play an important role in achieving the Company's strategic goals and contributing to the growth of the Company and its people. Key features of the MIP, including funding and the determination and payment of individual awards, are described in this summary.

Market-Based Program

Catalent believes that providing competitive market-based compensation is critical to attracting, engaging, and retaining key talent and the critical skill sets and expertise necessary to make Catalent successful. With this in mind, Catalent's incentive programs, including the MIP, are reviewed on an annual basis taking into account market compensation trends, annual financial goals, and changes in business strategies. Where appropriate, a review is performed and changes are generally agreed prior to the start of the fiscal year, although the Company reserves the right to make changes at any time, including but not limited to terminating the program.

Business and Individual Performances Are Used to Determine the MIP Award

At the beginning of each fiscal year, a target MIP payout is set for each participant, usually expressed as a percentage of base salary. The amount actually paid to the participant following the end of the fiscal year is dependent on both (a) the participant's business achievement factor, or **BF**, and (b) the individual performance factor, or **IPF**, assigned to the participant, each as described further below. For fiscal 2021, the BF is weighted **70%** and the IPF is weighted **30%**, which results in an overall combined performance factor that is expressed as a percentage and then applied against the target. Because the BF can range from 0% to 200%, and the IPF can range from 0% to 150%, the total MIP payout can range from 0% to 185% of the target MIP payout.

Business Performance Factors Combine for a Business Achievement Factor (BF)

The business performance factors measure achievement against a set of goals fixed each year by the Board and the Committee. For fiscal 2021, the Committee has elected to revise the program by dropping the Annual Capital Deployed metric used in fiscal 2020 and measuring performance by targeting Budget-Based EBITDA (earnings before interest, taxes, depreciation, and amortization) and Budget-Based Revenue.[1] Instead of measuring performance of each factor separately against a specific target, performance against both targets will be examined concurrently, using a matrix to convert revenue and EBITDA achievement relative to the budget-based goals set at the beginning of the year to determine the BF. This year's matrix is set forth below. Linear interpolation will apply for results that fall between two consecutive revenue or EBITDA achievement levels specified in the matrix.

		Revenue Goal Achievement										
		<80%	80%	85%	90%	95%	100%	105%	110%	115%	120%	125%
EBITDA Goal Achievement	<80%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	80%	32%	32%	39%	46%	53%	60%	62%	64%	66%	68%	70%
	85%	49%	49%	49%	56%	63%	70%	72%	74%	76%	78%	80%
	90%	66%	66%	66%	66%	73%	80%	80%	80%	80%	80%	80%
	95%	75%	75%	75%	78%	85%	85%	85%	85%	85%	85%	85%
	100%	90%	95%	95%	95%	96%	100%	105%	110%	115%	115%	115%
	105%	95%	98%	100%	104%	109%	113%	120%	125%	125%	125%	125%
	110%	100%	109%	113%	117%	122%	126%	133%	140%	140%	140%	140%
	115%	104%	122%	126%	130%	135%	139%	146%	153%	160%	160%	160%
	120%	117%	135%	139%	143%	148%	152%	159%	166%	173%	175%	175%
	125%	130%	148%	152%	156%	161%	165%	172%	179%	186%	193%	200%

PRODUCTIVITY ZONE (Light Blue): Even with soft revenues, leaders deliver better-than-expected EBITDA by managing costs. MIP is protected on the downside.
DILUTION ZONE (Gray): Worst area: revenue is not efficiently converted to EBITDA. MIP upside has been capped and cannot exceed 85% of target.
LEVERAGE ZONE (Gold): Best area: leveraged growth and expanded margins. MIP payouts are boosted.
DELIVERY ZONE (White): Standard delivery zone. EBITDA & revenue growth are balanced. Even here, however, increased revenue without more EBITDA does not increase MIP.
RED RECTANGLE: These boxes represent the most likely performance range.

Alignment of Business Performance with Participant's Role

Catalent believes that the MIP acts best as an incentive when there is meaningful alignment between the business performance factors used to measure a participant's achievement and the participant's ability to enhance the performance of the overall organization given the participant's position within the organization. Depending on a participant's role, the business performance factors can be weighted among one, two, or three organizational levels (*i.e.*, overall Catalent, the principal business unit (BU) to which the participant's efforts are directed (if any), and the principal site and/or region to which the participant's efforts are directed (if any)). In some cases, the business performance factors may also be weighted differently for participants who support multiple BUs and/or sites. For participants with multiple business performance factors, the business factor calculation is performed separately for each segment, then combined as a weighted average, in order to determine an overall combined BF. The following chart provides several examples of weightings for the business performance factors.

[1] Because the MIP measures achievement against budget, adjustments to Budget-Based EBITDA and Budget-Based Revenue that are used in determining the budget will also apply when measuring performance, and results in foreign currencies will be converted to U.S. dollars at the currency exchange rates used to determine the budget.

	Business Performance Factors Weighting		
Position Category [(1)]	**Overall Catalent**	**Business Unit**	**Site/ Region** [(3)]
ELT and Corporate	100%	–	–
BU Functional Leaders [(2)]	50%	50%	–
Site/Region-Based Leaders	30%	30%	40%
Site-Based Participants	0%	40%	60%

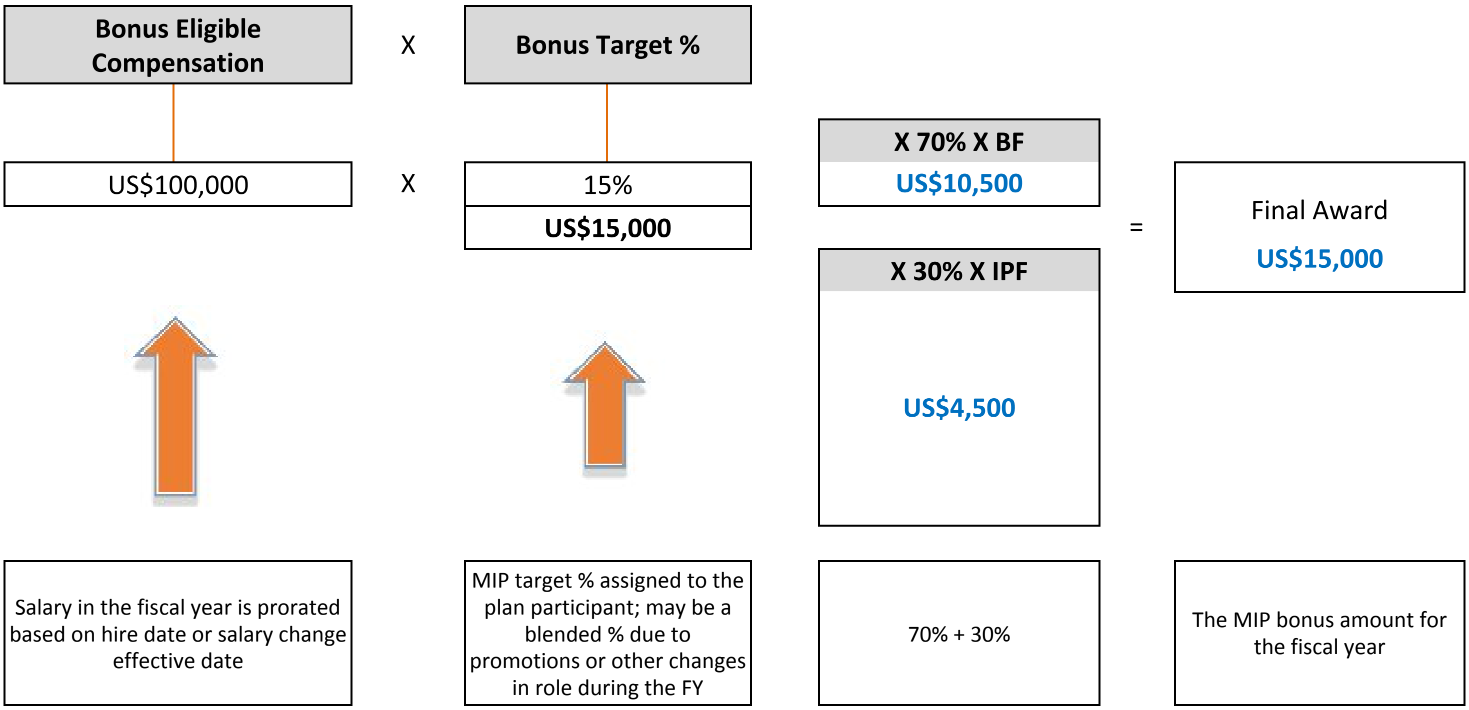
(1) There may be cases in which different weightings are used for a given participant.
(2) Includes positions that support business unit-wide initiatives (*e.g.*, VPs of operations, quality, or finance for a BU).
(3) This weighting may take into account site/regional results, which may include the results of multiple BUs and sites.

Individual Performance Factor (IPF)

Each year, MIP participants, in collaboration with their managers, establish appropriate individual performance goals based on their roles. These goals should be aligned with the business performance goals established for Catalent overall. At fiscal year-end, managers determine each participant’s IPF based on the participant’s overall performance for the year, including achievement of the participant’s individual performance goals. The IPF ranges from 0 to 150%. MIP participants who receive a performance rating of “Did Not Meet Expectations” receive a zero IPF and will not be eligible for payout under the MIP regardless of the BF achievement.

Sample MIP calculation for illustrative purposes:

In this example, we assume that all relevant business metrics perform at target. We also assume that the participant has a base salary of $100,000 and a MIP target of 15%, and that the participant ends the fiscal year with an IPF of 100%.



Performance Updates During the Fiscal Year

The MIP design is open and transparent, reflecting Catalent's confidence that Company leaders can deliver on its challenging but achievable goals.

Throughout the fiscal year, participants should review their progress against their personal goals with their managers. The senior management team will also provide updates on Catalent's progress against its business goals. These individual and team updates will help participants to track their and the Company's progress toward annual MIP funding and payout.

Effect of Employment Status Changes on Eligibility (Subject to Local Laws)

Your eligibility to receive a MIP award is affected by your employment status at payout. Listed below are payout provisions pertaining to different termination scenarios:

Event	**Occurring prior to April 1, 2021**	**Occurring between April 1, 2021 and MIP payment (scheduled for Sept. 2021)**
Voluntary termination (including resignation and job abandonment)	Not eligible for payout	
Involuntary termination for cause or for other than reduction-in-force/restructure/divestiture[2]	Not eligible for payout	
Involuntary termination due to reduction-in-force/restructure/divestiture	Not eligible for payout	Employees with continuous MIP-eligible service through the date of termination, where at least 90 days of that service occurred in fiscal 2021, will be eligible for payout at the normal payout date based on actual company/BU/site results (pro-rated for the portion of the year in service) and IPF as determined by the employees' manager (similarly pro-rated)
Death or Disability[3]	Employees with continuous MIP-eligible service through the date of death or Disability, where at least 90 days of that service occurred in fiscal 2021, will be eligible for payout at the normal payout date based on actual company/BU/site results (pro-rated for the portion of the year in service) and IPF as determined by the employees' manager (similarly pro-rated)	
Retirement[4]	Not eligible for payout	Employees with at least 90 days of MIP-eligible service in fiscal 2021 will be eligible for payout at the normal payout date based on actual company/BU/site results (pro-rated for the portion of the year in service) and IPF as determined by the employees' manager (similarly pro-rated)
Certain leaves of absence (LOA) may affect eligibility. Applicable LOA policies should be consulted on a regional basis.		

[*] Management reserves the right to determine in its sole discretion whether an individual termination of a participant is for cause.
[**] The definition of Disability shall be as set forth in the Plan.
[***] A termination (other than a termination when grounds existed for a termination for cause at the time thereof) initiated by a participant that occurs on or after the date on which the sum of the participant's age and period of service (calculated in months) equals sixty-five (65) years, so long as the participant is at least fifty-five (55) years old.

Eligibility Guidelines for New Hires and Newly Eligible Employees

If an employee's start date or entry into a MIP-eligible position during the fiscal year is between July 1 and March 31 of a fiscal year, then the MIP target amount for that employee will be prorated to reflect the portion of that fiscal year during which the employee was eligible. Any employee with a start date or entry into a MIP-eligible position during the final quarter of a fiscal year (April 1 through June 30) will not be eligible for participation in the MIP for that fiscal year.

Timetable for Bonus Determination and Payment

- After the close of the fiscal year, BF determinations are made and overall MIP funding is calculated.
- At the appropriate time during the Catalent annual performance management cycle, year-end performance reviews are completed and managers determine and assign MIP-eligible participants an applicable IPF value based on assessments of individual performance against goals.
- Individual MIP awards are typically communicated within 90 days of the end of the fiscal year (generally in September).

Clawback/Forfeiture

A participant's participation in the MIP may be cancelled by the Committee in its sole discretion, or the Committee in its sole discretion may require that a MIP award paid to a participant be forfeited and repaid to the Company, if the participant has engaged in or engages in any Detrimental Activity, as defined in the Plan and summarized below. In addition, if a participant receives any amount in excess of what the participant should have received under the terms of the MIP due to error, omission, or any other reason (including by reason of a financial restatement, mistake in calculation, or other administrative error), then the Participant shall be required to repay any such excess amount to the Company. Without limiting the foregoing, all MIP awards are subject to reduction, cancellation, forfeiture, or recoupment to the extent necessary to comply with applicable law.

"Detrimental Activity" means any of the following: (i) unauthorized disclosure of any confidential or proprietary information of the Company or its affiliates; (ii) any activity that would be grounds to terminate a participant's employment for Cause; (iii) whether in writing or orally, maligning, denigrating or disparaging the Company, its affiliates or their respective predecessors and successors, or any of the current or former directors, officers, employees, shareholders, partners, members, agents or representatives of any of the foregoing, with respect to any of their respective past or present activities, or otherwise publishing (whether electronically, in writing or orally) statements that tend to portray any of the aforementioned persons or entities in an unfavorable light; (iv) the breach of any non-competition, non-solicitation or other agreement containing restrictive covenants, with the Company or its affiliates; or (v) fraud or conduct contributing to any financial restatement or irregularity, as determined by the Committee in its sole discretion. Notwithstanding the foregoing, this definition is not intended to, and shall not be interpreted in a manner that limits or restricts a participant (or any other person or entity) from (1) initiating communications directly with, cooperating with, providing relevant information to, or otherwise assisting in an investigation by (A) the U.S. Securities and Exchange Commission (the SEC) or any other governmental, regulatory, or legislative body regarding a possible violation of any federal law relating to fraud or any SEC rule or regulation; or (B) the U.S. Equal Employment Opportunity Commission or any other governmental authority with responsibility for the administration of fair employment practices laws regarding a possible violation of such laws; (2) responding to any inquiry from any such governmental, regulatory, or legislative body or official or governmental authority; or (3) participating, otherwise assisting in any governmental action, investigation, or proceeding relating to a possible violation of any such law, rule or regulation.

Important Information Regarding the Summary

- Participation in the MIP in any year is not a guarantee of participation in any future year.
- The application of the MIP to any given individual may vary depending on various circumstances, including the terms of any applicable employment contract, applicable regional laws governing employment, benefits, or payments under benefit plans applicable to only a subset of employees, and the terms of any applicable collective bargaining or employment agreement.
- ***The Company reserves the right to modify or cancel the MIP at any time, with or without notice to employees, to the fullest extent permitted by applicable law.***
- Separation from Catalent employment may affect a participant's ability to participate in the MIP or the amount of the participant's benefits in ways that are not fully described in this summary plan description. For example, employees generally must be employed at the time of payout to receive any MIP bonus payment, and voluntary separation before payment will result in disqualification from eligibility.
- Employees with questions concerning eligibility for the MIP or the terms and conditions of the plan may contact their Catalent Human Resources representatives.

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302

OF THE SARBANES-OXLEY ACT OF 2002

I, John R. Chiminski, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 30, 2020 of Catalent, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2020

/s/ JOHN R. CHIMINSKI

John R. Chiminski
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302

OF THE SARBANES-OXLEY ACT OF 2002

I, Wetteny Joseph, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 30, 2020 of Catalent, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 3, 2020

/s/ WETTENY JOSEPH

Wetteny Joseph
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

Certification of the Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Catalent, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John R. Chiminski, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2020

/s/ JOHN R. CHIMINSKI

John R. Chiminski
Chief Executive Officer

Exhibit 32.2

Certification of the Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Catalent, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Wetteny Joseph, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2020

/s/ WETTENY JOSEPH

Wetteny Joseph
Senior Vice President and
Chief Financial Officer