

Initiation of Coverage

Patheon Inc

Winning in a fragmented industry

What's new? Initiating with a Buy rating and \$31 price target

PTHN is a well-diversified leader in the fragmented, and attractive, CMO industry. We forecast that increased CMO penetration and a compelling business portfolio will lead to growth nearly 2x the broader industry, with M&A a potential kicker. Of course, much of PTHN's success will rely on execution, and we are confident that the firm's experienced and proven management team will continue to position the Company to become an industry winner and drive attractive shareholder returns.

Our take on key investment debates for PTHN

The key investment debates for PTHN, and our views, are as follows; 1) Will PTHN win in a fragmented market? Yes, we think PTHN will be a consolidator in a fragmented industry given its size, focus, and strong presence in every stage of the pharma manufacturing and development process. 2) Can PTHN organically grow HSD? Yes, PTHN is in our view the best positioned CMO to capture market share in a fragmented market given its leading scale and breadth of services. 3) Can EBITDA margins continue to improve? We believe PTHN still has room to continue expanding margins through its Operational Excellence program, which has been pivotal in enhancing the Company's manufacturing and operational processes.

View on the stock: A likely winner in the consolidating CMO industry

Our Buy rating is based on the following: 1) We are positive on the outlook for the broader CMO industry and think PTHN has the scale and acumen to win in an increasingly consolidating industry. 2) We think PTHN can continue to increase its competitive advantage as it broadens its breadth of offerings through internal investments and M&A. 3) Given a limited track-record as a public company, we think investors are under-appreciating the ability of management to execute, and that out-of-the gate execution can re-price the stock to a higher multiple.

Valuation: \$31 price target based on ~12x CY17E EBITDA

Our 12-month price target is \$31 based on the stock trading at ~12x CY17E EBITDA. Peer trading multiples are scattered but we think in 12-months PTHN should at least trade in-line with the current 2016E CMO EBITDA average of 12x.

Equities

Americas
Biotechnology

12-month rating **Buy**
Prior: Not Rated
12m price target **US\$31.00**
Prior: -
Price **US\$27.00**
RIC: PTHN.N **BBG:** PTHN US

Trading data and key metrics

52-wk range	US\$27.00-24.99
Market cap.	US\$3.80bn
Shares o/s	141m (COM)
Free float	100%
Avg. daily volume ('000)	437
Avg. daily value (m)	US\$10.9
Common s/h equity (10/16E)	(US\$0.38bn)
P/BV (10/16E)	NM
Net debt / EBITDA (10/16E)	4.8x

EPS (UBS, diluted) (US\$)

	10/16E			
	From	To	% ch	Cons.
Q1	-	0.02	-	-
Q2	-	0.28	-	-
Q3E	-	0.44	-	-
Q4E	-	0.46	-	-
10/16E	-	1.20	-	-
10/17E	-	1.43	-	-
10/18E	-	1.82	-	-

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Highlights (US\$m)	-	-	10/15	10/16E	10/17E	10/18E	10/19E	10/20E
Revenues	-	-	1,774	1,867	2,076	2,276	2,470	2,681
EBIT (UBS)	-	-	267	289	363	433	471	512
Net earnings (UBS)	-	-	134	169	202	259	311	366
EPS (UBS, diluted) (US\$)	-	-	0.95	1.20	1.43	1.82	2.17	2.54
DPS (US\$)	-	-	0.00	0.00	0.00	0.00	0.00	0.00
Net (debt) / cash	-	-	(2,340)	(1,945)	(1,772)	(1,523)	(1,257)	(947)
Profitability/valuation	-	-	10/15	10/16E	10/17E	10/18E	10/19E	10/20E
EBIT margin %	-	-	15.0	15.5	17.5	19.0	19.1	19.1
ROIC (EBIT) %	-	-	-	19.0	22.7	26.6	28.7	30.2
EV/EBITDA (core) x	-	-	-	14.8	11.5	9.4	8.2	7.1
P/E (UBS, diluted) x	-	-	-	22.5	18.9	14.9	12.4	10.6
Equity FCF (UBS) yield %	-	-	-	(3.6)	3.9	5.9	6.3	7.5
Net dividend yield %	-	-	-	0.0	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US\$27.00 on 12 Aug 2016 19:35 EDT

www.ubs.com/investmentresearch

This report has been prepared by UBS Securities LLC. **ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 27.** UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Q: Will Patheon win in a fragmented market?

Yes, markets remain fragmented but we believe PTHN will be a consolidator in the industry given its strong presence in every stage of the pharma manufacturing and development process. PTHN has an encouraging M&A track record, which combined with a deleveraging balance sheet, should provide...

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Yes, PTHN is in our view the best positioned CMO to capture market share in a fragmented market given its leading scale and breadth of services. Favorable underlying market dynamics, including increasing outsourcing to CMOs and greater pill count will also help achieve sustainable HSD growth.

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Q: Can EBITDA margins continue to improve?

We believe PTHN still has room to continue expanding margins through its Operational Excellence program, which has been pivotal in enhancing the Company's manufacturing and operational processes since it began in 2011. M&A will be another opportunity to drive higher margins, as PTHN's existing...

more→

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1) We are positive on the outlook for the broader CMO industry and think PTHN has the scale and acumen to win in an increasingly consolidating industry. 2) We think PTHN can continue to increase its competitive advantage as it broadens its breadth of offerings through internal investments and M&A. 3) Given a limited track-record as a public company, we think investors are under-appreciating the ability of management to execute, and that out-of-the gate execution can re-price the stock.

We think PTHN should trade at ~12x CY17E EBITDA, or \$31. PTHN's most relevant public market comparables include AMRI, CBM, CTLT, LONN-CH & WST. Trading multiples are scattered but we think over the next 12 months PTHN should trade in-line with the CMO average of ~12x 2016E. CTLT is, in our view, PTHN's most relevant comp (given size, leverage, business mix, etc.). Given...

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PTH.N Price

US\$27.00

EPS (UBS) 2017e P/E (UBS) Implied Upside to Downside

2.1 to 1

Price	EPS (UBS) 2017e	P/E (UBS) Implied	Upside to Downside
42.00	1.29 x	32.6x	Upside: +56%
31.00	1.43 x	21.7x	Base: +15%
20.00	1.11 x	18.0x	Downside: -26%

12 Aug +12 mo.

Source: UBS

Value drivers	Sales Growth	EBITDA Margin
\$42 upside	13%	26%
\$31 base	11%	24%
\$20 downside	9%	22%

Source: UBS est.

more→

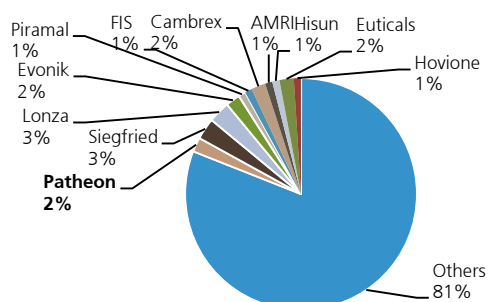
Patheon is a leading provider of commercial manufacturing outsourcing services ('CMO') and outsourced pharmaceutical development services ('PDS') to the global pharmaceutical...

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OUR THESIS IN PICTURES

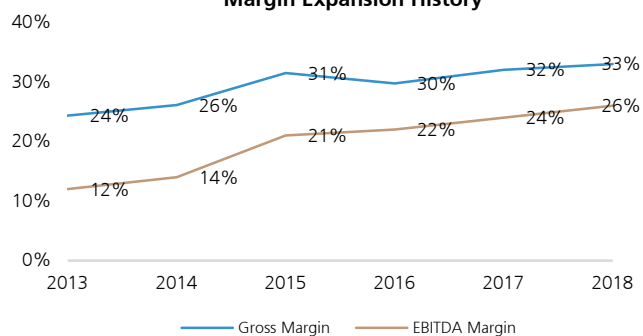
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Global API Landscape (300+ Total Companies)



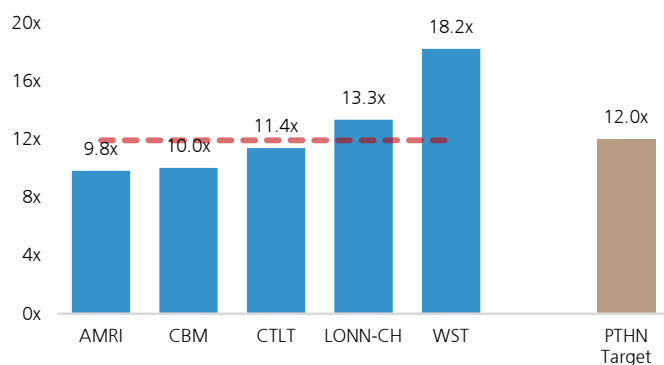
An encouraging M&A track record and deleveraging balance sheet position PTHN to become a winner in an attractive, and fragmented, industry.

Margin Expansion History



PTHN's proven Operational Excellence program and accretive M&A should further boost margins. Additionally, current capacity utilization of 49% should drive strong incremental margins as the firm grows.

CY17E EV/EBITDA Peer Multiples



We believe PTHN should trade at a premium to its closest comparable, CTLT, given a superior growth profile and greater scale.

Sources for exhibits above: Company data, UBS Research

PIVOTAL QUESTIONS

[return](#) ↑**Q: Will Patheon win in a fragmented market?****UBS VIEW**

Yes, markets remain fragmented but we believe PTHN will be a consolidator in the industry given its strong presence in every stage of the pharma manufacturing and development process. PTHN has an encouraging M&A track record, which combined with a deleveraging balance sheet, should provide management with enough runway to continue its core acquisition strategy.

EVIDENCE

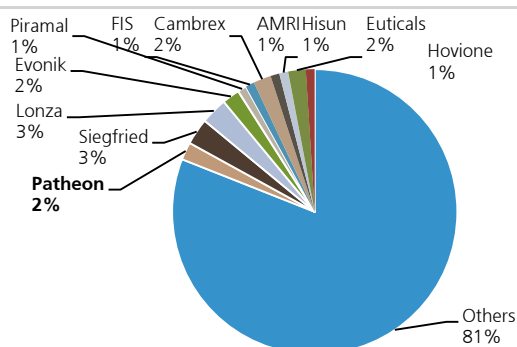
PTHN operates in a highly fragmented market consisting of over 650 companies, most of which are sub-scale and have a niche focus. Since 2012, PTHN has made 5 acquisitions for a 6x post-synergy EBITDA multiple. We believe this combination of businesses will only increase the opportunities for additional deals that can further leverage management's experience in integrating new assets and driving cost and revenue synergies.

WHAT'S PRICED IN?

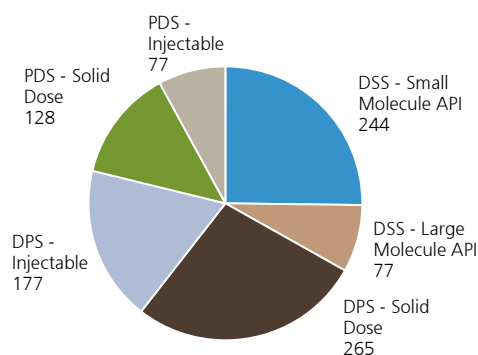
Our sales estimates exclude the impact of potential M&A, which will likely continue, even as PTHN continues to de-lever. Stronger than expected FCF which can accelerate the deleveraging timeline and additional deals are both sources for upside as we believe management already has a proven track record in demonstrating it can successfully integrate assets.

Fragmented CMO industry ripe for consolidation

Despite some consolidation over the past few years, the CMO market remains quite fragmented and represents a unique opportunity for PTHN as a potential consolidator of the \$40b CMO industry (See Figures 1 & 2). PTHN today has only 7% global market share in DPS and 9% in PDS, figures we expect will expand as customers increasingly realize the advantages of working with a CDMO partner of scale and breadth in service offerings.

Figure 1: Global API CDMO Landscape (300+ total)

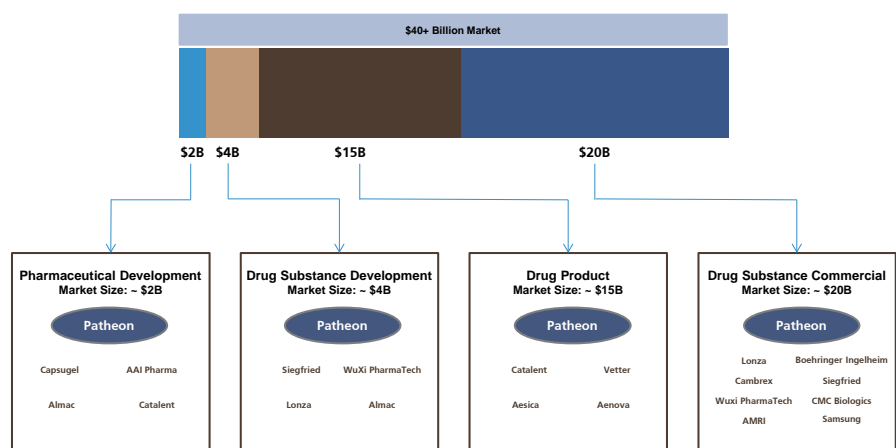
Source: UBS, Company Documents.

Figure 2: Number of Competitors per Segment (650+ total)

Source: UBS, Company Documents.

Of PTHN's major competitors across the pharma development supply chain, it is the only provider that competes in every phase of the \$40b market. The Company's ability to establish long-term relationships with customers from development stages through commercial is a key competitive advantage not only in pitching its services to win business, but also in long-term revenue stability. As PTHN continues to expand its arsenal of offerings, PTHN's appeal should broaden to an expanding net of customers.

Figure 3: PTHN a differentiated provider in \$40b+ market



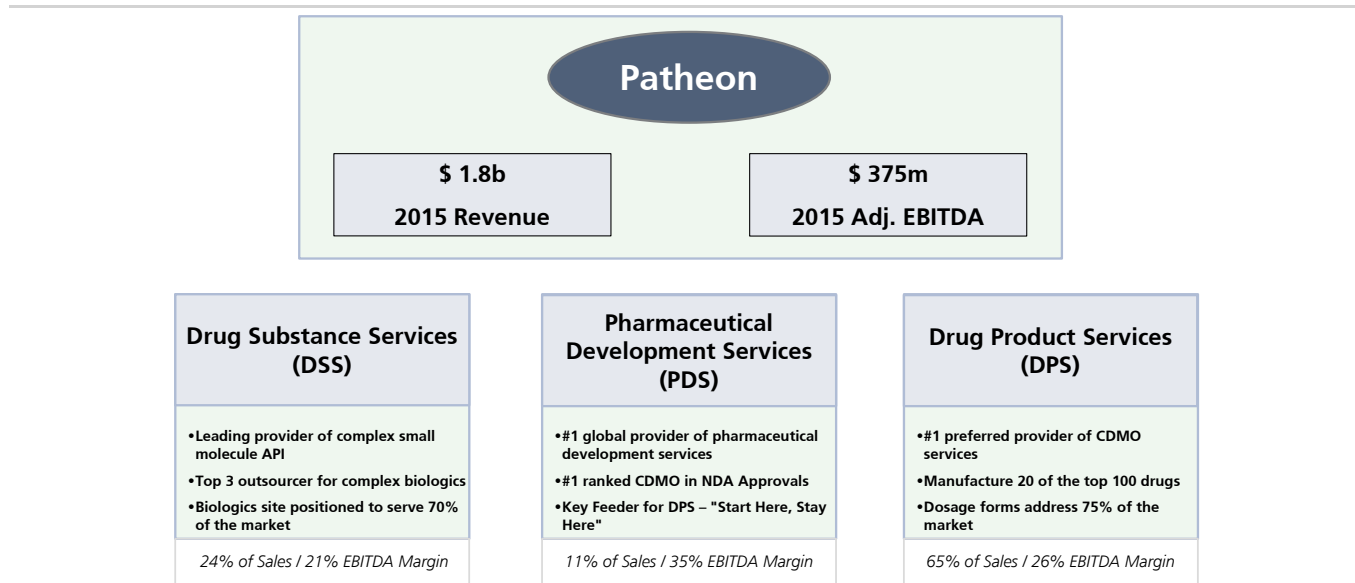
Source: UBS, Company documents.

PTHN's broad set of capabilities provide unique opportunities to scale

Patheon's business is divided into three business segments, including Drug Product Services representing ~65% of sales, Drug Substance Services (DSS) representing ~24% of sales, and Pharmaceutical Development Services which constitutes ~11% of sales.

The DPS business provides manufacturing and packaging services for approved prescriptions, OTCs, and nutritional products. PDS offers a wide breadth of advanced formulation, production and technical services that extend from the early stage of a product's lifecycle all the way through regulatory approval and beyond. DSS provides development and manufacturing services for biologically active components within pharmaceutical products from early development all the way through commercial production. PTHN has established into a market leader across all three of these business segments. See Figure 4.

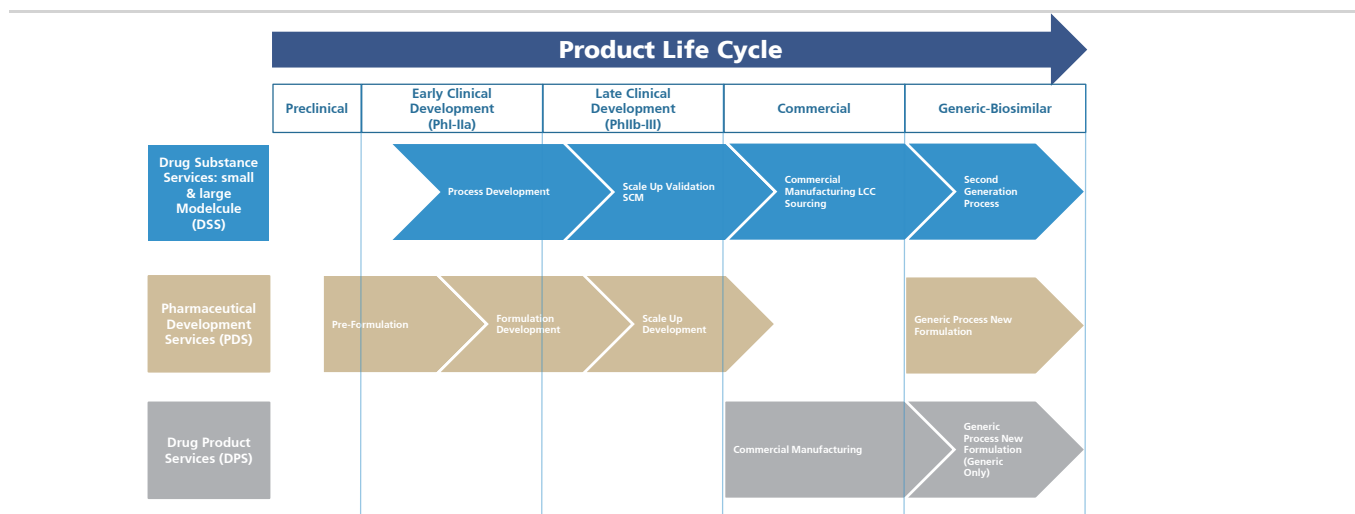
Figure 4: PTHN Business Overview



Source: UBS, Company Documents.

As shown in Figure 5, the bulk of PTHN's business, such as DPS which accounts for ~65% of sales, comes from more mature products that are being commercialized as new compounds or in the generic-biosimilars market. DSS and PDS are more involved in earlier clinical development, and therefore subject to greater volatility as the continuity of this business will be more closely aligned to the success of the customer's compound in clinical trials. Importantly, however, is PTHN's presence in each of these stages of the product life cycle, as the Company often derives latter stage business from customers who first engaged PTHN in development stage work. PTHN maintains a stable revenue base overall, as 90% of its revenue estimates for 2016 are under contract and 65% is under contract through 2018. By segment, 88% of 2017E DSS revenue is under contract, 92% of 2017E DPS, and 22% of 2017E PDS.

Figure 5: Scale advantages across pharma product cycle should propel further market share gains

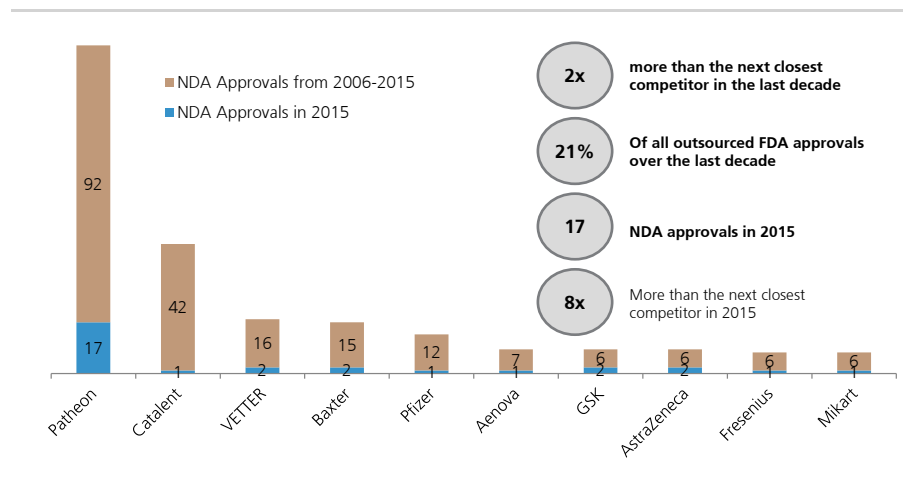


Source: UBS, Company documents.

For example, over the past 10 years from 2006-2015, PTHN has developed and manufactured 92 newly approved outsourced drugs, including 17 in 2015. This is twice the number of Catalent, which has the second most approvals over the

equivalent time period (See Figure 6). This success is in our view a function of PTHN's presence across the product life cycle, enabling it to capture business early in the product life cycle and retaining a large chunk of this volume, unlike many competitors. In fact, 33% of DPS launches originated from PDS, highlighting the Company's focus on its "Start here, Stay here" philosophy.

Figure 6: A leader in launching new products



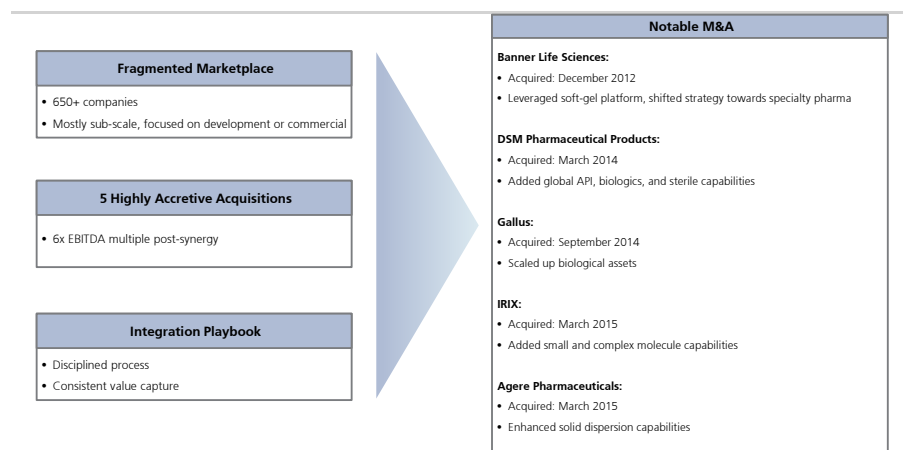
Source: UBS, company documents.

We expect PTHN's strong track-record of M&A success to continue

Patheon today is largely a reflection of management's success in executing an M&A and industry consolidation story, the continuation of which will be imperative to the Company's future prospects. The Company was incorporated in the Netherlands on December 24th, 2013 as a Dutch cooperative from a partnership between private equity firm JLL and Dutch multinational health company DSM, in connection with a \$1.4b acquisition of Patheon. By terms of this agreement, DSM provided Patheon with its DPP pharmaceutical business while JLL contributed ~\$490m in cash, which includes a contribution of ~\$90m from JLL employees.

With the DPP business as its base, PTHN set off to make a series of 5 acquisitions to broaden its scale and ultimately develop an integrated end-to-end integrated CDMO platform. See Figure 7.

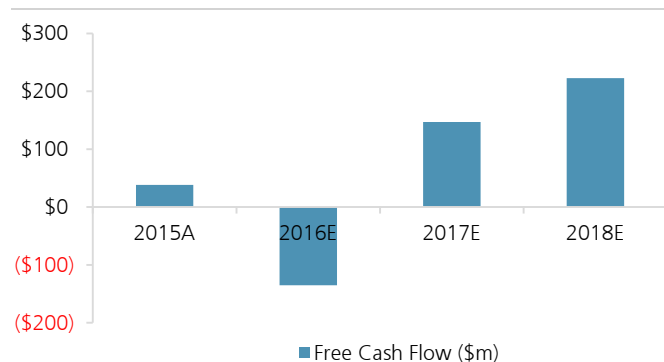
Figure 7: Strong M&A track record – we believe the playbook can continue to drive shareholder value



Source: UBS, Company documents.

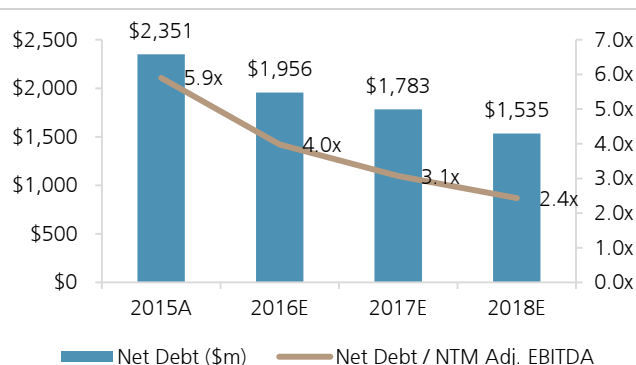
Strong top-line growth and debt pay-down should boost PTHN's FCF profile, allowing PTHN to more aggressively pursue accretive M&A which can provide an additional angle for margin expansion. We project interest expense declining ~\$60m from 2016 to 2019, as net debt decreases from ~\$2b to \$1.5b.

Figure 8: PTHN's strong FCF profile...



Source: UBS, Company documents.

Figure 9: ...will drive continued deleveraging



Source: UBS, Company documents.

PTHN has completed 1-2 transactions per year historically and has levered its balance sheet up to 6.2x EBITDA. As the Company continues to de-lever, we expect it will continue to make a similar volume of transactions, if not more, as FCF also expands. Management has indicated it will pursue small and mid-sized assets, ideally with interesting technologies/capabilities PTHN does not already own, or to rationalize industry capacity.

Figure 10: Existing management team has been with PTHN through its M&A transformation over the past few years

Name	Position	Years Experience w / Patheon	Select Prior Experience
James C. Mullen	CEO & Executive Director	5	• CEO, Biogen (2000 - 2010)
Michel Lagarde	President	5	• Patheon Board of Directors, (2011 - 2016) • Managing Director, JLL Partners (2008 - 2016)
Rebecca Holland New	Executive Vice President, Enterprise Operations	5	• Global VP of Human Resources, Bausch & Lomb
Michael J. Lehmann	Executive Vice President, Global Sales & Marketing	4	• Corporate Senior VP & GM of Global Early Development, Covance (2009 - 2012)
Gilles Cottier	President, Pharmaceutical Development Services	1	• President of SAFC Business, Sigma-Aldrich (2009 - 2015)
Lukas Utiger	President, Drug Substance Services	2	• President & CEO, DSM business (2013 - 2014)
Stuart Grant	CFO & Executive Vice President	4	• Senior VP & CFO, BioCryst Pharmaceuticals (2007 - 2011)
Michael E. Lytton	Executive Vice President, Corporate Development & Strategy	5	• Executive VP of Corporate & Business Development, Biogen (2009 - 2011) • General Partner, Oxford Bioscience Partners (2001 - 2008)

Source: UBS, Company documents.

PIVOTAL QUESTIONS

[return](#) ↑**Q: Can Patheon organically grow high-single digits?****UBS VIEW**

Yes, PTHN is in our view the best positioned CMO to capture market share in a fragmented market given its leading scale and breadth of services. Favorable underlying market dynamics, including increasing outsourcing to CMOs and greater pill count will also help achieve sustainable HSD growth.

EVIDENCE

PTHN has grown at an 8% CAGR organically from 2013 – 2015. Ultimately, we do believe management can achieve its 2015 – 2018 target of 9% growth as the Company is better positioned today than year's past to capture share in a market growing 5-6% over the next several years.

WHAT'S PRICED IN?

We believe investors are pricing in less than high-single digit growth, as PTHN lacks a track record as a public company. If management can demonstrate an ability to consistently deliver on growth estimates, we believe there is still upside to shares that has yet to be priced in.

Strong underlying market conditions will continue to support growth

A key component of the PTHN story is the Company's favourable exposure to increased CMO market penetration, which today is only ~27%. This increased penetration rate, combined with a modest ~2% growth in pharma R&D spend, creates an attractive industry growth rate of about 6% per year.

Figure 11: CMO Market Model

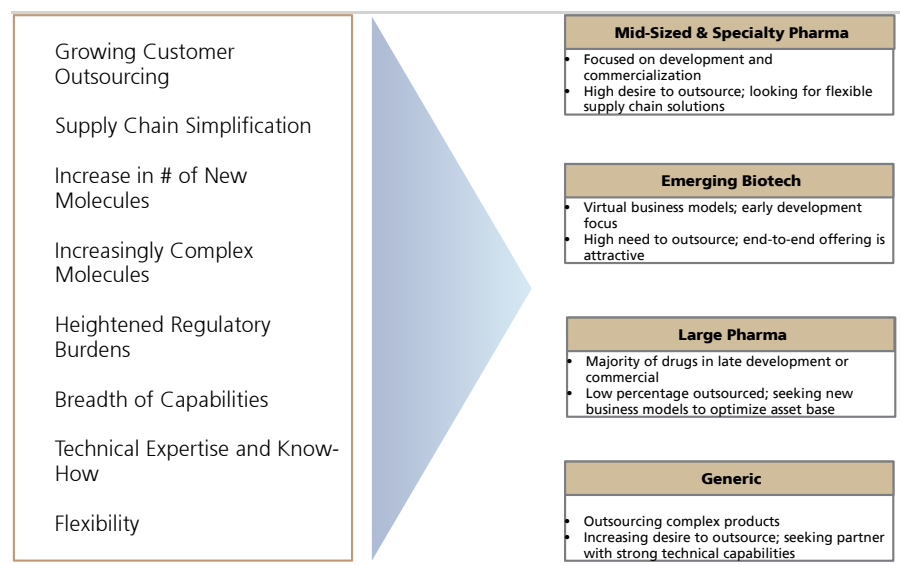
Global Manufacturing Spending by World's Top 500 Pharma & Biotech Companies 2004-2020 (\$ bil)												
Pharma Spend	2009A	2010A	2011A	2012A	2013A	2014A	2015	2016E	2017E	2018E	2019E	2020E
WW Prescription Sales	\$678	\$700	\$742	\$716	\$717	\$746	\$786	\$831	\$878	\$922	\$968	\$1,013
Developing & Manufacturing Spend	\$115	\$119	\$126	\$122	\$122	\$127	\$133	\$141	\$149	\$157	\$164	\$172
Manufacturing Spend as a % of WW Rx Sales	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
WW Prescription Sales Growth Rate	4.4%	3.3%	6.0%	-3.5%	0.1%	4.0%	5.3%	5.7%	5.6%	5.1%	4.9%	4.6%
CMO Market Size												
Pharmaceutical Development	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$2	\$2	\$2
Drug Substance Development	\$2	\$2	\$2	\$2	\$2	\$3	\$3	\$3	\$3	\$3	\$3	\$4
Drug Product	\$10	\$11	\$11	\$12	\$12	\$13	\$13	\$14	\$15	\$16	\$17	\$18
Drug Substance Commercial	\$15	\$16	\$17	\$17	\$18	\$19	\$20	\$21	\$22	\$24	\$25	\$26
Total CMO Market Size	\$28	\$29	\$31	\$32	\$34	\$36	\$38	\$40	\$42	\$44	\$46	\$49
CMO Market Penetration Rate	24%	25%	25%	27%	28%	28%	28%	28%	28%	28%	28%	29%
% Growth y-o-y												
Total Addressable CMO Spend	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.5%	5.5%	5.5%	5.5%	5.5%

Source: UBS estimates, Company documents.

Of the estimated \$140b in annual development and manufacturing spend by the Pharma industry; PTHN estimates \$40b is outsourced to CDMOs today. This is expected to grow to nearly \$50b in 2020. We believe PTHN is well positioned to grow nearly double the 5-6% industry growth rate. Drivers of CMO industry growth include global demographic trends including an increase in the insured population, a growing middle-class in emerging markets, an increase in incidence of chronic disease, and an increasing number of new molecules and compounds

entering the market. All of this should ultimately lead to higher prescription volumes and therefore increasing demand for downstream CMOs like PTHN.

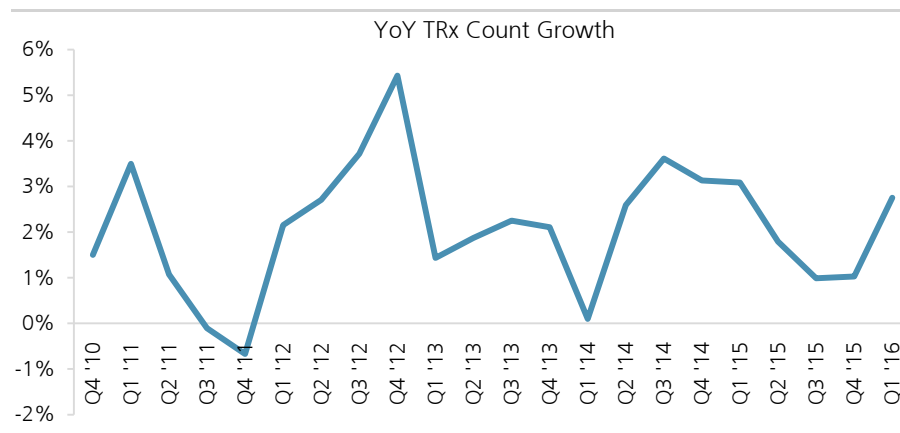
Figure 12: Continuing Increased Demand for Outsourcing



Source: UBS, Company documents.

As these longer term trends continue to emerge, global TRx count growth as reported by IMS has been strong over the past several months and should support pill count.

Figure 13: Improving TRx Count Growth should Support Top-line

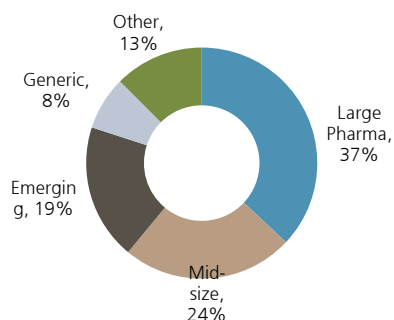


Source: UBS, Company documents.

In addition to benefiting from these market drivers, PTHN has unique advantages which should support above market average growth

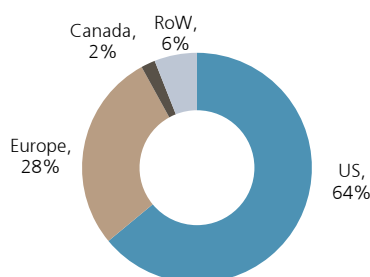
One of PTHN's most significant competitive advantages, as has already been discussed, is its scale and diversity of service offerings which we believe will allow the Company to sustainably grow high-single digits, despite the broader industry growing half this rate. PTHN's ability to grow well in excess of the industry relies on: 1) its broad and differentiating set of capabilities; 2) Greater M&A activity made feasible by a balance sheet larger than peers and a larger subset of deal candidates which make financial sense for PTHN's higher scale business.

Figure 14: Revenue by End Market



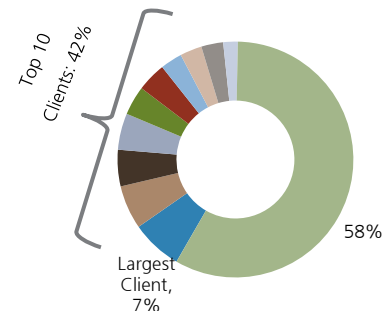
Source: UBS, Company documents.

Figure 15: Revenue by Geography



Source: UBS, Company documents.

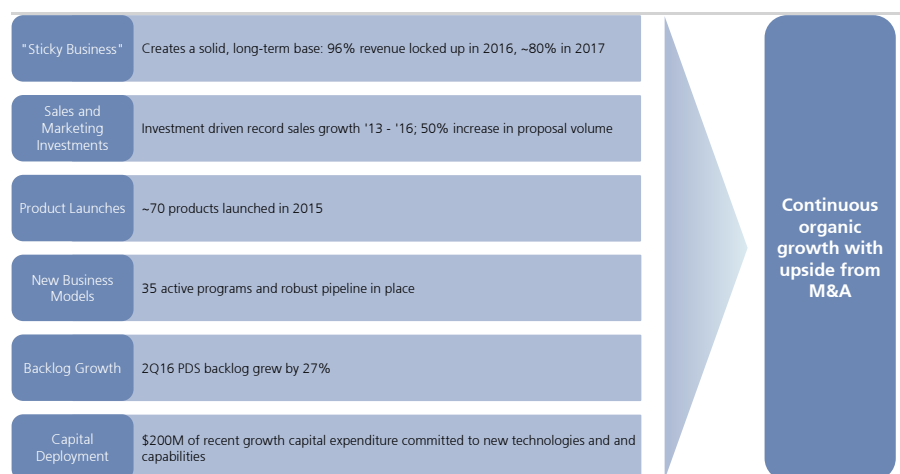
Figure 16: Revenue by Client



Source: UBS, Company documents.

As a complement to strong underlying market dynamics, PTHN should benefit from a heavy internal emphasis on sales and marketing investments, new product launches, innovative business models (See Figure 17). In recent years, PTHN has spent \$200m of growth capex to develop new technologies and capabilities organically, complementing acquired assets. Such internal emphasis should not only drive increased proposal volumes and RFP wins, but also de-risk PTHN as being overly dependent on M&A to drive sales growth.

Figure 17: PTHN Well Positioned to Gain Market Share



Source: UBS, Company documents.

Among PTHN's recent internal innovations to address unmet client needs, are the condo model and flex capacity offerings. Additional efforts around managed networks and Patheon OneSource may not necessarily be new service offerings, but help PTHN compete on cost which translates to a key competitive advantage. See Figure 18.

Figure 18: Internal Innovation Addressing Client Needs should Drive Organic Growth

Condo Model "Site within a site"	Flex Capacity "On demand capacity"	Managed Networks "Their site, our capabilities"	Patheon OneSource™ "Start with us, stay with us"
<ul style="list-style-type: none"> • Reduces investment to create manufacturing capacity • Reduces cost and time • Improve manufacturing rate of success 	<ul style="list-style-type: none"> • Secured capacity without full cost of ownership • Addresses uncertainty in quantities, timing, and dosage forms • Provides scale and flex capabilities 	<ul style="list-style-type: none"> • Ensures client facilities are more efficiently managed • Improves asset utilization 	<ul style="list-style-type: none"> • Integrated manufacturing capability • Speed up deliver to client's next milestone • Only provider uniquely positioned with end-to-end offering

Publicly Disclosed Examples:
Gruenthal, Amgen, Flexion, Pacira

Source: UBS, Company documents.

PIVOTAL QUESTIONS

[return](#) ↑**Q: Can EBITDA margins continue to improve?****UBS VIEW**

We believe PTHN still has room to continue expanding margins through its Operational Excellence program, which has been pivotal in enhancing the Company's manufacturing and operational processes since it began in 2011. M&A will be another opportunity to drive higher margins, as PTHN's existing scale provides the Company with a strong platform to extract deal synergies.

EVIDENCE

PTHN has expanded its EBITDA margin by 900bps since 2013, driven almost entirely by gross margin improvements. Much of this gross margin improvement was driven in areas like improved manufacturing quality, equipment readiness, direct costs reductions, etc.

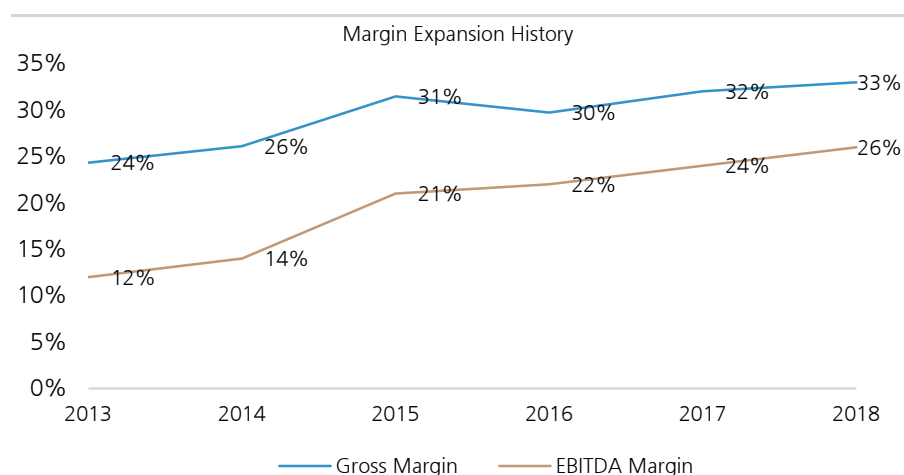
WHAT'S PRICED IN?

We believe the market is pricing in slightly less than management's guidance for 150bps of EBITDA margin improvement each year from 2015 – 2018. Achieving 150bps per year or more, would be a source of upside.

Ingrained culture of process improvement core to PTHN playbook

PTHN management has spent the past few years developing a culture of continuous improvement at the Company, which can be categorized into 3 key pillars including 1) Doing things correctly the first time to drive cost saves through greater efficiency; 2) Delivering services to customers on-time, as delays can lead to a significant financial loss to customers; 3) Continually evaluate opportunities for process improvements through Operational Excellence Program.

Figure 19: Gross margin improvements have been the key driver of recent EBITDA margin expansion



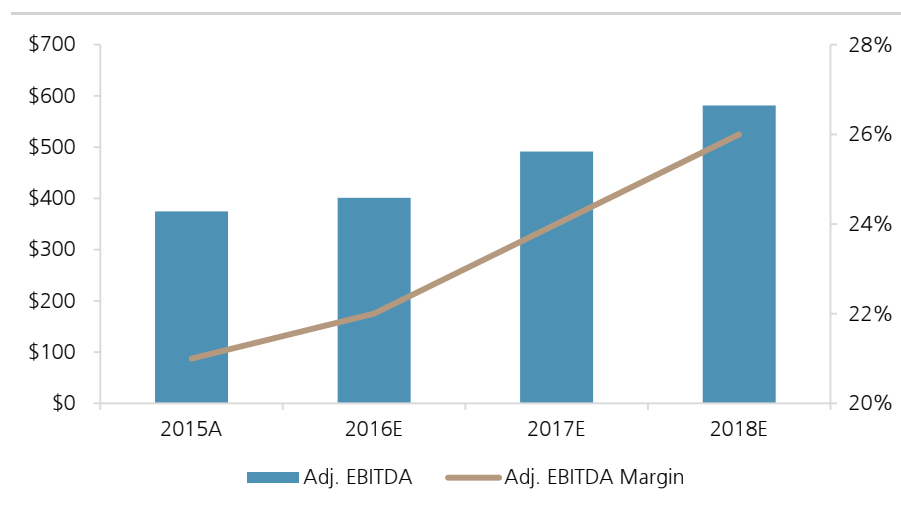
Source: UBS estimates, Company documents.

Much of PTHN's recent margin expansion is from ongoing initiatives to evaluate and exploit cost reduction opportunities through its Operational Excellence Program. Recent examples of such projects to reduce costs include:

- Labor savings from streamlining floor operations, shift structure optimization, improving organizational design, and improving site systems and processes.
- Yield improvement resulting from reduced manufacturing losses related to quality, equipment readiness and staff training.
- Energy savings driven by enhanced performance management (tracking, target setting and root-cause problem solving).
- Improvements driven by reduction in direct labor, factory overhead and SG&A staff.

This all boils down to strong EBITDA growth amounting to what we estimate to be a 16% CAGR from 2015-2018. Accretive M&A could also provide upside to these numbers.

Figure 20: Total PTHN Adjusted EBITDA should continue to ramp

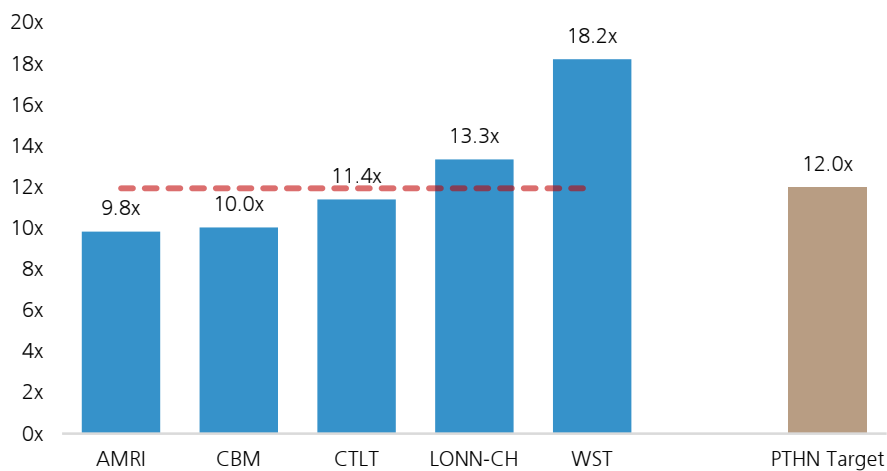


Source: UBS estimates, Company documents.

WHAT'S PRICED IN?

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CY17E EV/EBITDA Peer Multiples



We think PTHN should trade at
12x CY17E EBITDA

We think PTHN should trade at ~12x CY17E EBITDA, or \$31

PTHN's most relevant public market comparables include AMRI, CBM, CTLT, LONN-CH & WST. Trading multiples are scattered but we think over the next 12 months PTHN should trade in-line with the CMO average of ~12x 2016E.

CTLT is, in our view, PTHN's most relevant comp (given size, leverage, business mix, etc.). Given PTHN's scale and superior growth profile (~9% CY15 – CY18E revenue CAGR vs. MSD consensus expectations for CTLT) we think PTHN should trade at a premium. Our 12-month \$31 price target is based on the stock trading at ~12x CY17E EBITDA, which equates to 20x PE. See Figures 21 – 23 for peer multiple analysis.

Figure 21: PTHN Comparable Valuation

Company	Ticker	Rating	PT	Current Price	Mkt Cap (\$M)	Enterprise Value (\$M)	Revenue CY16E	Revenue CAGR CY15 - CY18E	Net Debt / TTM EBITDA	P / E			EV / EBITDA			EV / Sales		
										CY15	CY16E	CY17E	CY15	CY16E	CY17E	CY15	CY16E	CY17E
CROs																		
Charles River Laboratories	CRL	Neutral	\$83	\$82.92	3,922	5,106	1,663	13%	2.0x	22.1x	18.7x	16.4x	15.3x	12.7x	11.2x	3.7x	3.1x	2.8x
ICON	ICLR	Buy	\$86	\$76.59	4,248	4,345	1,675	7%	0.4x	19.2x	16.3x	14.5x	12.8x	11.4x	10.5x	2.8x	2.6x	2.4x
INC Research	INCR	N/A	N/A	\$45.10	2,468	2,848	1,036	11%	1.8x	22.6x	18.3x	15.8x	12.9x	11.8x	10.5x	3.1x	2.7x	2.5x
PAREXEL	PRXL	Buy	\$82	\$69.56	3,679	3,974	2,146	6%	1.4x	22.4x	18.9x	16.4x	11.9x	10.4x	9.3x	1.9x	1.9x	1.8x
PRA Health Sciences	PRAH	Buy	\$50	\$49.25	3,001	3,782	1,568	11%	2.8x	24.6x	19.9x	17.3x	15.1x	12.9x	11.6x	2.7x	2.4x	2.2x
Quintiles	Q	Buy	\$78	\$76.40	9,052	10,501	4,623	7%	1.7x	22.9x	20.0x	18.1x	12.9x	12.0x	10.9x	2.4x	2.3x	2.1x
CMOs																		
Albany Molecular Research	AMRI	N/A	N/A	\$14.90	639	991	565	20%	3.8x	15.5x	13.9x	11.3x	13.2x	9.8x	7.8x	2.5x	1.8x	1.4x
Cambrex	CBM	N/A	N/A	\$46.85	1,506	1,454	481	12%	-0.1x	20.1x	18.4x	16.4x	11.3x	10.0x	9.0x	3.4x	3.0x	2.7x
Catalent	CTLT	N/A	N/A	\$24.60	3,068	4,805	1,871	4%	4.4x	17.1x	18.1x	15.5x	11.5x	11.4x	10.4x	2.6x	2.6x	2.4x
Lonza	LONN-CH	N/A	N/A	\$188.50	9,975	11,636	4,002	5%	2.0x	29.0x	23.8x	20.5x	14.8x	13.3x	12.1x	3.1x	2.9x	2.8x
West Pharmaceutical Services	WST	N/A	N/A	\$81.00	5,931	5,959	1,511	8%	0.1x	44.3x	36.3x	30.6x	22.2x	18.2x	15.7x	4.3x	3.9x	3.6x
CROs Average							1,722	8%	1.2x	22.2x	18.6x	16.3x	13.4x	11.8x	10.6x	2.7x	2.4x	2.2x
CMOs Average							945	7%	2.0x	21.8x	19.9x	16.9x	13.7x	11.9x	10.4x	3.0x	2.6x	2.4x

Source: UBS estimates, FactSet.

Figure 22: CY14 – CY17E Sales: PTHN vs. Peers

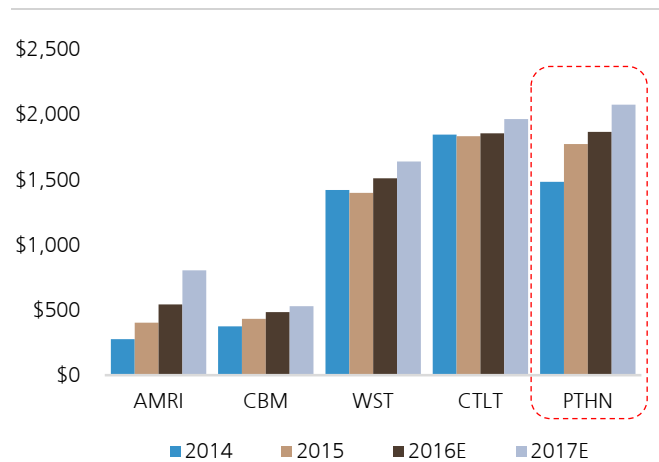
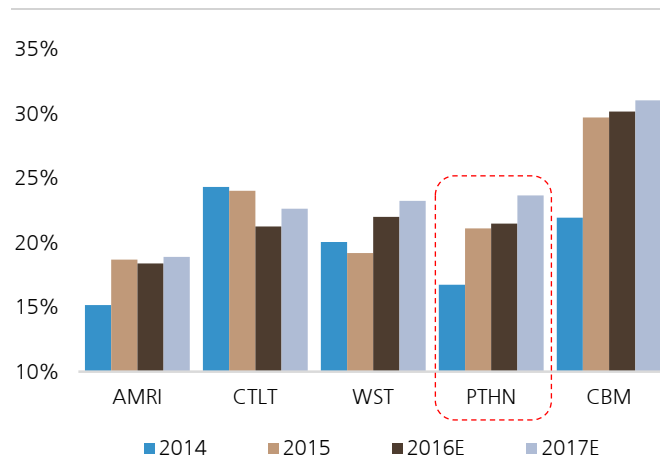
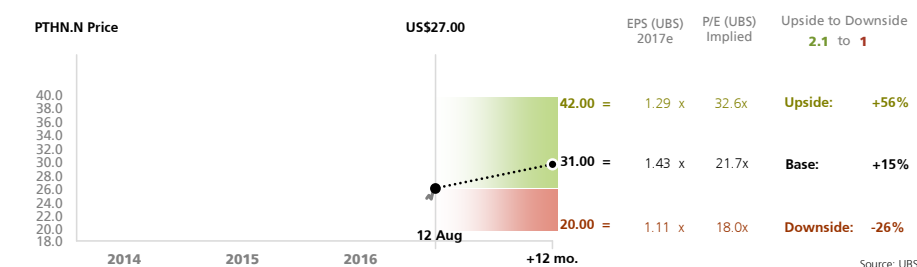


Figure 23: CY14 – CY17E EBITDA: PTHN vs. Peers



UPSIDE / DOWNSIDE SPECTRUM

[return](#) ↑

PTHN is trading
at US\$27.00
(as of 12 August).

<<Note: Multiples represent PTHN FY

Value drivers	Sales Growth	EBITDA Margin
\$42 upside	13%	26%
\$31 base	11%	24%
\$20 downside	9%	22%

Source: UBS est.

Risk to the current share price is heavily skewed (3:1) to the upside

PTHN is trading at **US\$27.00** (as of 12 August).

Upside (US\$42): PTHN is able to grow 13%, benefiting from market share gains and more rapid outsourcing industry across the broader industry. Additionally, the Company continues its M&A strategy which boosts both top-line and margins, leading to ~450bps of operating margin expansion from 2015 to 2017E.

Base (US\$31): PTHN will deliver on near-term sales growth and margin targets with ~250bps of operating margin expansion from 2015 to 2017E. Our base case assumes no capital deployment, which offers a source of upside to estimates.

Downside (US\$20): PTHN grows 9% with minimal margin expansion, as pricing declines and the Company must add scale and capacity to support recent contract wins. Operating margins remain flat at ~22% from 2015 to 2017E.

Appendix

Figure 24: PTHN Revenue Build – UBS Model

PTHN - Annual Revenue Model					
	FY15 Actual	FY16 Projected	FY17 Projected	FY18 Projected	FY19 Projected
Revenues by Segment:					
Drug Product Services (DPS)	\$1,144.2	\$1,166.8	\$1,264.6	\$1,378.4	\$1,488.7
Pharmaceutical Development Services (PDS)	198.7	230.8	260.7	297.2	332.9
Drug Substance Services (DSS)	395.3	469.6	550.5	600.1	648.1
Other	36.0	(0.1)	0.0	0.0	0.0
Net Revenues	\$1,774.2	\$1,867.1	\$2,075.8	\$2,275.7	\$2,469.6
Yr/Yr Growth	19.6%	5.2%	11.2%	9.6%	8.5%
% Change					
Drug Product Services (DPS)		2.0%	8.4%	9.0%	8.0%
Pharmaceutical Development Services (PDS)		16.2%	13.0%	14.0%	12.0%
Drug Substance Services (DSS)		18.8%	17.2%	9.0%	8.0%
Net Revenues	19.6%	5.2%	11.2%	9.6%	8.5%
Revenue by Segment %					
Drug Product Services (DPS)	64.5%	62.5%	60.9%	60.6%	60.3%
Pharmaceutical Development Services (PDS)	11.2%	12.4%	12.6%	13.1%	13.5%
Drug Substance Services (DSS)	22.3%	25.2%	26.5%	26.4%	26.2%
Other	2.0%	0.0%	0.0%	0.0%	0.0%
Net Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Adjusted EBITDA					
Drug Product Services (DPS)	\$295.1	\$304.2	\$354.8	\$414.6	\$447.2
Pharmaceutical Development Services (PDS)	68.5	81.4	94.6	109.0	122.1
Drug Substance Services (DSS)	83.0	110.7	145.0	163.5	175.7
Other (% of total revenue)	(72.0)	(94.7)	(103.0)	(105.8)	(113.6)
Total Adjusted EBITDA	\$374.6	\$401.1	\$491.4	\$581.3	\$631.4
Adjusted EBITDA Margin					
Drug Product Services (DPS)	25.8%	26.1%	28.1%	30.1%	30.0%
Pharmaceutical Development Services (PDS)	34.5%	35.2%	36.3%	36.7%	36.7%
Drug Substance Services (DSS)	21.0%	23.6%	26.3%	27.3%	27.1%
Other (% of total revenue)	-4.1%	-5.1%	-5.0%	-4.7%	-4.6%
Total Adjusted EBITDA	21.1%	21.5%	23.7%	25.5%	25.6%

Source: UBS estimates, Company documents.

Figure 25: PTHN Income Statement – UBS Model

PTHN - Annual Income Statement (Millions)					
	FY15 Actual	FY16 Projected	FY17 Projected	FY18 Projected	FY19 Projected
Total Revenue	\$1,774.2	\$1,867.1	\$2,075.8	\$2,275.7	\$2,469.6
% change	19.6%	5.2%	11.2%	9.6%	8.5%
Expenses					
Cost of goods sold (GAAP)	1,215.6	1,311.9	1,410.9	1,524.7	1,630.0
% of revenue	68.5%	70.3%	68.0%	67.0%	66.0%
Gross Profit	558.6	555.3	664.9	751.0	839.7
% of revenue	31.5%	29.7%	32.0%	33.0%	34.0%
SG&A (GAAP)	309.0	297.2	315.6	352.7	370.4
% of revenue	17.4%	15.9%	15.2%	15.5%	15.0%
R&D (GAAP)	14.9	4.2	5.8	5.6	5.3
% of revenue	0.8%	0.2%	0.3%	0.2%	0.2%
Stock Comp (Addback to EBITDA)	(13.9)	(8.0)	(8.0)	(8.0)	(8.0)
D&A (Addback to EBITDA)	(107.8)	(112.5)	(127.9)	(147.9)	(160.5)
Other expenses & Fx (Addback to EBITDA)	(18.2)	(26.8)	(11.9)	(32.8)	1.0
<i>Adjusted EBITDA check line</i>					
Adjusted EBITDA	374.6	401.1	491.4	581.3	631.4
% of revenue	21.1%	21.5%	23.7%	25.5%	25.6%
Basic Shares Outstanding		141.2	141.2	142.2	143.2
Diluted Shares Outstanding					
Equity Price					
Adjusted Net income from continuing operations	109.9	134.4	202.2	258.5	311.0
PIK Interest		35.0			
PF Adjusted Net Income		169.4	202.2	258.5	311.0
Non-GAAP EPS - Fully Diluted		\$1.20	\$1.43	\$1.82	\$2.17
			19.3%	27.0%	19.5%

Source: Company, UBS estimates

Figure 26: PTHN Balance Sheet – UBS Model

PTHN - Annual Balance Sheet (Millions)					
	FY15 Actual	FY16 Projected	FY17 Projected	FY18 Projected	FY19 Projected
Cash & Equivalents	328.7	188.8	129.6	156.8	319.3
Accounts Receivable	329.1	394.2	446.0	489.2	531.0
Inventories	369.6	385.4	385.4	385.4	385.4
Income Taxes Receivable	5.6	11.6	11.6	11.6	11.6
Prepaid & Other Current Assets	15.7	22.1	22.1	22.1	22.1
Total Current Assets	1,048.7	1,002.0	994.7	1,065.0	1,269.4
Long Term Assets					
Capital Assets	877.0	988.5	1,070.7	1,141.2	1,217.8
Goodwill	284.4	282.1	282.1	282.1	282.1
Intangible Assets	275.8	237.1	185.9	126.8	62.6
Deferred & Other Assets	129.1	144.7	144.7	144.7	144.7
Total Assets	2,615.0	2,654.4	2,678.1	2,759.8	2,976.5
Current Liabilities					
Current Portion of Borrowings	21.2	21.6	21.6	21.6	21.6
Short-term Borrowings	0.4	0.1	0.1	0.1	0.1
Accounts Payable & Accrued Liabilities	461.8	415.0	436.4	490.5	524.5
Deferred Revenues (ST)	105.9	145.6	145.6	145.6	145.6
Other Current Liabilities	9.0	3.5	3.5	3.5	3.5
Total Current Liabilities	598.3	585.8	607.2	661.3	695.3
Long Term Liabilities					
Total Long-Term Debt	2,646.7	2,111.9	1,879.7	1,658.3	1,554.9
Deferred Revenue (LT)	75.2	117.0	117.0	117.0	117.0
Other Liabilities	159.0	215.4	215.4	215.4	215.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Equity	(864.2)	(375.7)	(141.2)	107.8	393.9
Total Liabilities & Equity	2,615.0	2,654.4	2,678.1	2,759.8	2,976.5

Source: Company, UBS estimates

Figure 27: PTHN Cash Flow Statement – UBS Model

PTHN - Annual Cash Flow (Millions)					
	FY15 Actual	FY16 Projected	FY17 Projected	FY18 Projected	FY19 Projected
Net Income	138.4	67.3	160.6	215.0	252.1
Depreciation & Amortization	107.8	112.5	127.9	147.9	160.5
Share-Based Compensation	13.9	8.0	8.0	8.0	8.0
Deferred Income Tax Benefit	(8.5)	0.0	0.0	0.0	0.0
Other	(466.4)	(149.9)	40.0	0.0	0.0
Total	(214.8)	37.9	336.5	370.9	420.6
Operating Uses					
Accounts Receivable	(11.8)	(65.1)	(51.9)	(43.1)	(41.8)
Prepaid expenses & other assets	216.4	(22.2)	0.0	0.0	0.0
Accounts payable & other liabilities	23.7	(46.8)	21.4	54.1	34.0
Income Taxes	(1.3)	(6.0)	0.0	0.0	0.0
Deferred Revenues	172.8	140.0	0.0	0.0	0.0
Total	399.8	(0.1)	(30.5)	11.0	(7.8)
Cash Flow from Operations	185.0	37.8	305.9	381.9	412.8
Cumulative CFO					
Cash Flow From Investing					
Capital Expenditures	(146.9)	(173.1)	(159.0)	(159.3)	(172.9)
Acquisitions	(170.2)	0.0	0.0	0.0	0.0
Divestitures	6.5	0.0	0.0	0.0	0.0
Other CFI	222.3	(0.9)	0.0	0.0	0.0
Cash Flow from Investing	(88.3)	(174.0)	(159.0)	(159.3)	(172.9)
Capex / Sales	8%	9%	7.7%	7%	7%
Cash Flow before financing	96.7	(136.1)	147.0	222.6	239.9
Cash Flow from Financing					
Net Change in Debt	711.2	(557.1)	(232.2)	(221.4)	(103.4)
Dividends and Distributions	(12.4)	0.0	0.0	0.0	0.0
Preferred Stock	0.0	0.0	0.0	0.0	0.0
Equity Issuance	0.0	557.4	26.0	26.0	26.0
Equity Repurchase	0.0	0.0	0.0	0.0	0.0
Other	(550.6)	(11.0)	0.0	0.0	0.0
Cash Flow from Financing	148.2	(10.7)	(206.2)	(195.4)	(77.4)
Effect of Exchange Rates	(0.8)	6.9	0.0	0.0	0.0
Cash at Beginning of Period	84.6	328.7	188.8	129.6	156.8
Net Cash Flow	244.1	(139.9)	(59.2)	27.2	162.5
Cash at End of Period	328.7	188.8	129.6	156.8	319.3
Cumulative Decrease/Increase in cash					
Cash (Paid) for Interest	0.0	0.0	0.0	0.0	0.0
Cash (Paid) for Taxes	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	38.1	(135.2)	147.0	222.6	239.9

Source: Company, UBS estimates

COMPANY DESCRIPTION

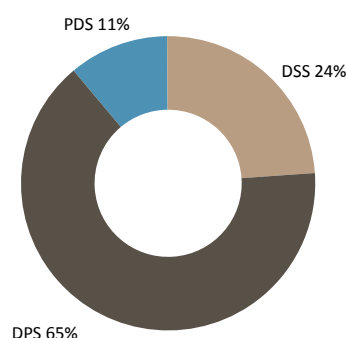
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Market Cap	US\$3.8bn
Shares Outstanding	141m (COM)
Industry	Biotechnology
Region	Americas
Website	www.patheon.com

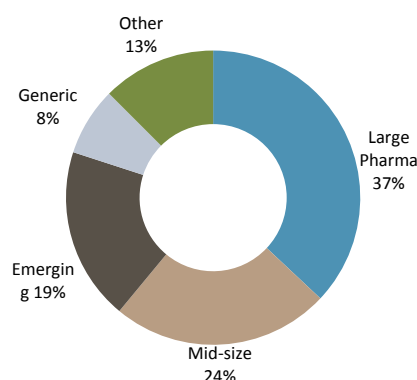
Patheon is a leading provider of commercial manufacturing outsourcing services ('CMO') and outsourced pharmaceutical development services ('PDS') to the global pharmaceutical industry. The Company offers a wide range of services throughout the lifecycle of a pharmaceutical molecule, ranging from early development services through late development and commercial manufacturing. PTHN has developed a differentiating expertise in a variety of specialized capabilities in high potency, controlled substances, modified release products, and softgel technologies.

Industry outlook:

Of the estimated \$140b in annual development and manufacturing spend by the Pharma industry; PTHN estimates \$40b is outsourced to CDMOs today. This is expected to grow to nearly \$50b in 2020. We believe PTHN is well positioned to grow nearly double the 5-6% industry growth rate. Drivers of CMO industry growth include global demographic trends including an increase in the insured population, a growing middle-class in emerging markets, an increase in incidence of chronic disease, and an increasing number of new molecules and compounds entering the market. All of this should ultimately lead to higher prescription volumes and therefore increasing demand for downstream CMOs like PTHN.

Revenues by segment (%)

Source: Company

Revenue by end market (%)

Source: Company

Patheon Inc (PTHN.N)

	-	-	10/15	10/16E	% ch	10/17E	% ch	10/18E	10/19E	10/20E
Income statement (US\$m)	-	-								
Revenues	-	-	1,774	1,867	5.2	2,076	11.2	2,276	2,470	2,681
Gross profit	-	-	559	555	-0.6	665	19.8	751	840	938
EBITDA (UBS)	-	-	375	401	7.1	491	22.5	581	631	686
Depreciation & amortisation	-	-	(108)	(112)	4.4	(128)	13.7	(148)	(161)	(174)
EBIT (UBS)	-	-	267	289	8.2	363	25.9	433	471	512
Associates & investment income	-	-	0	0	-	0	-	0	0	0
Other non-operating income	-	-	49	(4)	-	9	-	9	9	9
Net interest	-	-	(142)	(158)	-11.5	(118)	25.5	(109)	(100)	(100)
Exceptionals (incl goodwill)	-	-	0	0	-	0	-	0	0	0
Profit before tax	-	-	174	127	-27.1	254	101.0	333	380	421
Tax	-	-	0	(10)	NM	(68)	NM	(92)	(103)	(122)
Profit after tax	-	-	173	117	-32.5	186	58.9	241	277	299
Preference dividends	-	-	0	0	-	0	-	0	0	0
Minorities	-	-	0	0	-	0	-	0	0	0
Extraordinary items	-	-	104	(3)	-	0	-	0	0	0
Net earnings (local GAAP)	-	-	277	114	-58.9	186	63.2	241	277	299
Net earnings (UBS)	-	-	134	169	26.1	202	19.3	259	311	366
Tax rate (%)	-	-	0.2	7.6	NM	26.9	255.1	27.7	27.1	29.1
Per share (US\$)	-	-								
EPS (UBS, diluted)	-	-	0.95	1.20	26.1	1.43	19.3	1.82	2.17	2.54
EPS (local GAAP, diluted)	-	-	1.96	0.81	-58.9	1.32	63.2	1.69	1.93	2.07
EPS (UBS, basic)	-	-	0.95	1.20	26.1	1.43	19.3	1.82	2.17	2.54
Net DPS (US\$)	-	-	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Cash EPS (UBS, diluted) ¹	-	-	1.71	2.00	16.4	2.34	17.1	2.86	3.29	3.74
Book value per share	-	-	(6.15)	(2.66)	56.7	(1.00)	62.4	0.76	2.75	5.53
Average shares (diluted)	-	-	141.22	141.22	0.0	141.22	0.0	142.22	143.22	144.22
Balance sheet (US\$m)	-	-								
Cash and equivalents	-	-	329	189	-42.6	130	-31.4	157	319	630
Other current assets	-	-	720	813	13.0	865	6.4	908	950	996
Total current assets	-	-	1,049	1,002	-4.5	995	-0.7	1,065	1,269	1,626
Net tangible fixed assets	-	-	877	988	12.7	1,071	8.3	1,141	1,218	1,301
Net intangible fixed assets	-	-	560	519	-7.3	468	-9.9	409	345	345
Investments / other assets	-	-	129	145	12.1	145	0.0	145	145	145
Total assets	-	-	2,615	2,654	1.5	2,678	0.9	2,760	2,977	3,416
Trade payables & other ST liabilities	-	-	577	564	-2.2	585	3.8	640	674	710
Short term debt	-	-	22	22	0.46	22	0.00	22	22	22
Total current liabilities	-	-	598	586	-2.1	607	3.6	661	695	732
Long term debt	-	-	2,647	2,112	-20.2	1,880	-11.0	1,658	1,555	1,555
Other long term liabilities	-	-	234	332	41.9	332	0.0	332	332	332
Preferred shares	-	-	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	-	-	3,479	3,030	-12.9	2,819	-7.0	2,652	2,583	2,619
Common s/h equity	-	-	(864)	(376)	56.5	(141)	62.4	108	394	797
Minority interests	-	-	0	0	-	0	-	0	0	0
Total liabilities & equity	-	-	2,615	2,654	1.5	2,678	0.9	2,760	2,977	3,416
Cash flow (US\$m)	-	-								
Net income (before pref divs)	-	-	277	114	-58.9	186	63.2	241	277	299
Depreciation & amortisation	-	-	108	112	4.4	128	13.7	148	161	174
Net change in working capital	-	-	400	0	-	(31)	NM	11	(8)	(9)
Other operating	-	-	(599)	(188)	68.6	23	-	(18)	(17)	9
Operating cash flow	-	-	185	38	-79.5	306	NM	382	413	472
Tangible capital expenditure	-	-	(147)	(173)	-17.8	(159)	8.2	(159)	(173)	(188)
Intangible capital expenditure	-	-	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	-	-	(164)	0	-	0	-	0	0	0
Other investing	-	-	222	(1)	-	0	-	0	0	0
Investing cash flow	-	-	(88)	(174)	-97.0	(159)	8.6	(159)	(173)	(188)
Equity dividends paid	-	-	(12)	0	-	0	-	0	0	0
Share issues / (buybacks)	-	-	0	557	-	26	-95.3	26	26	26
Other financing	-	-	(551)	(11)	98.00	0	-	0	0	0
Change in debt & pref shares	-	-	711	(557)	-	(232)	58.32	(221)	(103)	0
Financing cash flow	-	-	148	(11)	-	(206)	NM	(195)	(77)	26
Cash flow inc/(dec) in cash	-	-	245	(147)	-	(59)	59.7	27	163	311
FX / non cash items	-	-	-	7	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	-	-	-	(140)	-	(59)	57.7	27	163	311

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.¹Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Patheon Inc (PTHN.N)

Valuation (x)	-	-	10/15	10/16E	10/17E	10/18E	10/19E	10/20E
P/E (local GAAP, diluted)	-	-	-	33.5	20.5	16.0	14.0	13.0
P/E (UBS, diluted)	-	-	-	22.5	18.9	14.9	12.4	10.6
P/CEPS	-	-	-	13.5	11.6	9.4	8.2	7.2
Equity FCF (UBS) yield %	-	-	-	(3.6)	3.9	5.9	6.3	7.5
Net dividend yield (%)	-	-	-	0.0	0.0	0.0	0.0	0.0
P/BV x	-	-	-	NM	NM	35.6	9.8	4.9
EV/revenues (core)	-	-	-	3.2	2.7	2.4	2.1	1.8
EV/EBITDA (core)	-	-	-	14.8	11.5	9.4	8.2	7.1
EV/EBIT (core)	-	-	-	20.6	15.6	12.6	11.0	9.6
EV/OpFCF (core)	-	-	-	26.0	17.0	12.9	11.3	9.8
EV/op. invested capital	-	-	-	3.9	3.5	3.3	3.2	2.9
Enterprise value (US\$m)	-	-	10/15	10/16E	10/17E	10/18E	10/19E	10/20E
Market cap.	-	-	-	3,796	3,796	3,796	3,796	3,796
Net debt (cash)	-	-	2,351	2,142	1,858	1,648	1,390	1,102
Buy out of minorities	-	-	0	0	0	0	0	0
Pension provisions/other	-	-	0	0	0	0	0	0
Total enterprise value	-	-	-	5,939	5,655	5,444	5,187	4,898
Non core assets	-	-	0	0	0	0	0	0
Core enterprise value	-	-	-	5,939	5,655	5,444	5,187	4,898
Growth (%)	-	-	10/15	10/16E	10/17E	10/18E	10/19E	10/20E
Revenue	-	-	-	5.2	11.2	9.6	8.5	8.5
EBITDA (UBS)	-	-	-	7.1	22.5	18.3	8.6	8.7
EBIT (UBS)	-	-	-	8.2	25.9	19.2	8.7	8.7
EPS (UBS, diluted)	-	-	-	26.1	19.3	27.0	19.5	16.8
Net DPS	-	-	-	-	-	-	-	-
Margins & Profitability (%)	-	-	10/15	10/16E	10/17E	10/18E	10/19E	10/20E
Gross profit margin	-	-	31.5	29.7	32.0	33.0	34.0	35.0
EBITDA margin	-	-	21.1	21.5	23.7	25.5	25.6	25.6
EBIT margin	-	-	15.0	15.5	17.5	19.0	19.1	19.1
Net earnings (UBS) margin	-	-	7.6	9.1	9.7	11.4	12.6	13.6
ROIC (EBIT)	-	-	-	19.0	22.7	26.6	28.7	30.2
ROIC post tax	-	-	-	17.5	16.6	19.2	20.9	21.4
ROE (UBS)	-	-	-	(27.3)	(78.2)	<-500	124.0	61.4
Capital structure & Coverage (x)	-	-	10/15	10/16E	10/17E	10/18E	10/19E	10/20E
Net debt / EBITDA	-	-	6.2	4.8	3.6	2.6	2.0	1.4
Net debt / total equity %	-	-	(270.7)	NM	NM	NM	NM	118.8
Net debt / (net debt + total equity) %	-	-	NM	NM	NM	93.4	76.1	54.3
Net debt/EV %	-	-	-	32.7	31.3	28.0	24.2	19.3
Capex / depreciation %	-	-	172.6	195.6	153.0	129.1	139.4	151.3
Capex / revenue %	-	-	8.3	9.3	7.7	7.0	7.0	7.0
EBIT / net interest	-	-	1.9	1.8	3.1	4.0	4.7	5.1
Dividend cover (UBS)	-	-	-	-	-	-	-	-
Div. payout ratio (UBS) %	-	-	-	-	-	-	-	-
Revenues by division (US\$m)	-	-	10/15	10/16E	10/17E	10/18E	10/19E	10/20E
Others	-	-	1,774	1,867	2,076	2,276	2,470	2,681
Total	-	-	1,774	1,867	2,076	2,276	2,470	2,681
EBIT (UBS) by division (US\$m)	-	-	10/15	10/16E	10/17E	10/18E	10/19E	10/20E
Others	-	-	267	289	363	433	471	512
Total	-	-	267	289	363	433	471	512

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+14.8%
Forecast dividend yield	0.0%
Forecast stock return	+14.8%
Market return assumption	5.7%
Forecast excess return	+9.1%

Valuation Method and Risk Statement

Risks to PTHN include high leverage, plant disruptions as occurred at Ferrentino which can potentially impact production capacity, customer cancellations, and poor acquisitions. Our 12-month price target is \$31 based on the stock trading at ~12x CY17E EBITDA. Peer trading multiples are scattered but we think in 12-months PTHN should at least trade in-line with the current 2016E CMO EBITDA average of 12x.

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Buy	FSR is > 6% above the MRA.	47%	32%
Neutral	FSR is between -6% and 6% of the MRA.	38%	25%
Sell	FSR is > 6% below the MRA.	15%	21%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 June 2016.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Patheon Inc ^{2, 4, 5, 16}	PTHN.N	Not Rated	N/A	US\$27.00	12 Aug 2016

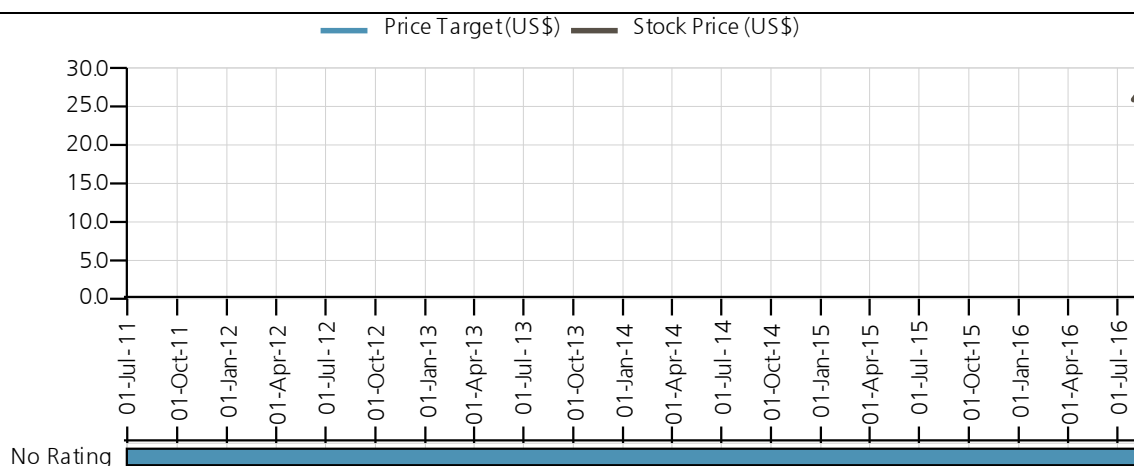
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Patheon Inc (US\$)



Source: UBS; as of 12 Aug 2016

Additional Prices: Albany Molecular Research Inc., US\$14.90 (12 Aug 2016); Cambrex Corp., US\$46.85 (12 Aug 2016); Catalent Inc, US\$24.60 (12 Aug 2016); West Pharmaceutical Services, Inc., US\$81.00 (12 Aug 2016); Lonza Group AG, CHF188.50 (12 Aug 2016); Source: UBS. All prices as of local market close.

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