

Quintiles Transnational Holdings (Q)

Overweight

Strong FY13 Finish Makes Quintiles Our CRO Pick

CONCLUSION

Quintiles finished FY13 with a bang, breaking the \$1B mark in quarterly revenue. We believe the expanding bio pharma market will drive growth for Infosario and IHS in 2014. We maintain our Overweight rating, and raise our price target from \$53 to \$58 to reflect the growing momentum in revenue and operating leverage. This is based on 23.7x (unchanged) our new CY14E EPS estimate of \$2.44, reflecting a 20% premium to the peer median P/E.

- The numbers.** Quintiles' revenue broke the \$1B mark for the first time this quarter, beating our estimates by 3%. Product Development grew 10% to \$775M, while IHS decreased 6% to \$229M. GAAP EPS of \$0.55 beat our estimate of \$0.50. Backlog increased 13.2% to \$9.9B, another all-time high for the company. Full year book to bill was 1.27, comprised of 1.29 in Product Development, and 1.27 for IHS. Full year adjusted net income of \$269.9M was up 28.7%. The company also provided guidance for FY14, with revenues in the \$4.09-\$4.15B range, and adjusted EPS in the \$2.33-\$2.46 range. We increased our FY14 estimates to reflect revenue growth from 2H13, and also project revenue of \$4.5B and \$2.78 EPS for FY15.
- Infosario driving growth.** The number of investigative sites using the Infosario platform has more than doubled in the past year. While this product has been out for two years, we think the recent momentum demonstrates Q's ability to put its newly raised capital to good use, as they have only been public for two quarters. Essentially, this product spawned from the need to bring the many silos of data in pharma to the fingertips of the clinical researcher. There's a wealth of data residing in clinical, financial, medical and regulatory environments not being effectively utilized. Infosario brings it all together in real time, mimicking the social media world's ability to process massive amounts of data. By helping the user transform data to insight, and insight to outcomes, this product helps trials stay on time and within budget. It compliments both Medidata's and Oracle's platforms; we believe that Q will leverage their relationships with these companies, along with their first mover advantage, to drive further growth in 2014.

RISKS TO ACHIEVEMENT OF PRICE TARGET

Changes in the pharma industry impacting R&D spending in drug research, reversal to the current increasing R&D outsourcing trend by pharma, and above industry average leverage in the balance sheet impacting opportunities.

COMPANY DESCRIPTION

Quintiles is the largest CRO in the industry with expertise across all major therapeutics and with operations in about 100 countries.

PRICE: US\$52.20

TARGET: US\$58.00

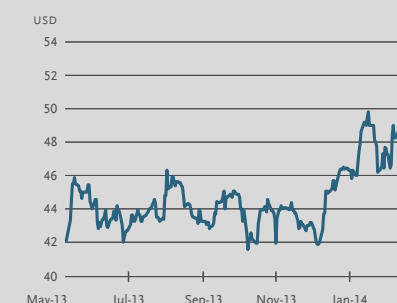
23.7x CY14E EPS of \$2.44 (a 20% premium to the peer median P/E)

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	US\$53.00	US\$58.00
FY14E Rev (mil)	US\$4,079.1	US\$4,124.8
FY15E Rev (mil)	—	US\$4,488.4
FY14E EPS	US\$2.24	US\$2.44
FY15E EPS	—	US\$2.78
52-Week High / Low	US\$52.24 / US\$40.00	
Shares Out (mil)	133.3	
Market Cap. (mil)	US\$6,958.3	
Avg Daily Vol (000)	497	
Book Value/Share	US\$(5.02)	
Net Cash Per Share	US\$(10.89)	
Debt to Total Capital	1%	
Yield	0.00%	
Fiscal Year End	Dec	

Price Performance - 1 Year



Source: Bloomberg

YEAR	REVENUE (US\$ m)						EARNINGS PER SHARE (US\$)					
	Mar	Jun	Sep	Dec	FY	FY RM	Mar	Jun	Sep	Dec	FY	FY P/E
2013A	927.0	944.2	932.7	1,003.9	3,808.3	1.8x	0.49	0.50	0.50	0.58	2.10	24.9x
2014E	1,005.8	1,018.2	1,007.9	1,092.9	4,124.8	1.7x	0.47	0.64	0.63	0.70	2.44	21.4x
2015E	1,099.5	1,105.3	1,086.3	1,197.4	4,488.4	1.6x	0.57	0.72	0.70	0.78	2.78	18.8x

Adjusted EPS

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Biopharma demand is increasing. Q has seen growth in RFP volumes across numerous market segments, including small, mid-sized and large bio pharma. As such, Q's pipeline is the largest they've seen in the last 12 quarters, with 50% of new business coming from outside of the top 20 pharma companies. Asia Pacific is growing above market rates as Japan gains popularity as a drug development site due to its support of innovation.

IHS has made a turnaround. Although IHS revenue was down in 1H13, it finally turned to growth in Q4, with an impressive book to bill of 1.47 this quarter, the highest in four years. This was driven largely by providing productivity-driven solutions for customers, through cross-selling synergy between the consulting and commercial teams, despite fx headwinds.

Exhibit 1

Variance Analysis	Dec-13A				
	PJC Est.	Actual	% Difference	Y/Y Change	Seq. Change
Total revenue	974,387	1,003,940	3.0%	6%	8%
Cost of sales	646,074	641,957	-1%	2%	7%
Gross profit	328,313	361,983	10%	14%	9%
Selling, general & administrative	199,749	232,797	17%	8%	17%
EBITDA	155,225	159,740	3%	14%	0%
GAAP net earnings	65,982	72,934	11%	2%	10%
GAAP EPS	\$0.50	0.55	11%	-10%	10%
Source: Company documents and Piper Jaffray & Co.					

Quintiles		FYA	Q1A	Q2A	Q3A	Q4A	FYA	Q1A	Q2A	Q3A	Q4A	FYA	Q1E	Q2E	Q3E	Q4E	FYE	Q1E	Q2E	Q3E	Q4E	FYE
Historical and Projected Income Statement		2011	Mar-12A	Jun-12A	Sep-12A	Dec-12A	2012	Mar-13A	Jun-13A	Sep-13A	Dec-13A	2013	Mar-14E	Jun-14E	Sep-14E	Dec-14E	2014E	Mar-15E	Jun-15E	Sep-15E	Dec-15E	2015E
Last update: 2/13/14																						
Revenues:																						
Product Dev		2,437,900	656,262	692,123	677,215	702,995	2,728,695	706,300	724,170	714,244	775,009	2,919,723	776,930	789,345	776,526	852,510	3,197,311	854,623	860,386	840,808	937,761	3,493,578
Integrated Healthcare Services (IHS)		857,100	231,673	252,791	236,373	242,766	963,603	221,100	220,068	218,483	228,931	888,582	228,839	228,871	229,407	240,378	927,494	244,857	244,892	245,466	259,608	994,822
Total Service Revenues		3,295,000	888,035	944,914	913,588	945,761	3,692,298	927,400	944,238	932,727	1,003,940	3,808,305	1,005,769	1,018,216	1,007,933	1,092,887	4,124,805	1,099,480	1,105,278	1,086,274	1,197,369	4,488,401
Cost of Sales																						
Product Dev		1,463,853	404,281	428,929	419,055	431,040	1,683,305	428,900	441,895	426,094	455,804	1,752,693	473,927	465,714	459,330	502,981	1,901,952	521,320	507,628	496,077	553,279	2,078,304
Integrated Healthcare Services (IHS)		688,708	186,253	199,286	193,013	197,475	776,027	182,100	175,771	174,600	186,153	718,624	188,474	185,385	185,820	194,706	754,384	198,334	198,362	197,600	208,984	803,281
Corporate Expenses		0	0	0	0	(0)	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total COGS		2,152,561	590,534	628,215	612,068	628,515	2,459,332	611,000	617,666	600,694	641,957	2,471,317	662,401	651,099	645,150	697,687	2,656,337	719,654	705,990	693,677	762,263	2,881,584
Gross Profit																						
Product Dev		974,047	252,081	263,194	258,160	271,955	1,045,390	277,400	282,275	288,150	319,205	1,167,030	303,003	323,632	319,196	349,529	1,295,359	333,303	352,758	344,731	384,482	1,415,275
Integrated Healthcare Services (IHS)		168,392	45,420	53,505	43,360	45,291	187,576	39,000	44,297	43,883	42,778	169,958	40,365	43,485	43,587	45,672	173,110	46,523	46,529	47,866	50,624	191,542
Total Gross Profit		1,142,439	297,501	316,699	301,520	317,246	1,232,966	316,400	326,572	332,033	361,983	1,336,988	343,368	367,117	362,783	395,201	1,468,469	379,826	399,288	392,597	435,105	1,606,816
Expenses																						
SG&A - Product Dev		549,228	140,056	144,050	136,928	146,501	567,535	144,700	146,182	147,534	166,322	604,738	163,155	163,789	159,598	174,765	661,307	179,471	172,077	168,162	187,552	707,262
SG&A - IHS		110,247	31,103	33,266	30,986	31,712	127,067	32,800	31,790	32,221	31,068	127,670	34,326	34,331	34,411	36,057	139,679	36,729	34,285	34,365	36,345	141,724
Corporate SG&A		102,824	34,636	26,228	24,866	37,423	123,153	(177,301)	50,866	23,585	(35,407)	(138,257)	40,231	30,546	30,238	32,787	133,802	32,984	33,158	32,598	35,921	134,652
Total SG&A		762,299	205,795	203,544	192,780	215,636	817,755	199,300	228,838	199,753	232,797	860,506	237,712	228,666	224,247	243,608	934,233	249,184	239,520	235,115	259,818	983,638
Restructuring Expense		22,116	(310)	12,263	(434)	7,222	18,741	1,859	2,837	7,201	2,174	14,071	3,250	3,250	3,250	3,250	13,000	1,000	1,000	1,000	1,000	4,000
Impairment Charge		12,295	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income from operations		345,729	92,016	100,892	109,174	94,388	396,470	115,241	94,897	125,259	127,012	462,409	102,406	135,201	135,286	148,343	521,236	129,642	158,767	156,482	174,287	619,179
Product Dev Operating Income		424,819	112,025	119,144	121,232	125,454	477,855	132,700	136,093	140,616	152,883	562,292	139,847	159,842	159,598	174,765	634,052	153,832	180,681	176,570	196,930	708,013
IHS Operating Income		58,145	14,317	20,239	12,374	13,579	60,509	6,200	12,507	11,662	11,710	42,079	6,039	9,155	9,176	9,615	33,985	9,794	12,245	13,501	14,278	49,818
General corporate and unallocated expenses		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA (Non-GAAP)		490,902	129,654	138,208	135,802	140,089	543,753	144,216	155,702	159,784	159,740	619,443	139,656	172,451	173,536	186,593	672,236	163,642	192,767	190,482	208,287	755,179
D&A		92,004	23,271	23,719	25,727	25,571	98,288	25,765	25,026	27,324	30,554	108,669	32,000	32,000	33,000	33,000	130,000	33,000	33,000	33,000	33,000	132,000
Stock Comp		2,553	4,459	-	-	9,178	13,637	-	6,591	-	-	6,591	2,000	2,000	2,000	2,000	8,000	-	-	-	-	-
One-Time Comp		10,992	8,912	-	-	2,396	11,308	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Management Fee		5,213	1,306	1,334	1,335	1,334	5,309	1,351	26,351	-	-	27,702	-	-	-	-	-	-	-	-	-	-
Interest income		-	-	-	-	-	-	-	(785)	(1,119)	(1,581)	(3,485)	-	-	-	-	-	-	-	-	-	-
Interest expense		-	-	-	-	-	-	-	31,884	28,756	26,828	67,466	16,867	16,867	16,867	16,867	67,466	16,867	16,867	16,867	16,867	-
Net Interest expense		105,126	28,920	32,808	32,665	36,911	131,304	36,042	31,884	28,756	26,828	67,466	16,867	16,867	16,867	16,867	67,466	16,867	16,867	16,867	16,867	-
Loss on extinguishment of debt		46,377	-	-	-	-	1,275	(452)	16,543	-	3,288	19,379	-	-	-	-	-	-	-	-	-	-
Other Expense (Income), net		9,073	(2,419)	(6,159)	3,850	1,156	(3,572)	(2,380)	536	3,224	(1,563)	(183)	-	-	-	-	-	-	-	-	-	-
Gain on sale of business		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income before taxes		290,279	94,435	107,051	105,324	91,957	398,767	118,073	46,719	94,398	100,042	359,232	85,539	118,334	118,420	131,477	453,770	112,776	141,901	139,616	157,421	551,713
Taxes on income		15,105	24,251	27,558	21,542	20,013	93,364	32,118	8,830	27,459	27,558	95,965	25,662	35,500	35,526	39,443	136,131	34,960	43,989	43,281	48,800	171,031
Net Income		275,174	70,184	79,493	83,782	71,944	305,403	85,955	37,889	66,939	72,484	263,267	59,878	82,834	82,894	92,034	317,639	77,815	97,912	96,335	108,620	380,682
Income from unconsolidated Affiliates		70,757	1573	334	896	-236	2,567	(1,683)	464	(355)	450	(1,124)	-	-	-	-	-	-	-	-	-	-
GAAP Net Income		345,931	71,757	79,827	84,678	71,708	307,970	48,156	38,353	66,584	72,934	226,027	59,878	82,834	82,894	92,034	317,639	77,815	97,912	96,335	108,620	380,682
GAAP EPS		2.93	0.61	0.68	0.72	0.61	2.61	0.41	0.30	0.50	0.55	1.76	0.45	0.62	0.62	0.68	2.37	0.57	0.72	0.70	0.78	2.78
Gain from sale of discontinued Ops		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loss(Income) from non-controlling interests		1,445	465	189	123	138	915	153	164	185	62	564	125	125	125	125	500	300	300	300	300	1,200
Net Income attributable to QTHI		347,376	72,222	80,016	84,801	71,846	308,885	48,309	38,517	66,769	72,996	269,591	60,003	82,959	83,019	92,159	318,139	78,115	98,212	96,635	108,920	381,882
Non GAAP Net Income		309,966	85,593	80,016	84,801	83,420	333,830	58,650	62,761	71,938	76,457	269,806	62,278	85,234	85,294	94,434	327,239	78,115	98,212	96,635	108,920	381,882
Restructuring Expense		22,116	(310)	12,263	(434)	7,222	18,741	1,859	2,837	7,201	2,174	14,071	3,250	3,250	3,250	3,250	13,000	100	100	100	100	400
Management Fee		5,213	1,306	1,334	1,335	1,334	5,309	1,351	26,351	-	-	27,694	-	-	-	-	-	-	-	-	-	-
Loss on extinguishment of Debt		46,377	-	-	-	-	1,275	-	16,543	-	3,288	19,379	-	-	-	-	-	-	-	-	-	-
Tax Impact		(87,063)	(5,539)	(4,928)	(358)	(8,061)	(18,886.0)	-	(17,088)	(2,032)	(2,001)	(975)	(975)	(975)	(975)	(975)	(3,900)	(31)	(31)	(31)	(31)	(124)
Other income tax adjustments		-	-	-	-	-	-	7,301														

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Notes: The boxes on the Rating and Price Target History chart above indicate the date of the Research Note, the rating, and the price target. Each box represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first Note written during the past three years.

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I: Initiating Coverage
R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

Distribution of Ratings/IB Services Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	351	59.59	76	21.65
HOLD [N]	218	37.01	20	9.17
SELL [UW]	20	3.40	0	0.00

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Analyst Certification — Sean W. Wieland, Sr Research Analyst

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