

# Quintiles Transnational Holdings Inc.

## First Look at Strong Fourth-Quarter Results; 2014 Guidance Above Expectations

### Conclusion

- Quintiles reported better-than-expected fourth-quarter results on Thursday morning, February 13, with non-GAAP earnings per share of \$0.58 (up 39% from a year ago) coming in \$0.05 above our target and \$0.03 above consensus. Fourth-quarter results were driven by better-than-expected revenue relative to our model as well as lower interest expense. Management also introduced 2014 guidance for revenue between \$4.09 billion and \$4.15 billion (compared with our estimate of \$4.03 billion and consensus of \$4.10 billion) and an EPS range of \$2.33 to \$2.46 (up 11%-17% compared with our estimate of \$2.33 and consensus of \$2.32). Net bookings were also strong with a 1.29 book-to-bill ratio versus our 1.25 target. We expect to increase our 2014 EPS target by \$0.06-\$0.07 following today's 7:00 a.m. CT conference call. We are encouraged by another quarter of strong results and guidance and, given the relative valuation discount compared with its late-stage peers, we reiterate our Outperform rating on Quintiles.

### Key Points

- Strong revenue.** Revenue of \$1.0 billion was \$35.1 million above our expectations (2.5 cent tailwind), with product development coming in \$37 million below our estimate and IHS revenue coming in \$2 million below our target. Product development was up 10.2% versus our 5.0% target, while IHS declined 5.7% versus our 5.0% decline target. We will listen for more detail on the contribution of the recently acquired Novella on today's call.
- Margin improvement was below our expectations.** Operating margin of 12.9% was 44 basis points (2.5 cent headwind) below our model, although up 80 basis points from a year ago. Gross margin came in 72 basis points above our target, but was more than offset by an SG&A ratio that was 109 basis points above our model. Product development operating margin of 19.7% was above our 18.9% estimate, while IHS was 60 basis points below our 5.7% target. Corporate expenses were a surprising \$12 million above our estimate.
- Bookings drive guidance.** Quarterly bookings of \$1.3 billion yielded an impressive 1.29 book-to-bill ratio. This was \$89 million above our target (we had forecast a book-to-bill of 1.25). Backlog ended the year at \$9.9 billion, up roughly 14% from a year ago and would appear to support high-single-digit revenue growth for the coming year. We believe this performance, along with Parexel (PRXL \$50.68; Market Perform) and Covance (CVD \$101.12; Outperform) results, suggests the environment for late-stage outsourcing remains robust and should bode well for ICON's (ICLR \$44.09; Outperform) results later this month. Interestingly, IHS bookings were strong for the second consecutive quarter at 1.47 book-to-bill, suggesting that segment is also positioned for growth in 2014.

*Quintiles is the largest pharmaceutical outsourcing company in the world, with an annual revenue base approaching \$4 billion. Founded in 1982, the company is now a leader in both outsourced drug development and commercialization services. It operates in 100 countries, employs roughly 27,000 employees, and has generated double-digit revenue and EBITDA growth, on average, over the past decade.*

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February 13, 2014

Stock Rating: **Outperform**  
Company Profile: **Established Growth**

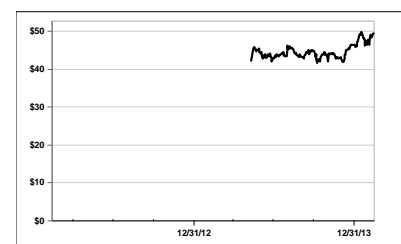
Symbol: Q (NYSE)  
Price: \$49.44 (52-Wk.: \$40-\$52)  
Market Value (mil.): \$6,374  
Fiscal Year End: December  
Long-Term EPS Growth Rate: 12%  
Dividend/Yield: None

	2012A	2013E	2014E
<b>Estimates</b>			
EPS FY	\$1.77	\$2.05	\$2.33
CY		\$2.05	\$2.33
<b>Valuation</b>			
FY P/E	27.9x	24.1x	21.2x
CY P/E		24.1x	21.2x

<b>Trading Data (FactSet)</b>	
Shares Outstanding (mil.)	129
Float (mil.)	42
Average Daily Volume	472,004

<b>Financial Data (FactSet)</b>	
Long-Term Debt/Total Capital (MRQ)	0.0
Book Value Per Share (MRQ)	-5.5
Enterprise Value (mil.)	8,021.8
EBITDA (TTM)	0.0
Enterprise Value/EBITDA (TTM)	0.0x
Return on Equity (TTM)	0.0

### Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

## Valuation and Stock Thoughts

- As of Wednesday's close, Quintiles trades at 21.2 times our current 2014 EPS estimate of \$2.33 (which will likely increase by at least \$0.06), compared with its peer group of 22.6 times (24.1 times excluding Charles River [CRL \$57.58; Market Perform]). Given the strong results this quarter and better-than-expected guidance, we expect the stock to react favorably. We maintain our Outperform rating on Quintiles as we believe that its industry-leading position should allow for more-predictable revenue and better visibility to double-digit earnings growth potential relative to its peers. Please see exhibits 1 through 3 for additional detail regarding quarterly results.

### Exhibit 1. Initial 2014 Guidance Relative to William Blair Estimates and Consensus

	2014 Guidance	Previous 2014 Estimates	
	Current	WB	Consensus
Revenue Growth (constant currency)	7.4% to 9.0%	6.8%	7.6%
EPS	\$2.33 to \$2.46	\$2.33	\$2.32
Growth	11.0% to 17.1%	11.0%	10.5%

Sources: Company reports, FactSet, and William Blair & Company, L.L.C. estimates

### Exhibit 2. Fourth-Quarter EPS Performance Relative to William Blair Estimates

Revenues	\$ 0.025
Gross Profit	\$ 0.040
SG&A	\$ (0.059)
D&A	\$ (0.004)
Interest & Other	\$ 0.038
Taxes	\$ (0.000)
Equity in affiliate	\$ 0.005
Share Count	\$ 0.003
<b>Total</b>	<b>\$ 0.048</b>

Sources: Company reports and William Blair & Company, L.L.C. estimates

### Exhibit 3. Fourth Quarter 2013 Variance Analysis

February 13, 2014	<b>4Q 2013 (Actual)</b>	<b>4Q 2012 (Actual)</b>	<b>Year/Year % Change</b>	<b>4Q 2013 (Estimate)</b>	<b>Year/Year % Change</b>	<b>Act.-Est. Difference</b>
Total Net Revenue	1,003.9	945.8	6.1%	\$968.8	2.4%	\$35.1
Direct Costs	642.0	628.5	2.1%	626.5	-0.3%	\$15.5
Selling, general, and administrative (incl options)	202.2	176.1	14.9%	184.6	4.9%	\$17.6
Total operating expenses	844	804.6	4.9%	811.1	0.8%	\$33.1
EBITDA	159.740	141.3	13.1%	157.7	11.6%	\$2.0
D&A	30.6	26.6	14.9%	28.8	8.3%	\$1.8
Operating income (incl options)	129.186	114.7	12.7%	128.9	12.4%	\$0.3
Interest and other income (net)	(23.68)	(38.1)	-37.8%	(30.8)	-19.2%	\$7.1
Earnings before tax	105.5	76.6	37.8%	98.1	28.2%	\$7.4
Income taxes	29.559	28.1	5.2%	27.5	-2.2%	\$2.1
Equity investee earnings	(0.5)	(0.2)		0.4	-280.0%	(\$0.8)
Net loss attributable to noncontrolling interests	0.1	0.1		0.2		
<b>Net income (excl. extraord., incl. options)</b>	<b>\$76.457</b>	<b>\$48.8</b>	<b>56.8%</b>	<b>70.4</b>	<b>44.4%</b>	<b>\$6</b>
Extraordinary item	(3.52)	(\$13.3)		(\$5.2)	-60.9%	2
Net income (incl. extraord. and options)	<b>\$72.934</b>	<b>\$35.5</b>	<b>105.7%</b>	<b>\$65.2</b>	<b>83.9%</b>	<b>\$8</b>
<b>Net loss attributable to noncontrolling interes</b>	<b>0.00</b>	<b>(0.10)</b>		(0.02)	-80.0%	<b>\$0</b>
<b>Net Income Attributable to Quintiles</b>	<b>72.934</b>	<b>35.4</b>	<b>106.3%</b>	<b>65.2</b>	<b>84.4%</b>	<b>\$8</b>
Shares outstanding	132.9	117.8	12.8%	133.5	13.3%	(1)
<b>EPS (excl. extraord., incl. options)</b>	<b>\$0.58</b>	<b>\$0.41</b>	<b>39.1%</b>	<b>\$0.53</b>	<b>27.4%</b>	<b>\$0.05</b>
EPS (incl. extraord. and options)	\$0.55	\$0.30	82.4%	\$0.49	62.3%	\$0.06
% of Net Revenue:			<u>Change</u>		<u>Difference</u>	
Direct costs	63.9	66.5	(2.51)	64.7	(1.78)	(0.72)
Gross profit	36.1	33.5	2.51	35.3	1.78	0.72
Selling, general and administrative	20.1	18.6	1.53	19.1	0.44	1.09
EBITDA	15.9	14.9	0.98	16.3	1.34	(0.37)
Depreciation and amortization	3.0	2.8	0.23	3.0	0.16	0.07
Operating income	12.9	12.1	0.75	13.3	1.18	(0.44)
Net income	7.6	5.2	2.46	7.3	2.11	0.35
Effective tax rate (incl options)	28.0	36.7	(8.69)	28.0	(8.70)	0.00
<b>Segment Data</b>						
<b>Product Development:</b>						
Revenue	775.0	703.0	10.2%	738.2	5.0%	36.81
Operating Income (incl. options)	152.9	125.6	21.7%	139.7	11.2%	13
Operating Margin	19.7	17.9	1.9	18.9	0.8	0.8
<b>IHS:</b>						
Revenue	228.9	242.8	-5.7%	230.7	-5.0%	(2)
Operating Income	11.7	13.6	-13.9%	13.1	-3.7%	(1)
Operating Margin	5.1	5.6	(0.5)	5.7	(0.6)	(0.6)
<b>Corporate Expenses:</b>						
	35.4	24.5		23.9	-2.4%	12
<b>New Business Awards</b>						
Net New Business Awards	\$1,300	1,507.1	-13.7%	1,211.0	-19.6%	\$89
Net Book-to-Bill Ratio	1.29	1.59		1.25		

Sources: Company reports, FactSet, and William Blair & Company, L.L.C. estimates

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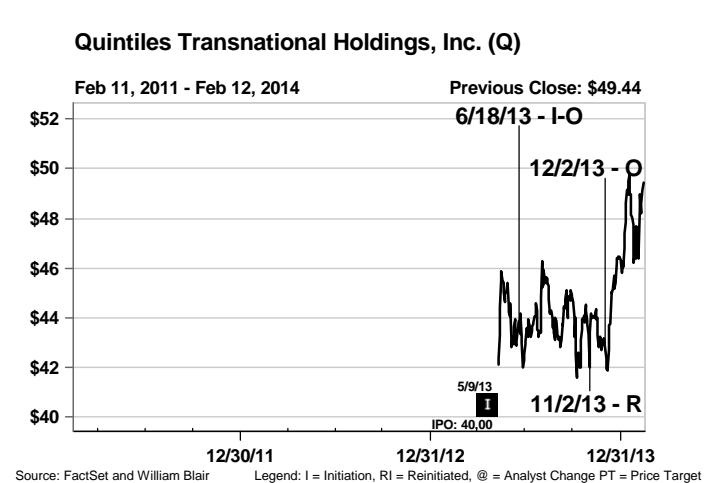
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DOW JONES: 15,963.94

S&P 500: 1,819.26

NASDAQ: 4,201.29



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Market Perform (Hold)	33	Market Perform (Hold)	2
Underperform (Sell)	1	Underperform (Sell)	0

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