



Rating
Hold

North America
United States

Health Care
Contract Research
Organizations

Company
**Quintiles
Transnational**

Reuters Bloomberg Exchange Ticker
Q.N Q US NYS Q

Date
14 February 2014

Forecast Change

Price at 13 Feb 2014	52.20
Price target	53.00
52-week range	52.20 - 0.00

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IHS Continues Bookings Strength

Billion Dollar Quarter

Quintiles reported Q4 results with revenue of \$1.0bn and EPS of \$0.58, ahead of consensus forecasts for \$982mm and \$0.55, respectively. PDEV revenue growth outpaced our expectations with strength across the customer base and a benefit from the Novella acquisition. Total book-to-bill of 1.29x was in-line with our forecast, but with a higher than expected contribution from IHS. Guidance for revenue growth of 7.4%-9.0% in 2014 was below our forecast for 10%, but EPS guidance of \$2.33-\$2.46 was ahead of our forecast for \$2.31 on stronger operating margin and a lower tax rate. We maintain our Hold on Q based on valuation, but view the quarter and bookings positively.

IHS Business

The IHS business continues to be bumpy, but the 2013 book-to-bill for the segment was 1.27x and management expects the segment to resume revenue growth in 2014. Quintiles also sees more opportunities to work with clients on mature products.

Revised Estimates

We have revised our estimates to reflect slightly slow revenue growth in 2014, with our new forecast for \$4.15bn reflecting 8.9% growth. Our revised 2014 EPS forecast for \$2.43 reflects better operating margins and a 7c benefit from a lower forecasted tax rate. Our revenue forecast for 2015 declines slightly as we bring down our forecast for net new business in PDEV in 2014, but offset by a higher forecast for IHS net new business. Our 2015 EPS forecast increases 13c to \$2.79, reflecting better operating margin and a lower tax rate.

Maintain Hold

We maintain our Hold rating on Quintiles, but continue to view Q as our most preferred CRO. We increase our price target to \$53 which is 19x our 2015 EPS estimate of \$2.79. We continue to have a negative view on CRO valuations and assign Quintiles a multiple in-line with the peer group median for 2014. The positive risks to our thesis include faster than expected IHS growth, stronger CRO pricing, and new client wins. The negative risks to our thesis are weaker IHS growth, slower outsourcing from PDEV clients, and client losses or contract revisions.

Forecasts And Ratios

Year End Dec 31	2013A	2014E	2015E
1Q EPS ¹	0.48	0.56	-
2Q EPS	0.50	0.60	-
3Q EPS	0.54	0.62	-
4Q EPS	0.58	0.65	-
FY EPS (USD)	2.09	2.43	2.79
OLD FY EPS (USD)	2.07	2.31	-
% Change	1.3%	5.3%	-
P/E (x)	20.9	21.5	18.7
Revenue (USDm)	3,808.3	4,148.7	4,510.0

Source: Deutsche Bank estimates, company data

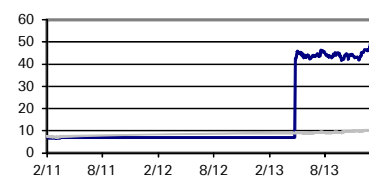
¹ Includes the impact of FAS123R requiring the expensing of stock options.

Key changes

Price target	51.00 to 53.00	↑	3.9%
EPS (USD)	2.31 to 2.43	↑	5.3%
Revenue (USDm)	4,169 to 4,149	↓	-0.5%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	6.2	17.6	664.3
S&P 500 INDEX	0.6	2.7	20.4

Source: Deutsche Bank

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Model updated: 13 February 2014

Running the numbers

North America

United States

Contract Research Organizations

Quintiles Transnational

Reuters: Q.N

Bloomberg: Q US

Hold

Price (13 Feb 14) USD 52.20

Target Price USD 53.00

52 Week range USD 0.00 - 52.20

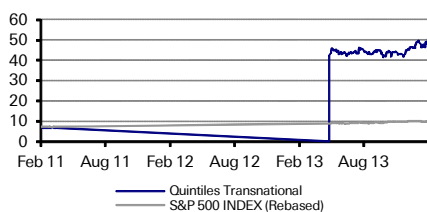
Market Cap (m) USDm 6,979

EURm 5,108

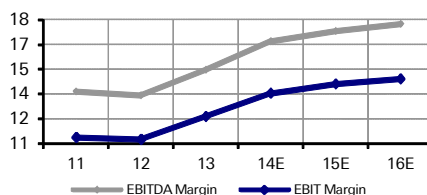
Company Profile

Quintiles is a contract research organization (CRO) and the largest provider of biopharmaceutical development and commercial outsourcing services. The Company has 27,000 employees in approximately 100 countries and has helped develop or commercialize all of the top 50 best selling drugs on the market.

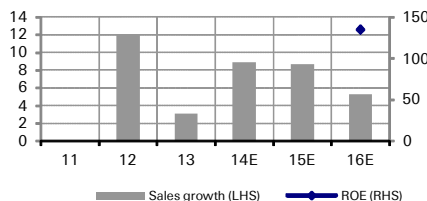
Price Performance



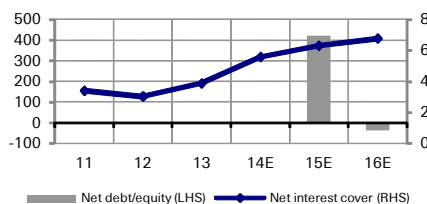
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (USD)	1.62	1.77	2.09	2.43	2.79	3.03
Reported EPS (USD)	2.05	1.51	1.77	2.43	2.81	3.04
DPS (USD)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (USD)	-8.23	-11.54	-5.22	-2.38	0.63	3.89

Valuation Metrics

Price/Sales (x)	0.2	0.2	1.5	1.7	1.5	1.5
P/E (DB) (x)	4.3	3.9	20.9	21.5	18.7	17.2
P/E (Reported) (x)	3.4	4.6	24.7	21.5	18.6	17.2
P/BV (x)	nm	nm	nm	nm	82.4	13.4
FCF yield (%)	10.4	32.2	5.5	5.8	7.2	7.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales	0.7	0.7	1.8	1.9	1.6	1.4
EV/EBITDA	5.0	5.3	11.9	11.2	9.3	8.0
EV/EBIT	6.3	6.6	14.7	13.8	11.4	9.8

Income Statement (USDm)

Sales	3,295	3,692	3,808	4,149	4,510	4,748
EBITDA	450	495	570	692	781	842
EBIT	358	396	462	562	637	684
Pre-tax profit	185	267	323	461	535	583
Net income	242	178	227	325	377	410

Cash Flow (USDm)

Cash flow from operations	161	336	397	504	608	662
Net Capex	-76	-71	-92	-100	-103	-105
Free cash flow	85	264	305	404	505	557
Equity raised/(bought back)	-13	-10	445	0	0	0
Dividends paid	-288	-568	0	0	0	0
Net inc/(dec) in borrowings	249	436	-386	-55	-22	-22
Other investing/financing cash flows	-163	-71	-153	0	0	0
Net cash flow	-130	51	210	349	484	535
Change in working capital	-83	12	60	24	61	65

Balance Sheet (USDm)

Cash and cash equivalents	516	568	778	1,127	1,611	2,146
Property, plant & equipment	186	194	200	215	224	226
Goodwill	278	302	410	410	410	410
Other assets	1,343	1,435	1,679	1,692	1,695	1,655
Total assets	2,323	2,499	3,067	3,443	3,940	4,437
Debt	1,972	2,422	2,046	1,991	1,970	1,948
Other liabilities	1,321	1,436	1,688	1,770	1,885	1,965
Total liabilities	3,293	3,858	3,734	3,762	3,855	3,913
Total shareholders' equity	-970	-1,359	-667	-318	85	524
Net debt	1,456	1,854	1,268	864	358	-198

Key Company Metrics

Sales growth (%)	nm	12.1	3.1	8.9	8.7	5.3
DB EPS growth (%)	na	9.5	18.0	16.0	14.9	8.5
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA Margin (%)	13.6	13.4	15.0	16.7	17.3	17.7
EBIT Margin (%)	10.9	10.7	12.1	13.5	14.1	14.4
ROE (%)	nm	nm	nm	nm	nm	134.7
Net debt/equity (%)	nm	nm	nm	nm	421.7	-37.9
Net interest cover (x)	3.4	3.0	3.9	5.6	6.3	6.8

DuPont Analysis

EBIT margin (%)	10.9	10.7	12.1	13.5	14.1	14.4
x Asset turnover (x)	1.4	1.5	1.4	1.3	1.2	1.1
x Financial cost ratio (x)	0.7	0.7	0.7	0.8	0.8	0.9
x Tax and other effects (x)	1.0	0.7	0.7	0.7	0.7	0.7
= ROA (post tax) (%)	10.4	7.4	8.1	10.0	10.2	9.8
x Financial leverage (x)	-2.4	-2.1	-2.7	-6.6	-31.7	13.8
= ROE (%)	-24.9	-15.2	-22.4	-65.9	-323.2	134.7
annual growth (%)	na	38.8	-46.7	-194.8	-390.4	na
x NTA/share (avg) (x)	-8.2	-9.9	-7.9	-3.7	-0.9	2.3
= Reported EPS	2.05	1.51	1.77	2.43	2.81	3.04
annual growth (%)	na	-26.5	17.6	37.1	15.5	8.4

Source: Company data, Deutsche Bank estimates



Figure 1: Q Q4 Results vs. DB Forecast

Quintiles Transnational Holdings Inc.						
4Q13 Results Variance Table						
	Q4-13F		Q4-12A	Growth		Comments
	Estimate	Actual		Est.	Act.	
PDEV revenue	714.3	775.0	703.0	1.6%	10.2%	
IHS revenue	270.7	228.9	242.8	11.5%	(5.7%)	
Net sales	985.0	1,003.9	945.8	4.2%	6.2%	
% change	4.2%	6.2%	0.1			
Cost of products sold	645.1	642.0	628.5	2.6%	2.1%	
% of revenue	65.5%	63.9%	0.7			
Gross profit	339.9	362.0	317.3	7.1%	14.1%	
Margin %	34.5%	36.1%	33.5%			
SG&A	209.9	232.8	215.6			
% of revenue	21.3%	23.2%	22.8%			
Adjusted income from operations	130.0	129.2	101.6	27.9%	27.1%	
EBIT Margin	13.2%	12.9%	10.7%			
Depreciation and amortization	27.8	30.6	25.6			
% of revenue	2.8%	3.0%	2.7%			
EBITDA	157.8	159.7	127.2	24.0%	25.6%	
EBITDA Margin	16.0%	15.9%	13.5%			
Income before income taxes and equity in earnings of affiliates	101.3	100.0	55.1			
Taxes	29.0	27.6	20.0			
<u>Tax rate</u>	28.6%	27.5%	36.3%			
Income before equity in earnings of unconsolidated affiliates	72.3	72.5	35.1			
Equity in earnings of unconsolidated affiliate	0.5	0.5	(0.2)			
Quintiles GAAP Net income	72.8	72.9	34.8			
Non-GAAP adjustments	0.4	3.5	13.5			
Quintiles non-GAAP Net Income	73.1	76.5	48.3	51.4%	58.2%	
GAAP EPS	\$ 0.55	\$ 0.55	\$ 0.30			
Non-GAAP EPS	\$ 0.55	\$ 0.58	\$ 0.41	34.0%	40.7%	
Weighted avg basic shares	129.2	129.2	116.2			
Weighted avg diluted shares	133.5	132.9	118.2			

Source: Deutsche Bank



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Quintiles Transnational	Q.N	52.20 (USD) 13 Feb 14	1,7,14

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies

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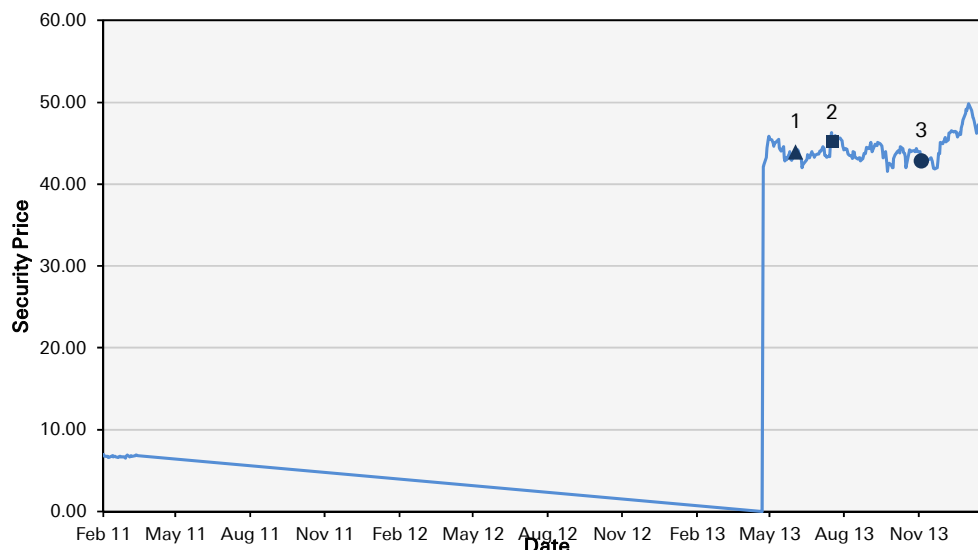
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Historical recommendations and target price: Quintiles Transnational (Q.N) (as of 2/13/2014)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

1. 06/18/2013:	Upgrade to Buy, Target Price Change USD51.00	3. 11/20/2013:	Downgrade to Hold, Target Price Change USD51.00
2. 08/02/2013:	Buy, Target Price Change USD51.50		

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

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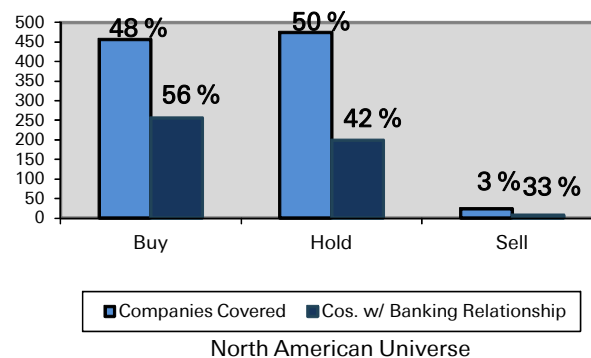
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Equity rating dispersion and banking relationships





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