

Quintiles Transnational Holdings Inc.:

Q: Bumping Estimates Modestly Higher on Strong IHS Bookings

KeyBanc Capital Markets Inc.
 Member NYSE/FINRA/SIPC

Donald Hooker, CFA: (917) 368- 2378 — donald.hooker@key.com
 John Gagliardi, CFA: (917) 368- 2372 — john.gagliardi@key.com

Rating	HOLD
Price	\$48.76
12- Mo. Price Target	NA
Dividend	\$0.00
Yield	0.0%
52- Wk. Range	\$40 - \$55
Trading Volume (000)	881
Market Cap. (mm)	\$6,485.1
Shares Out. (mm)	133.00
Book Value/Share	\$(5.65)

ACTION STATEMENT

We reiterate our HOLD rating on Quintiles Transnational Holdings Inc. (Q-NYSE) as the Company grows through the headwind of a large clinical project that is winding down and as the Company builds momentum at its integrated health services (IHS) segment. By our estimates, Quintiles currently trades at 10.8x our 2015 adjusted EBITDA estimate of \$718 million, which is a premium to the broader CRO space (average trading multiple of 9.4x).

Management downplayed concerns about the potential impact of heightened M&A activity among biopharmaceutical firms, indicating that its 1Q14 pipeline was slightly above the average of last calendar year.

ADJUSTED EPS CHANGES:

- 2014E: \$2.48 from \$2.39
- 2015E: \$2.67 from \$2.64

KEY INVESTMENT POINTS

Quintiles ended March with a healthy \$10.1 billion in backlog (KBCM: \$10.1 billion; consensus: \$10.0 billion) following strong 1Q14 bookings generation. Backlog conversion continued to slow to 40.8% in 1Q14 (down from 42.6% in 1Q13), reflecting the wind down of a large clinical project (~\$150 million in annual revenue). Nonetheless, this backlog should comfortably support mid/high single- digit services revenue growth for the next few years, by our models.

Net bookings ("net new business") of \$1.274 billion (book- to- bill: 1.27x) came in slightly ahead of consensus (\$1.190 billion).

Looking ahead, we are modestly raising our services revenue estimates in 2014 (to \$4.144 billion from \$4.119 billion) and in 2015 (to \$4.462 billion from \$4.437 billion) to reflect Quintiles's strong momentum at its IHS segment, as well as updated currency exchange rates. Note, management tweaked its full- year 2014 revenue guidance range higher to \$4.130 billion- \$4.190 billion (*midpoint: \$4.160 billion*) from \$4.12 billion- \$4.160 billion (*midpoint: \$4.130 billion*). This implies constant currency growth of 8.4- 10.0% (*midpoint: 9.0%*) from 7.4- 9.0% (*midpoint: 8.4%*). Excluding the mid- September acquisition of Novella, we estimate the midpoint of management's guidance implies organic, constant currency revenue growth of ~6.4%.

By our models, this translates to adjusted EPS of \$2.48 in 2014 (from \$2.39) and \$2.67 in 2015 (from \$2.64). We assume some limited margin expansion due to the ongoing shifting of staff to lower cost geographies and more proactive use of technology.

VALUATION

Quintiles's current trading price implies a ~10.8x multiple of our 2015 EBITDA estimate of \$718 million (consensus: \$740 million), which is a premium to the CRO peer group average (~9.4x) reflecting the Company's market share leadership in late stage clinical research. Notably, Quintiles completed its IPO in May 2013, so there is not a significant trading history (less than a year) for the stock.

RISKS

Quintiles operates in a competitive industry against other providers that have similar services. Also, the Company's ability to generate revenue and earnings growth is contingent on trends in global biopharmaceutical R&D spending and the propensity of biopharmaceutical firms to outsource R&D and sales activities to third parties.

Summary Financial Model Projections (Quintiles Transnational Holdings)

Figure 1: Projected GAAP and Non-GAAP Income Statements (Quintiles)

(in millions)	2012A	Fiscal Year End, December 2013				2013A	Fiscal Year End, December 2014				2014E	2015E
		Mar - A	Jun - A	Sept - A	Dec - A		Mar - A	Jun - E	Sept - E	Dec - E		
Net Services Revenue	3,692.3	927.4	944.2	932.7	1,003.9	3,808.3	1,005.3	1,027.0	1,042.5	1,068.8	4,143.5	4,462.1
Reimbursement Revenue	1,173.2	301.4	351.4	263.1	375.2	1,291.2	302.6	341.2	336.0	355.2	1,334.9	1,452.5
Total Revenues	\$4,865.5	\$1,228.8	\$1,295.7	\$1,195.8	\$1,379.2	\$5,099.5	\$1,307.8	\$1,368.3	\$1,378.4	\$1,423.9	\$5,478.4	\$5,914.5
Less Cost of Revenue:												
Direct Costs	(2,459.3)	(611.1)	(617.7)	(600.7)	(642.0)	(2,471.4)	(643.7)	(666.1)	(676.4)	(693.2)	(2,679.4)	(2,881.4)
Reimbursable Expenses	(1,173.2)	(301.4)	(351.4)	(263.1)	(375.2)	(1,291.2)	(302.6)	(341.2)	(336.0)	(355.2)	(1,334.9)	(1,452.5)
Gross Income	\$1,233.0	\$316.3	\$326.6	\$332.0	\$362.0	\$1,336.9	\$361.6	\$360.9	\$366.1	\$375.6	\$1,464.1	\$1,580.6
Gross Margin	25.3%	25.7%	25.2%	27.8%	26.2%	26.2%	27.6%	26.4%	26.6%	26.4%	26.7%	26.7%
less: Selling, General, and Admin	(817.9)	(199.3)	(228.8)	(199.6)	(232.8)	(860.5)	(219.2)	(227.6)	(230.4)	(235.7)	(912.9)	(982.4)
less: Restructurings	(18.7)	(1.9)	(2.8)	(7.2)	(2.2)	(14.1)	(1.0)	(3.3)	(3.3)	(3.3)	(10.8)	-
Operating Income	\$396.4	\$115.2	\$94.9	\$125.3	\$127.0	\$462.3	\$141.3	\$130.1	\$132.4	\$136.6	\$540.4	\$598.2
plus: Interest Income	3.1	0.5	0.8	1.1	1.6	3.9	1.3	1.2	1.3	1.6	5.4	8.0
less: Interest Expense	(134.4)	(36.0)	(31.9)	(28.8)	(26.8)	(123.5)	(24.7)	(24.7)	(24.7)	(24.7)	(98.8)	(98.9)
Plus: Other Income (Expense)	2.3	2.4	(17.1)	(3.2)	(1.7)	(19.6)	4.8	-	-	-	4.8	-
Pretax Income	267.4	82.0	46.7	94.4	100.0	323.1	122.7	106.6	109.1	113.5	451.8	507.4
less: Provision for Taxes	(93.4)	(32.1)	(8.8)	(27.5)	(27.6)	(96.0)	(37.4)	(32.0)	(32.7)	(34.0)	(136.1)	(152.2)
Net Income Attributable to Quintiles	\$177.5	\$48.3	\$38.5	\$66.8	\$73.0	\$226.6	\$90.2	\$74.8	\$76.5	\$79.6	\$321.1	\$356.0
Diluted EPS (GAAP)	\$1.51	\$0.41	\$0.30	\$0.50	\$0.55	\$1.77	\$0.68	\$0.56	\$0.58	\$0.60	\$2.41	\$2.68
Diluted share count	117.8	118.7	126.6	133.3	132.9	127.9	133.0	133.0	133.0	133.0	133.0	133.0
Adjusted Service Revenue	\$3,692.3	\$927.4	\$944.2	\$932.7	\$1,003.9	\$3,808.3	\$1,005.3	\$1,027.0	\$1,042.5	\$1,068.8	\$4,143.5	\$4,462.1
= Adjusted EBITDA	\$543.6	\$143.0	\$149.1	\$159.8	\$159.7	\$611.6	\$171.4	\$163.8	\$166.6	\$171.5	\$673.3	\$718.4
Adjusted EBITDA margin	14.7%	15.4%	15.8%	17.1%	15.9%	16.1%	17.1%	15.9%	16.0%	16.0%	16.2%	16.1%
= Adjusted Earnings Per Share	\$1.77	\$0.49	\$0.50	\$0.54	\$0.58	\$2.10	\$0.68	\$0.58	\$0.60	\$0.62	\$2.48	\$2.67
Year-Over-Year Growth (%)	9.5%	9.5%	4.7%	20.8%	40.9%	18.6%	40.9%	17.2%	10.4%	7.6%	18.0%	7.8%

Source: Company reports

KeyBanc Capital Markets Inc. Disclosures and Certifications

Quintiles Transnational Holdings Inc. - Q

We expect to receive or intend to seek compensation for investment banking services from Quintiles Transnational Holdings Inc. within the next three months.

As of the date of this report, we make a market in Quintiles Transnational Holdings Inc..

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Three- Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector									
KeyBanc Capital Markets					HEALTHCARE				
Rating	Count	Percent	IB Serv/Past 12 Mos.		Rating	Count	Percent	IB Serv/Past 12 Mos.	
			Count	Percent				Count	Percent
BUY [BUY]	247	44.91	51	20.65	BUY [BUY]	12	42.86	0	0.00
HOLD [HOLD]	292	53.09	59	20.21	HOLD [HOLD]	15	53.57	1	6.67
SELL [UND]	11	2.00	4	36.36	SELL [UND]	1	3.57	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

HOLD - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

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