

Quintiles Transnational Holdings, Inc. (Q)

EARNINGS

Rating OUTPERFORM* [V] Price (30 Apr 14, US\$) 47.13 Target price (US\$) 60.00¹ 52-week price range 54.94 - 41.58 Market cap. (US\$ m) 6,128.58 Enterprise value (US\$ m) 7,075.89

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

[V] = Stock considered volatile (see Disclosure Appendix).

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Solid Operating Beat & Raise Highlights Strong Underlying Fundamentals

Bottom Line: Q reported adjusted 1Q14 EPS of \$0.68 vs. FactSet consensus of \$0.55, with revenues & margins above our forecasts. While results were clearly strong, we note the quarter benefitted \$0.04 from nonoperating items (unrealized gains in NovaQuest Pharma Opportunities Fund) as well as better other income (gain from sale of marketable securities). Management increased its F14 guidance, increasing the revenue growth guidance by 1% and EPS guidance \$0.12 at the midpoint to \$2.45-\$2.58 (vs. FactSet consensus of \$2.42). The company reported a very healthy core CRO net book-to-bill of 1.30, along with a third straight quarter of solid Integrated Healthcare Services bookings to yield a consolidated book-to-bill of 1.27. We acknowledge that FX continues to be a tailwind to operating income, however we are impressed that even stripping out FX the company continues to drive margin expansion from its industry-leading profitability levels. We believe the strong underlying momentum, growing beat & raise track record, and diverse customer base should be viewed positively by investors. However we acknowledge that ongoing overhangs from announced & potential M&A amongst biopharmaceutical sponsors has dominated investor attention, often overshadowing quarterly results & 2014 guidance. Management tone and comments on this morning's 8AM ET conference call, particularly as it relates to exposure to potential M&A will likely impact the direction of today's trading.



On 04/30/14 the S&P 500 INDEX closed at 1883.95

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.49	0.50	0.54	0.58
2014E	0.54	0.58	0.62	0.67
2015E	0.63	0.66	0.70	0.74

Financial and valuation metrics				
Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	2.10	2.41	2.73	3.08
Prev. EPS (US\$)	_	_	_	_
P/E (x)	22.4	19.5	17.2	15.3
P/E rel. (%)	130.5	122.5	120.8	119.3
Revenue (US\$ m)	3,808.3	4,119.4	4,476.2	4,857.5
EBITDA (US\$ m)	611.6	675.8	740.6	811.9
OCFPS (US\$)	3.01	3.11	3.29	3.78
P/OCF (x)	15.4	15.2	14.3	12.5
EV/EBITDA (current)	12.1	10.5	9.1	7.8
Net debt (US\$ m)	1,265	947	612	217
ROIC (%)	59.08	61.62	61.74	63.07
Number of shares (m)	130.04	IC (current, US\$ m)		597.68
BV/share (Next Qtr., US\$)	_	EV/IC (x)		_
Net debt (Next Qtr., US\$ m)	_	Dividend (current, US\$)		_
Net debt/tot cap (Next Qtr., %)	_	Dividend yield (%)		_
Source: Company data, Credit Suisse estimates.				

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¹Target price is for 12 months.



Other Considerations

- Raises F14 Revenue & EPS Guidance: Following the strong quarterly results, the company raised its F14 revenue & EPS targets. Management now anticipates FY service revenues of \$4.13B-\$4.19B, a \$40M or 1% increase. Additionally, Q raised FY14 EPS guidance to \$2.45-\$2.58 from \$2.33-\$2.46 previously, implying growth of ~17-23% y/y. We would note this continues to embed a 30% tax rate. We will look to this morning's conference call for greater color on embedded assumptions and progression throughout the remainder of the year.
- **Details on the Quarter:** Q's adjusted EPS was \$0.68 vs. consensus of \$0.55, driven by constant currency revenue growth of 8.4% also nicely ahead of expectations. Growth was paced by Product Development (PD), which posted healthy cc revenue growth of 8.6% (aided by the Novella acquisition and partially offset by the conclusion of a large clinical project). Reported adjusted operating margin for the segment expanded 206 bps, and would have still expanded nicely even stripping out FX tailwinds. Encouragingly, net new business trends remained strong, with new business wins of \$1.005B translating into a book-to-bill ratio of 1.30 in 1Q14, highlighting the company's strong competitive positioning and the health of its end markets. Integrated Healthcare Services results remain somewhat challenged by FX, but revenues have begun to turn around with cc revenues up 7.9% y/y and a solid book-to-bill of 1.15. Consolidated operating margins of 14.2% expanded 140 bps y/y although this includes a 110 bps FX tailwind.



Companies Mentioned (Price as of 30-Apr-2014)

Quintiles Transnational Holdings, Inc. (Q.N, \$47.13, OUTPERFORM[V], TP \$60.0)

Disclosure Appendix

Important Global Disclosures

I, Jeffrey Bailin, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Quintiles Transnational Holdings, Inc. (Q.N)

Q.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
23-Sep-13	44.86	52.00	0 *
13-Feb-14	52.20	60.00	

^{*} Asterisk signifies initiation or assumption of coverage.



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Price Target: (12 months) for Quintiles Transnational Holdings, Inc. (Q.N)

Method: Our \$60 target price for Q is based on an equal weighting of two valuation methodologies. Our price to earnings valuation yields a price of around \$60, applying a roughly 22x multiple on our C15 EPS estimate of \$2.73. Our EV/EBITDA analysis yields a price of around \$60, applying a roughly 12x multiple on our C15 EBITDA estimate of \$740.6M. A blend of these two valuation methodologies yields our target price of \$60. We believe that a multiple in line with leading clinical peers is consistent with the company's market-leading scale and scope of clinical services. In valuing the contract research organizations (CROs) and Quintiles, we primarily utilize price-to-earnings (P/E) and EV/EBITDA multiples to assess the risk/reward profile of the individual stocks and the group as a whole since P/E and EV/EBITDA provide both a historical and relative perspective. We look at multiples relative to historical averages to ensure that the stocks are trading in-line with our assessment of how current fundamentals fit into historical context. P/E and EV/EBITDA relative to a benchmark or to other industry peers sheds light on competitive positioning and performance.

Risk:

Risks to Q's achievement of our \$60 target price are: 1) softer R&D trends; 2) already have peak margins; 3) controlled company status; and 4) balance sheet leverage. Softer R&D trends or any pricing pressure to the company's premium margins could lead to EPS growth lower than expectations. Additionally, Q has higher leverage compared to industry peers which could limit the company's ability to accretively deploy capital.

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