

Quintiles Transnational Holdings Inc.:

Q: Initiation of Coverage

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

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Rating	HOLD
Price	\$52.96
12- Mo. Price Target	NA
Dividend	\$0.00
Yield	0.0%
52- Wk. Range	\$40 - \$55
Trading Volume (000)	765
Market Cap. (mm)	\$7,043.7
Shares Out. (mm)	133.00
Book Value/Share	\$(5.65)

EPS (Net) Summary

FY Dec	2013A	2014E	2015E
1Q	\$0.49	\$0.58	\$0.64
2Q	\$0.50	\$0.59	\$0.65
3Q	\$0.54	\$0.60	\$0.67
4Q	\$0.58	\$0.61	\$0.68
YEAR	\$2.10	\$2.39	\$2.64
First Call	--	\$2.42E	\$2.74E
P/E	25.2x	22.2x	20.1x

ACTION STATEMENT

We are initiating coverage of Quintiles Transnational Holdings Inc. (Q-NYSE) with a HOLD rating with the stock trading at ~11.3x our 2015 EBITDA estimate of ~\$727 million (consensus \$741 million).

For more detailed discussion and analysis, refer to our full investment report "Initiation of Coverage of Biopharmaceutical Services" (dated March 19, 2014).

KEY INVESTMENT POINTS

We view Quintiles as unique in the biopharmaceutical services space due to its sheer size and scale with net services revenues of ~\$3.8 billion and a staff of ~28,000. By our models, Quintiles is the leader in late- stage (Phases II- IV) clinical trials (~15% market share), the largest contract sales organization (CSO; ~20%), and the second largest central laboratory (~15%). Also, we consider Quintiles a pioneer among its peer group with respect to the use of informatics (data). Together, Quintiles's breadth of late-stage and data capabilities position it well to win strategic partnerships with the global biopharmaceutical industry.

However, the Quintiles investment story may take some time to fully play out. We assume Quintiles generating consolidated net new business (net bookings) growth of ~7% in 2014 and 2015, which is modestly below that of some of its trading comparables. Quintiles's own CRO should comfortably grow at the high end of its peer group (over ~8% in 2015), particularly with the Company's leadership in the rapidly growing Asia-Pacific region. However, we expect this growth may be diluted by the slower growing integrated health services (e.g., the CSO). These businesses are highly strategic; however, it may take some time for them to fully evolve and become consistently accretive to consolidated growth.

We expect a slow but steady acceleration of growth at Quintiles's CSO, driven by a growing number of approved drugs and mandated health insurance in the United States. Quintiles should be well positioned here because we believe many biopharmaceutical firms have downsized their in- house sales staff and the use of CSOs remains low (we estimate 15%). Finally, we think CSO may grow in strategic importance over time. With the rise of value- based reimbursement, drug developers may want to better understand the commercial potential of a prospective drug by getting feedback from opinion leaders earlier in the development process (i.e., in Phase II).

Quintiles is the most forward- looking CRO with its use of data, which could translate to a competitive advantage and unique growth opportunities over time. Quintiles's software reduces the time and costs of drug research by means of more adaptive clinical trials, risk- based monitoring and predictive modeling. Notably, Quintiles also provides data services to providers and payers to help them analyze the economics and comparative effectiveness of different therapies. This business creates unique revenue channels outside the traditional biopharmaceutical space. However, it may take time to evolve and overcome channel conflicts with biopharmaceutical customers.

Quintiles has one of the most indebted balance sheets in the CRO space with ~\$1.4 billion of net debt at year- end 2013 (~2.2x EBITDA). However, with ample backlog (~\$9.8 billion) and strong free cash flow generation, we see little reason for concern here.

VALUATION

Quintiles's current trading price implies a ~11.3x multiple of our 2015 EBITDA estimate of \$727 million (consensus: \$741 million). This is a modest premium to the CRO peer group average (~11.0x), which may reflect an attractive long- term value proposition. In the near term we are watching for improving performance at Quintiles's non- CRO businesses. As a final note, 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 highly competitive industry against other CROs and providers that offer 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.

Revenue Summary

	2013A	Prior 2013A	2014E	Prior 2014E	2015E	Prior 2015E
1Q	\$1,229.0	--	\$1,351.0	--	\$1,457.0	--
2Q	\$1,296.0	--	\$1,372.0	--	\$1,477.0	--
3Q	\$1,196.0	--	\$1,381.0	--	\$1,494.0	--
4Q	\$1,379.0	--	\$1,418.0	--	\$1,522.0	--
YEAR	\$6,000.0	--	\$5,520.0	--	\$5,949.0	--

Source: KeyBanc Capital Markets Inc. estimates

Detailed 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 - E	Jun - E	Sept - E	Dec - E		
Net Services Revenue	3,692.3	927.4	944.2	932.7	1,003.9	3,808.3	1,009.1	1,022.6	1,035.0	1,052.6	4,119.4	4,436.7
Reimbursement Revenue	1,173.2	301.4	351.4	263.1	375.2	1,291.2	341.3	349.3	345.6	365.1	1,401.4	1,512.1
Total Revenues	\$4,865.5	\$1,228.8	\$1,295.7	\$1,195.8	\$1,379.2	\$5,099.5	\$1,350.5	\$1,371.9	\$1,380.7	\$1,417.8	\$5,520.8	\$5,948.8
Less Cost of Revenue:												
Direct Costs	(2,459.3)	(611.1)	(617.7)	(600.7)	(642.0)	(2,471.4)	(653.2)	(661.5)	(669.4)	(680.5)	(2,664.6)	(2,863.7)
Reimbursable Expenses	(1,173.2)	(301.4)	(351.4)	(263.1)	(375.2)	(1,291.2)	(341.3)	(349.3)	(345.6)	(365.1)	(1,401.4)	(1,512.1)
Gross Income	\$1,233.0	\$316.3	\$326.6	\$332.0	\$362.0	\$1,336.9	\$355.9	\$361.1	\$365.7	\$372.1	\$1,454.8	\$1,573.0
<i>Gross Margin</i>	25.3%	25.7%	25.2%	27.8%	26.2%	26.2%	26.4%	26.3%	26.5%	26.2%	26.4%	26.4%
less: Selling, General, and Admin	(817.9)	(199.3)	(228.8)	(199.6)	(232.8)	(860.5)	(222.7)	(225.8)	(228.6)	(232.6)	(909.7)	(981.5)
less: Restructurings	(18.7)	(1.9)	(2.8)	(7.2)	(2.2)	(14.1)	(3.3)	(3.3)	(3.3)	(3.3)	(13.0)	-
Operating Income	\$396.4	\$115.2	\$94.9	\$125.3	\$127.0	\$462.3	\$130.0	\$132.0	\$133.8	\$136.3	\$532.1	\$591.5
plus: Interest Income	3.1	0.5	0.8	1.1	1.6	3.9	2.0	2.2	2.3	2.5	9.1	12.8
less: Interest Expense	(134.4)	(36.0)	(31.9)	(28.8)	(26.8)	(123.5)	(25.1)	(25.1)	(25.1)	(25.1)	(100.3)	(100.3)
Plus: Other Income (Expense)	2.3	2.4	(17.1)	(3.2)	(1.7)	(19.6)	-	-	-	-	-	-
Pretax Income	267.4	82.0	46.7	94.4	100.0	323.1	106.9	109.2	111.0	113.8	440.9	504.1
less: Provision for Taxes	(93.4)	(32.1)	(8.8)	(27.5)	(27.6)	(96.0)	(32.1)	(32.8)	(33.3)	(34.1)	(132.3)	(151.2)
Net Income Attributable to Quintiles	\$177.5	\$48.3	\$38.5	\$66.8	\$73.0	\$226.6	\$75.0	\$76.6	\$77.9	\$79.8	\$309.4	\$353.7
Diluted EPS (GAAP)	\$1.51	\$0.41	\$0.30	\$0.50	\$0.55	\$1.77	\$0.56	\$0.58	\$0.58	\$0.60	\$2.32	\$2.64
Diluted share count	117.8	118.7	126.6	133.3	132.9	127.9	133.0	133.1	133.3	133.4	133.2	133.8
Adjusted Service Revenue	\$3,692.3	\$927.4	\$944.2	\$932.7	\$1,003.9	\$3,808.3	\$1,009.1	\$1,022.6	\$1,035.0	\$1,052.6	\$4,119.4	\$4,436.7
= Adjusted EBITDA	\$543.6	\$143.0	\$149.1	\$159.8	\$159.7	\$611.6	\$163.9	\$166.4	\$168.6	\$171.6	\$670.5	\$726.5
<i>Adjusted EBITDA margin</i>	14.7%	15.4%	15.8%	17.1%	15.9%	16.1%	16.2%	16.3%	16.3%	16.3%	16.3%	16.4%
= Adjusted Earnings Per Share	\$1.77	\$0.49	\$0.50	\$0.54	\$0.58	\$2.10	\$0.58	\$0.59	\$0.60	\$0.61	\$2.39	\$2.64
<i>Year-Over-Year Growth (%)</i>	9.5%	9.5%	4.7%	20.8%	40.9%	18.6%	19.7%	19.1%	11.4%	6.9%	13.6%	10.5%

Source: Company reports

Figure 2: Projected Segment Outlook (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 - E	Jun - E	Sept - E	Dec - E		
SERVICE REVENUES												
Product Development	2,728.7	706.3	724.2	714.2	775.0	2,919.7	776.9	789.3	800.0	814.5	3,180.8	3,451.1
Integrated Healthcare Services	963.6	221.1	220.1	218.5	228.9	888.6	232.2	233.3	235.1	238.1	938.6	985.6
Total Service Revenue	\$3,692.3	\$927.4	\$944.2	\$932.7	\$1,003.9	\$3,808.3	\$1,009.1	\$1,022.6	\$1,035.0	\$1,052.6	\$4,119.4	\$4,436.7
<i>Less: Cost of Revenue</i>												
Product Development	(1,683.3)	(429.0)	(441.9)	(426.1)	(455.8)	(1,752.8)	(465.4)	(472.8)	(479.2)	(487.9)	(1,905.3)	(2,066.5)
Integrated Healthcare Services	(776.0)	(182.1)	(175.8)	(174.6)	(186.2)	(718.6)	(187.8)	(188.7)	(190.2)	(192.6)	(759.4)	(797.1)
Total Cost of Revenues	(2,459.3)	(611.1)	(617.7)	(600.7)	(642.0)	(2,471.4)	(653.2)	(661.5)	(669.4)	(680.5)	(2,664.6)	(2,863.7)
Gross Profit												
Product Development	1,045.4	277.3	282.3	288.2	319.2	1,166.9	311.6	316.5	320.8	326.6	1,275.5	1,384.6
Integrated Healthcare Services	187.6	39.0	44.3	43.9	42.8	170.0	44.3	44.6	44.9	45.5	179.3	188.4
Total Gross Profit	\$1,233.0	\$316.3	\$326.6	\$332.0	\$362.0	\$1,336.9	\$355.9	\$361.1	\$365.7	\$372.1	\$1,454.8	\$1,573.0
<i>Less: SG&A</i>												
Product Development	(567.5)	(144.6)	(146.2)	(147.5)	(166.3)	(604.7)	(157.7)	(160.2)	(162.4)	(165.4)	(645.7)	(700.6)
Integrated Healthcare Services	(127.1)	(32.8)	(31.8)	(32.2)	(31.1)	(127.9)	(30.6)	(30.8)	(31.0)	(31.4)	(123.9)	(130.1)
General corporate and unallocated expenses	(123.3)	(21.9)	(50.9)	(19.8)	(35.4)	(128.0)	(34.3)	(34.8)	(35.2)	(35.8)	(140.1)	(150.8)
Operating Profit												
Product Development (Pre Corporate)	477.9	132.7	136.1	140.6	152.9	562.3	153.8	156.3	158.4	161.3	629.8	684.0
Integrated Healthcare Services (Pre Corporate)	60.5	6.2	12.5	11.7	11.7	42.1	13.7	13.8	13.9	14.0	55.4	58.3
Consolidated Operating Profit (Pre Corporate)	\$538.4	\$138.9	\$148.6	\$152.3	\$164.6	\$604.4	\$167.5	\$170.1	\$172.3	\$175.3	\$685.2	\$742.4
General Corporate and Unallocated	(123.3)	(21.9)	(50.9)	(19.8)	(35.4)	(128.0)	(34.3)	(34.8)	(35.2)	(35.8)	(140.1)	(150.8)
Consolidated Operating Profit (Adjusted)	\$415.1	\$117.0	\$97.7	\$132.5	\$129.2	\$476.4	\$133.2	\$135.3	\$137.1	\$139.5	\$545.1	\$591.5
<i>Consolidated Operating Margin (Adjusted)</i>	11.2%	12.6%	10.4%	14.2%	12.9%	12.5%	13.2%	13.2%	13.2%	13.3%	13.2%	13.3%
Restructuring Costs, Impairment Charges	(18.7)	(1.9)	(2.8)	(7.2)	(2.2)	(14.1)	(3.3)	(3.3)	(3.3)	(3.3)	(13.0)	-
Consolidated Operating Profit (GAAP)	\$396.4	\$115.2	\$94.9	\$125.3	\$127.0	\$462.3	\$130.0	\$132.0	\$133.8	\$136.3	\$532.1	\$591.5
<i>Consolidated Operating Margin (GAAP)</i>	10.7%	12.4%	10.1%	13.4%	12.7%	12.1%	12.9%	12.9%	12.9%	12.9%	12.9%	13.3%

Source: Company reports

Figure 3: Projected Balance Sheets (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 - E	Jun - E	Sept - E	Dec - E		
Cash & Equivalents	567.7	454.3	585.7	609.7	778.1	778.1	874.1	897.7	998.3	1,102.3	1,102.3	1,559.0
Accounts Receivable, Net	745.4	779.3	867.2	895.3	924.2	924.2	929.0	981.7	993.6	1,010.5	1,010.5	1,088.4
Prepaid Expenses	33.4	41.3	48.6	42.1	42.8	42.8	43.0	45.0	45.5	46.3	46.3	49.9
Other Current Assets	163.5	164.6	172.3	170.0	200.5	200.5	201.6	188.2	190.4	193.7	193.7	208.6
Total Current Assets	\$1,510.0	\$1,439.5	\$1,673.9	\$1,717.2	\$1,945.7	\$1,945.7	\$2,047.7	\$2,112.6	\$2,228.0	\$2,352.8	\$2,352.8	\$2,905.9
Property and Equipment, Net	194.0	190.2	196.7	197.4	199.6	199.6	196.1	192.6	189.0	185.4	185.4	170.2
Investments	36.0	35.9	35.9	38.1	40.3	40.3	40.3	40.3	40.3	40.3	40.3	40.3
Unconsolidated affiliates	19.1	21.6	22.2	23.4	22.9	22.9	22.9	22.9	22.9	22.9	22.9	22.9
Other Assets	740.1	739.5	719.4	866.0	858.3	858.3	849.2	840.0	830.8	821.4	821.4	782.4
Total Assets	\$2,499.2	\$2,426.7	\$2,648.2	\$2,842.0	\$3,066.8	\$3,066.8	\$3,156.3	\$3,208.5	\$3,311.1	\$3,423.0	\$3,423.0	\$3,921.8
Current Portion of Debt Obligations	55.7	34.7	0.1	4.1	10.4	10.4	10.4	10.4	10.4	10.4	10.4	10.4
Accounts Payable and Accruals	751.8	671.4	708.6	758.6	861.8	861.8	866.3	818.1	828.0	842.1	842.1	907.0
Unearned Income	456.6	454.1	459.6	511.0	538.6	538.6	541.4	560.4	567.2	576.8	576.8	621.3
Other Liabilities	44.9	61.7	70.4	60.7	71.4	71.4	71.8	69.5	70.4	71.6	71.6	77.1
Total Current Liabilities	\$1,309.0	\$1,222.0	\$1,238.7	\$1,334.4	\$1,482.2	\$1,482.2	\$1,489.8	\$1,458.5	\$1,476.1	\$1,500.9	\$1,500.9	\$1,615.8
Long-Term Debt	2,366.3	2,354.8	2,045.1	2,042.0	2,035.6	2,035.6	2,035.6	2,035.6	2,035.6	2,035.6	2,035.6	2,035.6
Unearned Income	-	-	-	-	-	-	-	-	-	-	-	-
Other Liabilities	182.9	172.2	162.2	177.6	216.4	216.4	216.4	216.4	216.4	216.4	216.4	216.4
Shareholders Equity	(1,359.5)	(1,322.6)	(798.1)	(712.0)	(667.4)	(667.4)	(585.5)	(501.9)	(416.9)	(329.9)	(329.9)	54.0
Liabilities & Shareholders' Equity	\$2,499.2	\$2,426.7	\$2,648.2	\$2,842.0	\$3,066.8	\$3,066.8	\$3,156.3	\$3,208.5	\$3,311.1	\$3,423.0	\$3,423.0	\$3,921.8

Source: Company reports

Figure 4: Projected Cash Flow 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 - E	Jun - E	Sept - E	Dec - E		
Net Earnings	176.6	48.2	38.4	66.6	72.9	226.0	74.8	76.4	77.7	79.6	308.6	352.9
Depreciation & amortization	98.3	24.6	25.0	27.3	30.6	107.5	30.7	31.1	31.5	32.0	125.4	135.0
Changes in working capital	103.3	(109.0)	(51.6)	72.4	191.5	103.3	1.6	(72.7)	2.8	4.0	(64.3)	18.5
Other Non-Cash Items	(42.5)	14.7	15.1	10.3	(79.5)	(39.5)	9.1	9.2	9.2	9.4	36.8	39.1
Cash Flows from Operations	\$335.7	(\$21.5)	\$26.8	\$176.5	\$215.5	\$397.4	\$116.2	\$44.0	\$121.3	\$125.0	\$406.6	\$545.4
Capital expenditures	(71.3)	(31.5)	(32.8)	(13.7)	(14.4)	(92.3)	(27.2)	(27.6)	(27.9)	(28.4)	(111.2)	(119.8)
Divestitures (Acquisitions), net	(40.5)	0.7	0.4	(144.7)	0.7	(142.9)	-	-	-	-	-	-
Other	(20.4)	(5.4)	1.2	(2.3)	1.5	(4.9)	-	-	-	-	-	-
Cash Flows from Investing	(\$132.2)	(\$36.2)	(\$31.2)	(\$160.6)	(\$12.2)	(\$240.2)	(\$27.2)	(\$27.6)	(\$27.9)	(\$28.4)	(\$111.2)	(\$119.8)
Cash dividends	(567.9)	-	-	-	-	-	-	-	-	-	-	-
Change in debt	440.1	(34.3)	(350.5)	(1.0)	(1.8)	(387.7)	-	-	-	-	-	-
Change in capital stock	(9.4)	0.3	490.3	(0.5)	6.6	496.7	7.1	7.2	7.2	7.4	28.8	31.1
Other	(9.7)	-	-	-	(38.0)	(38.0)	-	-	-	-	-	-
Cash Flows from Financing	(\$146.9)	(\$34.0)	\$139.7	(\$1.5)	(\$33.3)	\$71.0	\$7.1	\$7.2	\$7.2	\$7.4	\$28.8	\$31.1
plus: Impact of exchange rates	(5.2)	(21.8)	(3.9)	9.6	(1.5)	(17.7)	-	-	-	-	-	-
Net Increase in Cash [Period]	\$51.4	(\$113.4)	\$131.4	\$24.0	\$168.4	\$210.4	\$96.0	\$23.6	\$100.6	\$104.0	\$324.2	\$456.7
Net increase in cash YTD	51.4	(113.4)	18.0	42.0	210.4	210.4	96.0	119.6	220.2	324.2	324.2	456.7
Cash and equivalents	567.7	454.3	585.7	609.7	778.1	778.1	874.1	897.7	998.3	1,102.3	1,102.3	1,559.0
Investments	36.0	35.9	35.9	38.1	40.3	40.3	40.3	40.3	40.3	40.3	40.3	40.3
Cash, Equivalents, & Investments	\$603.7	\$490.2	\$621.7	\$647.8	\$818.5	\$818.5	\$914.5	\$938.1	\$1,038.7	\$1,142.7	\$1,142.7	\$1,599.4

Source: Company reports

KeyBanc Capital Markets Inc. Disclosures and Certifications

Quintiles Transnational Holdings Inc. - Q

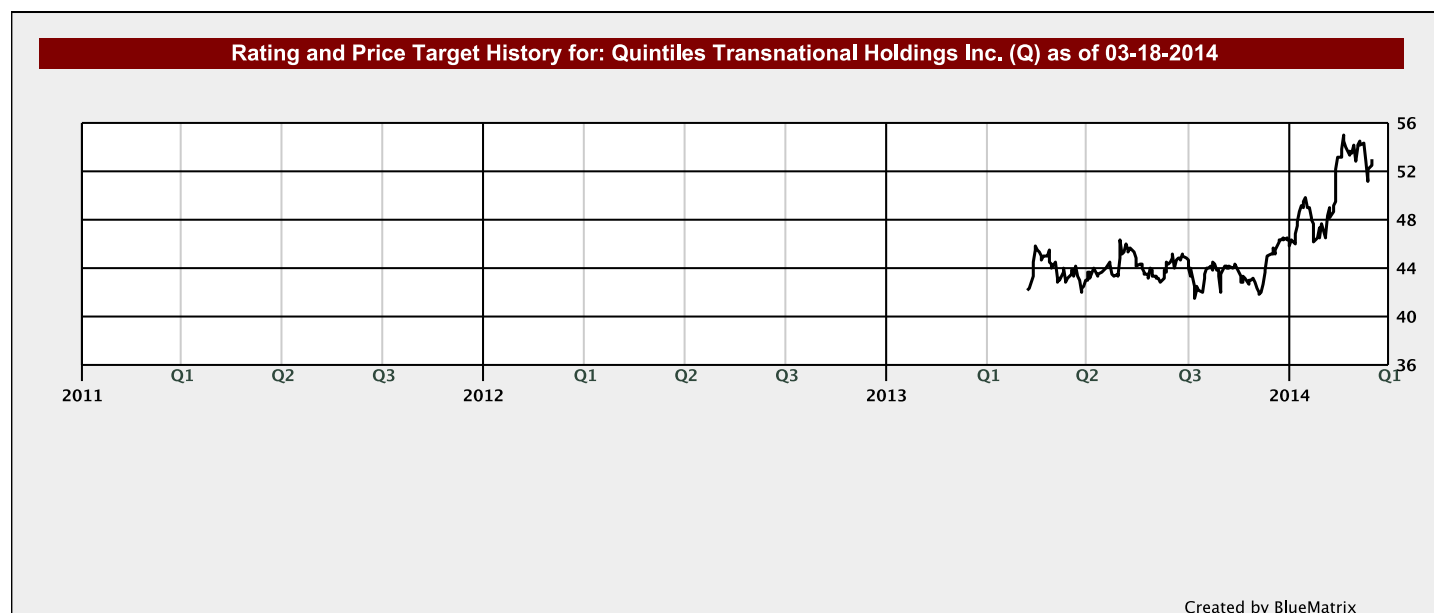
We expect to receive or intend to seek compensation for investment banking services from Quintiles Transnational Holdings Inc. within the next three months.

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

Reg A/C Certification

The research analyst(s) responsible for the preparation of this research report certifies that: (1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

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]	244	44.94	51	20.90	BUY [BUY]	9	47.37	0	0.00
HOLD [HOLD]	288	53.04	63	21.88	HOLD [HOLD]	9	47.37	1	11.11
SELL [UND]	11	2.03	4	36.36	SELL [UND]	1	5.26	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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